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

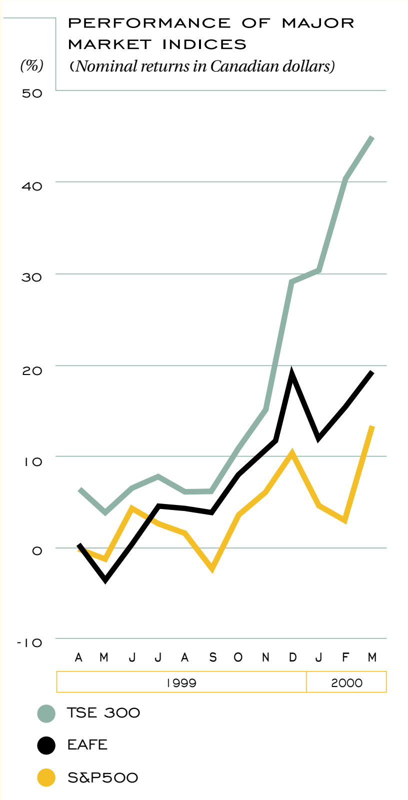
The assumption in the Chief Actuary's latest report (December, 1997) is that we should earn a 4.0% real rate of return over the long term to assist in meeting the obligations of the Canada Pension Plan. With inflation at 3.0% in fiscal 2000, the actuarial assumption translated into a 7.0% nominal rate 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

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.

"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 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.

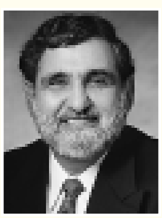
MARY C. ARNOLD, *Alberta*

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.

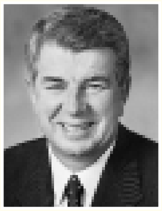
RICHARD W. MCALONEY, *Nova Scotia*

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.