



CPP
INVESTMENT
BOARD

Policy on Responsible Investing

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POLICY ON RESPONSIBLE INVESTING

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POLICY ON RESPONSIBLE INVESTING

1.0 Our Mandate

The CPP Investment Board is a professional investment management organization that invests the funds not needed by the Canada Pension Plan (CPP) to pay current benefits on behalf of contributors and beneficiaries. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan and help sustain the pensions of CPP participants by investing CPP assets and maximizing returns without undue risk of loss.

With a mandate from the federal and provincial governments, the CPP Investment Board is accountable to the federal and provincial finance ministers who serve as the stewards of the CPP. The CPP Investment Board is governed by an independent board of qualified directors and managed independently of the Canada Pension Plan and at arm's length from governments. The assets of the CPP Investment Board are segregated entirely from government funds.

For more information on the CPP Investment Board, visit our website at www.cppib.ca.

2.0 Our Principles

The CPP Investment Board is a long-term investor consistent with the long-term nature 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 risk and return;

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- 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 Fund. 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 the context of our long-term investment horizon, the CPP Investment Board aspires to integrate ESG factors into investment management processes, where relevant, for all asset classes within the portfolio. 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.

For public equities, the CPP Investment Board's responsible investing team works with internal portfolio managers to assess ESG risks and opportunities as they relate to overall corporate performance. In our private market and real estate investments, ESG factors are evaluated, where applicable, in the due diligence process and monitored over the life of the investments.

Consistent with the CPP Investment Board's belief that constraints decrease returns and/or increase risk over time, we do not screen stocks or eliminate investments based on ESG factors. The CPP Investment Board considers the securities of any issuer all of whose businesses are lawful, and would be lawful if carried on in Canada, as eligible for investment. We encourage responsible behaviour in our public equity holdings 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.

4.0 Engagement

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.

4.1 Engagement Focus Areas

We identify engagement focus areas through a detailed review of our holdings in order to prioritize key ESG issues using a risk-based approach, including relative risk and size of holdings.

4.2 Direct Engagement

The CPP Investment Board contacts corporate boards or management teams directly to discuss concerns with transparency and/or performance on ESG factors.

Direct engagement is conducted privately because we believe this is more effective. Accordingly, we do not typically disclose the names of companies with which we have engaged. However, we retain the right to do so if we do not see sufficient progress in any given engagement circumstance.

4.3 Collaborative Engagement

Engaging collaboratively with other institutional investors leverages internal resources and is 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 where appropriate.

4.4 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 organizations, including:

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

4.5 Exercising Proxy Votes

Proxy voting is an important component of our engagement process. Our *Proxy Voting Principles and Guidelines* set out how the CPP Investment Board is likely to vote on a range of issues (available at www.cppib.ca).

We generally support shareholder proposals that request the reasonable disclosure of information related to ESG factors. We also support, where

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relevant, proposals requesting the review or adoption of environmental or social policies.

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

5.0 Responsibilities and Reporting

We have formed a Responsible Investing Committee to approve and oversee responsible investing strategies and activities.

The CPP Investment Board is committed to public transparency of our responsible investing activities. We provide timely disclosure of all our proxy votes. We also produce an annual Report on Responsible Investing which provides a detailed review of our activities. Please refer to the Responsible Investing section of our website for a copy of this report and 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.