

Condensed Interim Consolidated
Financial Statements of
Canada Pension Plan Investment Board

DECEMBER 31, 2021



Condensed Interim Consolidated Balance Sheet

(Unaudited)

(CAD millions)	As at December 31, 2021	As at March 31, 2021
Assets		
Investments (note 2)	\$ 682,383	\$ 595,952
Pending trades receivable	3,460	2,663
Premises and equipment	452	459
Other assets	302	311
Total assets	686,597	599,385
Liabilities		
Investment liabilities (note 2)	131,087	98,158
Pending trades payable	4,394	3,191
Accounts payable and accrued liabilities	741	849
Total liabilities	136,222	102,198
Net assets	\$ 550,375	\$ 497,187
Net assets, represented by:		
Share capital	\$ -	\$ -
Accumulated net income from operations	394,217	343,665
Accumulated net transfers from the Canada Pension Plan	156,158	153,522
Net assets	\$ 550,375	\$ 497,187

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

Condensed Interim Consolidated Statement of Comprehensive Income

(Unaudited)

<i>(CAD millions)</i>	For the three months ended December 31,		For the nine months ended December 31,	
	2021	2020	2021	2020
Investment income (note 4)	\$ 13,710	\$ 23,798	\$ 52,586	\$ 70,143
Investment-related expenses (note 5)	(333)	(456)	(933)	(1,611)
Net investment income	13,377	23,342	51,653	68,532
Operating expenses	(347)	(335)	(1,101)	(1,020)
Net income from operations and comprehensive income	\$ 13,030	\$ 23,007	\$ 50,552	\$ 67,512

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

Condensed Interim Consolidated Statement of Changes in Net Assets

(Unaudited)

	For the three months ended					
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets	
(CAD millions)						
As at October 1, 2021	10	\$ -	\$ 160,347	\$ 381,187	\$ 541,534	
Total net income for the period		-	-	13,030	13,030	
Canada Pension Plan transfers:						
Transfers from the Canada Pension Plan		-	6,844	-	6,844	
Transfers to the Canada Pension Plan		-	(11,033)	-	(11,033)	
As at December 31, 2021	10	\$ -	\$ 156,158	\$ 394,217	\$ 550,375	

	For the nine months ended					
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets	
(CAD millions)						
As at April 1, 2020	10	\$ -	\$ 149,867	\$ 259,721	\$ 409,588	
Total net income for the period		-	-	67,512	67,512	
Canada Pension Plan transfers:						
Transfers from the Canada Pension Plan		-	29,819	-	29,819	
Transfers to the Canada Pension Plan		-	(31,175)	-	(31,175)	
As at December 31, 2020	10	\$ -	\$ 148,511	\$ 327,233	\$ 475,744	
As at April 1, 2021	10	\$ -	\$ 153,522	\$ 343,665	\$ 497,187	
Total net income for the period		-	-	50,552	50,552	
Canada Pension Plan transfers:						
Transfers from the Canada Pension Plan		-	34,432	-	34,432	
Transfers to the Canada Pension Plan		-	(31,796)	-	(31,796)	
As at December 31, 2021	10	\$ -	\$ 156,158	\$ 394,217	\$ 550,375	

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

Condensed Interim Consolidated Statement of Cash Flows

(Unaudited)

<i>(CAD millions)</i>	For the nine months ended December 31,	
	2021	2020 ³
Cash flows from operating activities		
Net income from operations	\$ 50,552	\$ 67,512
Adjustments for non-cash items:		
Amortization of premises and equipment	42	39
(Gains) on debt financing liabilities (note 11)	(729)	(1,889)
Effect of exchange rate changes on cash and cash equivalents	(7)	(460)
Adjustments for net changes in operating assets and liabilities:		
(Increase) in investments	(88,338)	(53,611)
(Increase) decrease in pending trades receivable	(797)	5,967
Decrease (increase) in other assets	10	(9)
Increase (decrease) in investment liabilities	26,476	(23,816)
Increase (decrease) in pending trades payable	1,203	(4,618)
(Decrease) in accounts payable and accrued liabilities	(108)	(102)
Net cash flows (used in) operating activities	(11,696)	(10,987)
Cash flows from financing activities		
Transfers from the Canada Pension Plan	34,432	29,819
Transfers to the Canada Pension Plan	(31,796)	(31,175)
Proceeds from debt financing liabilities (note 11)	10,038	8,101
Repayment of debt financing liabilities (note 11)	(2,856)	(8,485)
Net cash flows provided by (used in) financing activities	9,818	(1,740)
Cash flows from investing activities		
Acquisitions of premises and equipment	(35)	(28)
Net cash flows (used in) investing activities	(35)	(28)
Net (decrease) in cash and cash equivalents	(1,913)	(12,755)
Cash and cash equivalents at the beginning of the period	13,969	23,123
Cash and cash equivalents at the end of the period	12,056	10,368
Cash and cash equivalents at the end of the period are comprised of:		
Cash and cash equivalents held for operating purposes ¹	226	176
Cash and cash equivalents held for investment purposes ²	11,830	10,192
Total	\$ 12,056	\$ 10,368

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.

³ Certain comparatives have been reclassified to conform to the current period's presentation.

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

Condensed Interim Consolidated Schedule of Investment Portfolio

(Unaudited)

The schedule below provides information on investments and investment liabilities held by Canada Pension Plan Investment Board and its investment holding subsidiaries on a combined basis.

<i>(CAD millions)</i>	As at December 31, 2021	As at March 31, 2021 ²
Cash and cash equivalents	\$ 14,820	\$ 14,532
Equities		
Public equities	195,543	175,083
Private equities	167,885	158,589
Total equities	363,428	333,672
Fixed income		
Bonds	124,603	98,560
Other debt	33,695	28,879
Money market securities	695	143
Total fixed income	158,993	127,582
Absolute return strategies	32,930	29,008
Infrastructure	46,879	39,954
Real estate	40,947	38,078
Investment receivables		
Securities purchased under reverse repurchase agreements and cash collateral pledged on securities borrowed	17,646	7,127
Derivative assets	2,870	3,636
Other	4,124	2,764
Total investment receivables	24,640	13,527
Total investments¹	\$ 682,637	\$ 596,353
Investment liabilities		
Debt financing liabilities	(42,902)	(36,449)
Securities and loans sold under repurchase agreements and cash collateral received on securities lent	(55,382)	(33,150)
Securities sold short	(27,847)	(22,275)
Derivative liabilities	(3,102)	(3,004)
Short-term secured debt	(1,220)	(1,234)
Other	(814)	(2,052)
Total investment liabilities¹	(131,267)	(98,164)
Pending trades receivable ¹	4,026	3,077
Pending trades payable ¹	(5,034)	(4,000)
Net investments	\$ 550,362	\$ 497,266

¹ Consists of all the financial assets and liabilities held by both Canada Pension Plan Investment Board and its investment holding subsidiaries. In contrast, the Condensed Interim Consolidated Balance Sheet presents all financial assets and liabilities held by investment holding subsidiaries as investments. This results in a difference of \$254 million (March 31, 2021 - \$401 million), \$180 million (March 31, 2021 - \$6 million), \$566 million (March 31, 2021 - \$414 million) and \$640 million (March 31, 2021 - \$809 million) as compared to investments, investment liabilities, pending trades receivable and pending trades payable, respectively, as presented in the Condensed Interim Consolidated Balance Sheet. Refer to note 1.2, 2.1 and 2.2 for further details.

² Certain comparatives have been reclassified to conform to the current period's presentation.

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

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

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Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

General information

Canada Pension Plan Investment Board (CPP Investments) was established in December 1997 pursuant to the *Canada Pension Plan Investment Board Act* (CPPIB Act). CPP Investments is responsible for assisting the Canada Pension Plan (CPP) in meeting its obligations to contributors and beneficiaries under the legislation *Canada Pension Plan* (CPP Act).

In December 2016, Royal Assent was given to Bill C-26 titled *An Act to Amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act*. The CPP Act now defines two separate parts of the CPP. The “base CPP” refers to the benefits and contributions established before 2019. The “additional CPP” refers to the additional benefits and additional contributions that began on January 1, 2019. All references to “CPP” mean base CPP and additional CPP together.

The Condensed Interim Consolidated Financial Statements (Interim Financial Statements) provide information on the net assets managed by CPP Investments and do not include the liabilities and other assets of the CPP.

The Interim Financial Statements for the three and nine months ended December 31, 2021 were approved by the Board of Directors and authorized for issue on February 9, 2022.

1. Summary of significant accounting policies

1.1 Basis of presentation

The Interim Financial Statements have been prepared in compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* and do not include all of the information and disclosures required in the Annual Consolidated Financial Statements. The Interim Financial Statements should be read in conjunction with CPP Investments’ 2021 Annual Consolidated Financial Statements included on pages 139 to 185 of CPP Investments’ 2021 Annual Report. The Interim Financial Statements follow the same accounting policies and methods as the most recent Annual Consolidated Financial Statements.

1.2 Subsidiaries

CPP Investments qualifies as an investment entity and reports the results of its operations in accordance with International Financial Reporting Standard (IFRS) 10, *Consolidated Financial Statements*. As a consequence, the Interim Financial Statements represent the results of operations of CPP Investments 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 Investments.

Subsidiaries that are managed by CPP Investments to hold investments are referred to herein as investment holding subsidiaries. Such subsidiaries are not consolidated in these Interim Financial Statements but instead are measured and reported at fair value through profit and loss in accordance with IFRS 9, *Financial Instruments*. Fair value for unconsolidated investment holding subsidiaries is based on the fair value of the underlying investments, investment liabilities and pending trades held by the investment holding subsidiary together with its accumulated net income from operations less dividends paid.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

1.3 Current year adoption in accounting policies

Effective April 1, 2021, CPP Investments adopted Phase 2 amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts*, and IFRS 16 *Leases (Amendments)*. The amendments address issues affecting financial reporting as a result of changing the interest rate benchmark from the Interbank Offered Rates (IBORs) to alternative reference rates (ARRs) and provide specific financial statement disclosure requirements to outline the effect of the reform.

The transition from IBORs to ARR's will impact financial instruments referencing London Interbank Offered Rates (LIBOR) with a maturity date beyond June 30, 2023 for certain United States dollar LIBORs and December 31, 2021 for remaining LIBORs. The transition presents a number of risks, including updating systems and processes, amending contracts or existing fallback clauses, communicating with counterparties on IBOR reform. In order to manage those risks, CPP Investments has established an organization-wide program that includes stakeholders from both investment departments and core services to manage and coordinate all aspects of the transition.

As at December 31, 2021, CPP Investments' exposures to financial instruments subject to LIBOR reform that have yet to transition to ARR's with a maturity date beyond June 30, 2023 for United States dollar LIBORs was \$10.8 billion and \$21.9 billion relating to non-derivatives (fair value) and derivatives (notional), respectively. There are no outstanding non-USD LIBOR financial instruments maturing after December 31, 2021.

2. Fair value measurement

This note categorizes the fair value of investments and investment liabilities into the following hierarchy based on the level of significant inputs used in the fair value measurement:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – 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); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

2.1 Fair value hierarchy of investments and investment liabilities held directly by CPP Investments

	As at December 31, 2021			
<i>(CAD millions)</i>	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ -	\$ 11,830	\$ -	\$ 11,830
Equities				
Public equities ¹	172,436	3,971	-	176,407
Private equities	-	2,451	7,112	9,563
Total equities	172,436	6,422	7,112	185,970
Fixed income				
Bonds	66,569	53,706	-	120,275
Other debt	-	865	3,574	4,439
Money market securities	-	695	-	695
Total fixed income	66,569	55,266	3,574	125,409
Absolute return strategies	-	16,694	849	17,543
Infrastructure	-	-	9,649	9,649
Real estate	-	-	9,951	9,951
Investment receivables				
Securities purchased under reverse repurchase agreements and cash collateral pledged on securities borrowed	-	17,646	-	17,646
Derivative assets	-	2,796	-	2,796
Other ²	-	3,683	-	3,683
Total investment receivables	-	24,125	-	24,125
Investments in investment holding subsidiaries (note 2.2)	-	-	297,906	297,906
Total investments	\$ 239,005	\$ 114,337	\$ 329,041	\$ 682,383
Investment liabilities				
Debt financing liabilities	(42,652)	(250)	-	(42,902)
Securities sold under repurchase agreements and cash collateral received on securities lent	-	(55,218)	-	(55,218)
Securities sold short	(27,847)	-	-	(27,847)
Derivative liabilities	(33)	(3,069)	-	(3,102)
Short-term secured debt	-	(1,220)	-	(1,220)
Other ²	-	(798)	-	(798)
Total investment liabilities	(70,532)	(60,555)	-	(131,087)
Pending trades receivable ³	-	3,460	-	3,460
Pending trades payable ³	-	(4,394)	-	(4,394)
Net investments	\$ 168,473	\$ 52,848	\$ 329,041	\$ 550,362

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

	As at March 31, 2021 ⁴			
(CAD millions)	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ -	\$ 13,744	\$ -	\$ 13,744
Equities				
Public equities ¹	154,995	3,889	45	158,929
Private equities	-	172	11,485	11,657
Total equities	154,995	4,061	11,530	170,586
Fixed income				
Bonds	54,941	39,824	-	94,765
Other debt	-	1,049	2,709	3,758
Money market securities	-	143	-	143
Total fixed income	54,941	41,016	2,709	98,666
Absolute return strategies	-	15,734	1,012	16,746
Infrastructure	-	-	8,037	8,037
Real estate	-	-	9,556	9,556
Investment receivables				
Securities purchased under reverse repurchase agreements and cash collateral pledged on securities borrowed	-	7,127	-	7,127
Derivative assets	-	3,515	-	3,515
Other ²	-	2,269	-	2,269
Total investment receivables	-	12,911	-	12,911
Investments in investment holding subsidiaries (note 2.2)	-	-	265,706	265,706
Total investments	\$ 209,936	\$ 87,466	\$ 298,550	\$ 595,952
Investment liabilities				
Debt financing liabilities	(36,449)	-	-	(36,449)
Securities sold under repurchase agreements and cash collateral received on securities lent	-	(33,150)	-	(33,150)
Securities sold short	(22,275)	-	-	(22,275)
Derivative liabilities	(45)	(2,957)	-	(3,002)
Short-term secured debt	-	(1,234)	-	(1,234)
Other ²	-	(2,048)	-	(2,048)
Total investment liabilities	(58,769)	(39,389)	-	(98,158)
Pending trades receivable ³	-	2,663	-	2,663
Pending trades payable ³	-	(3,191)	-	(3,191)
Net investments	\$ 151,167	\$ 47,549	\$ 298,550	\$ 497,266

¹ Includes investments in funds.

² Included in other investment receivables and other investment liabilities is cash pledged as collateral of \$1,214 million (March 31, 2021 - \$1,142 million) and cash held as collateral of \$579 million (March 31, 2021 - \$1,955 million) on over-the-counter derivative transactions, respectively.

³ Pending trades receivable and payable are measured at amortized cost, which approximates fair value.

⁴ Certain comparatives have been reclassified to conform to the current period's presentation.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

2.2 Supplemental information on fair value hierarchy relating to investment holding subsidiaries

The following table presents the fair value hierarchy of the underlying investments and investment liabilities held by investment holding subsidiaries. For further details on the nature and purpose of investment holding subsidiaries, refer to note 1.2.

	As at December 31, 2021			
(CAD millions)	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ -	\$ 2,990	\$ -	\$ 2,990
Equities				
Public equities ¹	11,414	7,692	30	19,136
Private equities	-	3,192	155,130	158,322
Total equities	11,414	10,884	155,160	177,458
Fixed income				
Bonds	-	4,203	125	4,328
Other debt	-	5,811	23,445	29,256
Total fixed income	-	10,014	23,570	33,584
Absolute return strategies	-	13,515	1,872	15,387
Infrastructure	-	-	37,230	37,230
Real estate	-	-	30,996	30,996
Investment receivables				
Derivative assets	-	74	-	74
Other	-	441	-	441
Total investment receivables	-	515	-	515
Total investments held by investment holding subsidiaries	\$ 11,414	\$ 37,918	\$ 248,828	\$ 298,160
Investment liabilities				
Loans sold under repurchase agreements	-	(164)	-	(164)
Other	-	(16)	-	(16)
Total investment liabilities held by investment holding subsidiaries	-	(180)	-	(180)
Pending trades receivable ²	-	566	-	566
Pending trades payable ²	-	(640)	-	(640)
Investments in investment holding subsidiaries	\$ 11,414	\$ 37,664	\$ 248,828	\$ 297,906

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

(CAD millions)	As at March 31, 2021 ³			
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ -	\$ 788	\$ -	\$ 788
Equities				
Public equities ¹	8,629	7,485	40	16,154
Private equities	-	7,385	139,547	146,932
Total equities	8,629	14,870	139,587	163,086
Fixed income				
Bonds	-	3,795	-	3,795
Other debt	-	4,342	20,779	25,121
Money market securities	-	-	-	-
Total fixed income	-	8,137	20,779	28,916
Absolute return strategies	-	10,576	1,686	12,262
Infrastructure	-	-	31,917	31,917
Real estate	-	-	28,522	28,522
Investment receivables				
Derivative assets	-	121	-	121
Other	-	495	-	495
Total investment receivables	-	616	-	616
Total investments held by investment holding subsidiaries	\$ 8,629	\$ 34,987	\$ 222,491	\$ 266,107
Investment liabilities				
Derivative liabilities	-	(2)	-	(2)
Other	-	(4)	-	(4)
Total investment liabilities held by investment holding subsidiaries	-	(6)	-	(6)
Pending trades receivable ²	-	414	-	414
Pending trades payable ²	-	(809)	-	(809)
Investments in investment holding subsidiaries	\$ 8,629	\$ 34,586	\$ 222,491	\$ 265,706

¹ Includes investments in funds.

² Pending trades receivable and payable are measured at amortized cost, which approximates fair value.

³ Certain comparatives have been reclassified to conform to the current period's presentation.

2.3 Transfers between Level 1 and Level 2

Transfers between levels in the fair value hierarchy are deemed to have occurred at the end of the reporting period. During the nine months ended December 31, 2021, transfers from Level 1 to Level 2 included \$736 million of investments and \$23 million of investment liabilities held directly by CPP Investments (during the year ended March 31, 2021 - \$103 million and nil, respectively). During the nine months ended December 31, 2021, transfers from Level 2 to Level 1 included \$735 million of investments and \$23 million of investment liabilities held directly by CPP Investments (during the year ended March 31, 2021 - \$104 million and nil, respectively). Transfers between Level 1 and Level 2 depend on the availability of quoted market prices in active markets and valuation techniques using inputs other than quoted prices that are observable.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

2.4 Level 3 reconciliation

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy:

For the nine months ended December 31, 2021								
	Fair value as at April 1, 2021	Gain (loss) included in investment income	Purchases	Sales ¹	Transfers into Level 3	Transfers out of Level 3	Fair value as at December 31, 2021	Change in unrealized gains (losses) on investments still held at December 31, 2021 ²
<i>(CAD millions)</i>								
Investments								
Equities								
Public equities	\$ 45	\$ (3)	\$ -	\$ (42)	\$ -	\$ -	\$ -	\$ -
Private equities	11,485	2,623	470	(1,898)	46	(5,614)	7,112	139
Total equities	11,530	2,620	470	(1,940)	46	(5,614)	7,112	139
Fixed income								
Other debt	2,709	128	1,629	(1,079)	187	-	3,574	91
Absolute return strategies	1,012	16	-	(179)	-	-	849	(20)
Infrastructure	8,037	437	2,062	(887)	-	-	9,649	(32)
Real estate	9,556	474	566	(645)	-	-	9,951	409
Investments in investment holding subsidiaries³	265,706	29,838	2,961	(599)	-	-	297,906	29,838
Total	\$ 298,550	\$ 33,513	\$ 7,688	\$ (5,329)	\$ 233	\$ (5,614)	\$ 329,041	\$ 30,425

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

For the year ended March 31, 2021 ⁴								
(CAD millions)	Fair value as at April 1, 2020	Gain (loss) included in income	Purchases	Sales ¹	Transfers into Level 3	Transfers out of Level 3	Fair value as at March 31, 2021	Change in unrealized gains (losses) on investments still held at March 31, 2021 ²
Investments								
Equities								
Public equities	\$ 33	\$ 13	\$ -	\$ (1)	\$ -	\$ -	\$ 45	\$ 14
Private equities	8,586	3,587	589	(1,429)	152	-	11,485	3,612
Total equities	8,619	3,600	589	(1,430)	152	-	11,530	3,626
Fixed income								
Other debt	2,552	243	1,967	(1,902)	-	(151)	2,709	(41)
Absolute return								
strategies	1,534	(78)	237	(776)	95	-	1,012	(140)
Infrastructure	7,622	867	25	(477)	-	-	8,037	867
Real estate	14,469	(2,526)	357	(2,744)	-	-	9,556	(2,392)
Investments in investment holding subsidiaries³								
	220,229	43,500	2,841	(864)	-	-	265,706	43,500
Total	\$ 255,025	\$ 45,606	\$ 6,016	\$ (8,193)	\$ 247	\$ (151)	\$ 298,550	\$ 45,420

¹ Includes return of capital.

² Included in investment income and includes or excludes the investments transferred into and out of Level 3, respectively.

³ Purchases relating to investment holding subsidiaries represent capital contributions or net loan funding provided to these subsidiaries. Sales relating to investment holding subsidiaries represent return of capital or payment of dividends from these subsidiaries.

⁴ Certain comparatives have been reclassified to conform to the current period's presentation.

Transfers into and out of Level 3 were primarily due to changes in the availability of market observable inputs used to determine fair value and are deemed to have occurred at the end of the reporting period.

2.5 Level 3 – Significant unobservable inputs

The table below presents the fair value of investments directly held by CPP Investments, valuation techniques used to determine their fair values, and the ranges and weighted averages of unobservable inputs.

Investment holding subsidiaries are also classified as Level 3 in the fair value hierarchy. The fair value is largely driven by Level 3 investments, for which the valuation techniques, ranges and weighted averages of unobservable inputs are included below. However, certain investments held by the investment holding subsidiaries are based on quoted prices in active markets (Level 1) or valued using observable inputs (Level 2). These amount to \$11,414 million (March 31, 2021 - \$8,629 million) and \$37,664 million (March 31, 2021 - \$34,586 million), respectively. Refer to note 2.2 for further details on Level 1 and Level 2 investments relating to investment holding subsidiaries. As each investment holding subsidiary is largely composed of Level 3 investments, the entire subsidiary is classified as Level 3.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

(CAD millions)	Fair value of investments held by:		As at December 31, 2021			
	CPP Investments	Investment holding subsidiaries	Primary valuation techniques used ¹	Significant unobservable inputs	Range of input values ²	Weighted average ²
	Cash and cash equivalents	\$ -	\$ 2,990	Cost with accrued interest	-	-
Public equities						
Direct	-	12,675	Quoted market price	-	-	-
Fund investments	-	6,461	Net asset value provided by investment manager	-	-	-
Private equities						
Direct	7,043	66,482	Earnings multiples of comparable companies	EBITDA multiple	8.6X-22.7X	15.7X
	11	17,612	Discounted cash flow	Discount rate	7.1%-27.0%	10.6%
Fund investments	58	74,228	Net asset value provided by investment manager	-	-	-
Bonds	-	4,328	Quoted market prices or discounted cash flow using observable inputs	-	-	-
Other debt						
Direct private debt	106	22,842	Discounted cash flow	Discount rate	3.5%-30.5%	7.8%
	-	895	Net asset value provided by investment manager	-	-	-
Asset-backed securities	3,255	833	Comparable pricing	Price	82.2%-107.9%	99.2%
Fund investments	213	4,686	Net asset value provided by investment manager	-	-	-
Absolute return strategies						
Fund investments	849	15,387	Net asset value provided by investment manager	-	-	-
Infrastructure						
Direct	9,649	37,185	Discounted cash flow	Discount rate	7.0%-14.1%	8.5%
Fund investments	-	45	Net asset value provided by investment manager	-	-	-
Real estate						
Direct	8,579	5,576	Discounted cash flow	Discount rate	5.0%-14.3%	6.5%
	1,305	22,868	Net asset value provided by investment partner	Terminal capitalization rate	3.8%-11.5%	5.3%
Fund investments	67	2,552	Net asset value provided by investment manager	-	-	-
Investment receivables						
Derivative assets	-	74	Option model	-	-	-
Other	-	441	Cost with accrued interest	-	-	-
Investment liabilities						
Loans sold under repurchase agreements	-	(164)	Cost with accrued interest	-	-	-
Other	-	(16)	Cost with accrued interest	-	-	-
Pending trades net receivable/(payable)	-	(74)	Amortized cost	-	-	-
Total	\$ 31,135	\$ 297,906				

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

	As at March 31, 2021 ³					
	Fair value of investments held by:		Primary valuation techniques used ¹	Significant unobservable inputs	Range of input values ²	Weighted average ²
(CAD millions)	CPP Investments	Investment holding subsidiaries				
Cash and cash equivalents	\$ -	\$ 788	Cost with accrued interest	-	-	-
Public equities						
Direct	-	9,635	Quoted market price	-	-	-
Fund investments	45	6,519	Net asset value provided by investment manager	-	-	-
Private equities						
Direct	11,324	71,772	Earnings multiples of comparable companies	EBITDA multiple	9.0X-64.3X	25.5X
			Discounted cash flow	Discount rate	7.1%-32.9%	10.9%
	14	14,166	Net asset value provided by investment manager	-	-	-
Fund investments	147	60,994	Net asset value provided by investment manager	-	-	-
Bonds	-	3,795	Quoted market prices or discounted cash flows using observable inputs	-	-	-
Other debt						
Direct private debt	137	18,744	Discounted cash flow	Discount rate	3.7%-30.0%	7.6%
	-	1,420	Net asset value provided by investment manager	-	-	-
Asset-backed securities	2,550	693	Comparable pricing	Price	81.4%-109.2%	99.3%
Fund investments	22	4,264	Net asset value provided by investment manager	-	-	-
Absolute return strategies						
Fund investments	1,012	12,262	Net asset value provided by investment manager	-	-	-
Infrastructure						
Direct	8,037	31,891	Discounted cash flow	Discount rate	7.2%-14.1%	8.3%
Fund investments	-	26	Net asset value provided by investment manager	-	-	-
Real estate						
Direct	8,286	5,500	Discounted cash flow	Discount rate	5.3%-14.3%	6.7%
				Terminal capitalization rate	3.8%-11.0%	5.5%
	1,205	20,461	Net asset value provided by investment partner	-	-	-
Fund investments	65	2,561	Net asset value provided by investment manager	-	-	-
Investment receivables						
Derivative assets	-	121	Option model	-	-	-
Other	-	495	Cost with accrued interest	-	-	-
Investment liabilities						
Derivative liabilities	-	(2)	Discounted cash flow	-	-	-
Other	-	(4)	Cost with accrued interest	-	-	-
Pending trades net receivable/(payable)	-	(395)	Amortized cost	-	-	-
Total	\$ 32,844	\$ 265,706				

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

² 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.

³ Certain comparatives have been reclassified to conform to the current period's presentation.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

2.6 Sensitivity analysis of valuations using unobservable inputs

Significant changes 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 is 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 values of the investments classified within Level 3 of the fair value hierarchy in note 2.1 and 2.2 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. The use of valuation methods based on reasonable alternative assumptions could have a significant impact on the resulting fair values. With all other variables held constant, the use of reasonable alternative assumptions would result in a decrease of \$7,600 million (March 31, 2021 - \$9,000 million) or an increase of \$7,800 million (March 31, 2021 - \$9,500 million) in net assets. This sensitivity analysis is subject to the exercise of judgment and excludes investments where fair values are provided by investment managers as the underlying assumptions used are not available to CPP Investments.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

3. Derivatives

The fair value of derivative contracts held by CPP Investments and its investment holding subsidiaries is as follows:

<i>(CAD millions)</i>	As at December 31, 2021		As at March 31, 2021	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Equity contracts				
Futures	\$ -	\$ -	\$ -	\$ -
Swaps	2,003	(2,713)	2,231	(2,267)
Options:				
Exchange-traded – purchased	-	-	-	-
Exchange-traded – written	-	-	-	-
Over-the-counter – purchased	3	-	1	-
Over-the-counter – written	-	(70)	-	(85)
Warrants	74	-	121	-
Total equity contracts	2,080	(2,783)	2,353	(2,352)
Foreign exchange contracts				
Forwards	220	(139)	406	(370)
Options:				
Over-the-counter – purchased	59	-	50	-
Over-the-counter – written	-	(29)	-	(45)
Total foreign exchange contracts	279	(168)	456	(415)
Interest rate contracts				
Futures	-	-	-	-
Forwards	-	-	-	-
Swaps	346	(34)	763	(53)
Options:				
Over-the-counter – purchased	121	-	29	-
Over-the-counter – written	-	(70)	-	(109)
Total interest rate contracts	467	(104)	792	(162)
Credit contracts				
Credit default swaps:				
Over-the-counter – purchased	-	(3)	2	(11)
Over-the-counter – written	43	(2)	32	(5)
Options:				
Over-the-counter – purchased	1	-	1	-
Over-the-counter – written	-	(9)	-	(14)
Total credit contracts	44	(14)	35	(30)
Commodity contracts				
Futures	-	-	-	-
Options:				
Exchange-traded – purchased	-	-	-	-
Exchange-traded – written	-	(33)	-	(45)
Total commodity contracts	-	(33)	-	(45)
Total¹	\$ 2,870	\$ (3,102)	\$ 3,636	\$ (3,004)

¹ Includes \$74 million (March 31, 2021 - \$121 million) relating to warrants and nil (March 31, 2021 - \$2 million) relating to interest rate swaps transacted by investment holding subsidiaries.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

4. Investment income

4.1 Investment income by nature

<i>(CAD millions)</i>	For the three months ended December 31,		For the nine months ended December 31,	
	2021	2020	2021	2020
Interest, dividends, and other investment income	\$ 2,200	\$ 1,212	\$ 7,623	\$ 3,887
Realized gains (losses) on private equities and real assets ¹	160	(140)	1,243	(75)
Unrealized (losses) gains on private equities and real assets ¹	(1,630)	197	(285)	166
Unrealized gains on investment holding subsidiaries (note 4.2)	6,413	11,426	29,838	29,312
Realized and unrealized gains on public and other investments ²	6,567	11,103	14,167	36,853
Total investment income	\$ 13,710	\$ 23,798	\$ 52,586	\$ 70,143

¹ Consists of investment income from private equities, infrastructure and real estate.

² Consists of investment income from public equities, fixed income, absolute return strategies, derivatives and other.

4.2 Supplemental information on investment income

The change in unrealized gains generated from CPP Investments' investment holding subsidiaries consist of the following:

<i>(CAD millions)</i>	For the three months ended December 31,		For the nine months ended December 31,	
	2021	2020	2021	2020
Interest, dividends, and other investment income	\$ 2,522	\$ 1,231	\$ 5,914	\$ 3,123
Realized gains on private equities and real assets ¹	5,286	2,770	16,308	6,697
Unrealized (losses) gains on private equities and real assets ¹	(1,732)	4,645	8,419	12,643
Realized and unrealized gains on public and other investments ²	1,440	3,266	3,699	8,272
Dividends paid to CPP Investments	(644)	(53)	(3,211)	(53)
Investment-related expenses (note 5.2)	(459)	(433)	(1,291)	(1,370)
Total investment income	\$ 6,413	\$ 11,426	\$ 29,838	\$ 29,312

¹ Consists of investment income from private equities, infrastructure and real estate.

² Consists of investment income from public equities, fixed income, absolute return strategies, derivatives and other.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

5. Investment-related expenses

5.1 Investment-related expenses of CPP Investments

Investment-related expenses borne by CPP Investments consist of the following:

<i>(CAD millions)</i>	For the three months ended December 31,		For the nine months ended December 31,	
	2021	2020	2021	2020
Borrowing costs ¹	\$ 99	\$ 241	\$ 138	\$ 789
Investment management fees	181	181	593	699
Transaction costs	53	34	202	123
Total	\$ 333	\$ 456	\$ 933	\$ 1,611

¹ Borrowing costs includes the unrealized and realized gains/losses from natural interest rate hedges, in addition to the costs associated with borrowing instruments.

5.2 Supplemental information on investment-related expenses

Investment-related expenses borne by CPP Investments' investment holding subsidiaries consist of the following:

<i>(CAD millions)</i>	For the three months ended December 31,		For the nine months ended December 31,	
	2021	2020	2021	2020
Investment management fees	\$ 414	\$ 402	\$ 1,198	\$ 1,284
Transaction costs	45	31	93	86
Total	\$ 459	\$ 433	\$ 1,291	\$ 1,370

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(Unaudited)

6. Segment information

6.1 Net income from operations by investment segment

The table below illustrates the investment income and the associated investment-related expenses and operating expenses incurred by each investment department.

For the three months ended December 31, 2021								
(CAD millions)	Total Fund Management	Capital Markets and Factor Investing	Active Equities	Credit Investments	Private Equity	Real Assets	Adjustment ³	Total
Investment income (loss)	\$ 6,876	\$ 471	\$ (758)	\$ 717	\$ 3,068	\$ 3,853	\$ (517)	\$ 13,710
Investment-related expenses ^{1,2}	(178)	(390)	(16)	(20)	(177)	(69)	517	(333)
Net investment income (loss)	6,698	81	(774)	697	2,891	3,784	-	13,377
Operating expenses	(48)	(45)	(62)	(46)	(65)	(81)	-	(347)
Net income (loss) from operations	\$ 6,650	\$ 36	\$ (836)	\$ 651	\$ 2,826	\$ 3,703	\$ -	\$ 13,030

For the three months ended December 31, 2020								
(CAD millions)	Total Fund Management	Capital Markets and Factor Investing	Active Equities	Credit Investments	Private Equity	Real Assets	Adjustment ³	Total
Investment income (loss)	\$ 11,750	\$ 1,738	\$ 1,257	\$ (185)	\$ 8,447	\$ 1,243	\$ (452)	\$ 23,798
Investment-related expenses ^{1,2}	(268)	(302)	(24)	(15)	(246)	(53)	452	(456)
Net investment income (loss)	11,482	1,436	1,233	(200)	8,201	1,190	-	23,342
Operating expenses	(62)	(49)	(53)	(39)	(60)	(72)	-	(335)
Net income (loss) from operations	\$ 11,420	\$ 1,387	\$ 1,180	\$ (239)	\$ 8,141	\$ 1,118	\$ -	\$ 23,007

¹ Costs of \$157 million (December 31, 2020 - \$260 million) attributable to Total Fund Management represent borrowing costs as described in note 5 of \$99 million (December 31, 2020 - \$241 million), as well as the leverage-generating elements of additional derivative transactions of \$58 million (December 31, 2020 - \$19 million). Together these amounts reflect the financing costs described in note 10.2, which is a measure used by Management to monitor the total costs associated with all sources of leverage to CPP Investments.

² Includes borrowing costs, investment management fees and transaction costs borne by CPP Investments and its investment holding subsidiaries in relation to the respective departments.

³ Consists of costs on the leverage-generating elements of additional derivative transactions, and investment management fees and transaction costs borne by investment holding subsidiaries, all of which are reclassified into investment income.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

For the nine months ended December 31, 2021								
	Total Fund Management	Capital and Factor Investing	Active Equities	Credit Investments	Private Equity	Real Assets	Adjustment ³	Total
<i>(CAD millions)</i>								
Investment income (loss)	\$ 18,071	\$ 2,270	\$ (1,437)	\$ 3,550	\$ 22,780	\$ 8,819	\$ (1,467)	\$ 52,586
Investment-related expenses ^{1,2}	(360)	(1,136)	(76)	(62)	(503)	(263)	1,467	(933)
Net investment income (loss)	17,711	1,134	(1,513)	3,488	22,277	8,556	-	51,653
Operating expenses	(151)	(146)	(192)	(138)	(219)	(255)	-	(1,101)
Net income (loss) from operations	\$ 17,560	\$ 988	\$ (1,705)	\$ 3,350	\$ 22,058	\$ 8,301	\$ -	\$ 50,552

For the nine months ended December 31, 2020								
	Total Fund Management	Capital and Factor Investing	Active Equities	Credit Investments	Private Equity	Real Assets	Adjustment ³	Total
<i>(CAD millions)</i>								
Investment income (loss)	\$ 37,257	\$ 4,773	\$ 3,439	\$ 2,260	\$ 21,493	\$ 2,421	\$ (1,500)	\$ 70,143
Investment-related expenses ^{1,2}	(951)	(1,084)	(55)	(37)	(624)	(360)	1,500	(1,611)
Net investment income	36,306	3,689	3,384	2,223	20,869	2,061	-	68,532
Operating expenses	(160)	(162)	(159)	(120)	(184)	(235)	-	(1,020)
Net income from operations	\$ 36,146	\$ 3,527	\$ 3,225	\$ 2,103	\$ 20,685	\$ 1,826	\$ -	\$ 67,512

¹ Costs of \$314 million (December 31, 2020 - \$919 million) attributable to Total Fund Management represent borrowing costs as described in note 5 of \$138 million (December 31, 2020 - \$789 million), as well as the leverage-generating elements of additional derivative transactions of \$176 million (December 31, 2020 - \$130 million). Together these amounts reflect the financing costs described in note 10.2, which is a measure used by Management to monitor the total costs associated with all sources of leverage to CPP Investments.

² Includes borrowing costs, investment management fees and transaction costs borne by CPP Investments and its investment holding subsidiaries in relation to the respective departments.

³ Consists of costs on the leverage-generating elements of additional derivative transactions, and investment management fees and transaction costs borne by investment holding subsidiaries, all of which are reclassified into investment income.

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6.2 Net investments by investment segment

(CAD millions)	Net investments ¹						Total
	Total Fund Management	Capital Markets and Factor Investing	Active Equities	Credit Investments	Private Equity	Real Assets	
As at:							
December 31, 2021	\$ 243,475	\$ 2,226	\$ (785)	\$ 51,870	\$ 134,786	\$ 118,790	\$ 550,362
March 31, 2021 ²	222,339	2,218	(569)	43,761	125,140	104,377	497,266

¹ Net investments excludes net corporate assets of \$13 million (March 31, 2021 - net corporate liabilities of \$79 million).

² Certain comparatives have been reclassified to conform to the current period's presentation.

6.3 Geographic information

Net investments are presented in the table below based on the region to which they have primary economic exposure:

(CAD millions)	Net investments ¹						Total
	Canada	U.S.	Asia Pacific	Europe	Latin America		
As at:							
December 31, 2021	\$ 80,632	\$ 202,142	\$ 152,704	\$ 88,714	\$ 26,170	\$	\$ 550,362
March 31, 2021 ²	78,283	187,462	134,382	75,923	21,216		497,266

¹ Includes debt financing liabilities of \$3,628 million, \$19,438 million, \$1,416 million, and \$18,420 million (March 31, 2021 - \$3,604 million, \$16,108 million, \$394 million, and \$16,343 million), based on the currencies of the issuances, in Canada, the U.S., Asia Pacific, and Europe, respectively.

² Certain comparatives have been reclassified to conform to the current period's presentation.

7. Risk management

CPP Investments manages and mitigates investment risks in accordance with the Integrated Risk Policy (Policy), which became effective on April 1, 2021 and incorporates key elements of the previous Integrated Risk Framework and Investment Risk Management Policy. This Policy establishes accountability of the Board of Directors, the various committees, including the Risk Committee, and the investment departments to manage investment-related risks. The Policy is approved by the Board of Directors at least once every fiscal year, and contains risk limits and risk management provisions that govern investment decisions in accordance with the mandate of CPP Investments.

7.1 Total fund risk

A suite of risk measures is used within CPP Investments to monitor and assess the risk profile of the base CPP Investment Portfolio and the additional CPP Investment Portfolio (collectively the Investment Portfolios). Regular risk reports are provided to Senior Management and the Board of Directors to support the governance of the various dimensions of investment risk to which the Investment Portfolios are exposed. The Integrated Risk Policy, which is effective April 1, 2021, includes the addition of new limits around portfolio composition, and the removal of certain limits at a Board level to reduce redundancy. The target level of market risk of the base CPP Investment Portfolio has not changed, while that of the additional CPP Investment Portfolio has an increased equity/debt risk equivalence ratio of 55%/45%.

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Plan adjustment risk is a central concept in CPP Investments' portfolio design and risk governance activities. It is defined as the probability of a material adjustment to the Minimum Contribution Rate applicable to CPP contributors, based solely on investment return performance over various time horizons. It is an overarching measure that is impacted by market, credit, liquidity and leverage risk.

Other key investment risk governance measures include:

- **Market risk:** The equity/debt risk equivalence ratio, which is the proportion of equity (versus debt) in a simple two-asset reference portfolio that would give the same market and credit risk as that of the applicable Investment Portfolio.
- **Potential investment losses:** The reported loss of the Investment Portfolios over a one- year horizon is not expected to exceed the established limit of fund value for that horizon 19 times out of 20. The potential loss of the Investment Portfolios over a five-year horizon is also measured and monitored by Management. Both are based on the value-at-risk measure at a 95 percent confidence level. Effective April 1, 2021, the one-year potential loss risk limit is now expressed as a percentage of the Investment Portfolios rather than an absolute dollar value.
- **Active risk:** The potential underperformance arising from differences between the compositions of each Investment Portfolio and an internally developed comparator portfolio. This is a new measure that was introduced as part of the Policy that became effective April 1, 2021.
- **Liquidity and leverage risk measures,** which are further described in note 10.

The monitoring of adherence to investment risk limits is conducted independent of the investment departments by the Risk group using both industry standards and internally developed risk models. The tables below provide a summary of the key investment risk governance measures of the Investment Portfolios.

			As at December 31, 2021		As at March 31, 2021 ⁴
	Limit		base CPP		base CPP
Plan adjustment risk ¹	n/a		30 %		23 %
Market risk	80 - 90 %		85 %		85 %
Potential investment loss:					
One-year horizon ²	20 %		18 %		18 %
Five-year horizon ^{1, 2}	n/a		20 %		20 %
Active risk ³	450 bps		406 bps		n/a

			As at December 31, 2021		As at March 31, 2021 ⁴
	Limit		additional CPP		additional CPP
Plan adjustment risk ¹	n/a		25 %		25 %
Market risk	50 - 60 %		55 %		54 %
Potential investment loss:					
One-year horizon ²	14 %		13 %		12 %
Five-year horizon ^{1, 2}	n/a		15 %		15 %
Active risk ³	450 bps		369 bps		n/a

¹ Measure is no longer a Board limit in the Integrated Risk Policy, effective April 1, 2021, but continues to be a key consideration in determining the risk targets and limits.

² Percentage of investment value.

³ Represented in basis points (bps).

⁴ Certain comparatives have been recast to conform to the current period's presentation.

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8. Market risk

Market risk is the risk that the fair value of an investment or investment liability will fluctuate because of changes in market prices and rates. Market risk includes equity risk, interest rate risk, credit spread risk and currency risk.

8.1 Equity risk

Equity risk is the risk that the fair value of an investment or investment liability will fluctuate because of changes in equity prices, which is a significant source of risk of the Investment Portfolios.

8.2 Interest rate risk

Interest rate risk is the risk that the fair value of an investment or investment liability will fluctuate because of changes in market interest rates. The Investment Portfolios are exposed to interest rate risk primarily through holdings of fixed income securities, certain investment liabilities and interest rate derivatives.

8.3 Credit spread risk

Credit spread risk 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. With all other variables held constant, an increase in credit spread rates would result in a decrease in assets or an increase in liabilities.

8.4 Currency risk

The Investment Portfolios are exposed to currency risk through holdings of investments or investment liabilities in various foreign 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.

8.4.1 Currency risk exposures

The net currency exposures after allocating foreign currency derivatives, in Canadian dollars, are as follows:

<i>(CAD millions)</i>	As at December 31, 2021			As at March 31, 2021		
Currency	Net exposure	% of total ¹		Net exposure	% of total ¹	
United States dollar	\$ 308,799	56 %		\$ 280,198	56 %	
Euro	41,097	7		31,580	6	
Chinese renminbi	28,051	5		23,391	5	
British pound sterling	16,080	3		16,238	3	
Australian dollar	15,235	3		13,829	3	
Indian rupee	13,201	2		10,340	2	
Hong Kong dollar	9,925	2		14,596	3	
Japanese yen	8,697	2		6,407	1	
Brazilian real	6,322	1		5,439	1	
Mexican peso	5,123	1		4,325	1	
Other	16,824	3		18,700	4	
Total foreign exposure	469,354	85		425,043	85	
Canadian dollar	81,008	15		72,223	15	
Total	\$ 550,362	100 %		\$ 497,266	100 %	

¹ May not reflect actual percentage of total due to rounding.

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9. Credit risk

Credit risk represents the potential permanent loss of investment value due to direct or indirect counterparty exposure to a defaulted entity and/or financial losses due to deterioration of an entity's credit quality. The Investment Portfolios' credit risk arises primarily through its investments in non-investment grade entities. 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.

9.1 Credit value-at-risk

In addition to incorporating credit risk within the potential investment loss measures as described in note 7.1, a standalone measure for losses due to defaults and credit rating migration is also monitored. A Monte Carlo simulation that incorporates likelihood of default, credit rating migration and recovery in the event of default for underlying investments is adopted to quantify this dimension of risk. Credit value-at-risk, at a 95% confidence level, implies there is a 5% chance that the underlying investments in the Investment Portfolios will lose more than the amounts shown below, expressed as a percentage of each Investment Portfolio, in any given year due to default and credit migration risk.

	As at December 31, 2021		As at March 31, 2021 ¹	
	base CPP	additional CPP	base CPP	additional CPP
Credit value-at-risk	3.4 %	2.3 %	3.4 %	2.2 %

¹ Certain comparatives have been recast to conform to the current period's presentation.

10. Liquidity and leverage risk

10.1 Liquidity risk

Liquidity risk is the risk of failing to obtain the necessary funds to meet CPP Investments' payment obligations as they become due, to fund investment programs, or to rebalance its portfolios in periods of stress, without incurring unacceptable losses. The liquidity coverage ratio measures the amount of available liquid securities relative to CPP Investments' investment obligations and obligations to transfer funds to CPP over various time horizons including any 10-day period.

	Limit	As at December 31, 2021	As at March 31, 2021
Liquidity coverage ratio	1.0x	2.6x	6.2x

Liquidity risk is impacted by the use of various forms of leverage which CPP Investments uses to manage certain other risks and enhance fund returns. The use of leverage is governed directly through leverage measures as outlined in note 10.2.

CPP Investments also maintains unsecured credit facilities to meet potential liquidity requirements. There were no credit facilities drawn as at December 31, 2021 and March 31, 2021.

(CAD millions)	As at December 31, 2021	As at March 31, 2021
Unsecured credit facilities held	\$ 3,000	\$ 3,000

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10.2 Leverage risk

Leverage risk is the risk that excessive on- and off-balance sheet financial obligations heighten market and liquidity risks during periods of stress. Leverage risk is monitored against two metrics which together capture different aspects of leverage across the Investment Portfolios:

- Total financing liabilities is a notional-based measure of recourse leverage which represents the net amount of on-balance sheet and off-balance sheet financing used by CPP Investments to increase investment exposure.
- Risk weighted liabilities is determined using risk-weighted notionals of recourse liabilities which represent the risk of the underlying leverage products, including derivatives, used by CPP Investments.

The table below presents the key leverage risk metrics of the Investment Portfolios.

	As at December 31, 2021	As at March 31, 2021
Total financing liabilities	23.5 %	17.8 %
Risk weighted liabilities	11.5 %	10.5 %

For the three and nine months ended December 31, 2021, the associated financing costs on total financing liabilities were \$157 million and \$314 million, respectively (three and nine months ended December 31, 2020 - \$260 million and \$919 million, respectively). These financing costs are higher than the borrowing costs disclosed in note 5.1 due to the inclusion of certain elements of derivative transactions which are utilized to provide additional sources of leverage to CPP Investments.

In addition, CPP Investments seeks to maintain its issuer credit rating of “AAA” and maintains leverage ratios that are consistent with this rating.

10.3 Terms to maturity

10.3.1 Terms to maturity of non-derivative investments held directly by CPP Investments

	Terms to maturity						As at March 31, 2021	
	As at December 31, 2021						Average effective yield	Average effective yield
<i>(CAD millions)</i>	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total ²	Average effective yield	Total ²	Average effective yield
Non-marketable bonds								
Canadian provincial government	\$ 1,140	\$ 5,138	\$ 1,048	\$ 12,594	\$ 19,920	2.4 %	\$ 20,561	2.6 %
Marketable bonds								
Government of Canada	-	3,263	1,790	1,408	6,461	1.5	6,337	1.1
Canadian provincial government	361	1,618	2,360	3,441	7,780	2.3	7,370	2.5
Canadian government corporations	359	1,604	514	345	2,822	1.8	2,584	1.6
Foreign government	752	21,259	15,481	25,659	63,151	1.9	45,736	2.1
Corporate bonds	822	6,763	7,106	5,450	20,141	2.6	12,177	2.6
Other debt								
Private debt ¹	106	-	-	-	106	-	137	-
Asset-backed securities	-	256	1,231	1,768	3,255	1.6	2,550	1.8
Securities purchased under reverse repurchase agreements	16,657	-	-	-	16,657	(0.3)	6,062	0.2
Cash collateral pledged on securities borrowed	989	-	-	-	989	n/a	1,065	n/a
Total	\$ 21,186	\$ 39,901	\$ 29,530	\$ 50,665	\$ 141,282	n/a	\$ 104,579	n/a

¹ Includes direct investments that are preferred shares classified as debt. Excludes fund investments.

² Represents fair value.

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(Unaudited)

10.3.2 Terms to maturity of non-derivative investments held by investment holding subsidiaries

The following table presents supplemental information relating to the terms to maturity of investments held by investment holding subsidiaries.

	Terms to maturity							As at March 31, 2021	
	As at December 31, 2021							Total ²	Average effective yield
(CAD millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total ²	Average effective yield	Total ²	Average effective yield	
Marketable bonds									
Corporate bonds	\$ -	\$ 1,157	\$ 3,168	\$ 3	\$ 4,328	5.4 %	\$ 3,795	4.8 %	
Other debt									
Private debt ¹	1,519	8,221	11,190	208	21,138	6.1	17,182	6.1	
Asset-backed securities	-	51	325	457	833	3.2	693	3.4	
Total	\$ 1,519	\$ 9,429	\$ 14,683	\$ 668	\$ 26,299	n/a	\$ 21,670	n/a	

¹ Includes direct investments that are preferred shares classified as debt. Excludes fund investments.

² Represents fair value.

10.3.3 Terms to maturity of non-derivative investment liabilities held directly by CPP Investments and investment holding subsidiaries

	Terms to maturity							As at March 31, 2021		
	As at December 31, 2021							Total ⁴	Fair value	Weighted average interest rate
(CAD millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total ⁴	Fair Value	Weighted average interest rate	Total ⁴	Fair value	Weighted average interest rate
Securities and loans sold under repurchase agreements¹	\$ 45,291	\$ 163	\$ -	\$ -	\$ 45,454	\$ 45,470	- %	\$ 30,502	\$ 30,489	0.1 %
Cash collateral received on securities lent	9,912	-	-	-	9,912	9,912	n/a	2,661	2,661	n/a
Securities sold short^{2,3}	27,847	-	-	-	27,847	27,847	n/a	22,275	22,275	n/a
Debt financing liabilities	5,103	18,468	12,520	6,308	42,399	42,902	1.1	35,623	36,449	0.8
Short-term secured debt	1,220	-	-	-	1,220	1,220	0.2	1,234	1,234	0.2
Total	\$ 89,373	\$ 18,631	\$ 12,520	\$ 6,308	\$ 126,832	\$ 127,351	n/a	\$ 92,295	\$ 93,108	n/a

¹ Includes securities sold under repurchase agreements directly held by CPP Investments and loans sold under repurchase agreements held by investment holding subsidiaries.

² Considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.

³ Includes equities sold short for which the average interest rate is not applicable.

⁴ Represents contractual amounts.

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11. Reconciliation of debt financing liabilities

The following table provides a reconciliation of debt financing liabilities arising from financing activities:

For the nine months ended December 31, 2021					
(CAD millions)	As at April 1, 2021	Proceeds	Repayments	Non-cash changes in fair value ¹	As at December 31, 2021
Debt financing liabilities	\$ 36,449	\$ 10,038	\$ (2,856)	\$ (729)	\$ 42,902

For the nine months ended December 31, 2020					
(CAD millions)	As at April 1, 2020	Proceeds	Repayments	Non-cash changes in fair value ¹	As at December 31, 2020
Debt financing liabilities	\$ 38,395	\$ 8,101	\$ (8,485)	\$ (1,889)	\$ 36,122

¹ Includes foreign exchange gains of \$337 million (December 31, 2020 - \$2,342 million).

12. Collateral

12.1 Collateral held and pledged directly by CPP Investments

The net fair value of collateral held and pledged directly by CPP Investments was as follows:

(CAD millions)	As at December 31, 2021	As at March 31, 2021
Third-party assets held as collateral on¹:		
Reverse repurchase agreements	\$ 16,701	\$ 6,056
Derivative transactions	579	2,049
Securities lent ^{2,4}	11,433	3,292
Own and third-party assets pledged as collateral on:		
Repurchase agreements	(45,374)	(30,457)
Securities borrowed ^{3,4}	(30,869)	(25,027)
Short-term secured debt ⁵	(1,522)	(1,502)
Derivative transactions	(9,291)	(3,545)
Debt financing liabilities ⁶	(556)	-
Total	\$ (58,899)	\$ (49,134)

¹ The fair value of the collateral that may be sold or repledged as at December 31, 2021 was \$18,059 million (March 31, 2021 - \$6,781 million). The fair value of collateral sold or repledged as at December 31, 2021 was \$7,162 million (March 31, 2021 - \$3,148 million).

² The fair value of securities lent as at December 31, 2021 was \$10,469 million (March 31, 2021 - \$3,252 million).

³ The fair value of securities borrowed as at December 31, 2021 was \$23,771 million (March 31, 2021 - \$20,670 million) of which \$23,637 million (March 31, 2021 - \$20,091 million) was used for short selling activity.

⁴ Cash collateral payable on the balance sheet of \$9,912 million (March 31, 2021 - \$2,661 million) consists of collateral receivable of \$160 million and collateral payable of \$10,072 million that qualify for netting (March 31, 2021 - nil and \$2,661 million, respectively).

⁵ Represents securities pledged as collateral on short-term cash borrowings from prime brokers.

⁶ Represents securities pledged as collateral on loan borrowings.

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(Unaudited)

12.2 Supplemental information on collateral relating to investment holding subsidiaries

The net fair value of collateral held and pledged directly by investment holding subsidiaries was as follows:

<i>(CAD millions)</i>	As at December 31, 2021	As at March 31, 2021
Own and third-party assets pledged as collateral on:		
Repurchase agreements	\$ (282)	\$ -
Securities borrowed ^{1,2}	(8,769)	(4,752)
Derivative transactions ²	(728)	(347)
Loans ³	(19,952)	(17,357)
Total	\$ (29,731)	\$ (22,456)

¹ The fair value of securities borrowed as at December 31, 2021 was \$5,163 million (March 31, 2021 - \$2,976 million) of which \$5,163 million (March 31, 2021 - \$2,976 million) was used for short selling activity.

² The cash collateral at the prime brokers may be used for securities borrowed and derivatives transacted by broker.

³ The loans liability is included in the fair value of investment holding subsidiaries.

13. Commitments

CPP Investments and its investment holding subsidiaries have 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 December 31, 2021, the unfunded commitments for CPP Investments and its investment holding subsidiaries totalled \$1,251 million (March 31, 2021 - \$1,057 million) and \$53,734 million (March 31, 2021 - \$44,244 million), respectively.

14. Guarantees

As part of certain investment transactions, CPP Investments and its investment holding subsidiaries agreed to guarantee, as at December 31, 2021, up to \$232 million (March 31, 2021 - \$505 million) and \$7,420 million (March 31, 2021 - \$6,128 million), respectively, to other counterparties in the event certain investee entities default under the terms of loan and other related agreements.

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(Unaudited)

15. Base CPP and additional CPP

The following note discloses the net assets, net investments and net income of CPP Investments' base CPP account and additional CPP account.

15.1 Changes in net assets

The accumulated transfers from/to the CPP and its two parts, the base CPP and additional CPP, as well as their accumulated net income since inception, are as follows:

<i>(CAD millions)</i>	For the three months ended							Total net assets
	Accumulated net transfers from CPP			Accumulated net income				
	base CPP	additional CPP	Total	base CPP	additional CPP	Total		
As at October 1, 2021	\$ 151,552	\$ 8,795	\$ 160,347	\$ 380,345	\$ 842	\$ 381,187	\$ 541,534	
Total net income for the period	-	-	-	12,808	222	13,030	13,030	
Transfers from CPP	6,010	834	6,844	-	-	-	6,844	
Transfers to CPP	(11,033)	-	(11,033)	-	-	-	(11,033)	
As at December 31, 2021	\$ 146,529	\$ 9,629	\$ 156,158	\$ 393,153	\$ 1,064	\$ 394,217	\$ 550,375	

<i>(CAD millions)</i>	For the nine months ended							Total net assets
	Accumulated net transfers from CPP			Accumulated net income				
	base CPP	additional CPP	Total	base CPP	additional CPP	Total		
As at April 1, 2020	\$ 147,544	\$ 2,323	\$ 149,867	\$ 259,706	\$ 15	\$ 259,721	\$ 409,588	
Total net income for the period	-	-	-	67,115	397	67,512	67,512	
Transfers from CPP	27,828	1,991	29,819	-	-	-	29,819	
Transfers to CPP	(31,175)	-	(31,175)	-	-	-	(31,175)	
As at December 31, 2020	\$ 144,197	\$ 4,314	\$ 148,511	\$ 326,821	\$ 412	\$ 327,233	\$ 475,744	
As at April 1, 2021	\$ 147,665	\$ 5,857	\$ 153,522	\$ 343,242	\$ 423	\$ 343,665	\$ 497,187	
Total net income for the period	-	-	-	49,911	641	50,552	50,552	
Transfers from CPP	30,660	3,772	34,432	-	-	-	34,432	
Transfers to CPP	(31,796)	-	(31,796)	-	-	-	(31,796)	
As at December 31, 2021	\$ 146,529	\$ 9,629	\$ 156,158	\$ 393,153	\$ 1,064	\$ 394,217	\$ 550,375	

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

15.2 Net assets of base CPP and additional CPP

The net assets of CPP Investments' base CPP and additional CPP accounts are as follows:

<i>(CAD millions)</i>	As at December 31, 2021			As at March 31, 2021		
	base CPP	additional CPP	Total	base CPP	additional CPP	Total
Cash and cash equivalents held for investment purposes	\$ 11,513	\$ 317	\$ 11,830	\$ 13,650	\$ 94	\$ 13,744
Net investments other than cash and cash equivalents	528,160	10,372	538,532	477,344	6,178	483,522
Net investments	539,673	10,689	550,362	490,994	6,272	497,266
Premises and equipment	441	11	452	448	11	459
Other assets ¹	298	4	302	307	4	311
Accounts payable and accrued liabilities	(730)	(11)	(741)	(842)	(7)	(849)
Net assets	\$ 539,682	\$ 10,693	\$ 550,375	\$ 490,907	\$ 6,280	\$ 497,187

¹ Includes cash held for operating purposes.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

15.3 Schedule of investment portfolio for base CPP and additional CPP

The table below provides details of the investments and investment liabilities for CPP Investments' base CPP and additional CPP accounts:

<i>(CAD millions)</i>	As at December 31, 2021		
	base CPP	additional CPP	Total ¹
Cash and cash equivalents	\$ 14,465	\$ 355	\$ 14,820
Equities			
Public equities	193,060	2,483	195,543
Private equities	165,753	2,132	167,885
Total equities	358,813	4,615	363,428
Fixed income			
Bonds	119,329	5,274	124,603
Other debt	33,267	428	33,695
Money market securities	686	9	695
Total fixed income	153,282	5,711	158,993
Absolute return strategies	32,512	418	32,930
Infrastructure	46,284	595	46,879
Real estate	40,427	520	40,947
Investment receivables			
Securities purchased under reverse repurchase agreements and cash collateral pledged on securities borrowed	17,422	224	17,646
Derivative assets	2,833	37	2,870
Other	4,060	64	4,124
Total investment receivables	24,315	325	24,640
Total investments	\$ 670,098	\$ 12,539	\$ 682,637
Investment liabilities			
Debt financing liabilities	(42,357)	(545)	(42,902)
Securities and loans sold under repurchase agreements and cash collateral received on securities lent	(54,525)	(857)	(55,382)
Securities sold short	(27,494)	(353)	(27,847)
Derivative liabilities	(3,063)	(39)	(3,102)
Short-term secured debt	(1,204)	(16)	(1,220)
Other	(804)	(10)	(814)
Total investment liabilities	(129,447)	(1,820)	(131,267)
Pending trades receivable	3,975	51	4,026
Pending trades payable	(4,953)	(81)	(5,034)
Net investments	\$ 539,673	\$ 10,689	\$ 550,362

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

(CAD millions)	As at March 31, 2021		
	base CPP	additional CPP	Total ^{1,2}
Cash and cash equivalents	\$ 14,432	\$ 100	\$ 14,532
Equities			
Public equities	173,682	1,401	175,083
Private equities	157,320	1,269	158,589
Total equities	331,002	2,670	333,672
Fixed income			
Bonds	95,474	3,086	98,560
Other debt	28,649	230	28,879
Money market securities	142	1	143
Total fixed income	124,265	3,317	127,582
Absolute return strategies	28,776	232	29,008
Infrastructure	39,634	320	39,954
Real estate	37,774	304	38,078
Investment receivables			
Securities purchased under reverse repurchase agreements and cash collateral pledged on securities borrowed	7,070	57	7,127
Derivative assets	3,607	29	3,636
Other	2,729	35	2,764
Total investment receivables	13,406	121	13,527
Total investments	\$ 589,289	\$ 7,064	\$ 596,353
Investment liabilities			
Debt financing liabilities	(36,157)	(292)	(36,449)
Securities sold under repurchase agreements and cash collateral received on securities lent	(32,885)	(265)	(33,150)
Securities sold short	(22,097)	(178)	(22,275)
Derivative liabilities	(2,980)	(24)	(3,004)
Short-term secured debt	(1,224)	(10)	(1,234)
Other	(2,036)	(16)	(2,052)
Total investment liabilities	(97,379)	(785)	(98,164)
Pending trades receivable	3,052	25	3,077
Pending trades payable	(3,968)	(32)	(4,000)
Net investments	\$ 490,994	\$ 6,272	\$ 497,266

¹ Presented using the same basis as the Condensed Interim Consolidated Schedule of Investment Portfolio, which is different from that of the Condensed Interim Consolidated Balance Sheet. Refer to the Consolidated Schedule of Investment Portfolio for further details.

² Certain comparatives have been reclassified to conform to the current period's presentation.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

15.4 Net income of base CPP and additional CPP

Details of net income of CPP Investments' base CPP and additional CPP accounts are as follows:

For the three months ended December 31,						
2021				2020		
<i>(CAD millions)</i>	base CPP	additional CPP	Total	base CPP	additional CPP	Total
Investment income	\$ 13,478	\$ 232	\$ 13,710	\$ 23,656	\$ 142	\$ 23,798
Investment-related expenses	(328)	(5)	(333)	(454)	(2)	(456)
Net investment income	13,150	227	13,377	23,202	140	23,342
Operating expenses	(342)	(5)	(347)	(332)	(3)	(335)
Net income	\$ 12,808	\$ 222	\$ 13,030	\$ 22,870	\$ 137	\$ 23,007

For the nine months ended December 31,						
2021				2020		
<i>(CAD millions)</i>	base CPP	additional CPP	Total	base CPP	additional CPP	Total
Investment income	\$ 51,920	\$ 666	\$ 52,586	\$ 69,731	\$ 412	\$ 70,143
Investment-related expenses	(922)	(11)	(933)	(1,603)	(8)	(1,611)
Net investment income	50,998	655	51,653	68,128	404	68,532
Operating expenses	(1,087)	(14)	(1,101)	(1,013)	(7)	(1,020)
Net income	\$ 49,911	\$ 641	\$ 50,552	\$ 67,115	\$ 397	\$ 67,512