CPP INVESTMENT BOARD

Fixing The Future: How Canada Reformed Its National Pension Plan

Presentation to European Journalists
By David Denison, President & CEO
June 18, 2010

Welcome to Canada.

- I welcome the opportunity to share with you the journey our national pension plan has been on over the past 15 years.
- I have a short presentation, and then will be happy to answer any questions you have.

Today's Agenda

1. National Pension Crisis, 1995
2. Successful Reforms, 1996-1997
3. Canada Pension Plan Investment Board: Investing to help sustain the Canada Pension Plan

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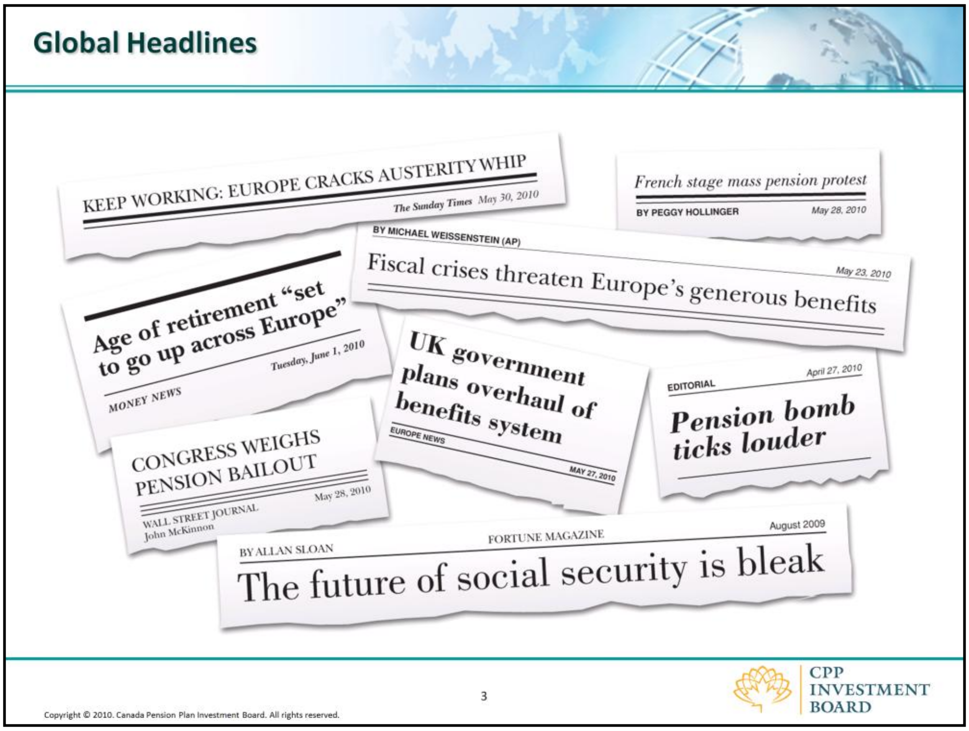
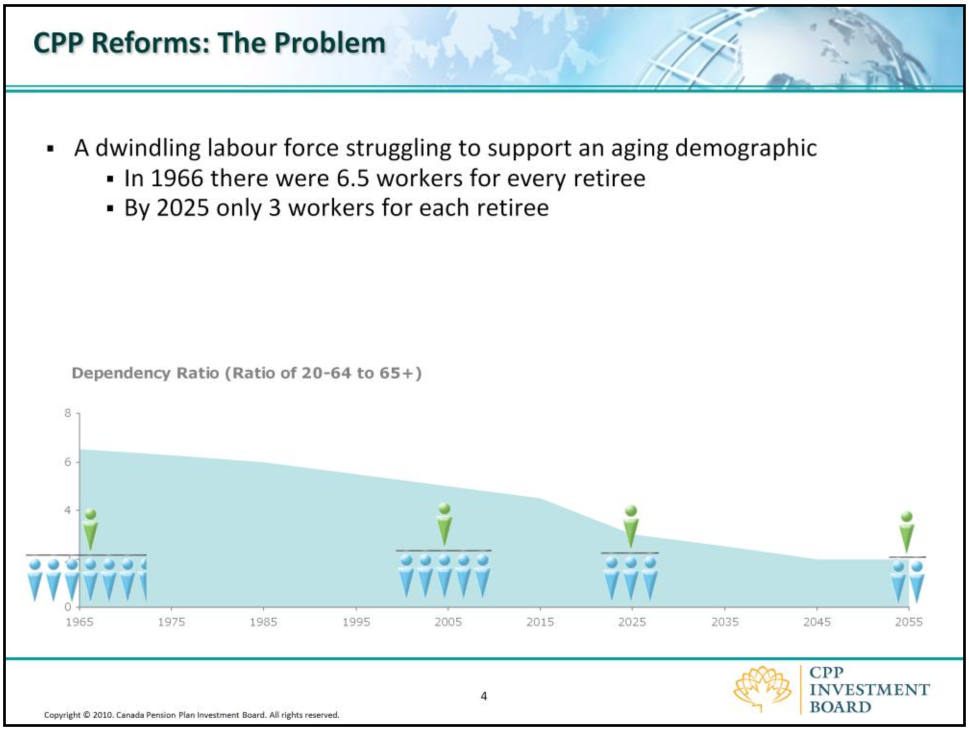
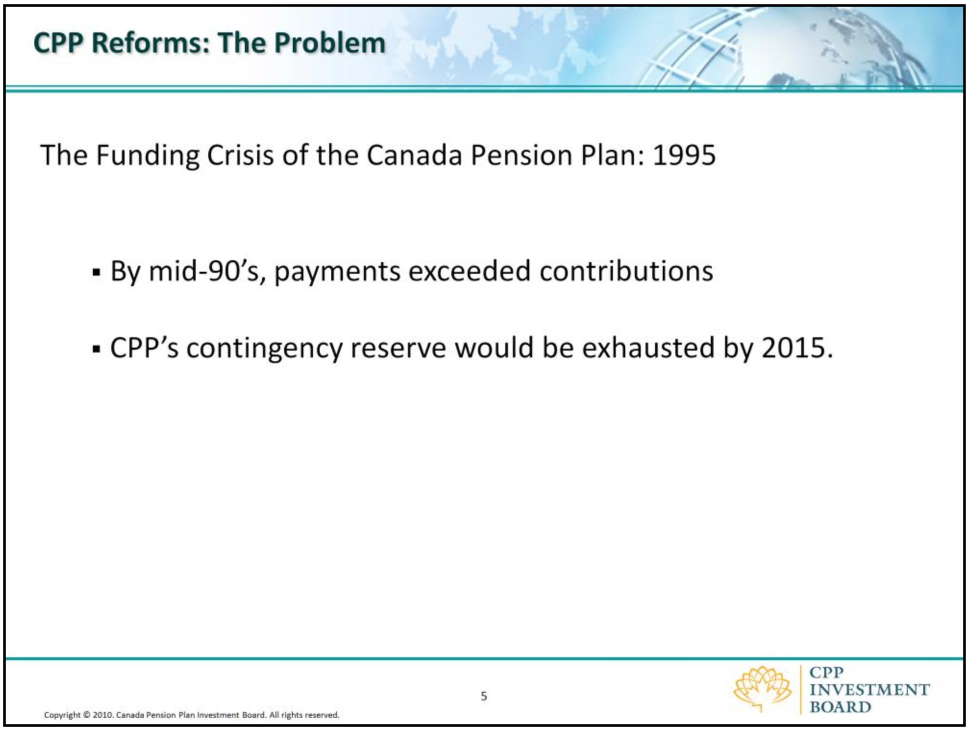
- Canada's Pension system is one of our country's success stories, but it wasn't always that way.
- I will tell you about the crisis our pension plan faced in the mid-90's. You will recognize the problems we faced.
- I'll go through the journey the country took to arrive at reforms that would ensure our pension sustainability.
- And I'd then like to describe the model that is the Canada Pension Plan Investment Board, and how we have been investing to secure the retirement future of Canadians.



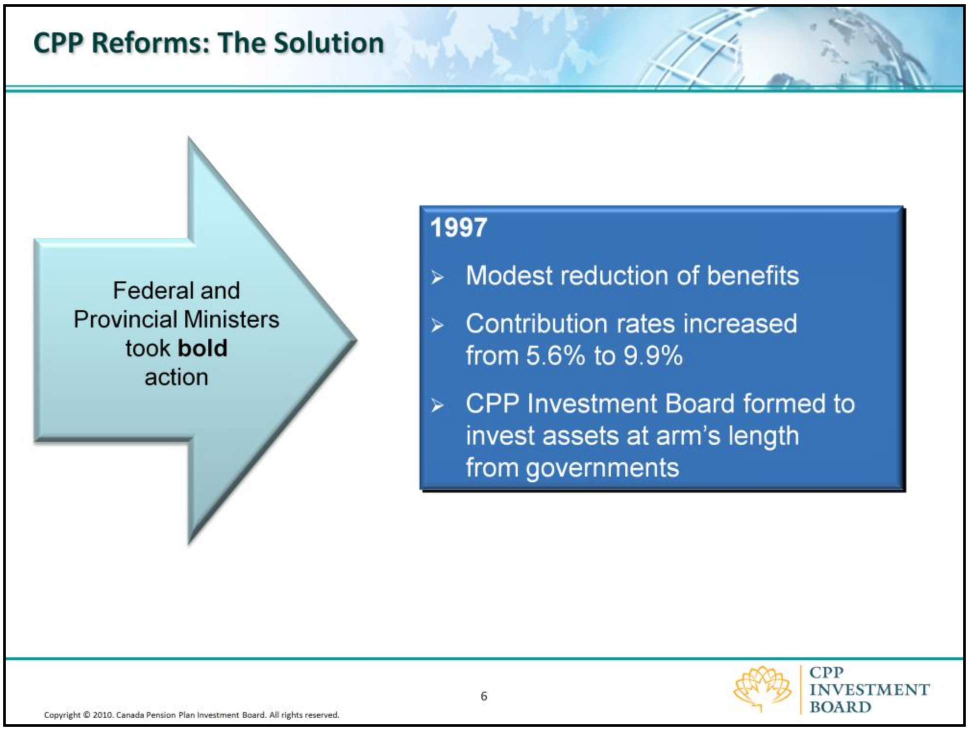
- Pension systems are one of the key elements of the fiscal imbalances so many countries are facing up to.
- This is not a new issue by any means; but one that perhaps takes a "crisis" to have the courage and will to deal with.
- There are two key issues to face: the solvency of the plans, and their fairness: fixing the plans can create huge intergenerational costs.
- Faced with unsustainable costs, many countries are starting to make changes to their pension plans. For example, France, Ireland, Greece and the U.K. are among the countries raising the age at which citizens can retire with full pension benefits.
- By comparison, a 2007 report by Standard and Poors ranked Canada's pension plan as the fourth most sustainable among 32 developed nations.



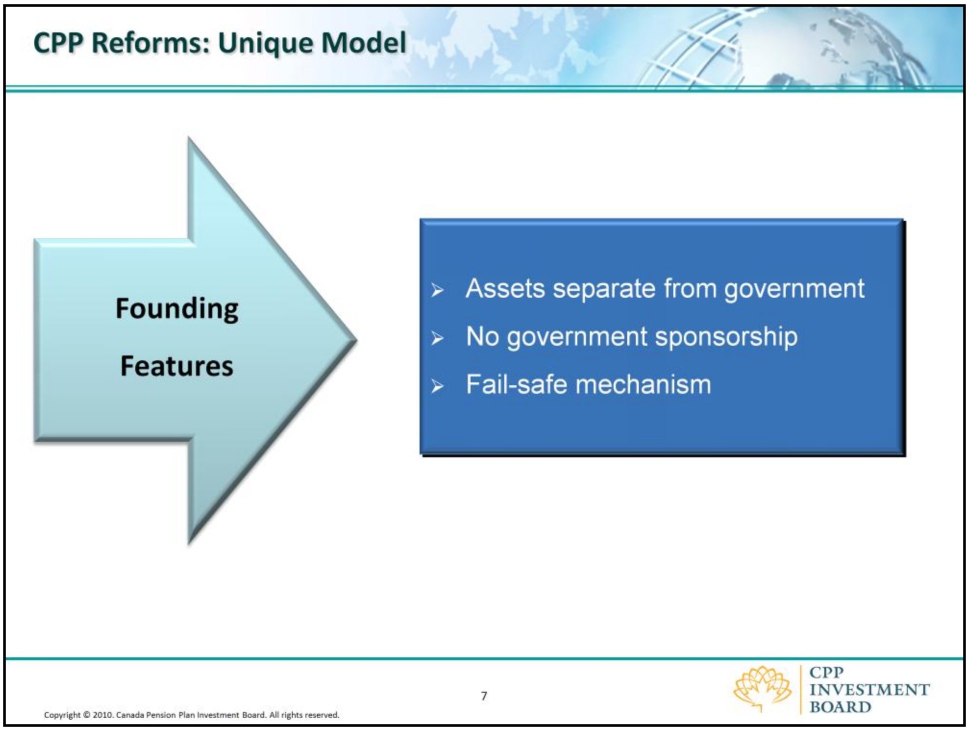
- Demographics and the funding model for most plans are at the heart of the problem.
- Canada was late in creating its pension plan and, reflecting the demographics of the time, adopted a 'pay as you go' system.
- But those demographics have been changing. In future years we will see fewer and fewer working Canadians supporting our retirees.
- Other countries are facing the same challenges, or even worse. According to an OECD report out last year, by 2050 Germany and Italy, for example, will have only 1 ½ workers for every retiree. Japan will have just over one worker.
- The challenge is two-fold: the solvency of the funds themselves, and the prospect of a huge intergenerational wealth transfer.



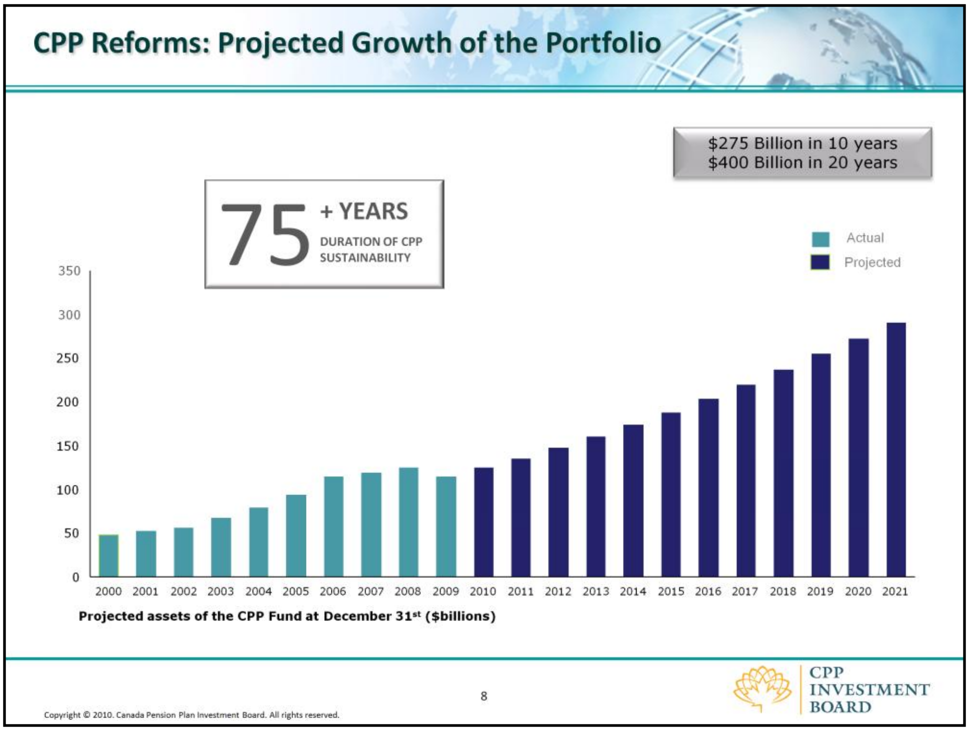
- Canada prompted its own “crisis” in 1995 – it was not forced by bond markets or rating agencies (which are pressuring Europe now).
    - political and policy leadership: fixing the CPP was recognized as an issue of generational fairness.
- There was an imperative to tackle this problem before it was truly urgent and before the costs to solve it were too great.
    - delay in these matters only makes eventual medicine more bitter.
    - U.S. Social Security is facing that dilemma: the system will be in a cash-flow deficit position by 2016.



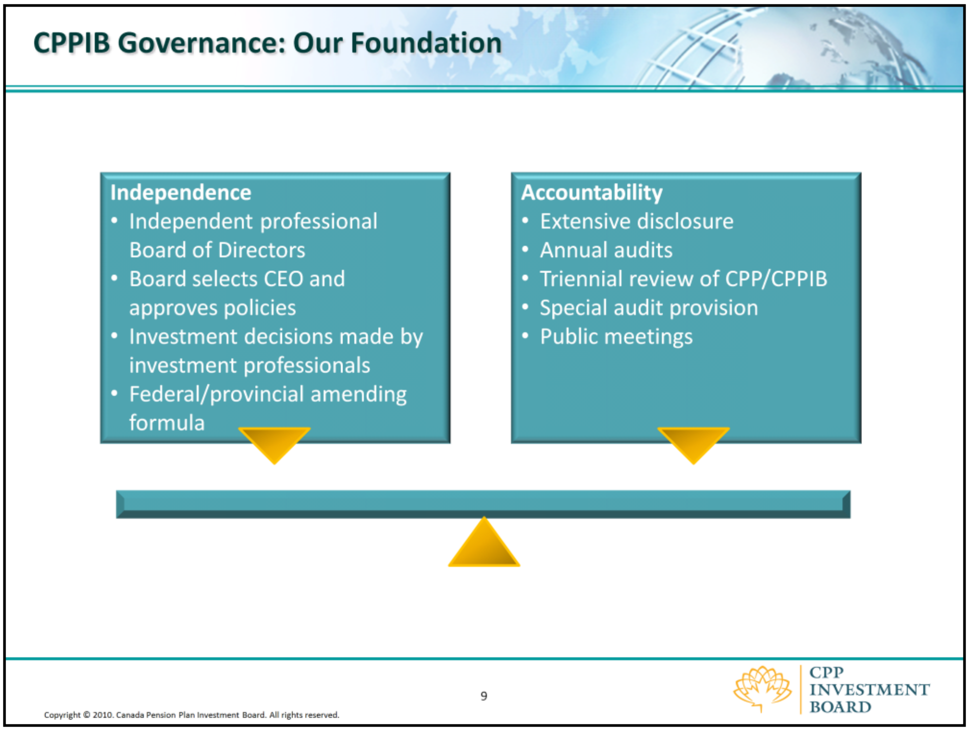
- Fixing a pension system is hard, because there are only 3 levers to pull:
- Benefit levels – amounts and retirement age
    - Canada's choice was a modest reduction in levels of benefits.
- Contributions
    - Canadians agreed to an 80% increase over 6 years
- Returns - what can assets in reserve earn?
    - CPP migrated from below-market bonds to a diversified fund.
- Canada used all three, but focused especially on contributions and returns.



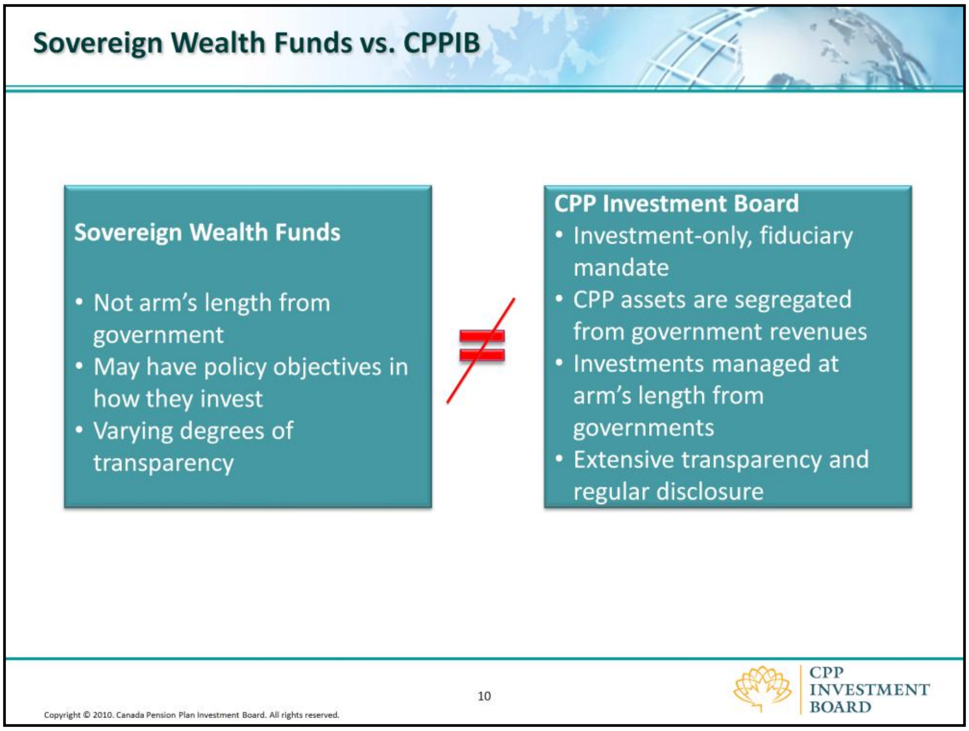
- Other key elements of CPP's reforms included:
  - A ring fence around the assets so they are not subject to government control.
    - CPP assets and liabilities are not included in official government accounts.
- Clarification that governments aren't sponsors – they administer the plan but don't underwrite the benefits; it is a true contributory plan.
- Creation of an automatic mechanism to adjust benefits and contributions to bring the plan back on side if at any point it is no longer considered sustainable.



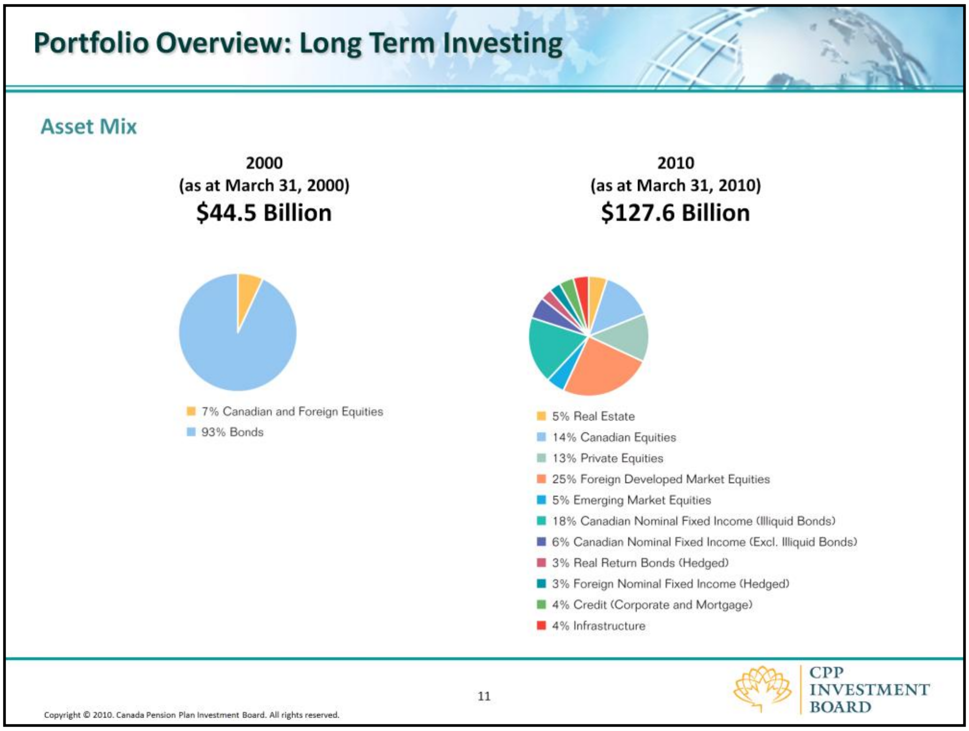
- The reforms worked: in a short period of time, CPP has moved from being part of the pension problem, to being part of the solution.
- In October 2009 the Chief Actuary of Canada reaffirmed that the CPP is sustainable throughout the 75-year timeframe of his report.
- Part of the reform design was to build up a big reserve fund to offset the demographic factor noted earlier.
- This chart shows the historical growth of the fund since its inception in 2000 to date and the projected growth ahead.
- The fund eventually will grow to $500 billion, then $1 trillion.
- CPP Investment Board's sole job is to invest these assets on behalf of 17 million Canadians.



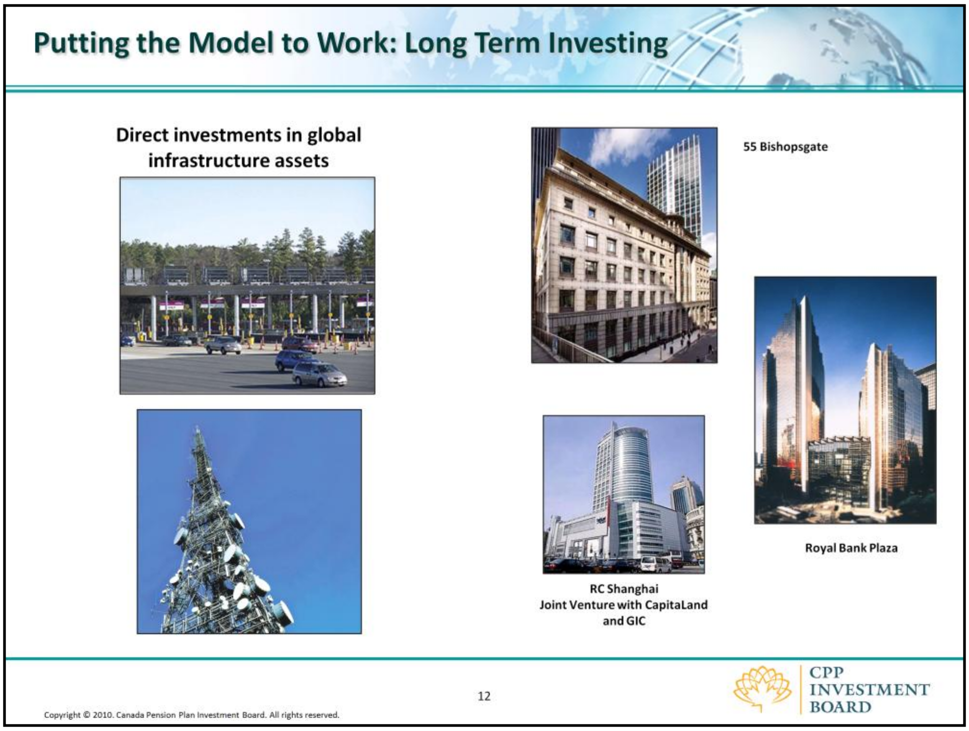
- CPPIB's governance model has been cited as a maximum strength regime by many parties around the world.
- It balances independence from government influence with a high degree of accountability.
- Key is the Board of Directors which is independent and highly qualified.
- They have ultimate approval for investment and other policies including Human Resource practices. They are not government employees.
- We balance independence with a high degree of transparency and accountability.



- CPPIB is sometimes included in lists of Sovereign Wealth Funds, although less so now.
- The CPP Fund is not a SWF for key reasons noted in this chart.
- Important elements are segregated assets and investment only, fiduciary mandate; key design and clear intent, and our mandate that does not allow us to take any non-investment factors into account in our management of the fund.



- CPPIB is an active global investor.
- At our inception 10 years ago, the fund was almost entirely in bonds with a small passive allocation to equities.
- At our last year-end, we had a highly diversified portfolio invested broadly across asset classes and within both public and private markets.
- Geographically, instead of virtually 100% invested in Canada 10 years ago, we now have 57% of the fund invested outside Canada and this percentage will increase over time.



- CPPIB has a number of advantages over other funds, and we are able to exploit those advantages and put them to work. First is our ability to be a true long term investor.
- Our scale, business model and governance structure allow us to invest for the long term, unlike most other investors. The average length of an investment is seven years. In our private asset investments, our time horizon may be 20 years or more.
- The CPP fund now has 25% of the portfolio or $32 billion invested in private assets like real estate, infrastructure, private equity and private debt.

- Because of our independence from government, our ability to set our own policies, and the entrepreneurial, high performance culture we have created, we have been able to attract highly skilled and experienced people to join CPPIB.
- Most of our 566 employees are based in Toronto, but we have a growing presence in our London and Hong Kong offices. Ten years from now we will have a number of other offices operating in key markets.
- In turn, this means we can create sophisticated internal investment teams rather than relying exclusively or primarily on external managers; the cost of our internal programs is considerably less than what we would have to pay to have these managed externally.

Putting the Model to Work: Recent Global Transactions

SIGNIFICANT TRANSACTIONS IN THE LAST 12 MONTHS

PARTICIPATED IN LARGEST PRIVATE EQUITY TRANSACTION IN CALENDAR 2009 IMS Health Inc.
OUR FIRST REAL ESTATE INVESTMENT IN BRAZIL Cyrela Commercial Properties
OUR FIRST CANADIAN PRIVATE EQUITY PUBLIC-TO-PRIVATE TRANSACTION Livingston International Income Fund
OUR FIRST DIRECT INVESTMENT THROUGH RELATIONSHIP INVESTMENTS Progress Energy Resources Corp.
OUR FIRST LARGE-SCALE INVESTMENT AS A SOLE INVESTOR Macquarie Communications Infrastructure Group
OUR FIRST PRIVATE INVESTMENT IN INDIA Multiples International Fund (closed April 2010)
OUR FIRST REAL ESTATE INVESTMENT IN NEW YORK 1221 Avenue of the Americas

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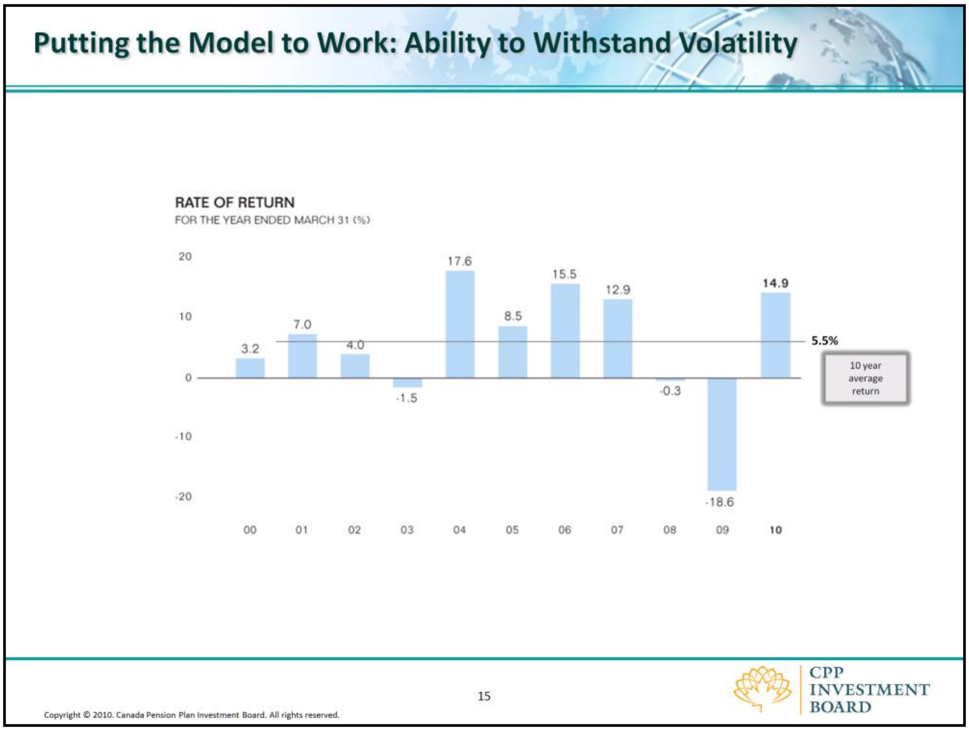
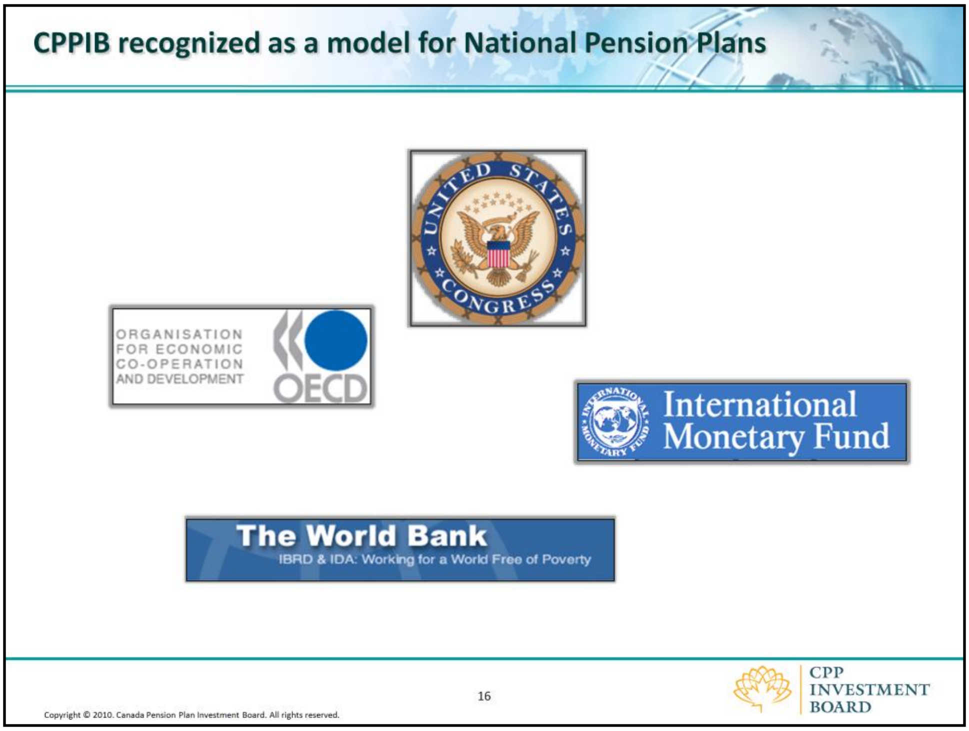
- These internal teams allowed us to participate in a number of significant transactions over the past 12 months, some of which are cited here.
- In fact, in 2009 we participated in 3 of the top 5 private market transactions completed globally that year including:
    - IMS Health with Texas Pacific Group ($5.2 Billion)
    - Skype with Silverlake Partners and others ($2.8 Billion)
    - Macquarie Communications Group ($2.1 Billion infrastructure)
- We sponsored the formation of a new Private Equity fund (Multiples) in India as we have previously in China and Turkey.
- We made our first direct real estate investment in Brazil.



- Another way that our governance model helps sustain the CPP is our ability to withstand short-term volatility.
- Importantly, when the fund declined by more than 18% in fiscal 2009, there was no attempt to change our investment strategy or direct how the funds should be invested for other public policy purposes. This contrasts with examples like Ireland, where funds were directed to banks; and New Zealand and Australia, where contributions were halted.
- Because of our ability to stick to a long-term strategy and capitalize on opportunities, the fund bounced back in the latest fiscal year.
- It is recognized that CPPIB is investing the fund for decades and generations, not for one, two or five- year periods.



- The CPP governance model has received international recognition.
- A 2008 OECD report spotlighted the governance features that set us apart from Sovereign Wealth Funds.
- Also in 2008, the World Bank and the International Monetary Fund showcased the CPPIB model as a best practice example of an investment-driven organization with significant transparency.
- The CPPIB has appeared before U.S. congressional policy makers in 2007 and 2008 to explain our governance model, our "investment only" mandate, and why we are not a sovereign wealth fund. This past winter, policy makers in the Obama administration requested a briefing on the Canadian approach to pension reform as they look at ways to fix the Social Security system.
- As well, national pension plans and large institutional investors from around the world have visited Toronto to study the CPPIB model.

Questions?

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(Q&A)