

Condensed Interim Consolidated
Financial Statements of

Canada Pension Plan Investment Board

June 30, 2017

Canada Pension Plan Investment Board
Condensed Interim Consolidated Balance Sheet
As at June 30, 2017
(Unaudited)

<i>(CAD millions)</i>	As at June 30, 2017	As at March 31, 2017	As at June 30, 2016
Assets			
Investments (note 2)	\$ 382,951	\$ 377,700	\$ 358,095
Amounts receivable from pending trades	3,198	3,234	4,235
Premises and equipment	349	348	356
Other assets	189	131	205
Total assets	386,687	381,413	362,891
Liabilities			
Investment liabilities (note 2)	54,751	60,423	66,225
Amounts payable from pending trades	5,020	3,631	8,996
Accounts payable and accrued liabilities	368	682	405
Total liabilities	60,139	64,736	75,626
Net assets	\$ 326,548	\$ 316,677	\$ 287,265
Net assets, represented by:			
Share capital	\$ -	\$ -	\$ -
Accumulated net income from operations	184,641	178,875	149,534
Accumulated net transfers from the Canada Pension Plan	141,907	137,802	137,731
Net assets	\$ 326,548	\$ 316,677	\$ 287,265

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Statement of Comprehensive Income

For the three-month period ended June 30, 2017

(Unaudited)

<i>(CAD millions)</i>	For the three-months ended	
	June 30, 2017	June 30, 2016
Investment income	\$ 6,540	\$ 4,682
Investment management fees	(423)	(279)
Transaction costs	(107)	(92)
Net investment income (note 6)	\$ 6,010	\$ 4,311
Personnel costs	176	150
General operating expenses	57	54
Professional services	11	9
Operating expenses	244	213
Net income from operations and comprehensive income	\$ 5,766	\$ 4,098

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Statement of Changes in Net Assets

For the three-month period ended June 30, 2017

(Unaudited)

<i>(CAD millions)</i>	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
As at April 1, 2016	10	\$ -	\$ 133,505	\$ 145,436	\$ 278,941
Net income for the period		-	-	4,098	4,098
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	12,468	-	12,468
Transfers to the Canada Pension Plan		-	(8,242)	-	(8,242)
Balance at June 30, 2016	10	\$ -	\$ 137,731	\$ 149,534	\$ 287,265
As at April 1, 2017	10	\$ -	\$ 137,802	\$ 178,875	\$ 316,677
Net income for the period		-	-	5,766	5,766
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	11,512	-	11,512
Transfers to the Canada Pension Plan		-	(7,407)	-	(7,407)
Balance at June 30, 2017	10	\$ -	\$ 141,907	\$ 184,641	\$ 326,548

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Statement of Cash Flows

For the three-month period ended June 30, 2017

(Unaudited)

(CAD millions)	For the three-months ended	
	June 30, 2017	June 30, 2016
Cash flows from operating activities		
Net income from operations	\$ 5,766	\$ 4,098
Adjustments for non-cash items:		
Amortization of premises and equipment	7	7
Effect of exchange rate changes on cash and cash equivalents	4	(11)
Unrealized (gains) losses on debt financing liabilities	(523)	590
Adjustments for net changes in operating assets and liabilities:		
(Increase) in investments	(9,911)	(9,520)
Decrease (Increase) in pending trades receivable	36	(1,608)
(Increase) in other assets	(1)	(3)
(Decrease) Increase in investment-related liabilities	(7,771)	1,592
Increase (decrease) in debt financing liabilities	2,500	(1,651)
Increase in pending trades payable	1,490	5,565
(Decrease) in accounts payable and accrued liabilities	(291)	(259)
Net cash flows (used in) operating activities	(8,694)	(1,200)
Cash flows from financing activities		
Transfers from the Canada Pension Plan	11,512	12,468
Transfers to the Canada Pension Plan	(7,407)	(8,242)
Net cash flows provided by financing activities	4,105	4,226
Cash flows from investing activities		
Acquisitions of premises and equipment	(9)	(7)
Disposals of premises and equipment	1	-
Net cash flows (used in) investing activities	(8)	(7)
Net (decrease)Increase in cash and cash equivalents	(4,597)	3,019
Effect of exchange rate changes on cash and cash equivalents	(4)	11
Cash and cash equivalents at the beginning of the period	16,076	5,594
Cash and cash equivalents at the end of the period	11,475	8,624
Cash and cash equivalents at the end of the period are comprised of:		
Cash held for operating purposes ¹	128	148
Cash and cash equivalents held for investment purposes ²	11,347	8,476
Total	\$ 11,475	\$ 8,624

¹ Presented as a component of Other assets on the Condensed Interim Consolidated Balance Sheet.

² Presented as a component of Investments on the Condensed Interim Consolidated Balance Sheet and Money market securities on the Condensed Interim Consolidated Schedule of Investment Portfolio.

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Schedule of Investment Portfolio

As at June 30, 2017

(Unaudited)

The schedule below provides information on CPP Investment Board's investment assets and investment liabilities:

<i>(CAD millions)</i>	As at June 30, 2017	As at March 31, 2017 ¹	As at June 30, 2016 ¹
Equities (note 2a)			
Canada			
Public equities	\$ 6,707	\$ 4,576	\$ 4,224
Private equities	3,860	4,048	3,794
	10,567	8,624	8,018
Foreign developed markets			
Public equities	103,999	93,905	65,152
Private equities	56,030	54,992	49,292
	160,029	148,897	114,444
Emerging markets			
Public equities	19,092	19,208	13,197
Private equities	5,792	5,781	5,225
	24,884	24,989	18,422
Total equities	195,480	182,510	140,884
Fixed income (note 2b)			
Bonds	58,998	61,240	74,640
Other debt	19,418	19,764	25,936
Money market securities	12,097	19,408	19,754
Total fixed income	90,513	100,412	120,330
Absolute return strategies (note 2c)	19,781	19,371	18,244
Real assets (note 2d)			
Real estate	39,555	38,732	36,044
Infrastructure	27,321	27,899	19,755
Total real assets	66,876	66,631	55,799
Investment receivables			
Securities purchased under reverse repurchase agreements (note 2e)	6,077	5,207	18,482
Accrued interest	1,543	1,561	1,172
Derivative receivables (note 2f)	2,318	1,718	3,093
Other	363	290	91
Total investment receivables	10,301	8,776	22,838
Total investments	\$ 382,951	\$ 377,700	\$ 358,095
Investment liabilities			
Securities sold under repurchase agreements (note 2e)	(16,936)	(14,749)	(19,272)
Securities sold short (note 2a and 2b)	(13,468)	(24,177)	(29,247)
Debt financing liabilities (note 2g)	(21,870)	(19,873)	(14,505)
Derivative liabilities (note 2f)	(1,417)	(1,401)	(2,884)
Other	(1,060)	(223)	(317)
Total investment liabilities	(54,751)	(60,423)	(66,225)
Amounts receivable from pending trades	3,198	3,234	4,235
Amounts payable from pending trades	(5,020)	(3,631)	(8,996)
Net investments	\$ 326,378	\$ 316,880	\$ 287,109

¹ Certain comparatives have been updated to be consistent with current period presentation.

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Table of Contents

Note	Description	Page
	Corporate information	7
1	Summary of significant accounting policies	7
2	Fair value determination	8
2(a)	Equities	8
2(b)	Fixed income	8
2(c)	Absolute return strategies	9
2(d)	Real assets	10
2(e)	Securities purchased under reverse repurchase agreements and sold under repurchase agreements	10
2(f)	Derivative contracts	10
2(g)	Debt financing liabilities	10
3	Derivative instruments	11
4	Fair value measurement	12
5	Investment risk management	21
6	Net investment income	28
7	Collateral	29
8	Commitments	29
9	Related party transactions	30
10	Guarantees	30

Corporate information

Canada Pension Plan Investment Board (CPP Investment Board) was established in December 1997 pursuant to the *Canada Pension Plan Investment Board Act* (the Act). CPP Investment Board is a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. CPP Investment Board is responsible for assisting the Canada Pension Plan (the CPP) in meeting its obligations to contributors and beneficiaries under the legislation *Canada Pension Plan*. It is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan* in the best interests of CPP beneficiaries and contributors. CPP Investment Board received its first funds for investing purposes from the CPP in March 1999. CPP Investment Board's assets are to be invested in accordance with the Act, the regulations and the investment policies with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

CPP Investment Board is exempt from Part I tax under paragraphs 149(1) (d) and 149(1) (d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of CPP Investment Board are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The Condensed Interim Consolidated Financial Statements (Consolidated Financial Statements) provide information on the net assets managed by CPP Investment Board and do not include the assets and liabilities of the CPP. CPP Investment Board has a fiscal year end of March 31.

CPP Investment Board's registered office is at One Queen Street East, Toronto, Ontario, Canada.

The Consolidated Financial Statements were approved by the Board of Directors and authorized for issue on August 10, 2017.

1. Summary of significant accounting policies

a) Basis of presentation

These Consolidated Financial Statements have been prepared in compliance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34) and do not include all of the information and disclosures required in the annual consolidated financial statements. These Consolidated Financial Statements should be read in conjunction with CPP Investment Board's annual Consolidated Financial Statements and the accompanying note disclosures included on pages 97 to 126 in CPP Investment Board's 2017 Annual Report. These Consolidated Financial Statements follow the same accounting policies and methods as the most recent annual Consolidated Financial Statements.

CPP Investment Board qualifies as an investment entity as it meets the following definition of an investment entity outlined in IFRS 10, *Consolidated Financial Statements* (IFRS 10):

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services. In the case of CPP Investment Board, we have one investor (CPP), but we invest the funds for a wide group of investors being the beneficiaries of the CPP.
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

No significant judgments or assumptions were made in determining that CPP Investment Board meets the definition of an investment entity as defined in IFRS 10.

b) Subsidiaries

CPP Investment Board is required to report the results of operations in accordance with IFRS 10. As a consequence, the Consolidated Financial Statements represent the results of operations of CPP Investment Board and its wholly-owned subsidiaries that were created to provide investment-related services to support its operations. Operating subsidiaries of this nature include those that provide investment advisory services or subsidiaries that were created to provide financing to CPP Investment Board.

Subsidiaries that were created to structure and hold investments are investment holding companies and are not consolidated in these Consolidated Financial Statements but instead are measured and reported at fair value. Fair value for unconsolidated investment holding companies is based on the fair value of the underlying investments and investment liabilities held by the investment holding company together with its accumulated net income from operations. The determination of the fair value of the underlying investments and investment liabilities are based on the valuation techniques and related inputs outlined in note 2a to g.

c) Valuation of investments and investment liabilities

Investments and investment liabilities are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. See note 2a to g for more details about the determination of fair value.

2. Fair value determination

CPP Investment Board manages the following types of investments and investment liabilities and determines fair value as follows:

a) Equities

- (i) Public equity investments are made directly or through funds, including hedge funds. Fair value for publicly traded equities, including equity short positions, is based on quoted market prices. Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.
- (ii) Private equity investments are generally made directly or through ownership in limited partnership funds. The fair value for investments held directly is primarily determined using earnings multiples of comparable publicly traded companies or discounted cash flows. Significant inputs for these valuation methods include company specific earnings before interest, taxes, depreciation and amortization (EBITDA), earnings multiples of comparable publicly traded companies, projected cash flows and discount rates using current market yields of instruments with similar characteristics. Recent market transactions, where available, are also used. In the case of investments held through a limited partnership fund, fair value is generally determined based on relevant information reported by the general partner using similar accepted industry valuation methods.

b) Fixed income

- (i) Bonds consist of non-marketable and marketable bonds. Fair value for non-marketable Canadian provincial government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics. In the case of marketable bonds, including bond short positions, fair value is based on quoted prices or calculated using discounted cash flow based on benchmark yield curves and credit spreads pertaining to the issuer.
- (ii) Other debt consists of investments in direct private debt, asset-backed securities, intellectual property, royalties, distressed mortgage funds, private debt funds and hedge funds.

Fair value for direct investments in private debt and asset-backed securities is based on quoted market prices or broker quotes or recent market transactions, if available. Where the market price is not available, fair value is calculated using discounted cash flows based on significant inputs such as projected cash flows and discount rates using current market yields of instruments with similar characteristics.

In the case of intellectual property investments and royalty investments, fair value is primarily determined using discounted cash flows based on projected cash flows and discount rates using current market yields of instruments with similar characteristics.

Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

- (iii) Money market securities consist of cash, term deposits, treasury bills, commercial paper and floating rate notes. Fair value is determined using cost, which, together with accrued interest income, approximates fair value due to the short-term or floating rate nature of these securities.

c) Absolute return strategies

Absolute return strategies consist of investments in hedge funds whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indices. The underlying securities of the funds could include, but are not limited to, equities, fixed income securities and derivatives. Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

d) Real assets

- (i) CPP Investment Board obtains exposure to real estate through direct investments in privately held real estate and real estate funds. Private real estate investments are managed by investment managers primarily through co-ownership arrangements.

Fair value for private real estate investments is primarily determined using discounted cash flows based on various factors such as net operating income, discount rate and terminal capitalization rate.

Fair value for real estate funds are generally based on the net asset value as reported by the external managers of the funds.

- (ii) Infrastructure investments are generally made directly, but can also occur through limited partnership funds.

Fair value for infrastructure investments is primarily determined using discounted cash flows based on significant inputs including projected cash flows and discount rates.

Fair value for investments held through limited partnership funds are generally based on the net asset value as reported by the external managers of the funds.

e) Securities purchased under reverse repurchase agreements and sold under repurchase agreements

Reverse repurchase and repurchase agreements are carried at the amounts at which the securities were initially acquired or sold, which, together with accrued interest income or expense, approximates fair value due to the short-term nature of these securities.

f) Derivative contracts

Fair value for exchange-traded derivatives, which includes futures, options and warrants, is based on quoted market prices. Fair value for over-the-counter derivatives, which includes swaps, options, forward contracts and warrants, is determined based on valuation techniques such as option pricing models, discounted cash flows and consensus pricing from independent brokers and/or third-party vendors. Inputs used in these valuation techniques can include, but are not limited to, spot prices, price volatilities, currency exchange rates, interest rate curves and credit spreads. In determining fair value, consideration is also given to the credit risk of the counterparty.

g) Debt financing liabilities

Debt financing liabilities consist of commercial paper payable and term debt. Commercial paper payable is recorded at the amount originally issued, which, together with accrued interest expense, approximates fair value due to the short-term nature of these liabilities. Fair value for term debt is based on quoted market prices.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

3. Derivative instruments

a) Fair value of derivative contracts

The fair value of derivative contracts is as follows:

Fair value of derivative contracts

(CAD millions)	As at June 30, 2017		As at March 31, 2017		As at June 30, 2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Equity contracts						
Futures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Swaps	801	(575)	923	(717)	1,302	(1,077)
Options:						
Exchange-traded – purchased	-	-	-	-	26	-
Exchange-traded – written	-	-	-	-	-	(5)
Over-the-counter – purchased	-	-	-	-	36	-
Over-the-counter – written	-	-	-	-	-	(8)
Warrants	1	-	1	-	1	-
Total equity contracts	802	(575)	924	(717)	1,365	(1,090)
Foreign exchange contracts						
Forwards	1,214	(411)	357	(286)	679	(727)
Options:						
Over-the-counter – purchased	-	-	-	-	44	-
Over-the-counter – written	-	-	-	-	-	(19)
Total foreign exchange contracts	1,214	(411)	357	(286)	723	(746)
Interest rate contracts						
Futures	-	-	-	-	-	-
Forwards	-	-	-	-	-	-
Swaps	51	(192)	148	(117)	525	(540)
Total interest rate contracts	51	(192)	148	(117)	525	(540)
Credit contracts						
Purchased credit default swaps	4	(235)	4	(277)	46	(441)
Written credit default swaps	247	(4)	285	(4)	429	(42)
Options:						
Over-the-counter – purchased	-	-	-	-	5	-
Over-the-counter – written	-	-	-	-	-	(1)
Total credit contracts	251	(239)	289	(281)	480	(484)
Commodity contracts						
Futures	-	-	-	-	-	(24)
Options:						
Exchange-traded – purchased	-	-	-	-	-	-
Exchange-traded – written	-	-	-	-	-	-
Total commodity contracts	-	-	-	-	-	(24)
Total	\$ 2,318	\$ (1,417)	\$ 1,718	\$ (1,401)	\$ 3,093	\$ (2,884)

4. Fair value measurement

Fair value hierarchy

The following shows investments and investment liabilities recognized at fair value, analyzed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

Fair value hierarchy

(CAD millions)	As at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Investments				
Equities				
Canada				
Public equities	\$ 6,707	\$ -	\$ -	\$ 6,707
Private equities	-	-	3,860	3,860
	6,707	-	3,860	10,567
Foreign developed markets				
Public equities ¹	95,569	8,356	74	103,999
Private equities	-	1,216	54,814	56,030
	95,569	9,572	54,888	160,029
Emerging markets				
Public equities ¹	17,340	1,613	139	19,092
Private equities	-	-	5,792	5,792
	17,340	1,613	5,931	24,884
Total equities	119,616	11,185	64,679	195,480
Fixed income				
Bonds	34,401	24,597	-	58,998
Other debt	-	3,796	15,622	19,418
Money market securities	-	12,097	-	12,097
Total fixed income	34,401	40,490	15,622	90,513
Absolute return strategies¹	-	18,281	1,500	19,781
Real assets				
Real estate	-	-	39,555	39,555
Infrastructure	-	-	27,321	27,321
Total real assets	-	-	66,876	66,876
Investment receivables				
Securities purchased under reverse repurchase agreements	-	6,077	-	6,077
Accrued interest	-	1,543	-	1,543
Derivative receivables	-	2,317	1	2,318
Other	-	363	-	363
Total investment receivables	-	10,300	1	10,301
Total investments	\$ 154,017	\$ 80,256	\$ 148,678	\$ 382,951
Investment liabilities				
Securities sold under repurchase agreements	-	(16,936)	-	(16,936)
Securities sold short	(13,468)	-	-	(13,468)
Debt financing liabilities	(11,611)	(10,259)	-	(21,870)
Derivative liabilities	-	(1,417)	-	(1,417)
Other	-	(1,060)	-	(1,060)
Total investment liabilities	(25,079)	(29,672)	-	(54,751)
Amounts receivable from pending trades	-	3,198	-	3,198
Amounts payable from pending trades	-	(5,020)	-	(5,020)
Net investments	\$ 128,938	\$ 48,762	\$ 148,678	\$ 326,378

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

(CAD millions)	As at March 31, 2017 ²			
	Level 1	Level 2	Level 3	Total
Investments				
Equities				
Canada				
Public equities	\$ 4,576	\$ -	\$ -	\$ 4,576
Private equities	-	18	4,030	4,048
	4,576	18	4,030	8,624
Foreign developed markets				
Public equities ¹	87,129	6,700	76	93,905
Private equities	-	1,226	53,766	54,992
	87,129	7,926	53,842	148,897
Emerging markets				
Public equities ¹	17,493	1,562	153	19,208
Private equities	-	-	5,781	5,781
	17,493	1,562	5,934	24,989
Total equities	109,198	9,506	63,806	182,510
Fixed income				
Bonds	36,987	24,253	-	61,240
Other debt ³	-	4,036	15,728	19,764
Money market securities	-	19,408	-	19,408
Total fixed income	36,987	47,697	15,728	100,412
Absolute return strategies¹	-	17,835	1,536	19,371
Real assets				
Real estate	-	-	38,732	38,732
Infrastructure	-	-	27,899	27,899
Total real assets	-	-	66,631	66,631
Investment receivables				
Securities purchased under reverse repurchase agreements	-	5,207	-	5,207
Accrued interest	-	1,561	-	1,561
Derivative receivables	-	1,717	1	1,718
Other	-	290	-	290
Total investment receivables	-	8,775	1	8,776
Total investments	\$ 146,185	\$ 83,813	\$ 147,702	\$ 377,700
Investment liabilities				
Securities sold under repurchase agreements	-	(14,749)	-	(14,749)
Securities sold short	(24,177)	-	-	(24,177)
Debt financing liabilities	(8,772)	(11,101)	-	(19,873)
Derivative liabilities	-	(1,401)	-	(1,401)
Other	-	(223)	-	(223)
Total investment liabilities	(32,949)	(27,474)	-	(60,423)
Amounts receivable from pending trades	-	3,234	-	3,234
Amounts payable from pending trades	-	(3,631)	-	(3,631)
Net investments	\$ 113,236	\$ 55,942	\$ 147,702	\$ 316,880

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

(CAD millions)	As at June 30, 2016 ²			
	Level 1	Level 2	Level 3	Total
Investments				
Equities				
Canada				
Public equities	\$ 4,224	\$ -	\$ -	\$ 4,224
Private equities	-	-	3,794	3,794
	4,224	-	3,794	8,018
Foreign developed markets				
Public equities ¹	58,854	6,298	-	65,152
Private equities	-	-	49,292	49,292
	58,854	6,298	49,292	114,444
Emerging markets				
Public equities ¹	11,357	1,664	176	13,197
Private equities	-	-	5,225	5,225
	11,357	1,664	5,401	18,422
Total equities	74,435	7,962	58,487	140,884
Fixed income				
Bonds	46,290	28,350	-	74,640
Other debt ³	-	4,302	21,634	25,936
Money market securities	-	19,754	-	19,754
Total fixed income	46,290	52,406	21,634	120,330
Absolute return strategies¹	-	16,895	1,349	18,244
Real assets				
Real estate	-	-	36,044	36,044
Infrastructure	-	-	19,755	19,755
Total real assets	-	-	55,799	55,799
Investment receivables				
Securities purchased under reverse repurchase agreements	-	18,482	-	18,482
Accrued interest	-	1,172	-	1,172
Derivative receivables	27	3,065	1	3,093
Other	-	91	-	91
Total investment receivables	27	22,810	1	22,521
Total investments	\$ 120,752	\$ 100,073	\$ 137,270	\$ 358,095
Investment liabilities				
Securities sold under repurchase agreements	-	(19,272)	-	(19,272)
Securities sold short	(29,247)	-	-	(29,247)
Debt financing liabilities	(3,408)	(11,097)	-	(14,505)
Derivative liabilities	(29)	(2,855)	-	(2,884)
Other	-	(317)	-	(317)
Total investment liabilities	(32,684)	(33,541)	-	(66,225)
Amounts receivable from pending trades	-	4,235	-	4,235
Amounts payable from pending trades	-	(8,996)	-	(8,996)
Net investments	\$ 88,068	\$ 61,771	\$ 137,270	\$ 287,109

¹ Includes investments in funds.

² Certain comparatives have been updated to be consistent with current period presentation.

³ Amounts have been revised for an immaterial misclassification from level 2 to level 3 totaling \$4.2 billion as at March 31, 2017 and \$3.6 billion as at June 30, 2016.

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

a) Transfers between Level 1 and Level 2

During the three-month period ended June 30, 2017, there were \$12 million of transfers from Level 1 to Level 2 (June 30, 2016 - \$6 million) and \$16 million of transfers from Level 2 to Level 1 (June 30, 2016 - \$7 million). Transfers between Level 1 and Level 2 depend on the availability of quoted market prices in active markets and valuations using inputs other than quoted prices that are observable. These transfers are deemed to occur at the end of period values.

b) Level 3 reconciliation

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy for the three-month period ended June 30, 2017:

Reconciliation of changes in fair value for Level 3 investments

For the three-month period ended June 30, 2017								
(CAD millions)	Fair value as at April 1, 2017	Gain (loss) included in net investment income (loss) ¹	Purchases	Sales ²	Transfers into level 3 ³	Transfers out of level 3 ³	Fair value as at June 30, 2017	Change in unrealized gains (losses) on investments still held at June 30, 2017 ^{1,4}
Investments								
Equities								
Canada								
Private equities	\$ 4,030	\$ (134)	\$ 28	\$ (64)	\$ -	\$ -	\$ 3,860	\$ (150)
	4,030	(134)	28	(64)	-	-	3,860	(150)
Foreign developed markets								
Public Equities	76	-	-	(2)	-	-	74	-
Private equities	53,766	1,225	4,338	(2,831)	-	(1,684)	54,814	204
	53,842	1,225	4,338	(2,833)	-	(1,684)	54,888	204
Emerging markets								
Public equities	153	(6)	-	(8)	-	-	139	(6)
Private equities	5,781	(47)	333	(301)	26	-	5,792	(243)
	5,934	(53)	333	(309)	26	-	5,931	(249)
Total equities	63,806	1,038	4,699	(3,206)	26	(1,684)	64,679	(195)
Fixed income								
Other debt ⁵	15,728	(138)	1,895	(1,863)	-	-	15,622	(251)
Total fixed income	15,728	(138)	1,895	(1,863)	-	-	15,622	(251)
Absolute return strategies	1,536	(36)	-	-	-	-	1,500	(35)
Real assets								
Real estate	38,732	(235)	1,222	(164)	-	-	39,555	(275)
Infrastructure	27,899	(484)	42	(136)	-	-	27,321	(348)
Total real assets	66,631	(719)	1,264	(300)	-	-	66,876	(623)
Investment receivables								
Derivative receivables	1	-	-	-	-	-	1	-
Total investment receivables	1	-	-	-	-	-	1	-
Total	\$ 147,702	\$ 145	\$ 7,858	\$ (5,369)	\$ 26	\$ (1,684)	\$ 148,678	\$ (1,104)

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

For the three-month period ended June 30, 2016									
(CAD millions)	Fair value as at April 1, 2016	Gain (loss) included in net investment income (loss) ¹	Purchases	Sales ²	Transfers into level 3 ³	Transfers out of level 3 ³	Fair value as at June 30, 2016	Change in unrealized gains (losses) on investments still held at June 30, 2016 ^{1,4}	
Investments									
Equities									
Canada									
Private equities	\$ 2,687	\$ 141	\$ 1,013	\$ (47)	\$ -	\$ -	\$ 3,794	\$ 129	
	2,687	141	1,013	(47)	-	-	3,794	129	
Foreign developed markets									
Private equities	49,019	297	2,287	(2,311)	-	-	49,292	(833)	
	49,019	297	2,287	(2,311)	-	-	49,292	(833)	
Emerging markets									
Public equities	170	6	170	(170)	-	-	176	6	
Private equities	5,341	52	253	(421)	-	-	5,225	(39)	
	5,511	58	423	(591)	-	-	5,401	(33)	
Total equities	57,217	496	3,723	(2,949)	-	-	58,487	(737)	
Fixed income									
Other debt ⁶	21,827	396	2,487	(2,892)	-	(184)	21,634	536	
Total fixed income	21,827	396	2,487	(2,892)	-	(184)	21,634	536	
Absolute return strategies									
	1,314	35	-	-	-	-	1,349	35	
Real assets									
Real estate	35,857	(79)	989	(723)	-	-	36,044	(273)	
Infrastructure	20,373	(624)	37	(31)	-	-	19,755	(460)	
Total real assets	56,230	(703)	1,026	(754)	-	-	55,799	(733)	
Investment receivables									
Derivative receivables	2	(1)	-	-	-	-	1	(1)	
Total investment receivables	2	(1)	-	-	-	-	1	(1)	
Total	\$ 136,590	\$ 223	\$ 7,236	\$ (6,595)	\$ -	\$ (184)	\$ 137,270	\$ (900)	

¹ Included in investment income.

² Includes return of capital.

³ Transfers into and out of Level 3 are deemed to occur at the end of period values.

⁴ Includes the entire change in fair value for the period for those investments that were transferred into Level 3 during the period, and excludes the entire change in fair value for the period for those investments that were transferred out of Level 3 during the period.

⁵ Opening balance has been revised for an immaterial misclassification from level 2 to level 3.

⁶ Amounts have been revised for an immaterial misclassification from level 2 to level 3.

During the three-month periods ended June 30, 2017 and June 30, 2016, transfers into and out of Level 3 were primarily due to changes in the availability of market observable inputs used to determine fair value.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

c) Level 3 – Significant unobservable inputs

The following presents fair values of the investments categorized within Level 3 of the fair value hierarchy, valuation techniques used to determine their fair values, ranges and weighted averages of unobservable inputs:

Valuation techniques and inputs used in the fair value measurement of Level 3 investments

As at June 30, 2017					
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values ³	Weighted average ³
Public equities					
Fund investments ²	\$ 213	Net asset value provided by Investment Manager	-	-	-
Private equities					
Direct ^{1,2}	27,263	Earnings multiples of comparable companies	EBITDA multiple	8.0X-15.7X	11.7X
		Discounted cash flow	Discount rate	12.0%	12.0%
Fund investments ²	37,203	Net asset value provided by Investment Manager	-	-	-
Other debt					
Direct private debt ¹	9,690	Discounted cash flow	Discount rate	5.0%-19.1%	10.4%
Direct private real estate debt	3,625	Discounted cash flow	Discount rate	4.7%-11.3%	7.0%
Asset-backed securities ²	7	Valuation model by third-party pricing vendor	-	-	-
Fund investments ²	2,300	Net asset value provided by Investment Manager	-	-	-
Absolute return strategies					
Fund investments ²	1,500	Net asset value provided by Investment Manager	-	-	-
Real estate					
Direct ^{1,2}	21,376	Discounted cash flow	Discount rate	4.4%-15.0%	6.4%
			Terminal capitalization rate	3.5%-9.5%	5.3%
	14,985	Net asset value provided by Investment Manager	-	-	-
Fund investments ²	3,194	Net asset value provided by Investment Manager	-	-	-
Infrastructure					
Direct ¹	27,280	Discounted cash flow	Discount rate	7.4%-15.8%	9.8%
Fund investments ²	41	Net asset value provided by Investment Manager	-	-	-
Derivative receivables					
Warrants	1	Option model	Market volatility	30.0%	30.0%
Total	\$ 148,678				

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

As at March 31, 2017						
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values ³	Weighted average ³	
Public equities						
Fund investments ²	\$ 229	Net asset value provided by Investment Manager	-	-	-	-
Private equities						
Direct ^{1,2}	28,721	Earnings multiples of comparable companies	EBITDA multiple	8.0X-15.4X	11.2X	
		Discounted cash flow	Discount rate	12.0%	12.0%	
Fund investments ²	34,856	Net asset value provided by Investment Manager	-	-	-	-
Other debt						
Direct private debt ¹	9,485	Discounted cash flow	Discount rate	4.8%-19.6%	10.7%	
Direct private real estate debt ⁴	3,937	Discounted cash flow	Discount rate	5.0%-10.0%	7.1%	
Asset-backed securities ²	10	Valuation model by third-party pricing vendor	-	-	-	-
Fund investments ^{2,4}	2,296	Net asset value provided by Investment Manager	-	-	-	-
Absolute return strategies						
Fund investments ²	1,536	Net asset value provided by Investment Manager	-	-	-	-
Real estate						
Direct ^{1,2}	21,010	Discounted cash flow	Discount rate	4.4%-14.3%	6.4%	
			Terminal capitalization rate	3.5%-9.5%	5.3%	
	14,440	Net asset value provided by Investment Manager	-	-	-	-
Fund investments ²	3,282	Net asset value provided by Investment Manager	-	-	-	-
Infrastructure						
Direct ¹	27,860	Discounted cash flow	Discount rate	7.4%-15.8%	9.8%	
Fund investments ²	39	Net asset value provided by Investment Manager	-	-	-	-
Derivative receivables						
Warrants	1	Option model	Market volatility	30.0%	30.0%	
Total	\$ 147,702					

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

As at June 30, 2016					
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values ³	Weighted average ³
Public equities					
Fund investments ²	\$ 176	Net asset value provided by Investment Manager	-	-	-
Private equities					
Direct ^{1,2}	26,844	Earnings multiples of comparable companies	EBITDA multiple	6.8X-13.2X	10.3X
		Discounted cash flow	Discount rate	9.5%-26.6%	11.7%
Fund investments ²	31,467	Net asset value provided by Investment Manager	-	-	-
Other debt					
Direct private debt ¹	9,626	Discounted cash flow	Discount rate	4.9%-31.8%	10.9%
Direct private real estate debt ⁴	3,361	Discounted cash flow	Discount rate	2.8%-8.9%	6.9%
Asset-backed securities ²	6,424	Valuation model by third-party pricing vendor	-	-	-
Fund investments ^{2,4}	2,223	Net asset value provided by Investment Manager	-	-	-
Absolute return strategies					
Fund investments ²	1,349	Net asset value provided by Investment Manager	-	-	-
Real estate					
Direct ^{1,2}	23,960	Discounted cash flow	Discount rate	4.2%-14.8%	6.4%
			Terminal capitalization rate	3.5%-9.5%	5.2%
	8,364	Net asset value provided by Investment Manager	-	-	-
Fund investments ²	3,720	Net asset value provided by Investment Manager	-	-	-
Infrastructure					
Direct ¹	19,635	Discounted cash flow	Discount rate	7.5%-15.8%	10.1%
Fund investments ²	120	Net asset value provided by Investment Manager	-	-	-
Derivative receivables					
Warrants	1	Option model	Market volatility	30.0%	30.0%
Total	\$ 137,270				

¹ May include certain recently acquired investments held at cost, which approximates fair value.

² In certain cases, external valuations are prepared by a third-party and hence, valuation information is not available.

³ The range of input values represents the highest and lowest inputs used to value the investments in a particular asset class. The weighted average of the input values is calculated based on the relative fair values of the investments within the asset class. The diversity of investments reported within each asset class, such as the geographic location and industry sector of the investments, may result in certain ranges of inputs being wide and unevenly distributed across the range.

⁴ Amounts have been revised for an immaterial misclassification from level 2 to level 3.

Significant increases (decreases) in any of the above unobservable inputs would result in a significantly higher or lower fair value measurement. The interrelationship of significant unobservable inputs and fair value measurement for the most significant key inputs identified in the table above are as follows:

- An increase (decrease) in the EBITDA multiple will result in a higher (lower) fair value.

- An increase (decrease) in the discount rate and terminal capitalization rate will result in a lower (higher) fair value.

The fair value of these direct investments classified within Level 3 of the fair value hierarchy above are based on accepted industry valuation methods that may include the use of estimates made by management, appraisers or both where significant judgment is required. By using valuation methods based on reasonable alternative assumptions, different fair values could result. With all other variables held constant the use of reasonable alternative assumptions would result in a decrease of \$3,200 million (March 31, 2017 - \$3,400 million, June 30, 2016- \$2,800 million) or increase of \$4,000 million (March 31, 2017 - \$3,800 million, June 30, 2016 - \$3,300 million) in net assets. This sensitivity analysis excludes investments where fair values are provided by Investment Managers as the underlying assumptions used are not available to CPP Investment Board.

5. Investment risk management

CPP Investment Board and its unconsolidated investment holding companies manage the investment portfolio on behalf of the Canada Pension Plan (CPP Investment Portfolio). The CPP Investment Portfolio is exposed to a variety of financial risks. These risks include market risk, credit risk and liquidity risk. CPP Investment Board utilizes a total portfolio approach to risk management which considers all of the investment activities taken together, including those made through its unconsolidated investment holding companies. In the discussion that follows, any references to the investment activities and exposures to risk of CPP Investment Board also include those of its unconsolidated investment holding companies.

CPP Investment Board manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the Risk Policy approved by the Board of Directors at least once every fiscal year. This policy contains risk limits and risk management provisions that govern investment decisions. It has been designed to achieve the mandate of CPP Investment Board, which is to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

Upper and Lower Absolute Risk Limits and the Absolute Risk Operating Range are included within the Risk/Return Accountability Framework, and these govern the amount of total investment risk that CPP Investment Board can take in the long term CPP Investment Portfolio. CPP Investment Board monitors the absolute risk, the possible loss of value expressed in absolute dollar or percentage terms, in the CPP Investment Portfolio daily and reports risk exposures to the Board of Directors on at least a quarterly basis. Financial risk management, as well as the latest Risk/Return Accountability Framework, is discussed in greater detail on page 31 of the 2017 Annual Report.

a) Market risk

Market risk is the risk that the fair value or future cash flows of an investment or investment liability will fluctuate because of changes in market prices and rates. As discussed previously, CPP Investment Board manages market risk through the Risk/Return Accountability Framework. This includes investing across a wide spectrum of asset classes and investment strategies to earn a diversified set of risk premiums at the total fund level, based on risk limits established in the risk policies. In addition, derivatives are used, where appropriate, to manage certain risk exposures.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

Market risk comprises the following:

Equity risk

The CPP Investment Portfolio invests in both publicly traded and private equities. Equity risk, which is the risk that the fair value or future cash flows will fluctuate because of changes in equity prices or volatilities, is a significant source of risk of the investment portfolio.

After taking into account derivative positions and with all other variables held constant, a 1% decrease/increase in the S&P 500 Index inclusive of correlation to other equity markets would result in a loss/profit of \$1,083 million (March 31, 2017 - \$1,000 million, June 30, 2016 - \$778 million) on public equity investments.

Currency risk

The CPP Investment Portfolio is exposed to currency risk through holdings of investments or investment liabilities in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value or future cash flows of these investments and investment liabilities.

In Canadian dollars, the net currency exposures, after allocating foreign currency derivatives are as follows:

Currency risk exposures

<i>(CAD millions)</i>	As at June 30, 2017		As at March 31, 2017		As at June 30, 2016	
	Net exposure	% of total	Net exposure	% of total	Net exposure	% of total
United States dollar	\$ 125,238	38 %	\$ 122,750	39 %	\$ 111,051	39 %
Euro	36,510	11	34,003	11	29,272	10
Japanese yen	21,929	7	20,788	7	17,565	6
British pound sterling	19,446	6	18,839	6	15,788	5
Australian dollar	9,953	3	10,790	3	7,575	3
Hong Kong dollar	5,096	2	4,423	1	2,582	1
Swiss franc	4,615	1	4,381	1	2,368	1
Indian rupee	3,915	1	3,586	1	2,604	1
Chinese yuan	3,896	1	3,434	1	3,310	1
South Korean won	3,485	1	2,857	1	1,390	-
Chilean peso	2,337	1	2,387	1	2,580	1
Brazilian real	2,024	1	3,425	1	2,897	1
Other	9,503	3	8,424	3	8,365	3
Total foreign exposure	247,947	76	240,087	76	207,347	72
Canadian dollar	78,431	24	76,793	24	79,672	28
Total	\$ 326,378	100 %	\$ 316,880	100 %	\$ 287,109	100 %

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

With all other variables and underlying values held constant, a 1% appreciation/depreciation of the Canadian dollar against all other currencies would result in a decrease/increase in net investments as follows:

Currency risk sensitivity

<i>(CAD millions)</i>	As at June 30, 2017		As at March 31, 2017		As at June 30, 2016	
Currency	Decrease/Increase in Net Assets		Decrease/Increase in Net Assets		Decrease/Increase in Net Assets	
United States dollar	\$	1,252	\$	1,228	\$	1,111
Euro		365		340		293
Japanese yen		219		208		176
British pound sterling		194		188		158
Other		449		437		338
Total	\$	2,479	\$	2,401	\$	2,076

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of an investment or investment-related liability will fluctuate because of changes in market interest rates. The CPP Investment Portfolio is exposed to interest rate risk primarily through holdings of fixed income securities, certain investment liabilities and interest rate derivative instruments.

With all other variables held constant, a 1 basis point increase/decrease in nominal interest rates would result in a decrease/increase in the value of investments directly impacted by interest rate changes as follows:

Interest rate risk sensitivity¹

<i>(CAD millions)</i>	As at June 30, 2017		As at March 31, 2017		As at June 30, 2016	
Maturity	Decrease/Increase in Net Assets		Decrease/Increase in Net Assets		Decrease/Increase in Net Assets	
Within 1 year	\$	-	\$	1	\$	3
1 to 5 years		8		8		9
6 to 10 years		14		12		3
Over 10 years		34		31		30
Total	\$	56	\$	52	\$	45

¹ This sensitivity only applies to small yield curve changes, more substantial (stress) shocks would impact the value of assets such as real estate and infrastructure but for 1 basis point moves their values remain unchanged.

The CPP Investment Portfolio's exposure to various country's risk free rates are concentrated in North America with 57% (March 31, 2017 – 56%, June 30, 2016 – 70%) in Canada and 44% (March 31, 2017 – 43%, June 30, 2016 - 29%) in the United States, and minor exposures to Europe, United Kingdom and Japan in both years.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

Credit spread risk

Credit spread is the difference in yield on certain securities compared to a comparable risk free security (i.e. government issued) with the same maturity date. Credit spread risk is the risk that the fair value of these securities will fluctuate because of changes in credit spread. As at June 30, 2017, 85% (March 31, 2017 – 84%, June 30, 2016 – 90%) of credit spread risk is concentrated in A or better rated debt, primarily in Canadian provincial bonds.

With all other variables held constant, a 1 basis point widening of the credit spreads would result in a decrease in net assets by \$33 million (March 31, 2017 – \$33 million, June 30, 2016 - \$40 million).

Other price risk

Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices arising from other risk factors such as commodity price risk, basis risk and volatility.

b) Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations, or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPP Investment Portfolio's credit risk exposure arises through its investment in debt securities and over-the-counter derivatives. The carrying amounts of these investments as presented in the Consolidated Schedule of Investment Portfolio represent the maximum direct credit risk exposure at the Balance Sheet date.

The fair value of debt securities and over-the-counter derivatives exposed to credit risk, by credit rating category and without taking account of any collateral held or other credit enhancements are as follows:

Credit risk exposures

Credit rating	As at June 30, 2017						Total	% of total	As at	
	Bonds ¹	Money market securities ¹	Reverse repurchase agreements ¹	Over-the-counter derivatives	Other ^{1,2}	March 31, 2017			June 30, 2016	
<i>(CAD millions)</i>										
AAA	\$ 12,738	\$ 17	\$ -	\$ -	\$ -	\$ 12,755	14 %	\$ 13,156	\$ 18,646	
AA	24,413	5,362	454	33	1	30,263	34	36,791	39,001	
A	22,080	4,229	3,738	1,721	472	32,240	37	33,831	50,763	
BBB	69	-	1,886	541	1,624	4,120	5	3,826	11,491	
BB	53	-	-	-	2,719	2,772	3	3,047	4,192	
B	-	-	-	-	5,098	5,098	6	5,718	5,595	
CCC/D	-	-	-	-	960	960	1	1,061	2,139	
Total	\$ 59,353	\$ 9,608	\$ 6,078	\$ 2,295	\$ 10,874	\$ 88,208	100 %	\$ 97,430	\$ 131,827	

¹ Includes accrued interest.

² Includes direct investments in private debt and asset-backed securities.

In addition to the above, the CPP Investment Portfolio is indirectly exposed to credit risk on the underlying securities of fund investments.

Credit risk exposure is mitigated on certain financial assets and financial liabilities, which have conditional offset rights in the event of default, insolvency or bankruptcy. For securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and over-the-counter derivatives, collateral is collected from or pledged to counterparties to manage credit exposure (see note 7). In addition, in the event of default, amounts with a specific counterparty are settled on a net basis under master netting or similar arrangements, such as the Global Master Repurchase Agreement and the International Swaps and Derivatives Association Netting Agreements.

c) Absolute risk

CPP Investment Board uses a Value at Risk (VaR) methodology to measure and monitor the absolute risk of the CPP Investment Portfolio. VaR is a statistical technique that is used to estimate the potential loss in value of an investment as a result of movements in market rates and prices over a specified time period and for a specified confidence level. The Absolute Risk measures encompass both market and credit risk.

VaR is valid under normal market conditions and does not specifically consider losses arising from severe market events. It also assumes that historical market data is a sound basis for estimating potential future losses. If future market conditions and interrelationships of interest rates, foreign exchange rates and other market prices differ significantly from those of the past, then the actual losses could materially differ from those estimated. The VaR measure provides an estimate of a single value in a distribution of potential losses that CPP Investment Portfolio could experience. It is not an estimate of the worst-case scenario.

Market VaR calculated by CPP Investment Board is estimated using a historical simulation method, evaluated at a 90% confidence level and scaled to a one-year holding period. The significant assumptions used in this method are the incorporation of the most recent 10 years of weekly market returns and the use of public market proxies to represent investment returns on those investments that are valued with inputs based on non-observable market data (e.g. those for private real estate and private equities), both of which assumptions are reasonable for estimating VaR.

Credit VaR is estimated using a Monte Carlo simulation with a sufficient number of scenarios to simulate low probability credit events over a one-year investment horizon. Significant assumptions under this method include using a statistical process to determine asset correlations and using empirically-based default and loss rates.

The Risk/Return Accountability Framework governs investment risk using total risk in absolute terms. In order to estimate Total Absolute Risk, both Market and Credit VaR are estimated using a similar confidence level and combined using an appropriate correlation factor approved by the Investment Planning Committee (IPC).

Risk is expressed using annual VaR, at a 90% confidence level, which indicates that one year in 10 the portfolio can be expected to lose at least the following amounts:

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

Value at risk

(CAD millions)	As at June 30, 2017			As at March 31, 2017			As at June 30, 2016		
	VaR	% of CPP Investment Portfolio ¹		VaR	% of CPP Investment Portfolio ¹		VaR	% of CPP Investment Portfolio ¹	
CPP Reference Portfolio Total Absolute Risk ²	\$ 41,835	12.8 %		\$ 37,394	11.8 %		\$ 32,838	11.4 %	
CPP Investment Portfolio Total Absolute Risk ^{1,2}	\$ 40,541	12.4 %		\$ 38,474	12.2 %		\$ 32,395	11.3 %	
CPP Investment Portfolio Absolute Market Risk ¹	\$ 39,724	12.2 %		\$ 37,724	11.9 %		\$ 31,593	11.0 %	
CPP Investment Portfolio Absolute Credit Risk ¹	\$ 1,700	0.5 %		\$ 1,703	0.5 %		\$ 1,859	0.6 %	

¹ Excludes certain assets where the market risk exposure is not monitored using VaR, such as the assets of the Cash for Benefits Portfolio, which is a separately managed short-term cash management program designed to facilitate monthly benefit payments by CPP.

² Market and Credit Risk are combined using an assumed positive correlation under normal market conditions.

Stress testing

To complement the VaR measures CPP Investment Board examines the potential impact of exceptional but plausible adverse market events. Stress scenarios are based upon either forward looking predictive views on events of imminent concern, such as the Brexit, or designed to mimic market moves from periods of historical distress, such as the Global Financial Crisis. A committee with representatives from each investment department meets regularly to identify probable market disruptions and to review underlying assumptions adopted in quantifying the impact of the specific stress scenario. Results are used to detect vulnerabilities in the portfolio and presented to senior management and the Board to affirm overall risk appetite.

d) Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet investment commitments and investment liabilities as they come due. CPP Investment Board supplements its management of liquidity risk through its ability to raise funds through the issuance of commercial paper and term debt and transacting in securities sold under repurchase agreements.

CPP Investment Board also maintains \$6.0 billion (March 31, 2017 - \$6.2 billion, June 30, 2016 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at June 30, 2017, the total amount drawn on the credit facilities is \$nil (March 31, 2017 - \$nil, June 30, 2016 - \$nil).

Refer to note 5e below for investment liabilities terms to maturity.

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

e) Terms to maturity

Investments

	Terms to maturity										
	As at June 30, 2017					As at March 31, 2017			As at June 30, 2016		
(CAD millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average effective yield	Total	Average effective yield	Total	Average effective yield	
Non-marketable bonds											
Canadian provincial government	\$ 70	\$ 5,650	\$ 6,005	\$ 12,426	\$ 24,151	2.7 %	\$ 23,887	2.9 %	\$ 25,156	2.5 %	
Marketable bonds											
Government of Canada	-	3,724	489	1,191	5,404	1.8	5,872	1.6	4,824	1.1	
Canadian provincial government	-	1,983	1,668	2,948	6,599	2.7	6,856	2.8	6,208	2.4	
Canadian government corporations	-	802	503	398	1,703	2.4	1,543	2.4	2,082	2.1	
Foreign government	-	10,295	6,308	4,245	20,848	2.3	22,718	2.3	33,175	1.4	
Corporate bonds	-	173	70	50	293	2.6	364	2.6	3,195	2.1	
Other debt											
Private debt ¹	1	3,679	3,025	834	7,539	9.4	8,214	9.7	8,987	9.3	
Real estate private debt ¹	350	1,515	1,760	-	3,625	7.0	3,937	7.2	3,361	6.6	
Asset-backed securities	-	1	-	6	7	4.4	10	4.4	6,425	1.7	
Securities purchased under reverse repurchase agreements	6,077	-	-	-	6,077	0.8	5,207	0.6	18,482	0.4	
Total	\$ 6,498	\$ 27,822	\$ 19,828	\$ 22,098	\$ 76,246	2.9 %	\$ 78,608	3.1 %	111,895	2.3 %	

¹ Represents direct investments.

Investment liabilities

	Terms to maturity												
	As at June 30, 2017					As at March 31, 2017			As at June 30, 2016				
(CAD millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Fair value	Weighted average interest rate	Total	Fair value	Weighted average interest rate	Total	Fair value	Weighted average interest rate
Securities sold under repurchase agreements	\$ 17,731	\$ -	\$ -	\$ -	\$ 17,731	\$ 16,936	1.3 %	\$ 14,753	\$ 14,749	0.8 %	\$ 19,276	\$ 19,272	0.6 %
Securities sold short^{1,2}	13,468	-	-	-	13,468	13,468	n/a	24,177	24,177	n/a	29,247	29,247	n/a
Debt financing liabilities													
Commercial paper payable	10,273	-	-	-	10,273	10,259	1.1	11,120	11,101	0.9	11,100	11,089	0.7
Term debt	-	8,673	2,962	-	11,635	11,611	1.3	8,783	8,772	1.8	3,399	3,416	1.1
Total	\$ 41,472	\$ 8,673	\$ 2,962	\$ -	\$ 53,107	\$ 52,274	n/a %	\$ 58,833	\$ 58,799	n/a %	\$ 63,022	\$ 63,024	n/a %

¹ Considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.

² Includes equities sold short for which the average interest rate is not applicable.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

6. Net investment income

Net investment income is reported net of transaction costs and investment management fees, and is grouped based on the Strategic Portfolio asset class categories as discussed on page 28 of the 2017 Annual Report.

Net investment income

For the three-month period ended June 30, 2017							
<i>(CAD millions)</i>		Investment income (loss) ¹		Investment management fees ²		Transaction costs	Net investment income (loss)
Equities	\$	13,598	\$	(231)	\$	(59)	\$ 13,308
Fixed Income		(6,920)		(159)		(36)	(7,115)
Real assets		(420)		(33)		(12)	(465)
Debt financing liabilities		282		-		-	282
Total	\$	6,540	\$	(423)	\$	(107)	\$ 6,010

For the three-month period ended June 30, 2016 ³							
<i>(CAD millions)</i>		Investment income(loss) ¹		Investment management fees ²		Transaction costs	Net investment income(loss)
Equities	\$	1,929	\$	(122)	\$	(22)	\$ 1,785
Fixed income		2,663		(125)		(38)	2,500
Real assets		168		(32)		(29)	107
Debt financing liabilities		(78)				(3)	(81)
Total	\$	4,682	\$	(279)	\$	(92)	\$ 4,311

¹ Includes realized gains and losses from investments, changes in unrealized gains and losses on investments, interest income, dividends, private real estate operating income (net of interest expense), interest expense on the debt financing liabilities and other investment-related income and expenses.

² Includes performance fees of \$189 million (June 30, 2016 - \$89 million).

³ Certain comparative figures have been updated to be consistent with current period presentation.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month period ended June 30, 2017

(Unaudited)

7. Collateral

Collateral transactions are conducted to support investment activities under terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged are as follows:

Collateral held and pledged

<i>(CAD millions)</i>	As at June 30, 2017		As at March 31, 2017		As at June 30, 2016	
Assets held as collateral on:						
Reverse repurchase agreements ¹	\$	6,050	\$	5,196	\$	18,377
Over-the-counter derivative transactions ¹		1,284		493		499
Other debt ¹		784		726		1,019
Assets pledged as collateral on:						
Repurchase agreements		(16,868)		(14,785)		(19,722)
Securities sold short		(13,380)		(27,575)		(24,391)
Over-the-counter derivative transactions		(124)		-		(157)
Private equities		(5,152)		(5,291)		(5,478)
Other debt		(4,337)		(3,957)		(3,757)
Total	\$	(31,743)	\$	(45,193)	\$	(33,610)

¹ The fair value of the collateral held that may be sold or repledged as at June 30, 2017 is \$7,188 million (March 31, 2017 - \$6,192 million, June 30, 2016 - \$19,575 million). The fair value of collateral sold or repledged as at June 30, 2017 is \$3,590 million (March 31, 2017 - \$2,677 million, June 30, 2016 - \$8,158 million).

8. Commitments

CPP Investment Board has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at June 30, 2017, the commitments totalled \$41.0 billion (March 31, 2017 - \$38.9 billion, June 30, 2016 - \$38.1 billion).

As at June 30, 2017, CPP Investment Board made lease and other commitments, which require future annual payments as follows:

Lease and other commitments

<i>(CAD millions)</i>	As at June 30, 2017		As at March 31, 2017		As at June 30, 2016	
Within one year	\$	27	\$	37	\$	32
After one year but not more than five years		122		123		108
More than five years		46		46		59
Total	\$	195	\$	206	\$	199

9. Related party transactions

Related parties of CPP Investment Board include unconsolidated subsidiaries, joint ventures and associates and all related party investments are measured at fair value. Investments in joint ventures are those arrangements where CPP Investment Board has joint control. An associate is an entity which CPP Investment Board has the ability to exercise significant influence over decision making.

Related party transactions consist of investments and investment income primarily in private equities, debt, real estate and infrastructure and are presented in detail in the Condensed Interim Consolidated Schedule of Investment Portfolio. Related party transactions are measured at fair value and will therefore have the same impact on net assets and net investment income as those investment transactions with unrelated parties.

Related party transactions with consolidated subsidiaries are eliminated upon consolidation.

10. Guarantees

As part of certain investment transactions, CPP Investment Board agreed to guarantee, as at June 30, 2017, up to \$2.7 billion (March 31, 2017 - \$3.1 billion, June 30, 2016 - \$2.4 billion) to other counterparties in the event certain investee entities default under the terms of loan and other related agreements.