



**CPP
INVESTMENT
BOARD**

**Presentation to the
CIPPREC Conference**

October, 2002

The CPP Investment Board – An Introduction

- December 1997 – Created by an Act of Parliament
- October 1998 – Board of Directors appointed
- September 1999 – President and CEO appointed
- Fiscal 2001 – Senior management team recruited
- June 2001 – Announced 10% allocation to private equity; and 5% allocation to real estate and infrastructure

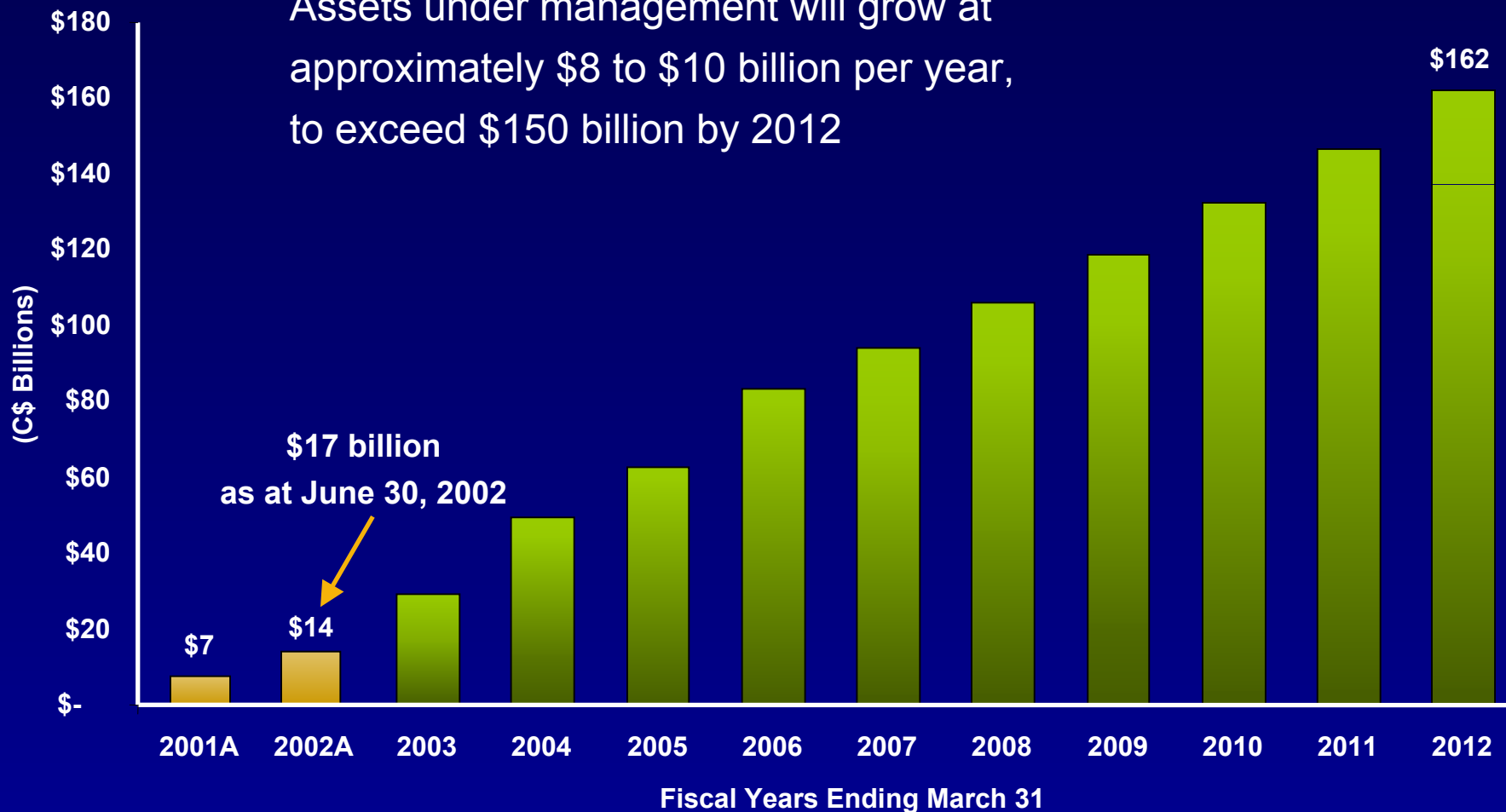
- June 30 2002 – \$17.1 Billion assets under management
 - \$4.1 Billion committed to Private Equity to
 - 23 relationships
 - 27 Funds
 - \$650MM invested, 3.8% of AUM
 - 17,916,790 shares of Trizec Canada represent non-index exposure to Real Estate

- The CPP Investment Board is unique in several ways
 - We are an Investment Organization
 - We are not a “Pension Fund”
 - We have one client: the Canada Pension Plan
 - We operate at arms length from governments
 - Our fiscal year-end is March 31 and we report quarterly
 - We are growing at approximately \$8 to \$10 billion per year

- Private Market Investments’ mission:
 - To become widely recognized as a “preferred investor”

- And our Objective is:
 - To Build and Manage a Diversified Portfolio that will Generate Superior Risk-Adjusted Net Value Added

Assets under management will grow at approximately \$8 to \$10 billion per year, to exceed \$150 billion by 2012



Note: assumes transfer of Bonds and Cash Reserve over next three years

Private Market Investments

1. Team of 5 investment professionals
2. Invest through Funds, asset managers, joint ventures
 - no direct investments
3. Large mandate – anything private
 - Private Equity (Buyouts and Venture Capital)
 - Real Estate
 - Infrastructure
 - Energy
 - Natural Resources

Real Estate offers unique challenges for the CPP Investment Board

1. We are not a pension fund

- Do not see real estate the same way as other pension funds
- Certain implications with respect to structuring
- U.S. real estate presents challenges and opportunities

2. We receive significant cash inflows

- Do not need real estate to fund current liabilities
- Reinvestment risk is a major risk

Real Estate offers unique challenges for the CPP Investment Board (cont'd)

3. We will not be asked to pay out cash flow for approx. 20 years
 - Cash “inflows” are a bigger challenge
 - Greater focus on Return on Capital than on IRR

4. Total Portfolio Asset Allocation
 - Overweight fixed income
 - All cash “inflows” currently directed to equity
 - Opportunity cost – performance relative to equities

- Despite these challenges, real estate ...
 - may offer attractive absolute or risk-adjusted returns
 - is a good match for our long term investment horizon
 - exhibits inflation hedging characteristics
 - reduces risk through diversification
- Our patience, long term investment horizon and ability to provide liquidity for relatively illiquid assets is likely to afford us opportunities to acquire attractive real estate over time

Current Portfolio

- We have not been very active in real estate
- We are concerned that assets may be trading at prices closer to cyclical “peak” rather than “trough” values
- The right opportunities will take time – we are patient
- We have invested in real estate in the public markets where valuations reflected discounts to private market valuations

Public vs. Private

- Currently real estate portfolio exposure consists of public equities
- In addition to our relative percentage of TSX/S&P Composite, S&P 500 and MS EAFE NONA Indices, we own

As at October 10, 2002:

- 17,916,790 shares of Trizec Canada
- market value \$256.2 million
- percentage of Total June 30 Portfolio equals 1.4%

Selection criteria

- Seek long term investment partners – be they asset managers, institutional investors, or corporations

- Common denominator
 - + Track record
 - + Significant equity commitment by partner
 - + Fees reflecting scale and value added
 - + Performance based compensation
 - = Alignment of Interests

Structuring Criteria

- Depends on opportunity
 - Limited Partnerships
 - Co-Investments / Joint Ventures through Section 149 vehicle
 - Private REITs

Common denominator

- + Outsourcing investment decisions to best of breed
- + Limited liability
- + Taxes minimized
- + Foreign Property minimized
- = Cost effective and efficient Portfolio Management

Diversification

By Asset Class

- Do not have a specific portfolio design, however :
 - Initial focus will be office, apartments, industrial and retail
 - Nursing and retirement homes, hotels, and development are non-core and secondary strategies
 - Rebalancing is relatively easy given significant cash inflows

By Geographic Location

- No specific portfolio design, however, expect
 - Canada first
 - U.S. second
 - Western Europe third

Minimum Return Requirements

- Return objectives relate to the long term required rate of return for the Total Portfolio
- No single measure

Performance Measures	
Real Return Objectives	4.5% p.a. minimum over five years
Public Indices	NAREIT S&P REIT Index
Appraisal Based Indices	NCREIF Frank Russell Canadian Property Index
Peer Comparisons	Consultant reports on Advisor performance
Excess over Real Return Bonds	1.1%

Private real estate returns may revert back to long-term averages

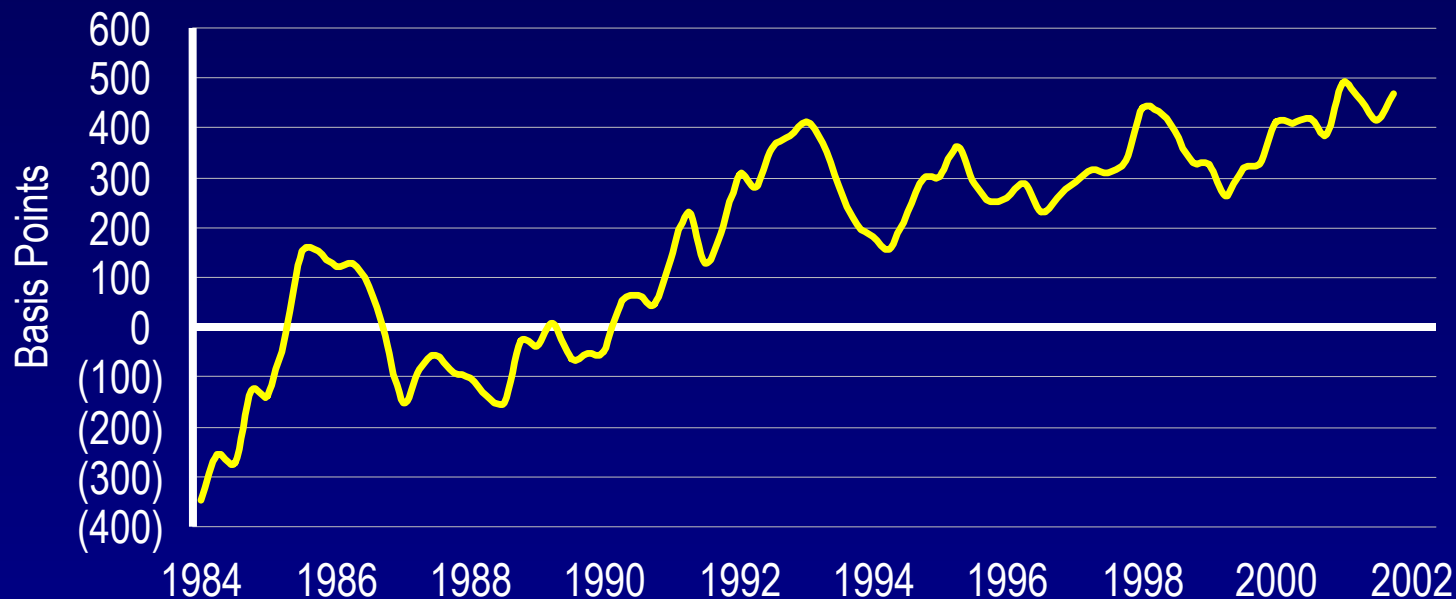
Average Annual Returns in the United States *			
	5-Year	10-Year	20-Year
Large Cap Stocks	3.6%	11.4%	14.9%
Small Cap Stocks	4.3%	10.2%	10.8%
Public Real Estate	7.8%	12.6%	13.8%
Private Real Estate (unleveraged)	11.8%	8.6%	7.8%
T-Bills (90 day)	4.5%	4.5%	5.9%
Long Term Bonds	10.1%	9.5%	11.6%

Public real estate returns reflect leverage within the REIT structure, which has ranged from a low of 38% to a high of 52% over the past 20 years.

* As of 6/30/02; Source: NAREIT (Equity REITs), NCREIF, LaSalle Investment Management

Average Spread: 150 Basis Points – What is the long term equilibrium?

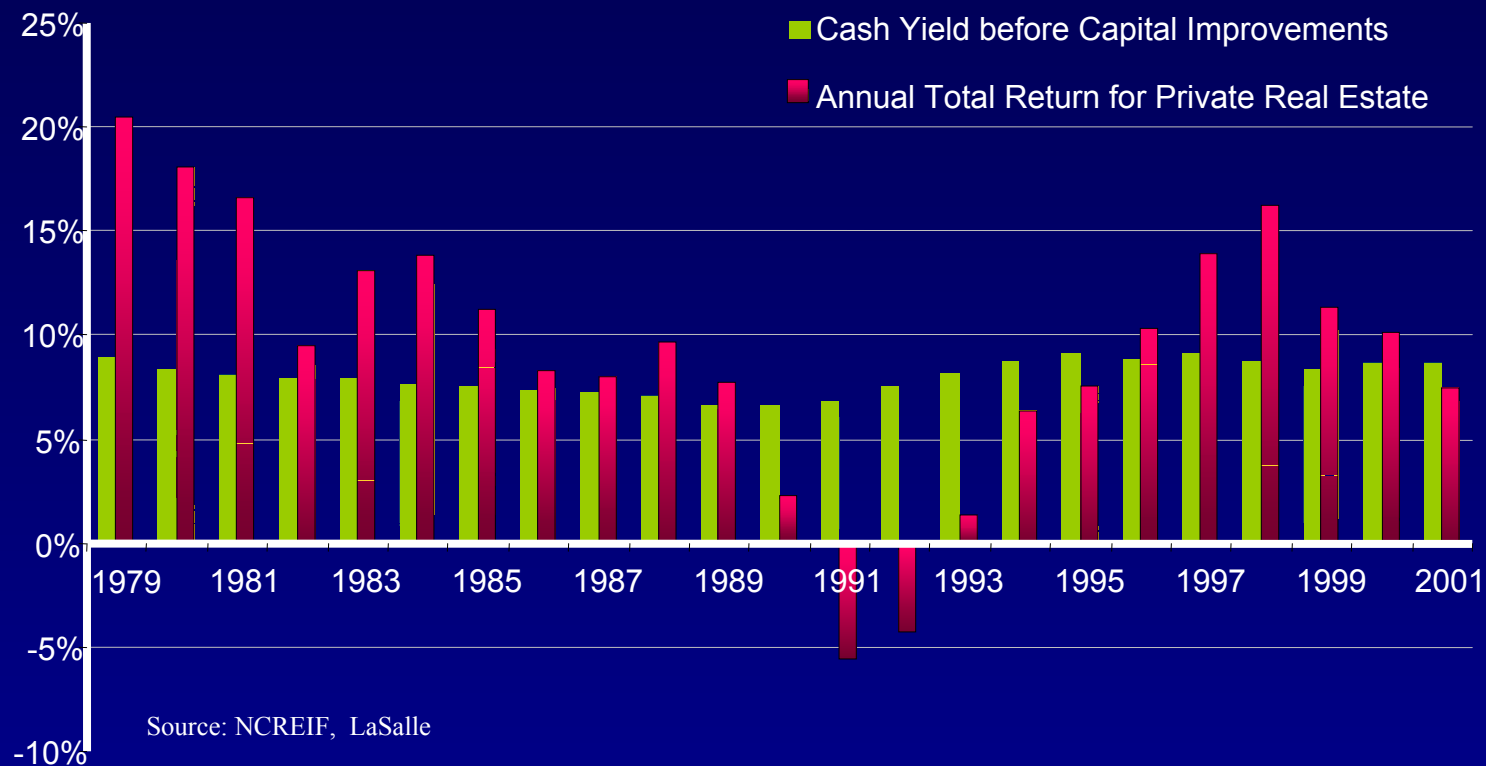
Avg. RE Cap Rates Less 10 Yr. Treasuries



Source: NCREIF, LaSalle

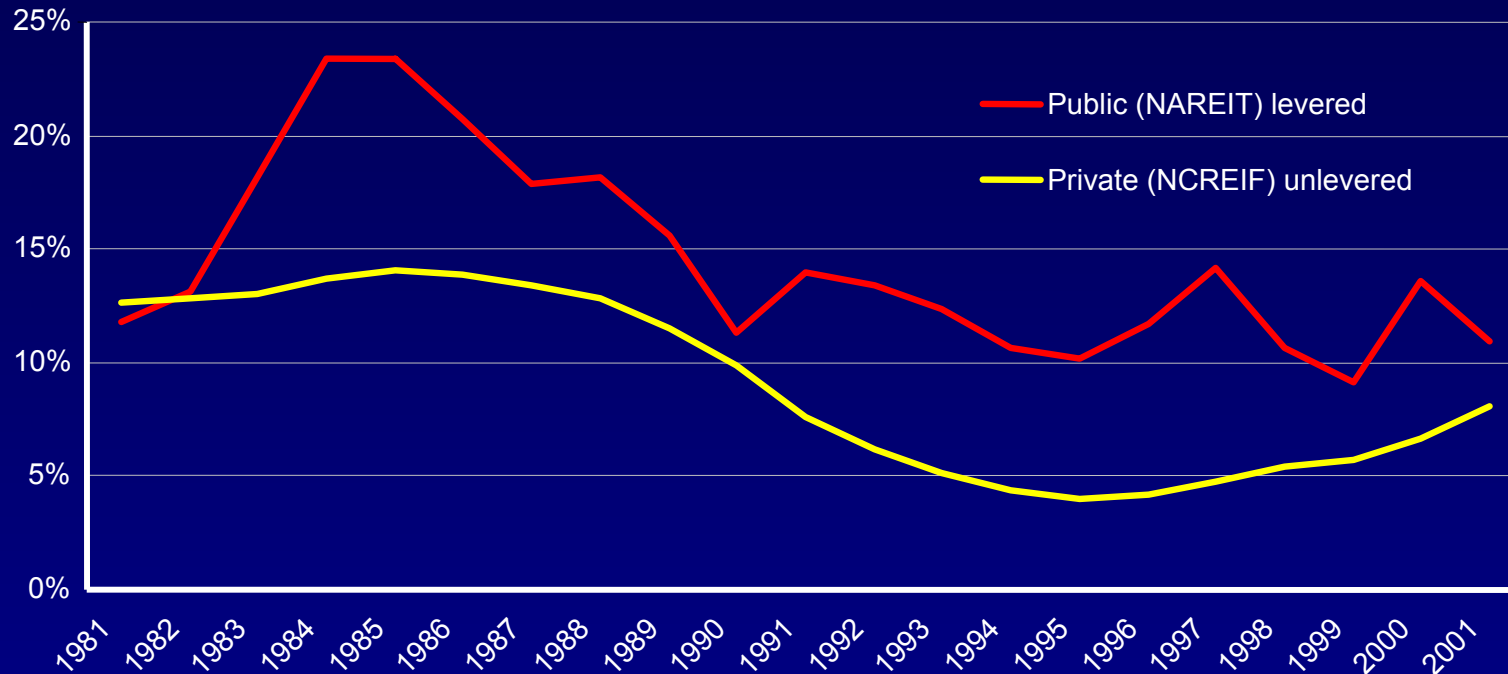
- Spread between 10 Year Treasuries and Cap Rates is attractive
- For how long will this trend be sustained?
- Might Cap rates decline as interest rates rise?

Annual Total Returns exhibit cyclicality



- U.S. Private Real Estate has averaged cash returns of 8.0% since 1979 and 8.7% over the past 5 years
- Only 2 years of negative total returns in 21 years

Average Annual returns (over 10 years) exhibit cyclicality

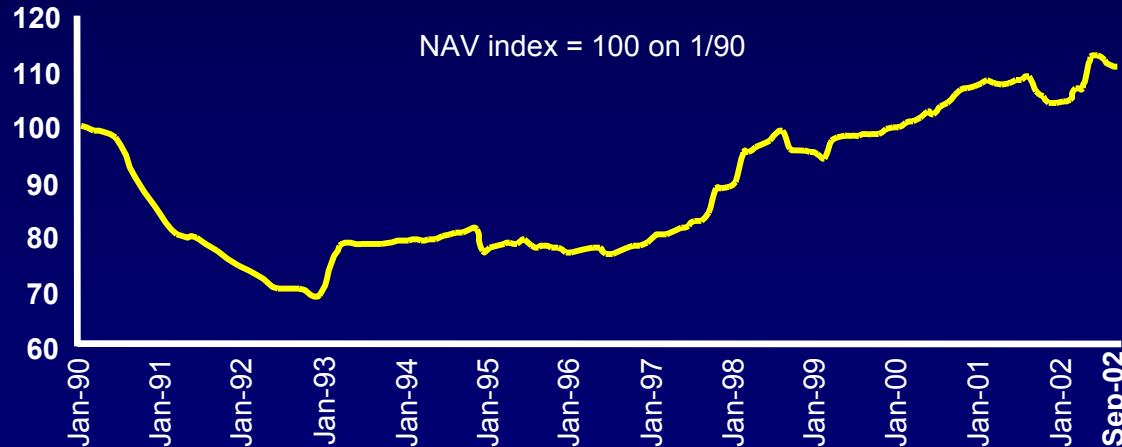


Source: NAREIT, NCREIF, RERC, LaSalle.

Private Return Data from 1971 to 1981 is taken from RERC; Data from 1978-2002 from NCREIF

- Due to Stock Market Volatility, Public Real Estate Returns will vary from Private Real Estate returns
- Over the longer term (10 Year periods), returns track more closely, with REITs higher due to leverage and corporate value add activities

“NAV values have risen an average of 4.1% over the last twelve months, driven entirely by lower cap rates”*



“The NAV premium is near parity, its long-term average”*



* Source: GreenStreet Advisors

- Supply vs. Demand
- Asset management of core assets
- Opportunity funds / strategies
- Investing in the U.S. (tax leakage, control)
- Reporting standards – transparency and disclosure
- Valuation and performance measurement



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