



CPP
INVESTMENT
BOARD

**TERMS OF REFERENCE FOR THE HUMAN
RESOURCES AND COMPENSATION
COMMITTEE**

October 1, 2009

**TERMS OF REFERENCE FOR THE
HUMAN RESOURCES AND COMPENSATION COMMITTEE**

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1.0 INTRODUCTION

The objects and powers of the CPP Investment Board are outlined in the **Act**. The **Act** articulates certain responsibilities for the Board. The **Terms of Reference for the Board** clarify the Board's responsibilities, and the **Guidelines for the Board** elaborate upon the **Terms of Reference for the Board**.

The **Act** permits the Board to establish such committees as it deems necessary, and to assign to them such duties as it considers appropriate. The Board has established the Human Resources and Compensation Committee ("HRCC") in accordance with its authority to do so under the **Act**.

These terms of reference are designed to articulate and clarify the responsibilities of the HRCC.

The Board has adopted **Guidelines for Board Committees** which provide elaboration upon each Board Committee's terms of reference.

2.0 PURPOSE

The primary purposes of the HRCC are (a) to ensure that the CPP Investment Board's compensation and human resources programs and practices enable it to attract, retain, and fully develop the talented executives and employees it needs to succeed, and specifically to oversee the management development and human resources policies required to ensure the health and sustainability of the organization, and (b) to ensure the alignment of management and stakeholder interests through the design and oversight of a performance-driven executive compensation framework.

Key HRCC responsibilities include:

- (a) Reviewing and recommending the level and make-up of compensation for the President and other Officers, as well as the aggregate level of incentive compensation for non-Officer employees.
- (b) Establishing and overseeing processes for evaluating the performance of the President and reviewing the President's assessment of the performance of his or her senior vice-presidents (collectively the "Officers").
- (c) Reviewing and recommending compensation policies, plans, and practices, as well as recommending or approving the value-added performance benchmarks applicable to incentive-based compensation of employees, Officers, and the President.
- (d) Overseeing management's programs for recruitment, retention, and development (including performance management) of Officers and non-Officer employees.

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- (e) Requiring that the Board annually review the President's succession plans for Officers, and reviewing and recommending the appointment of Officers.
- (f) Overseeing the disclosure of Directors' and Officers' compensation in the CPP Investment Board's annual report.
- (g) Overseeing employee benefits, employee pension plans and human resources policies.

3.0 COMMITTEE MEMBERSHIP

The HRCC shall be composed of not fewer than four Directors.

All members of the HRCC shall be independent of management as defined by Canadian regulatory standards, and no more than one-third of the members shall be sitting CEOs. All members of the Committee shall have an understanding of issues related to human resources and executive compensation, or, upon appointment to the Committee, be willing and able to rapidly develop such an understanding.

The Chair of the Board, in consultation with the Governance Committee, shall propose the Chair and membership of the HRCC, and these shall be appointed by the Board. Any Director who is a member of the HRCC may be removed and replaced at any time by the Board.

4.0 COMMITTEE MEETINGS

The HRCC shall meet at least three times a year, with additional meetings at the discretion of the Committee Chair or if called by two or more Committee members. Non-discretionary meetings will be scheduled each year in advance.

A quorum for the transaction of business at a meeting of the HRCC will be a majority of Directors appointed to the HRCC, and questions arising at a meeting will be determined by a majority of votes of the members present. *In camera* sessions will be held at the end of each Committee meeting.

In consultation with the President, the Committee may invite any Officer or employee of the CPP Investment Board to attend HRCC meetings in order to assist in the discussion and examination of the matters under consideration by the Committee. The Committee may also invite external advisors to attend HRCC meetings for the same purpose.

5.0 COMMITTEE ADVISORS

Subject to the approval of the Chair of the Board, and at the CPP Investment Board's expense, the HRCC may retain compensation consultants and/or other advisors (e.g. legal, tax, actuarial) to provide advice regarding compensation and other human resources matters.

The compensation consultant(s) retained by the HRCC shall be independent of management. Any services provided by the consultant(s) other than in its role as

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advisor to the committee will require pre-approval by the committee, outlining the scope of work and related fees. The committee shall not approve any such work that, in its view, could compromise the consultant(s)'s independence as an advisor to the committee.

6.0 DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, and to the requirements of the **Act**, the HRCC will perform the following duties:

6.1 Support the Board with respect to appointment of the President

In support of the Board's search committee, develop a compensation framework for the role of President, including term sheet(s) if required. As appropriate, provide compensation-related advice to the search committee throughout the negotiating process, and review and advise on offers and counter-offers.

6.2 Evaluation of the President

- (a) Work with the Chairperson, the President and the Corporate Secretary in developing an annual **Performance Evaluation Process for the President** for Board approval;
- (b) Develop and recommend any director questionnaires or other President evaluation tools for use in implementing the **Performance Evaluation Process for the President** each fiscal year.
- (c) Require that a performance evaluation process for the President is completed by the Board annually, the results from which will be used as input into the development of recommendations regarding the President's compensation.
- (d) Annually review and recommend to the Board for approval appropriate performance targets and other goals to be used for determining the President's compensation.
- (e) Annually review with the President any significant outside commitments of the President. This includes commitments to act as a director or trustee of for-profit and not-for-profit organizations.

6.3 Compensation of the President

Annually review and recommend to the Board:

- (a) the proposed salary adjustment and incentive compensation awards for the President, taking into consideration the results of the CPP Investment Board and the performance evaluation of the President;
- (b) the granting of perquisites to the President; and

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- (c) severance arrangements for the President, as needed.

6.4 Compensation of other Officers

Annually review and recommend to the Board:

- (a) any changes to the compensation ranges and incentive compensation plans for Officers;
- (b) proposed salary adjustments and incentive compensation awards for Officers; and
- (c) severance arrangements for Officers, as needed.

6.5 Compensation of non-Officer employees

Annually review and recommend to the Board the aggregate level of incentive compensation for non-Officer employees.

6.6 Compensation framework

- (a) Recommend to the Board any changes to the compensation framework for the CPP Investment Board relating to Officers and the President, including compensation principles and objectives, pay-for-performance linkages, comparator groups, and competitive positioning.
- (b) Review annual benchmarking of compensation structures and levels for Officers and the President. Benchmarking may be conducted at whatever level of detail the HRCC believes is warranted for the year in question.
- (c) With regard to value-added investment performance benchmarks applicable to incentive-based compensation of employees, Officers, and the President:
 - a. Review and recommend to the Board the benchmark for the Total Portfolio; and
 - b. Review and approve all benchmarks for asset classes below the Total Portfolio level.
- (d) In conjunction with any recommended changes to incentive compensation or at the request of the HRCC, review modeled compensation scenarios that illustrate the impact of various future performance outcomes on compensation.

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6.7 Talent management and development

Annually review management's processes for attracting, retaining, developing, and motivating and tracking the performance of talented Officer and employee contributors to CPPIB's success, in order to ensure the ongoing health and long-term sustainability of the organization. More specifically, review processes that:

- (a) build and strengthen a compelling and valued employee brand for the organization;
- (b) attract talent through programs that seek to recruit not only experienced and skilled candidates from industry, but also high-potential candidates from top universities;
- (c) identify high potential employees early and provide them with career acceleration and other developmental opportunities;
- (d) retain talent through programs that seek to build a strong organizational culture and valued work experiences, and through programs offering competitive compensation;
- (e) develop talent through programs that offer relevant and engaging training and long-range career planning; and
- (f) motivate and track the performance of talent through programs that link pay to performance objectives, and that measure employee performance with best practice methodologies.

6.8 Organizational structure

When warranted, and in consultation with the President, review and recommend to the Board:

- (a) major changes in the organizational structure of management (i.e. the responsibilities and reporting relationships of Officers);
- (b) position descriptions of Officers; and
- (c) appointments, early retirements, and terminations of Officers.

6.9 Management succession

Ensure that the Board annually reviews the President's processes and plans for the executive development and succession of the President and all other Officers, and support the Board in carrying out this task. The intent is to ensure timely and effective continuity of leadership, and to ensure that an adequate number of individuals are being identified and developed to provide choice when Officer or President succession is considered by the Board of Directors.

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6.10 Employee benefits and human resources policies

- (a) Review and recommend material¹ changes to Employee Benefits to the Board.
- (b) Review and recommend material¹ changes to Human Resources Policies.
- (c) Receive reports from management annually as to other changes made to Employee Benefits and Human Resources Policies.

6.11 Employee pension plans

In connection with the Employee Pension Plans:

- (a) approve design changes, unless the change(s) constitutes a material¹ change in the amount or nature of the retirement benefit, in which case the change(s) must be approved by the Board;
- (b) approve changes to their statements of investment, policies and procedures;
- (c) approve changes to the plans' Member Education and Communication Policy;
- (d) approve changes to the plans' Governance Policy; and
- (e) receive the Pension Committees' reports annually and from time to time.

6.12 Disclosure

Oversee the disclosure of Directors' and Officers' compensation and of the CPP Investment Board's compensation framework in the CPP Investment Board's Annual Report, and the disclosure of any other executive compensation information required to be publicly released.

6.13 Committee Terms of Reference review, performance assessment, and education

- (a) Annually review the Committee's Terms of Reference and recommend changes to the Board when warranted.
- (b) Annually review the performance of the HRCC against its Terms of Reference and recommend improvements when warranted.
- (c) Annually review the performance of the compensation and/or other advisors to the HRCC and recommend changes when warranted.

¹ Material for these purposes means any change which produces a change in the relevant costs which exceeds the lower of 10% of current costs and \$200,000 in aggregate, as well as any change which is of strategic importance.

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- (d) Orient new members of the Committee to the Roles and Responsibilities of the HRCC.
- (e) Provide the Governance Committee, on an as required basis, with any changes in terms of the competency requirements for prospective Committee members.
- (f) For the purpose of keeping the knowledge of HRCC members up-to-date, on an annual basis provide members with a market review of executive compensation trends and practices, and, as appropriate, of trends and practices relating to the HRCC’s other areas of oversight.

6.14 Other

Carry out other duties as may be determined from time to time by the Board.

7.0 ACCOUNTABILITY

The Human Resources and Compensation Committee shall report its discussions to the Board by distributing to the Board the minutes of its meetings and, where appropriate, by oral and/or written reports at the next Board meeting.

8.0 COMMITTEE TIMETABLE

The detailed timetable on pages 8 to 11 outlines the Human Resources and Compensation Committee’s planned annual schedule of activities; a summary timetable has been provided below for the reader’s convenience. Additionally, such other meetings will be scheduled throughout the course of the year as are necessary to carry out the HRCC’s responsibilities under these Terms of Reference.

Summary timetable:

	May	Nov	Feb
General Topics			
Compensation			
Organization			
Disclosure			
Committee Terms of Reference review, performance, education			

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Terms of Reference	HUMAN RESOURCES AND COMPENSATION COMMITTEE TIMETABLE	Meeting		
		May	Nov	Feb
		6.1	Support the Board with respect to appointment of the President	
	In support of the Board's search committee, develop a compensation framework for the role of President, including term sheet(s) if required. As appropriate, provide compensation-related advice to the search committee throughout the negotiating process, and review and advise on offers and counter-offers (ad hoc).			
6.2	Evaluation of the President			
(a)	Work with the Chairperson, the President and the Corporate Secretary in developing an annual Performance Evaluation Process for the President for Board approval;			*
(b)	Develop and recommend any director questionnaires or other President evaluation tools for use in implementing the Performance Evaluation Process for the President each fiscal year.			*
(c)	Require that a performance evaluation process for the President is completed by the Board annually, the results from which will be used as input into the development of recommendations regarding the President's compensation.			*
(d)	Annually review and recommend to the Board for approval appropriate performance targets and other goals to be used for determining the President's compensation.	*		
(e)	Annually review with the President any significant outside commitments of the President. This includes commitments to act as a director or trustee of for-profit and not-for-profit organizations.	*		
6.3	Compensation of the President			
	Annually review and recommend to the Board:			
(a)	the proposed salary adjustment and incentive compensation awards for the President, taking into consideration the results of the CPP Investment Board and the performance evaluation of the President;	*		
(b)	the granting of perquisites to the President; and	*		

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Terms of Reference	HUMAN RESOURCES AND COMPENSATION COMMITTEE TIMETABLE	Meeting		
		May	Nov	Feb
		(b)	severance arrangements for the President, as needed.	*
6.4	Compensation of other Officers			
	Annually review and recommend to the Board:			
(a)	any changes to the compensation ranges and incentive compensation plans for Officers;			*
(b)	proposed salary adjustments and incentive compensation awards for Officers; and	*		
(c)	severance arrangements for Officers, as needed.	*		
6.5	Compensation of non-Officer employees			
(a)	Annually review and recommend to the Board the aggregate level of incentive compensation for non-Officer employees.	*		
6.6	Compensation framework			
(a)	Recommend to the Board any changes to the compensation framework for the CPP Investment Board relating to Officers and the President, including compensation principles and objectives, pay-for-performance linkages, comparator groups, and competitive positioning		*	
(b)	Review annual benchmarking of compensation structures and levels for Officers and the President.		*	
(c)	With regard to value-added investment performance benchmarks applicable to incentive-based compensation of employees, Officers, and the President: a. Review and recommend to the Board the benchmark for the Total Portfolio; and b. Review and approve all benchmarks for asset classes below the Total Portfolio level.	*		

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Terms of Reference	HUMAN RESOURCES AND COMPENSATION COMMITTEE TIMETABLE	Meeting		
		May	Nov	Feb
		(d)	In conjunction with any recommended changes to incentive compensation or at the request of the HRCC, review modeled compensation scenarios that illustrate the impact of various future performance outcomes on compensation (ad hoc).	
6.7	Talent management and development			
	Annually review management’s processes for attracting, retaining, developing, and motivating and tracking the performance of talented Officer and employee contributors to CPPIB’s success, in order to ensure the ongoing health and long-term sustainability of the organization.		*	
6.8	Organizational structure			
	When warranted, and in consultation with the President, review and recommend to the Board:			
(a)	major changes in the organizational structure of management (i.e. the responsibilities and reporting relationships of Officers) (ad hoc);			
(b)	position descriptions of Officers (ad hoc); and			
(c)	appointments, early retirements, and terminations of Officers (ad hoc).			
6.9	Management succession			
	Ensure that the Board annually reviews the President’s processes and plans for the executive development and succession of the President and all other Officers, and support the Board in carrying out this task. (To be scheduled for full Board meeting)		*	
6.10	Employee benefits and human resources policies			
(a)	Review and recommend material changes to Employee Benefits to the Board.			*

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Terms of Reference	HUMAN RESOURCES AND COMPENSATION COMMITTEE TIMETABLE	Meeting		
		May	Nov	Feb
		(b)	Review and recommend material changes to Human Resources Policies.	
(c)	Receive reports from management annually as to other changes made to Employee Benefits and Human Resources Policies			*
6.11	Employee pension plans			
	In connection with the Employee Pension Plans:			
(a)	approve design changes, unless the change(s) constitutes a material change in the amount or nature of the retirement benefit, in which case the change(s) must be approved by the Board;			*
(b)	approve changes to their statements of investment, policies and procedures;			*
(c)	approve changes to the plans' Member Education and Communication Policy;			*
(d)	approve changes to the plans' Governance Policy; and			*
(e)	receive the Pension Committee's reports annually and from time to time.			*
6.12	Disclosure			
	Oversee the disclosure of Directors' and Officers' compensation and the CPP Investment Board's compensation framework in the CPP Investment Board's Annual Report, and the disclosure of any other executive compensation information required to be publicly released.	*		
6.13	Committee Terms of Reference review, performance assessment, and education			
(a)	Annually review the Committee's Terms of Reference and recommend changes to the Board when warranted.		*	

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Terms of Reference	HUMAN RESOURCES AND COMPENSATION COMMITTEE TIMETABLE	Meeting		
		May	Nov	Feb
		(b)	Annually review the performance of the HRCC against its Terms of Reference and recommend improvements when warranted.	
(c)	Annually review the performance of the compensation and/or other advisors to the HRCC and recommend changes when warranted.		*	
(d)	Orient new members of the Committee to the Roles and Responsibilities of the HRCC (ad hoc).			
(e)	Provide the Governance Committee, on an as required basis, with any changes in terms of the competency requirements for prospective new Committee members (ad hoc).			
(f)	For the purpose of keeping the knowledge of HRCC members up-to-date, on an annual basis provide members with a market review of executive compensation trends and practices, and, as appropriate, of trends and practices relating to the HRCC's other areas of oversight.		*	