



CPP
INVESTMENT
BOARD

Policy on Responsible Investing

February 5th, 2008

POLICY ON RESPONSIBLE INVESTING

1.0	Our Mandate	1
2.0	Our Principles	1
3.0	Investment Strategy.....	2
4.0	Shareholder Engagement.....	3
5.0	Engagement Process.....	4
5.1	Engagement Focus Areas	4
5.2	Collaborative Engagement	4
5.3	Direct Engagement.....	4
5.4	Industry Dialogue	5
5.5	Exercising Proxy Votes.....	5
6.0	Responsibilities and Reporting.....	5

POLICY ON RESPONSIBLE INVESTING

1.0 Our Mandate

The CPP Investment Board invests the funds not needed by the Canada Pension Plan (the “CPP”) to pay current benefits. The CPP Investment Board was created in December 1997 by an Act of Parliament, the *Canada Pension Plan Investment Board Act*. Its long-term goal is to contribute to the financial strength of the CPP and thereby assist in sustaining the future pensions of 17 million CPP contributors and beneficiaries.

The CPP Investment Board is governed and managed independently of the CPP and at arm’s length from governments. It operates as a professional investment management organization governed by an independent board of qualified directors. The assets of the CPP Investment Board are segregated entirely from government funds. The CPP Investment Board is accountable to Parliament and to the federal and provincial finance ministers who serve as stewards of the CPP. The CPP Investment Board operates in accordance with its legislated mandate 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 its ability to meet its financial obligations on any given business day.

2.0 Our Principles

The CPP Investment Board is a long-term investor consistent with the long-term needs of the CPP. As an owner, we are committed to encouraging companies to adopt policies and practices that enhance long-term corporate financial performance.

We are guided by certain principles as they relate to responsible investing. These include, but are not limited to, the following:

- The overriding duty of the CPP Investment Board, consistent with its mandate, is to maximize investment returns without undue risk of loss;
- Portfolio diversification is an effective way to maximize long-term risk-adjusted returns;
- Portfolio constraints either increase risk or reduce returns over time;
- Responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long-term financial performance, recognizing that the importance of ESG factors varies across industries, geography and time;
- Disclosure is the key that allows investors to better understand, evaluate and assess potential risk and return, including the potential impact of ESG factors on a company’s performance;
- Investment analysis should incorporate ESG factors to the extent that they affect long-term risk and return;

POLICY ON RESPONSIBLE INVESTING

- We accept the division of authority and responsibilities among the three parties that are core to corporate governance – shareholders, directors and managers;
- Employees, customers, suppliers, governments and the community at large have a vested interest in positive corporate conduct and long-term business performance.

Our *Policy on Responsible Investing* sets out how we apply these principles to the management of the CPP Investment Board assets. In doing so, we strive to be both principled and pragmatic, taking into account industry norms, corporate performance, competitive issues, regulatory requirements and other factors necessary to put specific issues into a fair and practical context.

3.0 Investment Strategy

In order to build a diversified portfolio, the CPP Investment Board is investing in a broadly diversified portfolio of publicly traded stocks, private equities, real estate, inflation-linked bonds, infrastructure and fixed income securities.

In his most recent report to Parliament, Canada's Chief Actuary stated that the CPP is sustainable for the 75 years of his reporting period. Income from investments will not be required to help pay CPP benefits until approximately 2020, and thereafter only a portion of that income will be required. The assets of the CPP Investment Board are therefore expected to continue to grow over time.

In the context of this long-term investment horizon, the CPP Investment Board aspires to integrate ESG factors into investment management processes across the portfolio, including all asset classes, where relevant. As stated in our principles above, it is our belief that responsible corporate behaviour with respect to ESG factors can generally have a positive influence on long-term financial performance.

Consistent with the CPP Investment Board's belief that constraints decrease returns and/or increase risk over time, we do not screen stocks. We encourage responsible behaviour in our public equity portfolio through engagement. We believe that engagement is a more effective approach through which shareholders can best effect positive change and enhance long-term financial performance. Moreover, we believe engagement is consistent with our mandate to maximize investment returns without undue risk of loss.

Our engagement strategy is designed to enhance long-term performance of the public equity portfolio which includes approximately 2,600 companies. The public equity portfolio is invested in a broadly diversified group of publicly-traded stocks that tend to replicate major public market indices. On average, we have beneficial ownership of approximately 2% to 3% of shares outstanding of Canadian public companies and approximately 0.1% of international public companies in our

POLICY ON RESPONSIBLE INVESTING

portfolio. Engagement efforts are primarily focused on Canadian equities but include some international holdings.

That said, the CPP Investment Board considers as eligible for investment securities of any issuer all of the businesses of which are lawful and would be lawful if carried on in Canada, and provided the making of such investment is not prohibited by the *Canada Pension Plan Investment Board Act* or the Regulations thereunder or any other applicable laws of Canada.

Finally, in order to enhance our responsible investing strategy, the CPP Investment Board actively supports research into the long-term financial materiality of ESG factors, including the development of better tools for quantifying how these factors affect securities valuation. For example, the CPP Investment Board is a member of the Enhanced Analytics Initiative, an international coalition of investors seeking improved analysis of long-term ESG factors from investment dealers and other research providers.

4.0 Shareholder Engagement

The CPP Investment Board is pursuing its goal of encouraging corporate conduct that enhances long-term financial performance through a policy of engagement. This reflects the current thinking among leaders in the field of responsible investing that active shareholder engagement is preferential to screening stocks, a process by which certain companies or entire industries are precluded from consideration for investment based on non-financial or “social” criteria.

For the CPP Investment Board engagement means, among other things:

- i. Joining coalitions, and endorsing standards and programs, designed to enhance disclosure and improve corporate conduct;
- ii. Voting our proxies in support of our principles;
- iii. Supporting shareholder resolutions that encourage the increased disclosure of company performance on ESG factors that may contribute to or detract from long-term investment returns and risk;
- iv. Supporting the adoption and disclosure of codes of conduct and other ESG guidelines, policies and standards that empower boards of directors on behalf of the shareholders and reaffirm management accountability; and
- v. Where necessary, engaging management and corporate boards, either directly or in concert with like-minded investors, on specific issues.

We believe the CPP Investment Board’s support of enhanced disclosure on ESG factors and good corporate conduct will produce positive long-term change and contribute to long-term corporate financial performance.

POLICY ON RESPONSIBLE INVESTING

5.0 Engagement Process

We have established the following processes to undertake engagement.

5.1 Engagement Focus Areas

Currently, we identify engagement focus areas through a portfolio review which leads to the prioritization of key ESG issues within the CPP Investment Board's public equity portfolio and the total portfolio. ESG issues are prioritized using a risk-based approach, including relative risk and size of holdings.

The choice of focus areas guides collaborative and direct engagement efforts. All engagement activities are selected taking into consideration the cost versus the potential benefit of the engagement process. Successful engagement is defined as improved transparency, lower risk profile and/or improved investment return.

5.2 Collaborative Engagement

Collaborative initiatives with other institutional investors leverage internal resources and are an effective way to encourage improved transparency and performance on ESG factors across the CPP Investment Board's portfolio.

Examples of collaborative engagement initiatives include the following:

- Canadian Coalition for Good Governance
- Extractive Industries Transparency Initiative
- Carbon Disclosure Project

Collaborative engagement efforts are disclosed publicly, as appropriate.

5.3 Direct Engagement

The CPP Investment Board contacts corporate boards or management teams directly to discuss concerns with transparency and/or performance on ESG factors. The CPP Investment Board is committed to transparency on our responsible investing activities, including annual reporting on engagement activities beginning in fall 2008.

Direct engagement, however, is conducted privately because we believe this is more effective than publicly disclosing these activities. The names of companies with which we have engaged, therefore, are not typically disclosed publicly. However, we retain the right to do so if we believe we are not seeing sufficient progress in any given engagement situation.

5.4 Industry Dialogue

The CPP Investment Board participates in broader domestic and international discussion about definitions, priorities, standards and best practices in responsible investing.

The CPP Investment Board participates in a number of forums, including:

- UN Principles of Responsible Investment
- Canadian Coalition for Good Governance
- Pension Investment Association of Canada
- International Corporate Governance Network
- Council of Institutional Investors
- Enhanced Analytics Initiative

5.5 Exercising Proxy Votes

Proxy voting is an important component of our engagement process. Our *Proxy Voting Principles and Guidelines* disclose how the CPP Investment Board is likely to vote on a range of issues (available at www.cppib.ca). The CPP Investment Board has internal staff resources dedicated to monitoring proxy voting issues..

We generally support shareholder proposals that request the reasonable disclosure of information related to ESG factors. We also support, where relevant, proposals requesting the review or adoption of environmental or social policies, such as those addressing human rights. Please refer to the Responsible Investing section in the *Proxy Voting Principles and Guidelines* for more detail.

Where appropriate, the CPP Investment Board will work with other investors to help draft shareholder proposals.

6.0 Responsibilities and Reporting

Responsible investing activities, including proxy voting and engagement, are reported to our Proxy and Engagement Committee quarterly and to the Board of Directors annually.

The Proxy and Engagement Committee, comprised of senior management and chaired by the President and CEO, approves responsible investing strategies and activities.

The CPP Investment Board, except as otherwise noted herein, is committed to public transparency of our responsible investing activities, including timely disclosure of our proxy votes. We currently produce an annual Proxy Voting Report, and annual reporting on engagement activities will begin in fall 2008.

POLICY ON RESPONSIBLE INVESTING

Please refer to the Responsible Investing section of our website for additional information on our responsible investing activities (www.cppib.ca).

The CPP Investment Board welcomes public comment on this policy. Please e-mail your comments to csr@cppib.ca.