

Condensed Interim Consolidated
Financial Statements of

Canada Pension Plan Investment Board

December 31, 2017

Canada Pension Plan Investment Board
Condensed Interim Consolidated Balance Sheet
As at December 31, 2017
(Unaudited)

<i>(CAD millions)</i>	As at December 31, 2017	As at March 31, 2017 ¹	As at December 31, 2016 ¹
Assets			
Investments (note 2)	\$ 411,999	\$ 377,700	\$ 362,507
Amounts receivable from pending trades	1,942	3,234	3,680
Premises and equipment	343	348	349
Other assets	146	131	158
Total assets	414,430	381,413	366,694
Liabilities			
Investment liabilities (note 2)	75,206	60,423	64,198
Amounts payable from pending trades	1,571	3,631	3,831
Accounts payable and accrued liabilities	540	682	584
Total liabilities	77,317	64,736	68,613
Net assets	\$ 337,113	\$ 316,677	\$ 298,081
Net assets, represented by:			
Share capital	\$ -	\$ -	\$ -
Accumulated net income from operations	200,088	178,875	164,832
Accumulated net transfers from the Canada Pension Plan	137,025	137,802	133,249
Net assets	\$ 337,113	\$ 316,677	\$ 298,081

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.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Statement of Comprehensive Income

For the three and nine-month periods ended December 31, 2017

(Unaudited)

<i>(CAD millions)</i>	For the three-month period ended		For the nine-month period ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Investment income	\$ 13,920	\$ 2,289	\$ 23,446	\$ 21,332
Investment management fees	(424)	(345)	(1,229)	(955)
Transaction costs	(94)	(67)	(267)	(310)
Net investment income (note 6)	\$ 13,402	\$ 1,877	\$ 21,950	\$ 20,067
Personnel costs	167	157	501	463
General operating expenses	65	61	194	176
Professional services	15	12	42	32
Operating expenses	247	230	737	671
Net income from operations and comprehensive income	\$ 13,155	\$ 1,647	\$ 21,213	\$ 19,396

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 and nine-month periods ended December 31, 2017

(Unaudited)

<i>(CAD millions)</i>	For the three-month period ended				
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
As at October 1, 2016	10	\$ -	\$ 137,363	\$ 163,185	\$ 300,548
Total net income for the period		-	-	1,647	1,647
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	5,044	-	5,044
Transfers to the Canada Pension Plan		-	(9,158)	-	(9,158)
Balance at December 31, 2016	10	\$ -	\$ 133,249	\$ 164,832	\$ 298,081
As at October 1, 2017	10	\$ -	\$ 141,233	\$ 186,933	\$ 328,166
Total net income for the period		-	-	13,155	13,155
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	5,664	-	5,664
Transfers to the Canada Pension Plan		-	(9,872)	-	(9,872)
Balance at December 31, 2017	10	\$ -	\$ 137,025	\$ 200,088	\$ 337,113

<i>(CAD millions)</i>	For the nine-month period ended				
	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
Total net income for the period		-	-	19,396	19,396
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	25,751	-	25,751
Transfers to the Canada Pension Plan		-	(26,007)	-	(26,007)
Balance at December 31, 2016	10	\$ -	\$ 133,249	\$ 164,832	\$ 298,081
As at April 1, 2017	10	\$ -	\$ 137,802	\$ 178,875	\$ 316,677
Total net income for the period		-	-	21,213	21,213
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	24,570	-	24,570
Transfers to the Canada Pension Plan		-	(25,347)	-	(25,347)
Balance at December 31, 2017	10	\$ -	\$ 137,025	\$ 200,088	\$ 337,113

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 and nine-month periods ended December 31, 2017

(Unaudited)

<i>(CAD millions)</i>	For the three-month period ended December 31		For the nine-month period ended December 31	
	2017	2016 ³	2017	2016 ³
Cash flows from operating activities				
Net income from operations	\$ 13,155	\$ 1,647	\$ 21,213	\$ 19,396
Adjustments for non-cash items:				
Amortization of premises and equipment	7	8	20	23
Effect of exchange rate changes on cash and cash equivalents	(1)	2	2	(3)
Unrealized (gains) losses on debt financing liabilities	3	51	(535)	755
Adjustments for net changes in operating assets and liabilities:				
(Increase)Decrease in investments	(22,353)	8,363	(39,563)	(14,450)
Decrease (Increase) in pending trades receivable	4,027	1,539	1,303	(1,053)
(Increase) in other assets	(3)	(1)	(2)	(6)
Increase (Decrease) in investment-related liabilities	16,823	(7,221)	11,087	(2,964)
Increase in debt financing liabilities	135	1,441	4,090	1,007
(Decrease)Increase in pending trades payable	(5,781)	(4,870)	(1,969)	400
Increase (Decrease) in accounts payable and accrued liabilities	137	114	(91)	(59)
Net cash flows provided by (used in) operating activities	6,149	1,073	(4,445)	3,046
Cash flows from financing activities				
Transfers from the Canada Pension Plan	5,664	5,044	24,570	25,751
Transfers to the Canada Pension Plan	(9,872)	(9,158)	(25,347)	(26,007)
Net cash flows (used in) provided by financing activities	(4,208)	(4,114)	(777)	(256)
Cash flows from investing activities				
Acquisitions of premises and equipment	(3)	(7)	(14)	(16)
Disposals of premises and equipment	-	-	1	-
Net cash flows (used in) investing activities	(3)	(7)	(13)	(16)
Net increase (decrease) Increase in cash and cash equivalents	1,938	(3,048)	(5,235)	2,774
Effect of exchange rate changes on cash and cash equivalents	1	(2)	(2)	3
Cash and cash equivalents at the beginning of the period	8,900	11,421	16,076	5,594
Cash and cash equivalents at the end of the period	10,839	8,371	10,839	8,371
Cash and cash equivalents at the end of the period are comprised of:				
Cash held for operating purposes ¹	83	100	83	100
Cash and cash equivalents held for investment purposes ²	10,756	8,271	10,756	8,271
Total	\$ 10,839	\$ 8,371	\$ 10,839	\$ 8,371

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.

³ 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.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Schedule of Investment Portfolio

As at December 31, 2017

(Unaudited)

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

<i>(CAD millions)</i>	As at December 31, 2017	As at March 31, 2017 ¹	As at December 31, 2016 ¹
Equities (note 2a)			
Canada			
Public equities	\$ 6,743	\$ 4,576	\$ 4,797
Private equities	3,766	4,048	3,845
	10,509	8,624	8,642
Foreign developed markets			
Public equities	112,392	93,905	81,028
Private equities	59,212	54,992	52,617
	171,604	148,897	133,645
Emerging markets			
Public equities	22,668	19,208	15,460
Private equities	8,385	5,781	5,370
	31,053	24,989	20,830
Total equities	213,166	182,510	163,117
Fixed income (note 2b)			
Bonds	60,370	61,240	60,279
Other debt	20,081	19,764	26,331
Money market securities	10,826	19,408	16,933
Total fixed income	91,277	100,412	103,543
Absolute return strategies (note 2c)	18,829	19,371	19,118
Real assets (note 2d)			
Real estate	41,351	38,732	36,432
Infrastructure	27,647	27,899	26,791
Total real assets	68,998	66,631	63,223
Investment receivables			
Securities purchased under reverse repurchase agreements (note 2e)	15,562	5,207	9,591
Accrued interest	1,738	1,561	1,443
Derivative receivables (note 2f)	2,003	1,718	2,305
Other	426	290	167
Total investment receivables	19,729	8,776	13,506
Total investments	\$ 411,999	\$ 377,700	\$ 362,507
Investment liabilities			
Securities sold under repurchase agreements (note 2e)	(32,030)	(14,749)	(16,100)
Securities sold short (note 2a and 2b)	(17,635)	(24,177)	(28,168)
Debt financing liabilities (note 2g)	(23,477)	(19,873)	(17,351)
Derivative liabilities (note 2f)	(1,262)	(1,401)	(2,433)
Other	(802)	(223)	(146)
Total investment liabilities	(75,206)	(60,423)	(64,198)
Amounts receivable from pending trades	1,942	3,234	3,680
Amounts payable from pending trades	(1,571)	(3,631)	(3,831)
Net investments	\$ 337,164	\$ 316,880	\$ 298,158

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.

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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 February 8, 2018.

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.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2017

(Unaudited)

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 and nine-month periods ended December 31, 2017

(Unaudited)

3. Derivative instruments

The fair value of derivative contracts was as follows:

Fair value of derivative contracts

(CAD millions)	As at December 31, 2017		As at March 31, 2017		As at December 31, 2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Equity contracts						
Futures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Swaps	1,156	(576)	923	(717)	1,025	(787)
Options:						
Exchange-traded – purchased	-	-	-	-	-	-
Exchange-traded – written	-	-	-	-	-	-
Over-the-counter – purchased	-	-	-	-	-	-
Over-the-counter – written	-	(9)	-	-	-	-
Warrants	1	-	1	-	-	-
Total equity contracts	1,157	(585)	924	(717)	1,025	(787)
Foreign exchange contracts						
Forwards	575	(283)	357	(286)	257	(558)
Options:						
Over-the-counter – purchased	-	-	-	-	4	-
Over-the-counter – written	-	(2)	-	-	-	(4)
Total foreign exchange contracts	575	(285)	357	(286)	261	(562)
Interest rate contracts						
Futures	-	-	-	-	-	-
Forwards	-	-	-	-	-	-
Swaps	47	(161)	148	(117)	320	(384)
Total interest rate contracts	47	(161)	148	(117)	320	(384)
Credit contracts						
Purchased credit default swaps	2	(198)	4	(277)	15	(689)
Written credit default swaps	207	(2)	285	(4)	680	(10)
Options:						
Over-the-counter – purchased	-	-	-	-	4	-
Over-the-counter – written	-	-	-	-	-	(1)
Total credit contracts	209	(200)	289	(281)	699	(700)
Commodity contracts						
Futures	-	-	-	-	-	-
Options:						
Exchange-traded – purchased	15	-	-	-	-	-
Exchange-traded – written	-	(31)	-	-	-	-
Total commodity contracts	15	(31)	-	-	-	-
Total	\$ 2,003	\$ (1,262)	\$ 1,718	\$ (1,401)	\$ 2,305	\$ (2,433)

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 and nine-month periods ended December 31, 2017

(Unaudited)

Fair value hierarchy

<i>(CAD millions)</i>	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Investments				
Equities				
Canada				
Public equities	\$ 6,743	\$ -	\$ -	\$ 6,743
Private equities	-	-	3,766	3,766
	6,743	-	3,766	10,509
Foreign developed markets				
Public equities ¹	105,420	6,897	75	112,392
Private equities	-	1,155	58,057	59,212
	105,420	8,052	58,132	171,604
Emerging markets				
Public equities ¹	20,769	1,740	159	22,668
Private equities	-	-	8,385	8,385
	20,769	1,740	8,544	31,053
Total equities	132,932	9,792	70,442	213,166
Fixed income				
Bonds	33,592	26,778	-	60,370
Other debt	-	4,306	15,775	20,081
Money market securities	-	10,826	-	10,826
Total fixed income	33,592	41,910	15,775	91,277
Absolute return strategies¹	-	17,492	1,337	18,829
Real assets				
Real estate	-	-	41,351	41,351
Infrastructure	-	-	27,647	27,647
Total real assets	-	-	68,998	68,998
Investment receivables				
Securities purchased under reverse repurchase agreements	-	15,562	-	15,562
Accrued interest	-	1,738	-	1,738
Derivative receivables	15	1,987	1	2,003
Other	-	426	-	426
Total investment receivables	15	19,713	1	19,729
Total investments	\$ 166,539	\$ 88,907	\$ 156,553	\$ 411,999
Investment liabilities				
Securities sold under repurchase agreements	-	(32,030)	-	(32,030)
Securities sold short	(17,635)	-	-	(17,635)
Debt financing liabilities	(12,708)	(10,769)	-	(23,477)
Derivative liabilities	(31)	(1,231)	-	(1,262)
Other	-	(802)	-	(802)
Total investment liabilities	(30,374)	(44,832)	-	(75,206)
Amounts receivable from pending trades	-	1,942	-	1,942
Amounts payable from pending trades	-	(1,571)	-	(1,571)
Net investments	\$ 136,165	\$ 44,446	\$ 156,553	\$ 337,164

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2017

(Unaudited)

<i>(CAD millions)</i>	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 and nine-month periods ended December 31, 2017

(Unaudited)

<i>(CAD millions)</i>	As at December 31, 2016 ²			
	Level 1	Level 2	Level 3	Total
Investments				
Equities				
Canada				
Public equities	\$ 4,797	\$ -	\$ -	\$ 4,797
Private equities	-	-	3,845	3,845
	4,797	-	3,845	8,642
Foreign developed markets				
Public equities ¹	73,519	7,436	73	81,028
Private equities	-	1,223	51,394	52,617
	73,519	8,659	51,467	133,645
Emerging markets				
Public equities ¹	13,799	1,482	179	15,460
Private equities	-	-	5,370	5,370
	13,799	1,482	5,549	20,830
Total equities	92,115	10,141	60,861	163,117
Fixed income				
Bonds	33,713	26,566	-	60,279
Other debt ³	-	4,596	21,735	26,331
Money market securities	-	16,933	-	16,933
Total fixed income	33,713	48,095	21,735	103,543
Absolute return strategies¹	-	17,620	1,498	19,118
Real assets				
Real estate	-	-	36,432	36,432
Infrastructure	-	-	26,791	26,791
Total real assets	-	-	63,223	63,223
Investment receivables				
Securities purchased under reverse repurchase agreements	-	9,591	-	9,591
Accrued interest	-	1,443	-	1,443
Derivative receivables	-	2,305	-	2,305
Other	-	167	-	167
Total investment receivables	-	13,506	-	13,506
Total investments	\$ 125,828	\$ 89,362	\$ 147,317	\$ 362,507
Investment liabilities				
Securities sold under repurchase agreements	-	(16,100)	-	(16,100)
Securities sold short	(28,168)	-	-	(28,168)
Debt financing liabilities	(6,093)	(11,258)	-	(17,351)
Derivative liabilities	-	(2,433)	-	(2,433)
Other	-	(146)	-	(146)
Total investment liabilities	(34,261)	(29,937)	-	(64,198)
Amounts receivable from pending trades	-	3,680	-	3,680
Amounts payable from pending trades	-	(3,831)	-	(3,831)
Net investments	\$ 91,567	\$ 59,274	\$ 147,317	\$ 298,158

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 December 31, 2016.

Canada Pension Plan Investment Board

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(Unaudited)

a) Transfers between Level 1 and Level 2

During the nine-month period ended December 31, 2017, there were \$142 million of transfers from Level 1 to Level 2 (December 31, 2016 - \$2 million) and \$16 million of transfers from Level 2 to Level 1 (December 31, 2016 - \$139 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 have occurred 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:

Reconciliation of changes in fair value for Level 3 investments

For the nine-month period ended December 31, 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 December 31, 2017	Change in unrealized gains (losses) on investments still held at December 31, 2017 ^{1,4}		
Investments										
Equities										
Canada										
Private equities	\$ 4,030	\$ (146)	\$ 232	\$ (350)	\$ -	\$ -	\$ 3,766	\$ (294)		
	4,030	(146)	232	(350)	-	-	3,766	(294)		
Foreign developed markets										
Public Equities	76	1	-	(2)	-	-	75	1		
Private equities	53,766	3,014	12,294	(9,893)	-	(1,124)	58,057	106		
	53,842	3,015	12,294	(9,895)	-	(1,124)	58,132	107		
Emerging markets										
Public equities	153	10	19	(24)	1	-	159	8		
Private equities	5,781	542	2,833	(823)	58	(6)	8,385	111		
	5,934	552	2,852	(847)	59	(6)	8,544	119		
Total equities	63,806	3,421	15,378	(11,092)	59	(1,130)	70,442	(68)		
Fixed income										
Other debt ⁵	15,728	(416)	6,515	(6,052)	-	-	15,775	(589)		
Total fixed income	15,728	(416)	6,515	(6,052)	-	-	15,775	(589)		
Absolute return strategies										
	1,536	(26)	15	(188)	-	-	1,337	(155)		
Real assets										
Real estate	38,732	(271)	3,817	(927)	-	-	41,351	(263)		
Infrastructure	27,899	440	104	(796)	-	-	27,647	735		
Total real assets	66,631	169	3,921	(1,723)	-	-	68,998	472		
Investment receivables										
Derivative receivables	1	-	-	-	-	-	1	-		
Total investment receivables	1	-	-	-	-	-	1	-		
Total	\$ 147,702	\$ 3,148	\$ 25,829	\$ (19,055)	\$ 59	\$ (1,130)	\$ 156,553	\$ (340)		

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(Unaudited)

For the nine-month period ended December 31, 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 December 31, 2016	Change in unrealized gains (losses) on investments still held at December 31, 2016 ⁴
Investments								
Equities								
Canada								
Private equities	\$ 2,687	\$ 134	\$ 1,180	\$ (86)	\$ 164	\$ (234)	\$ 3,845	\$ 100
	2,687	134	1,180	(86)	164	(234)	3,845	100
Foreign developed markets								
Public equities	-	(8)	98	(17)	-	-	73	(8)
Private equities	49,019	4,133	8,800	(8,182)	79	(2,455)	51,394	839
	49,019	4,125	8,898	(8,199)	79	(2,455)	51,467	831
Emerging markets								
Public equities	170	19	170	(180)	-	-	179	18
Private equities	5,341	630	966	(798)	5	(774)	5,370	288
	5,511	649	1,136	(978)	5	(774)	5,549	306
Total equities	57,217	4,908	11,214	(9,263)	248	(3,463)	60,861	1,237
Fixed income								
Other debt ⁶	21,827	1,714	6,967	(8,399)	-	(374)	21,735	1,066
Total fixed income	21,827	1,714	6,967	(8,399)	-	(374)	21,735	1,066
Absolute return strategies								
	1,314	184	-	-	-	-	1,498	184
Real assets								
Real estate	35,857	1,196	3,058	(3,679)	-	-	36,432	122
Infrastructure	20,373	(560)	4,528	(276)	2,726	-	26,791	(119)
Total real assets	56,230	636	7,586	(3,955)	2,726	-	63,223	3
Investment receivables								
Derivative receivables	2	(2)	-	-	-	-	-	-
Total investment receivables	2	(2)	-	-	-	-	-	-
Total	\$ 136,590	\$ 7,440	\$ 25,767	\$ (21,617)	\$ 2,974	\$ (3,837)	\$ 147,317	\$ 2,490

¹ Included in Investment income.

² Includes return of capital.

³ Transfers into and out of Level 3 are deemed to have occurred 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 nine-month periods ended December 31, 2017 and December 31, 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.

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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 December 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	\$ 234	Net asset value provided by Investment Manager	-	-	-
Private equities					
Direct ^{1,2}	22,707	Earnings multiples of comparable companies	EBITDA multiple	8.6X-17.0X	12.3X
	3,571	Discounted cash flow	Discount rate	10.0%-12.9%	12.2%
	5,374	Value provided by Investment Manager	-	-	-
Fund investments ²	38,556	Net asset value provided by Investment Manager	-	-	-
Other debt					
Direct private debt ¹	10,095	Discounted cash flow	Discount rate	5.5%-25.4%	11.2%
Direct private real estate debt	3,511	Discounted cash flow	Discount rate	4.7%-9.0%	6.6%
Asset-backed securities ²	3	Valuation model by third-party pricing vendor	-	-	-
Fund investments ²	2,166	Net asset value provided by Investment Manager	-	-	-
Absolute return strategies					
Fund investments ²	1,337	Net asset value provided by Investment Manager	-	-	-
Real estate					
Direct ^{1,2}	22,323	Discounted cash flow	Discount rate	5.0%-15.0%	6.4%
	15,696	Net asset value provided by Investment Manager	Terminal capitalization rate	3.5%-9.5%	5.2%
	3,332	Net asset value provided by Investment Manager	-	-	-
Fund investments ²	3,332	Net asset value provided by Investment Manager	-	-	-
Infrastructure					
Direct ¹	27,600	Discounted cash flow	Discount rate	7.4%-12.2%	9.6%
Fund investments ²	47	Net asset value provided by Investment Manager	-	-	-
Derivative receivables					
Warrants	1	Option model	Market volatility	30.0%	30.0%
Total	\$ 156,553				

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(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}	22,114	Earnings multiples of comparable companies	EBITDA multiple	8.0X-15.4X	11.2X
	2,783	Discounted cash flow	Discount rate	12.0%	12.0%
	3,824	Value provided by Investment Manager	-	-	-
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

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(Unaudited)

As at December 31, 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	\$ 252	Net asset value provided by Investment Manager	-	-	-
Private equities					
Direct ^{1,2}	21,318	Earnings multiples of comparable companies	EBITDA multiple	6.8X-14.0X	11.0X
	2,210	Discounted cash flow	Discount rate	9.5%-14.0%	9.6%
	3,590	Value provided by Investment Manager	-	-	-
Fund investments ²	33,491	Net asset value provided by Investment Manager	-	-	-
Other debt					
Direct private debt ¹	9,685	Discounted cash flow	Discount rate	5.1%-26.1%	11.4%
Direct private real estate debt ⁴	3,889	Discounted cash flow	Discount rate	4.7%-9.6%	7.2%
Asset-backed securities ²	5,815	Valuation model by third-party pricing vendor	-	-	-
Fund investments ^{2,4}	2,346	Net asset value provided by Investment Manager	-	-	-
Absolute return strategies					
Fund investments ²	1,498	Net asset value provided by Investment Manager	-	-	-
Real estate					
Direct ^{1,2}	22,990	Discounted cash flow	Discount rate	3.3%-14.3%	6.3%
			Terminal capitalization rate	3.5%-14.6%	5.2%
	10,054	Net asset value provided by Investment Manager	-	-	-
Fund investments ²	3,388	Net asset value provided by Investment Manager	-	-	-
Infrastructure					
Direct ¹	26,758	Discounted cash flow	Discount rate	7.5%-15.8%	10.1%
Fund investments ²	33	Net asset value provided by Investment Manager	-	-	-
Derivative receivables					
Warrants	-	Option model	Market volatility	30.0%	30.0%
Total	\$ 147,317				

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 \$4,200 million (March 31, 2017 - \$3,400 million, December 31, 2016 - \$2,700 million) or increase of \$6,300 million (March 31, 2017 - \$3,800 million, December 31, 2016 - \$3,100 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 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 (AROR) are included within the Risk Policy, 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 and percentage terms, in the CPP Investment Portfolio daily and reports risk exposures to the Board of Directors on at least a quarterly basis. Risk targeting for the Investment Portfolio, and compliance with the Upper/Lower Risk Limits and AROR is assessed using an equity/debt risk equivalence ratio. Financial risk management, as well as the latest broader 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

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total fund level, based on risk limits established in the risk policies. In addition, derivatives are used, where appropriate, to manage certain risk exposures.

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, 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 would result in a loss/profit of \$1,200 million (March 31, 2017 - \$1,000 million, December 31, 2016 - \$900 million) on public equity investments. This calculation assumes that equities other than the S&P 500 Index would move in accordance with their historical behaviour conditional on a 1% decrease/increase in the S&P 500 Index.

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 December 31, 2017			As at March 31, 2017			As at December 31, 2016		
	Currency	Net exposure	% of total	Net exposure	% of total	Net exposure	% of total		
United States dollar	\$ 144,476	43 %	\$ 122,750	39 %	\$ 118,811	40 %			
Euro	36,055	11	34,003	11	31,955	11			
Japanese yen	19,445	6	20,788	7	23,944	8			
British pound sterling	18,918	5	18,839	6	17,019	6			
Australian dollar	10,370	3	10,790	3	9,190	3			
Hong Kong dollar	6,279	2	4,423	1	3,461	1			
Chinese yuan	5,904	2	3,434	1	3,119	1			
Swiss franc	4,579	1	4,381	1	3,419	1			
Indian rupee	4,387	1	3,586	1	2,386	1			
South Korean won	3,587	1	2,857	1	2,250	1			
Chilean peso	2,492	1	2,387	1	2,283	1			
Brazilian real	2,292	1	3,425	1	3,321	1			
Other	11,557	3	8,424	3	6,933	2			
Total foreign exposure	270,341	80	240,087	76	228,091	77			
Canadian dollar	66,823	20	76,793	24	70,067	23			
Total	\$ 337,164	100 %	\$ 316,880	100 %	\$ 298,158	100 %			

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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 December 31, 2017		As at March 31, 2017		As at December 31, 2016	
Currency	Decrease/Increase in Net Assets		Decrease/Increase in Net Assets		Decrease/Increase in Net Assets	
United States dollar	\$	1,445	\$	1,228	\$	1,188
Euro		361		340		320
Japanese yen		194		208		239
British pound sterling		189		188		170
Other		514		437		364
Total	\$	2,703	\$	2,401	\$	2,281

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 risk free 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 December 31, 2017		As at March 31, 2017		As at December 31, 2016	
Maturity	Decrease/Increase in Net Assets		Decrease/Increase in Net Assets		Decrease/Increase in Net Assets	
Within 1 year	\$	-	\$	1	\$	-
1 to 5 years		10		8		11
6 to 10 years		9		12		11
Over 10 years		37		31		27
Total	\$	56	\$	52	\$	49

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 51% (March 31, 2017 – 56%, December 31, 2016 – 64%) in Canada and 49% (March 31, 2017 – 43%, December 31, 2016 – 37%) in the United States, and minor exposures to Europe, United Kingdom and Japan in both years.

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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 December 31, 2017, 84% (March 31, 2017 – 84%, December 31, 2016 – 87%) of credit spread risk was 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 \$31 million (March 31, 2017 – \$33 million, December 31, 2016 - \$35 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 primarily through its investment in debt securities and over-the-counter derivatives. The carrying amounts of these investments as presented in the Condensed Interim 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 was as follows:

Credit risk exposures

Credit rating	As at December 31, 2017						As at March 31, 2017		As at December 31, 2016		
	Bonds ¹	Money market securities ¹	Reverse repurchase agreements ¹	Over-the-counter derivatives	Other ^{1,2}	Total	% of total	Total	% of total	Total	% of total
AAA	\$ 10,810	\$ 20	\$ -	\$ -	\$ -	\$ 10,830	11 %	\$ 13,156	14 %	\$ 16,573	16 %
AA	25,521	4,005	1,354	46	-	30,926	32	36,791	37	33,009	31
A	23,094	3,773	7,497	1,346	453	36,163	37	33,831	35	34,074	32
BBB	1,130	-	6,717	597	1,357	9,801	10	3,826	4	9,766	10
BB	219	-	-	-	3,008	3,227	3	3,047	3	3,513	3
B	-	-	-	-	5,366	5,366	6	5,718	6	6,495	6
CCC/D	-	-	-	-	741	741	1	1,061	1	2,006	2
Total	\$ 60,774	\$ 7,798	\$ 15,568	\$ 1,989	\$ 10,925	\$ 97,054	100 %	\$ 97,430	100 %	\$ 105,436	100 %

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.

Credit Risk for the CPP Investment portfolio is estimated using a Monte Carlo simulation that incorporates likelihood of default, credit rating migration and recovery in the event of default for underlying credit instruments. The primary risk measure used to monitor credit risk at the total portfolio level is Value at Risk (VaR) over a one year period at a 99% level of confidence. As at December 31, 2017, Credit VaR was \$3.7 billion (March 31, 2017 - \$4.0 billion, December 31, 2016 - \$4.3 billion) which implies there is a 1% chance that the CPPIB portfolio of credit instruments will lose more than this amount in any given year due to default and credit migration risk.

c) Absolute risk

CPP Investment Board adopted a new risk model to estimate Absolute Risk within the CPP Investment Portfolio to better align with its long term investment mandate. The revised methodology was adopted for the second quarter of fiscal year 2018 as the main risk governance model. Notable changes included a longer historical period for calibration of model inputs, a longer future horizon over which risk is assessed, and a more conservative total portfolio risk measure used for governance.

CPP Investment Board uses a simulation methodology to derive a distribution of potential portfolio outcomes at a future point in time. These distributions are used to estimate a variety of risk measures to monitor the absolute risk of the CPP Investment Portfolio across various time periods. The primary risk governance measure within the Risk/Return Accountability Framework is expressed using an Equity/Debt risk equivalency Ratio (EDR). It is the proportion of equity versus debt in a simple two-asset-portfolio (Global Equity and Canadian Government Bonds) that would give the same measured absolute risk as that of the CPP Investment Portfolio. Absolute Risk for this purpose is defined as the Conditional Value at Risk (CVaR), after inflation, at the 90th percentile expressed over a five-year horizon and encompasses both market and credit risks.

The Absolute Risk measure, CVaR, is based on the average of the worst ten percent outcomes in the simulated return distribution over a five-year period. It captures the impact of extreme market events that would lead to large losses within the CPP Investment Portfolio.

The methodology employed to calculate CVaR assumes that historical market data is a sound basis for estimating potential future losses but it allows for the incorporation of forward-looking return expectations. If future market conditions and interrelationships of equity markets, 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. To ensure a variety of business cycles and market conditions are captured within the risk model, a long historical data period (1971-current) is used in simulating the distribution of potential outcomes. The CVaR measure provides an estimate of the average value in this distribution of potential losses that CPP Investment Portfolio could experience. It is not an estimate of the worst-case scenario.

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(Unaudited)

As at December 31, 2017 the CVaR of the CPP Investment Portfolio was \$68.8 billion (March 31, 2017 - \$64.6 billion, December 31, 2016 - \$35.6 billion) with an associated EDR of 87% (March 31, 2017- 83%, December 31, 2016 – 79%). Note that the CVaR measure necessitates an estimate of mean expected returns on the CPP Investment Portfolio over the upcoming five years. The above CVaR estimate is strongly influenced by equity returns realized throughout the historical data period used within the risk model. As forward-looking expectations are further considered within the modeling process the CVaR value may move materially as the mean return estimates change through time. Changes in EDR will also occur, but likely smaller in magnitude.

Stress testing

To complement the suite of risk measures used to monitor CPP Investment Portfolio risk, CPP Investment Board further 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 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 maintained \$5.9 billion (March 31, 2017 - \$6.2 billion, December 31, 2016 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. There were no credit facilities drawn as at December 31, 2017 (March 31, 2017 - \$nil, December 31, 2016 - \$nil).

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

Canada Pension Plan Investment Board

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e) Terms to maturity

The tables below present the contractual maturities of investments and investment liabilities:

Investments

(CAD millions)	Terms to maturity											
	As at December 31, 2017					As at March 31, 2017						As at December 31, 2016
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total ¹	Average effective yield	Total ¹	Average effective yield	Total ¹	Average effective yield	Total ¹	Average effective yield
Non-marketable bonds												
Canadian provincial government	\$ 98	\$ 5,792	\$ 5,537	\$ 12,389	\$ 23,816	2.8 %	\$ 23,887	2.9 %	\$ 23,823	2.9 %		
Marketable bonds												
Government of Canada	-	2,366	1,290	931	4,587	2.1	5,872	1.6	5,292	1.6		
Canadian provincial government	-	1,275	1,502	2,842	5,619	2.8	6,856	2.8	6,200	2.8		
Canadian government corporations	-	789	487	393	1,669	2.6	1,543	2.4	1,834	2.7		
Foreign government	15	15,895	3,577	3,146	22,633	2.6	22,718	2.3	20,387	2.4		
Corporate bonds	52	975	587	432	2,046	3.1	364	2.6	2,743	1.2		
Other debt												
Private debt ²	39	4,375	2,860	735	8,009	9.6	8,214	9.7	8,786	9.7		
Private real estate debt ²	245	1,928	996	342	3,511	6.6	3,937	7.2	3,889	7.0		
Asset-backed securities	-	3	-	3	6	4.3	10	4.4	5,815	1.8		
Securities purchased under reverse repurchase agreements	13,712	1,850	-	-	15,562	3.8	5,207	0.6	9,591	0.3		
Total	\$ 14,161	\$ 35,248	\$ 16,836	\$ 21,213	\$ 87,458	3.2 %	\$ 78,608	3.1 %	88,360	3.0 %		

¹ Represents fair value.

² Represents direct investments.

Investment liabilities

(CAD millions)	Terms to maturity												
	As at December 31, 2017					As at March 31, 2017					As at December 31, 2016		
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total ¹	Fair value	Weighted average interest rate	Total ¹	Fair value	Weighted average interest rate	Total ¹	Fair value	Weighted average interest rate
Securities sold under repurchase agreements	\$ 32,030	\$ -	\$ -	\$ -	\$ 32,030	\$ 32,030	1.8 %	\$ 14,753	\$ 14,749	0.8 %	\$ 16,115	\$ 16,100	0.7 %
Securities sold short^{2,3}	17,635	-	-	-	17,635	17,635	n/a	24,177	24,177	n/a	28,168	28,168	n/a
Debt financing liabilities													
Commercial paper payable	10,784	-	-	-	10,784	10,769	1.5	11,120	11,101	0.9	11,272	11,258	0.9
Term debt	-	8,495	4,262	-	12,757	12,708	1.6	8,783	8,772	1.8	6,121	6,093	1.5
Total	\$ 60,449	\$ 8,495	\$ 4,262	\$ -	\$ 73,206	\$ 73,142	n/a %	\$ 58,833	\$ 58,799	n/a %	\$ 61,676	\$ 61,619	n/a %

¹ Represents contractual amounts.

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.

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

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(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 December 31, 2017							
<i>(CAD millions)</i>		Investment income (loss) ¹		Investment management fees ²		Transaction costs	Net investment income (loss)
Equities	\$	8,921	\$	(199)	\$	(25)	\$ 8,697
Fixed Income		3,179		(196)		(38)	2,945
Real assets		1,939		(29)		(31)	1,879
Debt financing liabilities		(119)		-		-	(119)
Total	\$	13,920	\$	(424)	\$	(94)	\$ 13,402

For the three-month period ended December 31, 2016 ⁴							
<i>(CAD millions)</i>		Investment income (loss) ¹		Investment management fees ²		Transaction costs	Net investment income (loss)
Equities	\$	5,300	\$	(129)	\$	9	\$ 5,180
Fixed income		(2,924)		(173)		(37)	(3,134)
Real assets		123		(43)		(39)	41
Debt financing liabilities		(210)		-		-	(210)
Total	\$	2,289	\$	(345)	\$	(67)	\$ 1,877

For the nine-month period ended December 31, 2017							
<i>(CAD millions)</i>		Investment income ¹		Investment management fees ³		Transaction costs	Net investment income
Equities	\$	16,630	\$	(527)	\$	(102)	\$ 16,001
Fixed Income		4,322		(610)		(103)	3,609
Real assets		1,901		(92)		(62)	1,747
Debt financing liabilities		593		-		-	593
Total	\$	23,446	\$	(1,229)	\$	(267)	\$ 21,950

For the nine-month period ended December 31, 2016 ⁴							
<i>(CAD millions)</i>		Investment income (loss) ¹		Investment management fees ³		Transaction costs	Net investment income (loss)
Equities	\$	17,573	\$	(392)	\$	(89)	\$ 17,092
Fixed income		1,829		(448)		(112)	1,269
Real assets		2,370		(115)		(103)	2,152
Debt financing liabilities		(440)		-		(6)	(446)
Total	\$	21,332	\$	(955)	\$	(310)	\$ 20,067

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 \$165 million (December 31, 2016 - \$110 million).

³ Includes performance fees of \$462 million (December 31, 2016 - \$260 million).

⁴ Certain comparative figures have been updated to be consistent with current period presentation.

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For the three and nine-month periods ended December 31, 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 was as follows:

Collateral held and pledged

<i>(CAD millions)</i>	As at December 31, 2017	As at March 31, 2017	As at December 31, 2016
Third-party assets held as collateral on:			
Reverse repurchase agreements ¹	\$ 15,614	\$ 5,196	\$ 9,600
Over-the-counter derivative transactions ¹	642	493	186
Other debt ¹	761	726	947
Own and third-party assets pledged as collateral on:			
Repurchase agreements	(32,139)	(14,785)	(16,142)
Securities sold short ²	(17,812)	(30,603)	(33,393)
Over-the-counter derivative transactions	(203)	-	(354)
Private equities	(5,203)	(5,291)	(5,222)
Other debt	(4,126)	(3,957)	(3,945)
Total	\$ (42,466)	\$ (48,221)	\$ (48,323)

¹ The fair value of the collateral held that may be sold or repledged as at December 31, 2017 was \$16,402 million (March 31, 2017 - \$6,192 million, December 31, 2016 - \$10,587 million). The fair value of collateral sold or repledged as at December 31, 2017 was \$9,642 million (March 31, 2017 - \$2,677 million, December 31, 2016 - \$4,681 million).

² Comparative figures have been updated to be consistent with current period presentation.

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 December 31, 2017, the unfunded commitments totalled \$41.2 billion (March 31, 2017 - \$38.9 billion, December 31, 2016 - \$39.1 billion).

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 December 31, 2017	As at March 31, 2017	As at December 31, 2016
Within one year	\$ 35	\$ 37	\$ 36
After one year but not more than five years	112	123	125
More than five years	29	46	51
Total	\$ 176	\$ 206	\$ 212

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 December 31, 2017, up to \$2.6 billion (March 31, 2017 - \$3.1 billion, December 31, 2016 - \$3.0 billion) to other counterparties in the event certain investee entities default under the terms of loan and other related agreements.