CPP INVESTMENT BOARD

2000

ANNUAL REPORT

Fiscal year ended March 31, 2000

Helping to keep the long-term pension promise to Canadians

CANADA PENSION PLAN INVESTMENT BOARD

Corporate profile

The CPP Investment Board was created by an Act of Parliament in December 1997 to invest funds not required by the Canada Pension Plan to pay current pensions. On March 31, 2000 the CPP Investment Board had $2.4 billion invested in capital markets and projects it will have $100 billion of assets under management within the decade. These assets, and the income earned on them, will be available to the Canada Pension Plan to pay future pensions.

The CPP Investment Board is governed by a board of directors with extensive business, investment and financial expertise, and is managed independent of the Canada Pension Plan by a small team of senior investment and business executives.

The Canada Pension Plan is administered by the federal government, which collects contributions and pays pensions. The federal and provincial governments jointly set the plan's contribution rates, benefit levels and funding policy.

Contents

Objectives

2000 objectives	Status
Recruit President and Chief Executive Officer	John A. MacNaughton appointed effective September 1999
Invest more than $1 billion of new cash flow in Canadian and foreign equities	$1.9 billion of new cash invested
Develop corporate strategy and initial business plan	Strategy and business plan developed by management and approved by board of directors
Keep stakeholders informed through quarterly reports, annual report and Web site	• Four quarterly reports issued • Annual report issued in June 1999 • Web site activated in June 1999
Plan public meetings for each participating province	Meetings scheduled for fiscal 2001
Further advance governance policies	• Performance evaluation process introduced for board of directors • Performance evaluation process introduced for the President and Chief Executive Officer • Strategic planning process implemented
Closely match appropriate market benchmarks	Earned 40.1% versus 39.3% for total fund benchmark

2001 objectives

- Complete the recruitment of the senior management team.
- Develop a comprehensive risk management framework.
- Review asset allocation policy and develop investment strategy alternatives.
- Enhance benchmarking and performance measurement capabilities.
- Complete program of public reporting meetings across Canada.

Gail Cook-Bennett

The ten-month start-up period during which the board of directors had sole responsibility for managing the CPP Investment Board ended in September 1999. After conducting an extensive search for a Chief Executive Officer, the directors selected John A. MacNaughton, who has more than 30 years experience as an investment banker and senior executive of investment firms in Canada and the United States. We believe that his expertise and values are ideally suited to leadership of the CPP Investment Board.

The board of directors is now focused on ensuring the effective oversight and governance of the CPP Investment Board. It is committed to leading-edge governance standards to enhance the integrity as well as the long-term performance of the organization.

Division of responsibilities

The clear division of responsibilities among governments, board of directors and management is key to the effective operation of the CPP Investment Board. The federal and provincial governments jointly set the legislation and regulations that define both our fiduciary duties and mandate to act in the best interests of CPP contributors and beneficiaries by maximizing investment returns without incurring undue risk.

New ground was broken for crown corporations with the procedure for identifying our directors. A nominating committee composed of federal and provincial representatives from the public and private sectors compiled a list of individuals whose professional or business training and experience met the characteristics described in our legislation. From this list, the federal and provincial ministers together chose the founding board of directors. The same process will be used to identify new directors, when vacancies occur.

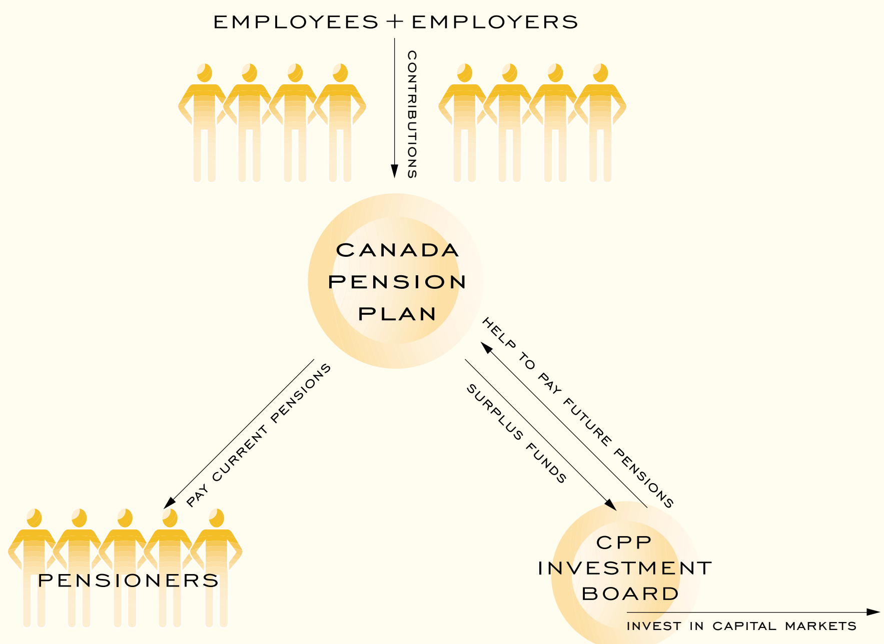
The directors have the usual responsibilities for oversight of strategic direction and broad business risks as well as overseeing effective communication to stakeholders. They ensure that appropriate policies and procedures are in place and hold management accountable for its activities. Management recommends the strategic direction and implements the approved strategies. It develops and implements the operating policies, annual business plan and budget, and manages the day to day business.

Performance evaluation

A process has been developed for the directors to examine annually the performance of the board and its committees. The first evaluation involved each director completing a confidential questionnaire. The results were summarized by the Chair of the Governance Committee and reported to the board for discussion and action.

As part of its governance activities, the board of directors evaluates the performance of the President and Chief Executive Officer. The President sets objectives for the coming year and performs a self-appraisal for the past year. Directors submit written assessments and the summarized assessments are discussed by the board of directors and reviewed with the Chief Executive Officer.

Accountability to Canadians



The CPP Investment Board is accountable to a large proportion of the Canadian adult population. A policy of full and timely disclosure of information to these stakeholders has been adopted. Later this year, we will be talking directly to Canadians at public meetings to be held across the country.

While discharging the responsibilities of the Chief Executive Officer during the start-up period, I had the enthusiastic assistance and support of an excellent group of directors, who shared in the challenges and satisfaction of launching a new organization. To each of them I express my sincere appreciation.

Gail Cook-Bennett
Chairperson

JOHN A. MACNAUGHTON

I am honoured to be the founding President and Chief Executive Officer of the CPP Investment Board and eagerly accept the challenges and responsibilities of creating a new investment organization that will matter to the financial future of many millions of Canadians.

Like other nations, Canada has wrestled with the issue of how a state-run pension plan financed on a pay-as-you go basis can respond to the rising needs of an aging population. As sponsors of the Canada Pension Plan, our federal and provincial governments have shown world leadership in coming up with innovative solutions.

One of those solutions was to invest funds not needed to pay current pensions in capital markets. This decision led to the creation of the CPP Investment Board as a crown corporation. Our job is to increase the value of assets available to the Canada Pension Plan to keep its pension promise in the 21st century.

SPELLING OUT OUR MANDATE

My first task on arriving at the CPP Investment Board in September 1999 was to translate the legislated objectives into a strategic vision and operating mandate.

In developing our first strategy and business plan, we focused on designing the type of organization that would most effectively enable us to achieve the goal of optimizing investment returns on behalf of all Canada Pension Plan contributors and beneficiaries.

In doing so, we took into account several factors external to our mandate, such as the financial condition and obligations of the Canada Pension Plan, the pension income concerns and expectations of Canadians, and the historical performance of Canadian and foreign capital markets.

In addition, we considered internal factors, such as the regulatory environment, the projected rapid growth of funds transferred from the Canada Pension Plan to the CPP Investment Board, the need to build our capabilities ahead of asset growth, and the setting of effective strategies.

Our response to these external and internal factors was the development of the following Statement of Mandate:

Statement of mandate

- Our mandate is to assemble a team with the capabilities to invest the assets entrusted to the CPP Investment Board in the best interests of Canada Pension Plan contributors and beneficiaries.

- We will invest in ways that over the long term will maximize performance without undue risk and produce returns that compare favourably with a best-in-class peer group, while having regard to the financial condition and obligations of the Canada Pension Plan.

- Our performance will be measured and compared on an absolute and risk adjusted basis, and on a gross and net basis, to relevant capital markets benchmarks, the returns of our peer group, and the assumption of the Chief Actuary.

- To fulfill our mandate in ever-changing markets, we will explore regularly a broad range of investment strategies and alternatives. Based on comprehensive capital markets research and risk management techniques, we will pursue opportunities judged attractive in both public and private markets, using both passive and active investment approaches.

- Our vision is to build a virtual corporation with a small team of outstanding investment professionals that capitalizes on the best external capabilities. We will be open to building internal expertise and/or operations wherever and whenever equal or better performance can be achieved at lower cost.

- We will communicate in a full, open and timely manner so that our stakeholders will be able to understand what we are doing and how we are helping to keep the Canada Pension Plan promise.

The concept of a virtual corporation

In the traditional corporate model, most implementation and support functions are performed internally and are an integral part of the core organizational structure. If we had chosen this model, we would have had to build an elaborate organization with extensive research and analytical resources, numerous portfolio managers, trading rooms for stocks, bonds and other financial products, specialized departments for such investment classes as merchant banking, real estate, and infrastructure projects, a large investment accounting department, and corporate departments for human resources, legal affairs and other services.

Instead, we chose the vision of a virtual corporation with a small team of senior executives responsible for working to develop investment and operating strategies, and then accessing and leveraging external expertise to help us manage our assets and increase their long-term value. This approach will ensure broad exposure to ideas, deal flow and service providers through partner-like relationships at home and abroad, while leaving open the option of developing staff expertise to implement components of our strategy wherever and whenever equal or better results can be achieved internally at lower cost.

Whether executed internally or externally, the senior team will be responsible and accountable for all aspects of our investment and business performance as well as compliance and control. The five most senior executives reporting to me will be pre-eminent specialists in research and risk management, public market investments, private market investments, communications and stakeholder relations, and finance and operations.

We believe the virtual corporation model will focus our energies on high value-added activities, provide access to more specialized skills and resources, offer flexibility in choosing required skills and capabilities, generate potentially better results at less cost, and provide risk management and diversification benefits. In other words, we will emerge as a strategic think-tank organization that takes full tactical advantage of the implementation talents already flourishing in the competitive marketplace.

The process of recruiting the senior team is underway and we expect to complete it by the summer of 2000.

Managing the organization

The CPP Investment Board currently has a small staff managing our third-party relationships to ensure the prompt investment of funds and the measurement of investment performance. We also fulfilled all our obligations under applicable legislation and regulations as well as board-approved policies and procedures. These included the development and implementation of internal controls, comprehensive financial reporting, and public accountability for our activities and results.

In fiscal 2000, it cost $3.7 million to operate the CPP Investment Board, of which $0.5 million related to investment activities, such as fund management and custodial fees, and $3.2 million to governance and administration. Total costs represented 31 basis points on average assets under administration during the year.

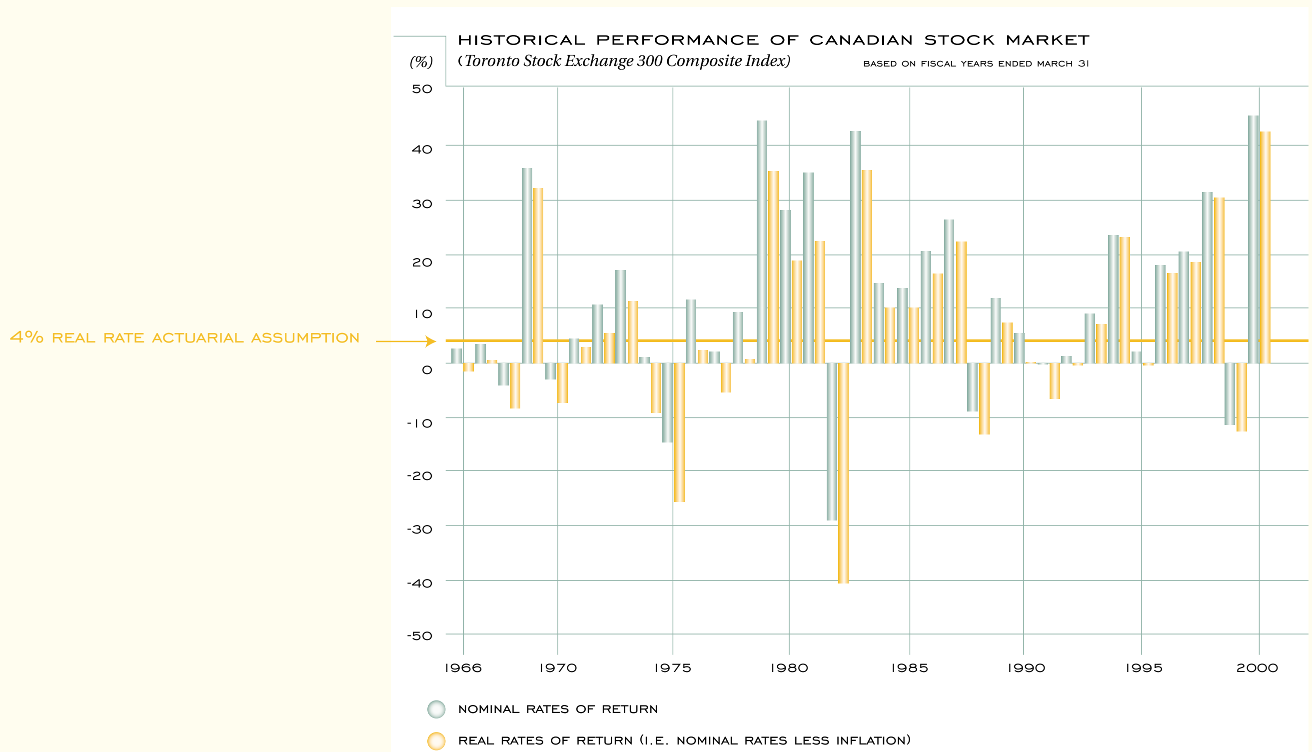
We will continue to be vigilant in managing costs with a view to maximizing net investment returns, which is the ultimate measure of our performance.

INVESTMENT ACTIVITIES

In the year ended March 2000, we continued the investment policy set by the board of directors in December 1998 of investing all cash received from the Canada Pension Plan in equities. Approximately 80% was invested in funds that replicated the Toronto Stock Exchange 300 Index, and 20% in foreign stock index funds, one for the U.S. and the other predominantly for Europe and Asia.

We enjoyed exceptional investment returns in our first full fiscal year because the TSE 300 Index was among the world's top performing markets. Our Canadian equity fund earned 45.3% and the foreign index funds posted a combined 16.6% return, for a total fund return of 40.1%.

While pleased to report these results, I caution that as we broaden our asset allocation base, the volatility of our portfolio will decline, as will the likelihood of achieving such outstanding annual results again.



The above chart tracks both the nominal and real rates of return for the Canadian stock market since the Canada Pension Plan was introduced in 1966.

As is evident, since the Canada Pension Plan was founded, the TSE 300 nominal return has exceeded 40% on only three occasions. Also the index was highly volatile from year to year, losing 11.3% as recently as fiscal 1999.

The federal Chief Actuary has estimated that we need to earn a real rate of return of 4% over the long term. In the past 34 years, the Canadian market produced an average real return in excess of 4%, notwithstanding the fact that real returns fell short of that level 50% of the time. While it is not possible to hit the 4% real return target consistently year after year, we believe it is a prudent basis for future expectations.

Our investment performance is discussed further on Page 14.

Regulatory change

A major development in fiscal 2000 was the decision of federal and provincial finance ministers to relax a restriction on our domestic equity investing. During our start-up period, we had been limited to investing all capital designated to Canadian equities in stock index funds. Under the revised regulation, we can now invest up to 50% of these funds in individual stocks. This amendment opens up our investment alternatives. Once the restriction is removed entirely, we will be able to invest on the same basis as other pension funds, if we so choose.

Talking to Canadians

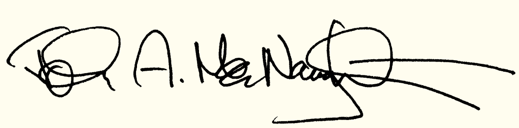
An important part of my job is to keep Canadians informed of how we are managing their money. We do this in a variety of ways, including quarterly financial reports and this annual report. We also maintain an active Web site, deliver speeches and presentations to interested audiences, and participate in print and broadcast interviews across Canada.

The current year will be a busy one as we will hold our first public meetings across the country to discuss this annual report and our strategies and plans for the future. I look forward to these meetings so that we can explain to Canadians what we are doing to help keep the Canada Pension Plan promise.

Acknowledgements

The CPP Investment Board has an able and dedicated board of directors. I thank the directors for inviting me to lead the organization through its initial years. I also thank them for their guidance during the past year and their support for our strategy and business plan as we build for the future.

I would like to express a special thanks to my four colleagues who are the founding members of our permanent staff: Jane Nyman, Vice President – Finance and Operations; Henry Kim, Manager – Finance and Operations; Julie Winget, Administrative Assistant; and Barbara Sharp, Office Manager and Assistant to the President. Their dedication, enthusiasm and hard work enabled the CPP Investment Board to have a very successful first full year of operation. They have established high standards for those who will join us in the months and years ahead.



John A. MacNaughton
President and Chief Executive Officer

Our legislation states two objectives:

- to manage any amounts transferred from the Canada Pension Plan "in the best interests of the contributors and beneficiaries of the plan"; and
- "to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss."

CPP FUNDING

In setting our investment policy, we are required to invest "having regard to the factors that may affect the funding of the Canada Pension Plan and the ability of the Canada Pension Plan to meet its financial obligations."

The present value of accrued pension benefits under the Canada Pension Plan totalled $465 billion on December 31, 1997, according to the Plan's (most recent) 17th actuarial report. The Plan had $36.5 billion in assets, mostly government bonds. As a result, assets represented approximately 8% of liabilities.

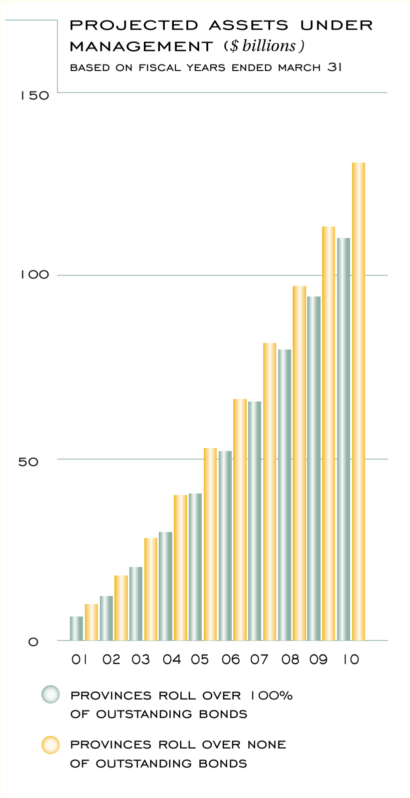
Notwithstanding the fact that it was a pay-as-you-go rather than a fully-funded pension plan, the federal and provincial finance ministers concluded in 1996 that the Canada Pension Plan did not have sufficient assets to meet its long-term obligations. Given demographic trends, improved life expectancy, the need for inter-generational equity, and the rising cost of benefits, the ministers agreed that the Plan should be rebuilt to have assets representing 20% of liabilities. These assets would be equivalent in value to five years of pension benefits.

To achieve the 20% funding level, the ministers also agreed to phase in contribution increases that would reach 9.9% of pensionable earnings for employed Canadians in 2003 and then be held steady at that rate indefinitely.

The increased asset base and higher contribution rate are described by the federal and provincial governments as "steady state" funding.

The actuarial report assumes that cash flows not needed to pay current pensions will earn a 4% real rate of return (that is, above inflation) to keep the Canada Pension Plan in a steady-state funding status after 2003. With inflation projected by the actuarial report to grow to 3% annually over the next few years, the nominal investment objective for the CPP Investment Board is therefore 7%.

Projected assets



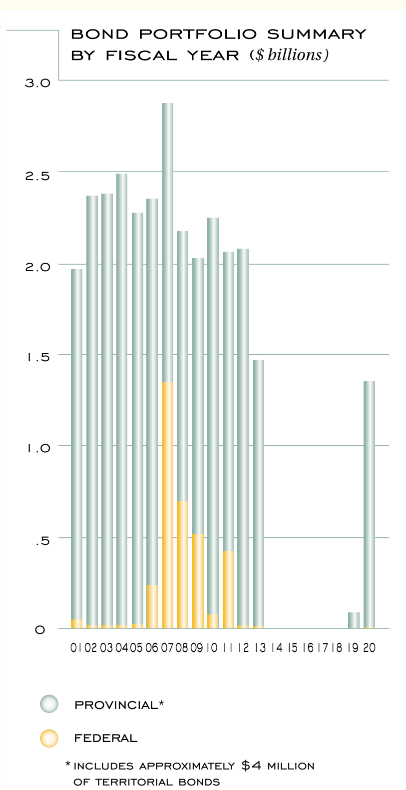
We project that the CPP Investment Board will have $100 billion under management within the decade.

These funds will be surplus to the Canada Pension Plan's current pension requirements and will come from contributions by employees and employers, as well as the proceeds of maturing and redeemed government bonds in a portfolio administered by the federal Department of Finance Canada.

We received our first cash flow from the Canada Pension Plan in March 1999 and have since invested new cash of more than $1.9 billion, resulting in total assets under management of $2.4 billion at the end of fiscal 2000.

Once the executive team is complete in 2000, we will develop a new investment strategy to diversify our asset mix. This will involve looking at the benefits of passive and active investing in equity and debt, merchant banking, private equity, infrastructure projects, venture capital opportunities, real estate investments, and the use of derivative contracts. The development of a revised strategy will be accompanied by strict risk management disciplines.

Government bond portfolio



Historically Canada Pension Plan funds have been lent to federal and provincial governments as non-negotiable 20-year bonds. Under a 1996 agreement, each province has the option to roll over its existing bonds for one further 20-year term. Under a proposed regulatory amendment, provinces will have the right to redeem outstanding bonds earlier than the maturity date. Funds from bonds not rolled over as well as redeemed bonds will be transferred to the CPP Investment Board, unless needed by the Canada Pension Plan.

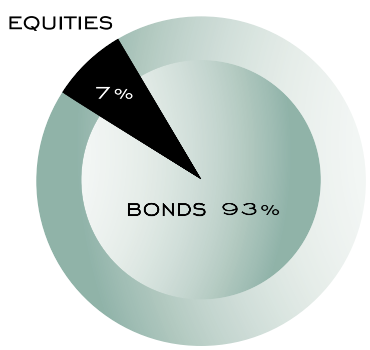
In fiscal 2000, $1.9 billion of the government bond portfolio matured and $1.3 billion was renewed for a further 20 years.

Investment policy

We are required to "adhere to investment policies, standards and procedures that a person of ordinary prudence would exercise in dealing with the property of others."

We are also required to develop, and review at least annually, a formal investment policy, known as the Statement of Investment Policies, Standards and Procedures. The statement addresses such matters as asset mix policy, asset diversification, expected investment returns, liquidity, the use of derivative products, asset valuation, and the exercise of proxy voting rights attached to share ownership. This document can be reviewed on our Web site at www.cppib.ca.

Asset mix policy



FISCAL 2000 ASSET MIX BASED ON THE COMBINED INVESTMENTS OF THE CANADA PENSION PLAN AND THE CPP INVESTMENT BOARD

The key decision affecting the long-term investment returns of any investment portfolio is the allocation of funds between equities and fixed-income securities. In developing our asset mix policy, we take into consideration the Canada Pension Plan's bond portfolio.

On December 18, 1998 the directors adopted a policy of investing all cash flows in equities, specifically in Canadian and foreign stock index funds. This policy was adopted to offset the dominance of the Plan's fixed-income securities and to diversify the combined asset base of the Plan and the CPP Investment Board.

The investment policy recognizes that stocks can be highly volatile in the short-term and even produce negative returns, as occurred in Canadian markets in our fiscal year 1999. Based on historical experience, equity values increase over the long term despite short-term market downturns. We are not currently attempting to time the market. Consequently, regardless of market cycles, we invest cash flows as soon as they are received.

Investment policy implementation

In February 1999, external fund managers were retained to execute our investment in Canadian and foreign stock index funds. (This is known as passive investing because our objective is to replicate a pre-determined market index of securities. Active investing, by contrast, involves the selection and trading of individual securities with the objective of outperforming market indexes.)

The Canadian stock index fund mirrors the Toronto Stock Exchange 300 Composite Index, which represents about 90% of the market capitalization of Canadian-based companies listed on the TSE and includes Canada's largest public corporations. Companies are selected for inclusion in the index by a committee of the stock exchange and Standard & Poor's, a New York-based company.

The foreign stock index funds are the Standard & Poor's 500 Index of large companies in the United States and the MSCI EAFE Index of about 1,000 companies in Europe, Australia, New Zealand and the Far East. Together, these indexes represent more than 60% of the combined market capitalization of 22 countries.

If all cash flows continue to be invested in equities over the next three years, the combined mix of investment assets held by the Canada Pension Plan and the CPP Investment Board will range between approximately 40% and 55% equities by the end of fiscal 2003, depending on bond rollovers by the provinces. As the asset mix moves to higher levels of equities, we will review the need for changes in our asset mix policy.

Investment restrictions

There are two restrictions on our investment activities.

First, we are required to adhere to the foreign property limit set by the federal government for all pension funds and registered retirement savings plans.

At the fiscal 2000 year end, we had approximately 80% of assets at cost invested in Canada and about 20% in foreign securities. On a market value basis, because of the superior performance of the Canadian market, the ratio was 81.7% domestic and 18.3% foreign.

In its February 28, 2000 budget, the federal government announced that permissible foreign investments will be increased from 20% of assets (at cost) to 25% in 2000 and 30% in 2001. We will review the benefits and risks of expanding our foreign asset content as part of the process of revising our investment strategy once the budget is passed.

Second, during our start-up period, regulation required that the cash flows we allocated to Canadian equities must substantially replicate the composition of one or more broad market indexes.

In December 1999, the federal and provincial finance ministers conducted their first triennial review of the Canada Pension Plan. As part of that process, the finance ministers agreed to expand the investment scope and strengthen the CPP Investment Board's independence by following through on the policy framework agreed to when the organization was established. As a result, we will be able to invest actively up to 50% of the assets we allocate to domestic equities. (There is no restriction on our ability to invest actively outside Canada, although to date we have chosen to invest passively through foreign stock index funds.)

Risk management policies

To ensure we preserve the capital entrusted to us in attempting to maximize investment returns, we have developed risk management policies and procedures appropriate to our current investment strategy.

We are establishing a research and risk management function to ensure we design and implement best-practice tools for risk management and investment performance evaluation in step with the diversification of our investment strategy.

Toward a revised investment policy

Active equity investing will be considered, though not necessarily implemented, during our fiscal year beginning April 2000.

The relaxed restriction on active investing in Canadian equities and changes in the foreign property limit both expand our scope and flexibility to pursue a diversified investment strategy.

Diversifying into assets that offer the prospect of higher returns involves the assumption of both higher risks and more complex transactions. The CPP Investment Board will diversify from the current position of low-cost index investing to more complex strategies and asset classes only when it is judged that the potential net value-added is likely to compensate appropriately for the incremental risks. The investment strategy will be designed to optimize returns over the long term from public and private capital markets using both passive and active investment approaches.

Implementation of the strategy will be based on partner-like relationships with investment specialists in the appropriate asset classes in Canada and foreign markets. However, our senior staff team will be responsible and accountable for all aspects of performance, compliance and control.

Proxy voting

Owning shares gives the CPP Investment Board the right to vote on management and shareholder proposals that could affect equity values. Proxy voting power has been assigned to the external fund managers, who are required to provide a voting report. In certain circumstances, we exercise voting powers ourselves. Our proxy voting policies will be developed further as part of our new investment strategy once the senior investment team is fully in place.

The CPP Investment Board earned a 40.1% rate of return on assets under management in our first full year of operations. Two factors explain this extraordinary performance:

- Our portfolio was invested solely in equities, which out-performed other investment classes, such as bonds. (The Canada Pension Plan itself holds $30.3 billion in bonds that are not part of our assets, but must be taken into consideration when we determine our asset mix policy.)
- Approximately 80% of our cash flows were invested in the Toronto Stock Exchange 300 Index, one of the top performing global markets in the 12 months ended March 31, 2000.

Our results illustrate the high volatility that can occur in equities. In fiscal 1999, for example, Canadian stocks had an 11.3% negative return. In fact, our fiscal 2000 performance included positive returns in three quarters and a negative return in one quarter.

In future years, we will focus on further diversifying our risk to reduce the volatility of returns and achieve more stable long-term results.

Actuarial requirement

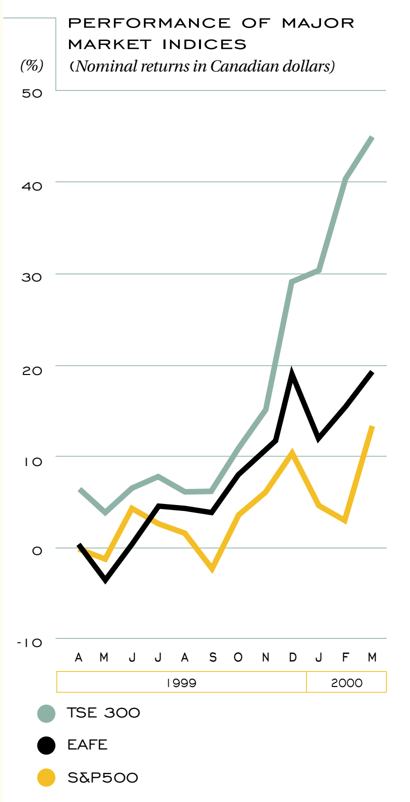
The assumption in the Chief Actuary's latest report (December, 1997) is that we should earn a 4.0% real rate of return over the long term to assist in meeting the obligations of the Canada Pension Plan. With inflation at 3.0% in fiscal 2000, the actuarial assumption translated into a 7.0% nominal rate of return, compared with our total fund return of 40.1%. We are pleased, needless to say, to have made such a positive start as a new investment organization.

Rates of return

In addition to comparing our return with the Chief Actuary's expectations, we measure and monitor our returns against market-based benchmarks. Benchmarks are intended to be objective measurements that provide useful and impartial feedback on the success or failure of our investment activities. If we were to duplicate exactly the assets contained in a benchmark, we would achieve the same result as the benchmark, less transaction costs.

Year Ended March 31, 2000	Return	Benchmark
Canadian equities	45.3%	45.5%
Foreign equities	16.6%	16.1%
Total fund	40.1%	39.3%

In Canada, we invest in funds that substantially replicate the TSE 300 Index. Our portfolio return of 45.3% closely matched the index return of 45.5%.



Outside Canada, our objective is to closely replicate the Morgan Stanley Capital International (MSCI) World Index, excluding Canada. This index measures the performance of approximately 1,300 companies listed on stock exchanges in the United States, Europe, Australia, New Zealand and the Far East. Our foreign equity strategy is implemented by investing in two stock index funds; the Standard & Poor's 500 Index of large U.S. companies, and Morgan Stanley's EAFE Index of non-North American companies. Our foreign equity return was 16.6%, compared to the benchmark index return of 16.1%.

The total fund return is compared with a benchmark that aggregates the TSE 300 Index and the MSCI Index (ex-Canada) according to their weight in the asset mix policy. The current asset mix policy specifies a weighting of 80% for Canadian and 20% for non-Canadian investments. The overall return of 40.1% versus a total fund benchmark return of 39.3% reflected a slightly higher weighting of Canadian assets than the policy of 80%.

Our equity assets represent about 7% of the combined assets of the Canada Pension Plan and the CPP Investment Board. The bond portfolio managed by the federal government on behalf of the Canada Pension Plan is carried at cost. Consequently, because the bond portfolio is not marked to market, it is not possible at this time to calculate the rate of return for the combined bond and equity assets.

Financial results

We received $1.9 billion in cash flow from the Canada Pension Plan in fiscal 2000. This compared with only $11.9 million received in the prior fiscal year, when we had only one month of investment experience.

The market value of investments at March 31, 2000 was approximately $2.4 billion, of which almost $2 billion was invested in Canadian markets and the remainder in foreign markets.

We earned $463 million in investment income (net of investment expenses) during the year, compared with $202,362 in the prior year. Investment income consists of dividends, interest, distributions from pooled and mutual funds, and both realized and unrealized capital gains and losses.

Expenses of $3.7 million were incurred during the fiscal year. As our assets grow over the next few years, administrative expenses will decline as a percentage of assets, while direct investment costs such as external fund management fees will increase as we move away from exclusively index investing. Our goal is to minimize expenses and maximize investment returns through a resolute commitment to organizational and operating efficiencies.

Net investment income and administrative expenses are discussed further in the financial statements commencing on page 22.

The CPP Investment Board is the result of a federal/provincial accord, and has its own board of directors and management team. The responsibilities of governments, the board of directors and management are clearly defined, and all three share the collective goal of serving the best interests of Canada Pension Plan contributors and beneficiaries.

Our distinguishing features

Four features of the CPP Investment Board help to shape its governance:

- It operates at arm's length from governments in carrying out its legislated mandate.
- It is solely an investment organization with no responsibility for administering the Canada Pension Plan.
- It has a focused mandate -- to maximize investment returns on the cash flow received from the Canada Pension Plan without incurring undue risk.
- Its public accountability is extensive and includes quarterly financial statements, an annual report, and public meetings in every participating province at least once every two years.

The role of governments

"In part, governance is about our accountability to Canadians who contribute to, or draw pensions from, the Canada Pension Plan."

Dale Parker
Chair, Governance Committee

The CPP Investment Board was created by federal legislation in 1997 based on a 1996 agreement between the federal and provincial governments. Its investment and governance mandates are set out in the Canada Pension Plan Investment Board Act and related regulations.

The federal and provincial governments are joint stewards of the Canada Pension Plan and together set contribution rates, benefit levels and funding policy. The federal government alone administers the plan. As part of their triennial review of the Canada Pension Plan, which was last completed in 1999, the federal and provincial finance ministers also discuss changes to the legislation and regulations of the CPP Investment Board.

The federal and provincial governments are responsible for the nominating process that appoints and re-appoints directors of the CPP Investment Board.

Furthermore, the federal finance minister, in consultation with the participating provinces, is required to initiate a special examination of the CPP Investment Board's financial and management control and information systems and management practices at least once every six years.

Arm's length process for appointing directors

The federal government and the nine participating provinces have one representative each on the nominating committee of public officials and business leaders, with a private sector executive in the chair. The committee recommends candidates for appointment by the federal finance minister in consultation with provincial finance ministers. The current directors were

"We believe in formally evaluating performance annually, and compensating for achieving pre-agreed objectives."

Richard Thomson
Chair, Human Resources and Compensation Committee

appointed in October 1998 and at that time the Chair was selected in consultation with the provinces and the directors.

The CPP Investment Board's legislation states that it is desirable to have sufficient directors with proven financial ability or work experience relevant to the goal of optimizing investment returns. As a result, the nominating committee recommended directors who predominantly have expertise in investment, business, economics and financial management.

Half of the current directors complete their first term late in 2000 and the remainder late in 2001. Each director can be appointed or re-appointed for a three-year term. Directors serve a maximum of three terms, although the Chair is permitted to serve a fourth term. In December 1999, the finance ministers delegated to the nominating committee responsibility for evaluating the re-appointment of directors.

The Chair cannot serve as an officer of the CPP Investment Board, and the Chief Executive Officer cannot serve on the board of directors.

Expectations of directors

The board of directors accepts responsibility for the stewardship of the CPP Investment Board and supervising management.

As fiduciaries, directors are required to act honestly and in good faith with a view to the best interests of the CPP Investment Board. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must use their specialist knowledge in carrying out their duties. Directors with accounting, actuarial, investment, business or legal expertise, for example, are subject to higher standards of care in areas that relate to their expertise.

Among other duties, the directors are responsible for investment policies, standards and procedures; appointing an independent auditor; procedures to identify and resolve conflicts of interest; a code of conduct for directors, officers and employees; monitoring management, including decisions requiring prior board approval, and assessing management's performance; assessing the performance of the board itself; and stakeholder communications, including approval of financial statements.

Focusing board activities

To assist in carrying out its mandate, the board has created four committees:

The Audit Committee oversees financial reporting, the external audit, information systems, and internal control policies and practices. Responsibility for overseeing the management of broad business risks is shared with the board and other committees.

The Human Resources and Compensation Committee reviews and recommends the compensation philosophy, recommends the performance evaluation

"All directors through their membership on the Investment Committee focus on investment policies and asset allocation."

Gail Cook-Bennett
Chair, Investment Committee

process for the Chief Executive Officer, ensures a succession plan is in place, and reviews organizational structure.

The Governance Committee recommends governance policy, guidelines and procedures; makes recommendations on the board's effectiveness; monitors application of the code of conduct and conflict of interest guidelines; and assumes other duties at the board's request.

The Investment Committee, which consists of the full board, approves investment policies, standards and procedures; and reviews, approves and monitors management's annual investment plan. It reviews investment risk management and approves the engagement of external fund managers and asset custodians.

Striving for best governance practices

Our governance policies and procedures are contained within an extensive manual approved by the board in fiscal 2000. These governance practices are tested against legislation and regulations and external guidelines.

The CPP Investment Board is in compliance with the governance requirements of the Canada Pension Plan Investment Board Act and its regulations. These requirements are included in an extensive system of internal controls that is currently reviewed at least annually by the external auditors at the request of the Audit Committee.

"Risk management is a huge priority for an investment organization. It means having strict controls and monitoring processes in place."

Mary C. Arnold
Chair, Audit Committee

The governance guidelines of the Toronto Stock Exchange for public companies are a widely accepted standard for measuring performance. Of the 14 guidelines, the CPP Investment Board complies with the 13 relevant to its mandate. The guidelines assert board independence and require the directors to assume stewardship of the organization, including responsibility for the strategic planning process, risk management policies, senior management succession planning, and communications policy. The CPP Investment Board does not comply with the guideline requiring a board nominating committee as this responsibility rests with the committee appointed by the finance ministers.

Another standard is the pension plan governance principles developed by a joint task force of the Association of Canadian Pension Management, Pension Investment Association of Canada, and Office of the Superintendent of Financial Institutions. The CPP Investment Board complies with five of the six recommended principles that require a clear mission statement, acceptance of fiduciary accountability to stakeholders, clearly allocated responsibilities and accountabilities, publicly disclosed performance measurement, and a governance self-assessment. The exception concerns the qualifications of plan administrators and does not apply as the CPP Investment Board has no plan administration duties.

Setting high standards of conduct

The CPP Investment Board has codes of conduct for directors and for officers and employees. The codes are designed to create a corporate culture of trust, honesty and integrity and deal with such matters as relations with suppliers, personal investments, and confidentiality of third-party proprietary information.

Where a situation is not addressed by written policies it is tested against questions such as –is it legal, is it in conflict with the best interests of the CPP Investment Board, and therefore CPP beneficiaries and contributors, and will it meet or exceed the standard of behaviour expected by the Canadian public? No situation requiring review occurred in fiscal 2000.

Anticipating possible conflicts of interest

Because the board requires directors with financial and investment expertise, conflicts of interest must be expected from time to time and managed appropriately. A policy statement and procedures are in place to handle potential conflicts concerning the relationship of directors to companies in which the CPP Investment Board invests or firms that are retained as suppliers, such as fund managers.

At the end of each fiscal year, each director is required to submit a revised resumé highlighting changes in relationships that may give rise to a conflict. The submissions are reviewed by the Governance Committee. Directors must also notify the Chair before accepting a directorship or any position of authority in an entity that might benefit from, or be in conflict with, the CPP Investment Board.

The CPP Investment Board's legislation sets conflict-of-interest provisions that are even stronger than those found in the Canada Business Corporations Act and the Bank Act. Directors are required to make timely disclosure of any investment transactions, and not just material transactions, between the CPP Investment Board and entities in which they have a material interest. They must abstain from participating in discussions about, or voting on resolutions, concerning transactions in which they have a material interest.

The conflicts of interest guidelines were extended to employees in April 2000 and impose strict rules with regard to the disclosure of material inside information and personal trading.

Communicating with stakeholders

The directors and management are enthusiastic about their accountability to Canadians through a transparent investment policy, a detailed annual report that is publicly available, quarterly financial reports, and public meetings at least once every two years in each participating province. The CPP Investment Board is proactive in communicating with interested Canadians through speeches, discussions and media interviews.

GAIL COOK-BENNETT, *Ontario*

Chair

Economist; Held academic positions at University of Toronto and senior executive positions at Bennecon Ltd. and the C.D. Howe Institute, Montreal. Director of Cadillac Fairview, Enbridge Consumers Gas Company, Groupe Transcontinental G.T.C. Ltée, Mackenzie Financial Corporation, The Manufacturers' Life Insurance Company, and Petro-Canada. Former director of the Ontario Teachers' Pension Plan Board.

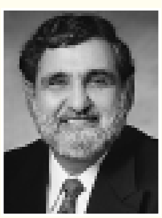
MARY C. ARNOLD, *Alberta*

Chartered accountant; senior member of Arnold Consulting Group Ltd., management consultants, Edmonton. Director of EPCOR, Alberta Credit Union Deposit Guarantee Corporation, Edmonton Community Foundation, and Alberta Performing Arts Stabilization Fund.

SUSAN C.E. CARNELL, *Ontario*

Economist, retired. Held senior positions in the investment and financial services sector, including chief economist with Richardson Greenshields of Canada and economist at Royal Trust Corporation and Conference Board of Canada.

JACOB LEVI, *British Columbia*



Actuary; partner in Eckler Partners, actuarial consultants. Serves as external actuary to public sector pension plans and Workers' Compensation Board of British Columbia. Former chairman of the workers' compensation committee of Canadian Institute of Actuaries.

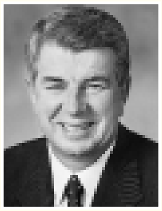
RICHARD W. MCALONEY, *Nova Scotia*

Chartered financial analyst and chartered accountant; CEO of Nova Scotia Association of Health Organizations Pension Plan. Previously was responsible for all investment, pension benefit and treasury operations for the Province of Nova Scotia. Director of Pension Investment Association of Canada, and past director of several boards.

HELEN M. MEYER, *Ontario*

Financial executive; president of Meyer Corporate Valuations Limited. Served in senior corporate finance positions with Merrill Lynch Canada, Morgan Bank of Canada and Dominion Securities Limited. Former commissioner with Ontario Securities Commission. Governor of the Cundill Funds.

Pierre Michaud, *Quebec*



Chairman of Réno-Dépôt Inc. and Provigo Inc. Director of Castorama S.A. of France, Capital d'Amérique (subsidiary of Caisse de Dépôt et Placement du Québec), Laurentian Bank of Canada, Loblaw Companies, Old Port of Montréal Corporation, and Montréal Expos. Active in non-profit and charitable organizations.

Dale G. Parker, *British Columbia*

Corporate director. Former president and CEO of Workers' Compensation Board of British Columbia, British Columbia Financial Institutions Commission, Bank of British Columbia and White Spot Limited. Former senior executive with Shato Holdings Ltd., and Bank of Montreal. Director of Talisman Energy Inc., North West Life Insurance Company of Canada and North West Life Insurance Company of America, Agro Pacific Industries, and GrowthWorks Capital Ltd. Active in charitable and non-profit organizations.

M. Joseph Regan, *Ontario*

Bank executive, retired. Spent 40 years with Royal Bank of Canada, ultimately as senior executive vice president for strategic initiatives. Former Chair of Pension Commission of Ontario. Served as director of Canada Pension Plan Advisory Board and Ontario Pension Board. Currently director of Bank of Tokyo – Mitsubishi (Canada).

Richard M. Thomson, *Ontario*

Bank executive, retired. Former chairman and CEO of Toronto Dominion Bank. Chairman of Canadian Occidental Petroleum, Director of CGC Inc., INCO, S.C. Johnson & Son, Ontario Power Generation Inc., Prudential Insurance Company of America, The Thomson Corporation, Toronto Dominion Bank, and TrizecHahn. Chairman of Hospital for Sick Children Foundation.

David Walker, *Manitoba*

President of West-Can Consultants Ltd. Former professor of political science, Member of Parliament for Winnipeg North Centre, and Parliamentary Secretary to Minister of Finance. Chief federal representative for federal, provincial and territorial consultations on the Canada Pension Plan. Director of Fulbright Foundation, St. Boniface Hospital, Manitoba Theatre Centre and Acsion Industries, Incorporated.

There is currently one vacancy on the board of directors.

The financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained within the annual report.

The CPP Investment Board maintains records and develops and maintains systems of internal control and supporting procedures to provide reasonable assurance that the CPP Investment Board's assets are safeguarded and controlled and that transactions are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws, and the Statement of Investment Policies, Standards and Procedures.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

John A. MacNaughton
President and chief executive officer

Jane Nyman
Vice President – finance and operations

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 the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the Canada Pension Plan Investment Board (the "CPP Investment Board"), held during the year ended March 31, 2000, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Statement of Investment Policies, Standards and Procedures.

Mary C. Arnold

Mary C. Arnold
Chair of the audit committee
on behalf of the board of directors, june 1, 2000

Auditors' report

to the board of directors

We have audited the balance sheet and the statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2000 and the statements of income and accumulated net income from operations and of changes in net assets for the year then ended. These financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2000 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by the 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 & Touche LLP

Chartered accountants
toronto, ontario, may 19, 2000

March 31, 2000	**2000**	1999
ASSETS		
Investments (Note 2)		
Canadian equities	**$ 1,954,371,638**	$ 9,982,904
Non-Canadian equities	**438,389,478**	2,160,746
TOTAL INVESTMENTS	**2,392,761,116**	12,143,650
Cash and short-term investments	**1,022,244**	5,745,442
Other assets (Note 3)	**1,079,581**	68,392
TOTAL ASSETS	**2,394,862,941**	17,957,484
LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	**3,070,132**	864,835
Due to Canada Pension Plan (Note 5)	**—**	4,948,187
TOTAL LIABILITIES	**3,070,132**	5,813,022
NET ASSETS	**$ 2,391,792,809**	$ 12,144,462
NET ASSETS, REPRESENTED BY		
Share capital (Note 6)	**$ 100**	$ 100
Accumulated net income from operations	**460,337,709**	202,362
Canada Pension Plan transfers (Note 7)	**1,931,455,000**	11,942,000
NET ASSETS	**$ 2,391,792,809**	$ 12,144,462

On behalf of the Board of Directors:

Mary C. Arnold

MARY C. ARNOLD
CHAIR OF THE AUDIT COMMITTEE

M. J. Regan

M. JOSEPH REGAN
DIRECTOR, MEMBER OF THE AUDIT COMMITTEE

Year Ended March 31, 2000	**Year ended March 31, 2000**	Six Months ended March 31, 1999
INVESTMENT ACTIVITIES		
Investment income (Note 8)	**$ 463,785,627**	$ 203,209
Investment expenses (Note 9)	**(482,312)**	(847)
	463,303,315	202,362
ADMINISTRATIVE ACTIVITIES (Note 10)		
Operating expenses	**1,309,769**	362,742
Salaries and benefits	**1,003,036**	256,930
Professional and consulting fees	**855,163**	455,993
	3,167,968	1,075,665
RECOVERY OF START-UP EXPENDITURES (Note 5)	**—**	(1,075,665)
NET INCOME FROM OPERATIONS	**460,135,347**	202,362
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF PERIOD	**202,362**	—
ACCUMULATED NET INCOME FROM OPERATIONS, END OF PERIOD	**$ 460,337,709**	$ 202,362

Statement of Changes in Net Assets

Year Ended March 31, 2000	**Year ended March 31, 2000**	Six Months ended March 31, 1999
NET ASSETS, BEGINNING OF PERIOD	**$ 12,144,462**	$ —
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 7)	**1,919,513,000**	11,942,000
Net income from operations	**460,135,347**	202,362
Share capital paid	**—**	100
INCREASE IN NET ASSETS FOR THE PERIOD	**2,379,648,347**	12,144,462
NET ASSETS, END OF PERIOD	**$ 2,391,792,809**	$ 12,144,462

March 31, 2000	Fair Value of Investments 2000	1999
CANADIAN EQUITIES		
(Managed by TD Quantitative Capital)		
Emerald Canadian Equity Funds	**$ 1,736,380,032**	$ 9,982,904
(Cost – $1,492,621,010; 1999 – $9,799,173)		
Canadian Equity Account – physical securities which when combined with the Emerald Canadian Equity Funds substantially replicate the composition of the Toronto Stock Exchange 300 Composite Index	**217,991,606**	—
(Cost – $140,407,927; 1999 – nil)		
TOTAL CANADIAN EQUITIES	**1,954,371,638**	9,982,904
NON-CANADIAN EQUITIES		
(Managed by Barclays Global Investors)		
Barclays Global Investors Canada Limited		
US Equity Index Fund (Canada)	**219,956,228**	1,042,157
(Cost – $202,208,758; 1999 – $1,045,396)		
EAFE Equity Index Fund B	**218,433,250**	1,091,235
(Cost – $197,976,469; 1999 – $1,097,687)		
Barclays Global Investors Canada Limited	**—**	27,354
Unhedged Synthetic EAFE Equity Index		
(Cost – nil; 1999 – $25,984)		
(collectively invested to substantially replicate the composition of the Morgan Stanley Capital International World Index ex-Canada)		
TOTAL NON-CANADIAN EQUITIES	**438,389,478**	2,160,746
TOTAL EQUITIES	**$ 2,392,761,116**	$ 12,143,650
% OF PORTFOLIO AT COST		
Canadian Equities	**80.3%**	81.9%
Non-Canadian Equities	**19.7%**	18.1%
	100.0%	100.0%

Organization

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested 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 (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board commenced operations October 1, 1998 and has a fiscal year end of March 31.

1. Summary of significant accounting policies

A. Basis of presentation

These financial statements present the financial position and operations of the CPP Investment Board as a separate legal entity, and therefore include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying Regulations.

B. Valuation of investments

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments. Unit values reflect the quoted market prices of the underlying securities. Short-term investments are valued at cost plus accrued income which approximates fair value.

C. Income recognition

Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the period, dividend income, interest income, and distributions from mutual and pooled funds.

Realized gains and losses on investments sold during the period represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each period.

D. Translation of foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the period end are translated at exchange rates in effect at the period end date. The resulting realized and unrealized gains and losses are included in investment income.

E. Canada Pension Plan transfers

Amounts received from the CPP are recorded on a cash basis.

F. Income taxes

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada.

G. Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures.

2. Investments

The statement of investment portfolio provides detailed information on the investments held as at March 31, 2000.

A. investment policy

The CPP Investment Board has prepared a Statement of Investment Policies, Standards and Procedures (the "Investment Policy") which sets out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2000, these assets totalled approximately $30.3 billion (at cost) and consisted of government debt obligations. As a result, and in accordance with the Investment Policy, 100% of the CPP Investment Board's investments are allocated to equities with approximately 80% allocated to Canadian equities and the remainder to non-Canadian equities.

As at March 31, 2000, the Regulations under the Act require the CPP Investment Board's Canadian equities to substantially replicate the composition of one or more broad market indexes. The Toronto Stock Exchange 300 Composite Index (the "TSE 300 Index") has been selected as an appropriate market index for the Canadian equities. Under the terms of the Investment Policy, the CPP Investment Board's investments in non-Canadian equities should also substantially replicate broad market indexes. The Morgan Stanley Capital International ("MSCI") World Index ex-Canada has been selected for this purpose.

B. derivative financial instruments

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates or exchange rates.

As outlined in the Investment Policy, certain derivatives may be used to achieve market exposure by replicating direct investments in a relevant equity index, provided that the derivatives are not used to create leverage. The mutual and pooled funds in which the CPP Investment Board owns units are permitted to, and may from time to time, use derivatives subject to this constraint. There were no derivative contracts outstanding at March 31, 2000.

C. foreign currency exposure

The CPP Investment Board is exposed to currency risk through holdings of units in pooled funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying currency exposures by geographical area as at March 31, 2000 are as follows:

	2000		1999	
Country/Region	**Fair value**	**% of Total**	Fair value	% of Total
United States	**$ 219,956,228**	**50%**	$ 1,042,157	48%
Europe	**145,796,261**	**34%**	802,370	37%
Far East	**67,453,540**	**15%**	282,138	13%
Australia and New Zealand	**5,183,449**	**1%**	34,081	2%
	$ 438,389,478	**100%**	$ 2,160,746	100%

In accordance with the Investment Policy, the foreign currency exposures are not hedged.

3. Other assets

Other assets consisted of the following:

	2000	1999
Pending trades	**$ 532,723**	$ —
Dividends receivable	**383,456**	—
Fixed assets	**141,354**	67,222
Other assets	**22,048**	1,170
	$ 1,079,581	$ 68,392

4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following:

	2000	1999
Pending trades	**$ 1,801,263**	$ —
Other accounts payable and accrued liabilities	**1,268,869**	864,835
	$ 3,070,132	$ 864,835

5. Due to Canada Pension Plan

As permitted under Section 57 of the Act, during fiscal 1999 the CPP Investment Board received an allocation of $6,000,000 from the CPP for start-up expenditures. Of this amount, a total of $1,075,665 was utilized during the six-month period ended March 31, 1999. The excess amount of $4,948,187 (including interest of $23,852) was repaid to the CPP.

6. Share capital

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty in right of Canada.

7. Canada Pension Plan transfers

There are two conditions under which transfers to the CPP Investment Board are permitted, as outlined in Section 111 of the *Canada Pension Plan*. The first relates to the approximately $30.3 billion in government securities held by the CPP outside of the CPP Investment Board. In certain instances these securities may be rolled over at maturity, either wholly or in part, at the option of the issuer. To the extent that the funds are not required by the CPP to pay current pensions, and the existing issuer does not replace the matured securities, the proceeds are transferred to the CPP Investment Board. The second condition of transfer occurs when the Minister of Finance determines that the CPP has an excess operating balance. The excess portion is then transferred to the CPP Investment Board.

During the year, a total of $1,919,513,000 (1999 – $11,942,000) was transferred to the CPP Investment Board.

8. Investment income

A. Investment income for the period

Investment income consisted of the following:

	2000	1999[1]
Interest income	**$ 1,841,708**	$ 8,293
Dividends	**3,650,408**	—
Distributions of income from mutual and pooled funds	**9,281,073**	—
	14,773,189	8,293
Unrealized gains	**359,371,542**	175,410
Realized gains	**89,640,896**	19,506
	449,012,438	194,916
TOTAL INVESTMENT INCOME	**$ 463,785,627**	$ 203,209

[1] Investment activity commenced on March 1, 1999. As a result the investment income for 1999 reflects only one month's activity.

In implementing its market replication strategy, the CPP Investment Board utilizes index funds. In instances where a large dollar value of index fund units is to be purchased, the CPP Investment Board initially purchases individual securities that make up the index. The securities are then transferred to the index fund in exchange for units in the fund. On transfer, a gain or loss may be realized representing the difference between the market price of the securities at the time of the transfer and their original cost.

B. Investment performance

Investment performance and benchmark returns are as follows:

	2000		1999[1]	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equities	45.3%	45.5%	4.9%	4.8%
Non-Canadian equities	16.6%	16.1%	5.4%	4.4%
Total return	40.1%	39.3%	5.0%	4.7%

[1] Investment activity commenced with receipt of the first cash flow on March 1, 1999. As a result, the investment performance information reflects only one month's activity for the period ended March 31, 1999.

The benchmark for the Canadian equities is the TSE 300 Index and for the non-Canadian equities is the MSCI World Index ex-Canada. The total return benchmark aggregates the two benchmark returns according to the weightings (80% for Canadian equities and 20% for non-Canadian equities) specified in the Investment Policy.

Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

9. Investment expenses

Investment expenses consisted of the following:

	2000	1999
External investment management fees	**$ 342,481**	$ 252
Custodial fees	**139,831**	595
	$ 482,312	$ 847

10. Administrative activities

Certain comparative figures have been reclassified to conform with the current year presentation.

A. Operating expenses

Operating expenses consisted of the following:

	2000	1999
Communication expenses	**$ 364,061**	$ —
Remuneration earned by directors	**269,095**	168,550
Occupancy costs	**230,711**	38,378
Office supplies and equipment	**178,642**	14,040
Travel and accommodation for directors' meetings	**100,526**	89,388
Other operating expenses	**166,734**	52,386
	$ 1,309,769	$ 362,742

Remuneration earned by directors includes an annual retainer for each director of $12,000, board and committee meeting fees of $900 per meeting, plus an additional annual retainer of $3,000 for each committee chair. (Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings.) The Chair also receives $32,000 as additional compensation for the position of Chair of the Board of Directors but is not eligible to receive the $3,000 retainer paid to committee chairs. Included in the above amount is $28,495 earned by the Chair from September 7, 1999 to March 31, 2000. Prior to September 7, 1999, the Chair had been discharging the duties of the Chief Executive Officer and accordingly, the compensation for this period has been included in salaries and benefits (see (B) below). Directors of the CPP Investment Board come from various regions of the country and accordingly they incur travel and accommodation expenses in attending meetings of the board and committees. In fiscal 2000, eight board meetings and thirteen committee meetings were held.

B. Salaries and benefits

Included in salaries and benefits is the compensation earned by the two executive officers of the CPP Investment Board since the commencement date of their employment in the fiscal year ended March 31, 2000.

Employee	Position	Salary	Annual Bonus[3]	Benefits[4]
John MacNaughton[1,5]	President and Chief Executive Officer	$201,923	$100,962	$4,256
Jane Nyman[2,5]	Vice President – Finance and Operations	$ 78,077	$ 37,589	$ 124

[1] Commenced employment on September 7, 1999.
[2] Commenced employment on September 13, 1999. Prior thereto, Ms. Nyman provided services on a contract basis.
[3] Bonus amounts are based on the achievement of agreed objectives and reflect amounts payable for the current year. In addition, a long-term incentive plan is being put in place to focus on the achievement of longer term objectives.
[4] Benefits include life insurance, club dues, and other miscellaneous non-cash remuneration.
[5] Both Mr. MacNaughton and Ms. Nyman are eligible for pension benefits under a defined contribution arrangement which is expected to be finalized in early fiscal 2001.

Remuneration earned by the Chair, Gail Cook-Bennett, while discharging the duties of the Chief Executive Officer prior to September 7, 1999, was $123,000 (1999 – $135,000). She was paid a per diem rate and was not eligible to receive a bonus or benefits.

C. Professional and consulting fees

Professional and consulting fees consisted of the following:

	2000	1999
Consulting fees	**$ 626,262**	$ 291,417
Legal	**123,788**	125,610
Professional accounting and audit fees	**105,113**	38,966
	$ 855,163	$ 455,993

Consulting fees represent amounts paid for professional advice in connection with the development of business strategy and human resource policies, the search for executive officers, and other professional advice received by the CPP Investment Board.

Top 25 Canadian equity holdings as at March 31, 2000

Security name	Fair value ($'000)	Shares ('000)
Nortel Networks Corporation	380,839	2,091
BCE Inc.	266,796	1,474
The Seagram Company Ltd.	64,655	751
The Toronto-Dominion Bank	54,652	1,423
Royal Bank of Canada	47,558	699
Bombardier Inc., Class "B" SV	42,871	1,176
Canadian Imperial Bank of Commerce	38,078	919
The Bank of Nova Scotia	32,885	1,132
Bank of Montreal	31,217	612
Celestica Inc.	28,477	373
JDS Uniphase Canada Ltd.	26,621	154
Alcan Aluminium Limited	24,273	500

Security name	Fair value ($'000)	Shares ('000)
Canadian Pacific Limited	24,207	747
Ballard Power Systems Inc.	22,177	200
Barrick Gold Corporation	20,488	911
Canadian National Railway Company	17,724	463
Research in Motion Limited	17,467	115
The Thomson Corporation	17,441	383
Shaw Communications Inc., Class "B"	15,930	408
Suncor Energy Inc.	15,906	253
Petro-Canada	15,011	622
Newbridge Networks Corporation	14,781	321
Alberta Energy Company Ltd.	14,071	322
Talisman Energy Inc.	13,100	317
BCT.Telus Communications Inc.	12,817	298

Top 15 foreign equity holdings as at March 31, 2000

($ CAD equivalent)

Security name	Country	Fair value ($'000)	Shares ('000)
Microsoft Corporation	US	9,546	62
Cisco Systems Inc.	US	9,131	81
General Electric Company	US	8,789	39
Intel Corporation	US	7,608	40
Vodafone Group PLC	United Kingdom	7,337	909
Nokia Oyj	Finland	5,517	18
Deutsche Telekom AG	Germany	5,291	45
Exxon Mobil Corporation	US	4,638	41
Nippon Telegraph & Telephone Corporation	Japan	4,344	1
Wal-Mart Stores Inc.	US	4,266	53
Toyota Motor Corp.	Japan	4,228	56
BP Amoco PLC	United Kingdom	3,874	292
France Telecom SA	France	3,828	15
Oracle Corporation	US	3,807	34
International Business Machines Corporation	US	3,671	21

Canadian and foreign equity holdings include shares held directly and through mutual and pooled funds which collectively replicate the TSE 300 Index and the MSCI World Index ex-Canada.

Board of Directors and Committees

Chair, Board of Directors
Gail Cook-Bennett

Board of Directors and Investment Committee
Gail Cook-Bennett (Chair)
Mary Arnold
Susan Carnell
Jacob Levi
Richard McAloney
Helen Meyer
Pierre Michaud
Dale Parker
Joseph Regan
Richard Thomson
David Walker

Audit Committee
Mary Arnold (Chair)
Jacob Levi
Helen Meyer
Joseph Regan

Governance Committee
Dale Parker (Chair)
Susan Carnell
Gail Cook-Bennett
Jacob Levi
Richard McAloney

Human Resources and Compensation Committee
Richard Thomson (Chair)
Gail Cook-Bennett
Helen Meyer
Pierre Michaud
David Walker

Officers

President and Chief Executive Officer
John A. MacNaughton

Vice President-Finance and Operations
Jane nyman

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