2014 Report on Sustainable Investing

Integration | Engagement | Collaboration

CPP INVESTMENT BOARD

Toronto Hong Kong London New York São Paulo

About CPPIB

Canada Pension Plan Investment Board (CPPIB) is a professional investment management organization with a critical purpose – to help provide a foundation on which Canadians build financial security in their retirement. We invest the assets of the Canada Pension Plan (CPP) not currently needed to pay pension, disability and survivor benefits. CPPIB is governed and managed independently from the CPP, operating at arm's length from governments with a singular objective: to maximize returns without undue risk of loss. Adhering to the principles of integrity, partnership and high performance, we have become one of the world's leading institutional investors.

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PART I

2014 Report on Activities

Sustainable Investing

We believe that organizations that manage environmental, social and governance (ESG) factors effectively are more likely to endure, and create sustainable value over the long term, than those that do not.

With our responsibility to help support the sustainability of the CPP for generations to come, we consider and integrate both ESG risks and opportunities when we make investment decisions, manage our investments and engage with companies in which we invest. Given our legislated investment-only mandate, we integrate ESG factors into our investment analysis, rather than eliminating investments based on those factors alone. As an owner, we monitor ESG and actively engage with companies to promote improved management of ESG factors, to enable better long-term outcomes in the companies and assets in which 18 million CPP Fund contributors and beneficiaries have a stake.

ESG FACTORS

While the specific factors vary by company, industry and geography, there are several key issues we consider when evaluating opportunities, making decisions, managing our investments, and engaging with companies to seek improvements in business practices and disclosure.

Environmental
Climate impact and greenhouse gas (GHG) emissions; energy efficiency; air and water pollution; water scarcity; biodiversity; and site restoration.

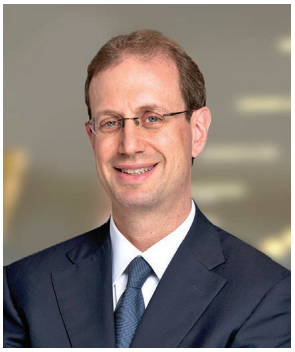
Social
Human rights; local community impact and employment; child labour; working conditions; health and safety; and anti-corruption practices.

Governance
Alignment of interests; executive compensation; board independence and composition; and voting and other shareholder rights.

This yearly report forms part of our transparency commitment to Canadians and profiles investments, initiatives and actions CPPIB pursued from July 1, 2013, to June 30, 2014, to enhance long-term, sustainable returns for the CPP Fund. This reporting period allows us to summarize our voting activity at the completion of each proxy season.

Read Part II of this report, *Our Approach to Sustainable Investing*, for a comprehensive look at the policies, resources and strategies CPPIB uses to integrate ESG into our investment decisions and actions as an asset owner.

President's Message



In 2008, CPPIB published our first *Report on Responsible Investing* providing a look at our engagement activities with companies on environmental, social and governance (ESG) factors. Since that time, our approach has significantly expanded to include more formally integrating ESG considerations into our investment decisions, advancing our beliefs about the relevance of ESG factors in determining long-term value. This process has been a key part of CPPIB's evolution into a global investment organization, managing a fund with $219.1 billion in net assets at the end of our latest fiscal year.

Last year, as a complement to our *2013 Report on Responsible Investing*, we published *Our Approach to Responsible Investing* to provide, for the first time, a more comprehensive look at our policies and strategies. We were pleased to see our 2013 report commended *Best RI Report by a Large Fund* in the 2014 Responsible Investor Reporting Awards. We remain committed to reporting to CPP contributors and beneficiaries on our financial performance, and also more broadly on the actions that we take to maximize the long-term value of the CPP Fund, helping to provide a foundation upon which 18 million contributors and beneficiaries build their financial security in retirement.

SUSTAINABLE INVESTING

At CPPIB we consider responsible investing simply as intelligent long-term investing. We believe that firms that take the opportunity to manage ESG factors effectively are more likely to endure, and create more value over the long term than those that do not. Given our exceptionally long investment horizon and singular mandate to achieve a maximum rate of return without undue risk of loss, we consider and integrate both ESG risks and opportunities into our investment decisions.

This year, readers will notice a new title on our report, as we have formally changed what we previously referred to as our 'Responsible Investing' activities to 'Sustainable Investing.' Our new label recognizes that our consideration of ESG factors is not altruistic, but rather it is fundamental to how we make investment decisions to enhance long-term sustainable returns to the CPP Fund. For this reason, we believe 'Sustainable Investing' is a more accurate descriptor of why and how we integrate ESG factors.

In this same spirit, we continued to integrate a sustainable investing mindset throughout CPPIB this year. We reconstituted our Sustainable Investing Committee to have representatives from all Investment departments. This expanded structure will ensure new thinking, best practices and emerging issues related to ESG considerations are being fully considered and implemented across CPPIB.

MANAGING ESG FOR LONG-TERM VALUE

Our in-house team of ESG professionals continues to work hand-in-hand with our investment teams to support ESG integration, establish more formal processes and provide in-house expertise to assist investment teams in the initial stages of reviewing a potential investment, to monitoring once an investment has been made.

This report provides a look at the many actions we took this year to manage ESG risks and opportunities in our investments, including: a formal structured ESG questionnaire for the due diligence process on new private equity fund commitments; an annual ESG monitoring process for our real estate partners; and, in our direct private equity portfolio, the implementation of environmental programs or technologies in companies, such as the "Reverse Logistics" program at 99 Cents Only Stores to reduce waste. In another example, Arqiva, one of our infrastructure investments, signed a £625 million contract to provide communication services for smart energy meters.

We also continue to engage with public companies to encourage better disclosure and practices related to ESG to build long-term value and, in particular we continued to push for progress on our focus areas (Water, Extractive Industries, Climate Change and Executive Compensation). As part of our proxy voting activities, we voted in favour of 87% of shareholder proposals requesting enhanced disclosure on environmental and social risks and performance. Such actions enable us to manage the risks associated with ESG factors and push for progress leading to improved long-term financial performance.

ADVOCATING FOR PROGRESS GLOBALLY

Ultimately, market-wide improvements on ESG factors are to the benefit of all market participants. CPPIB continues to be involved with the United Nations-supported Principles for Responsible Investment, playing an active role in encouraging global asset owners and asset managers to implement responsible investing practices. We fundamentally believe that consideration of ESG factors requires companies to adopt long-term mindsets, behaviours and actions. Long-term investors, like CPPIB, must actively support companies and other market participants to take a long-term view.

This year we also continued to make progress with our *Focusing Capital on the Long Term* initiative, which now includes more than 15 leading organizations globally that are collaboratively developing practical tools and approaches to help institutional investors and corporate leaders manage for the long term. As CPPIB seeks to fulfill our mandate to maximize the returns of the CPP Fund for generations to come, we have a fundamental interest in encouraging business and market participants globally to make the best decisions today, with long-term value creation in mind.

CPPIB remains an active sustainable investor advocate in Canada. Since 2012, I have been a member of the Board on the Canadian Coalition for Good Governance (CCGG) and took on the role of Chair of the CCGG Public Policy Committee this year. The CCGG believes that good governance practices contribute to a company's ability to create value for its shareholders. This year, the CCGG submitted eight comment letters on Canadian and global regulatory and policy matters. The CCGG's efforts in improving corporate governance were evident when the Toronto Stock Exchange agreed to require a majority voting listing requirement for uncontested director elections in 2014, marking a major advancement of shareholder democracy in Canada.

CPPIB also led a collaborative engagement with five other Canadian pension plans to use our collective voice to encourage better disclosure and management of greenhouse gas (GHG) emissions by a company that is one of the top GHG emitters in Canada.

CONCLUSION

As we continue to diversify the CPP Fund globally, we increasingly invest in growth markets with different ESG principles and practices than those that typically exist in Canada or other developed markets. When we invest in these markets, we believe that we have a crucial role to play in evaluating the impact of ESG factors relevant to these markets and, where necessary, must encourage companies to adopt global best practices to create sustainable long-term value. This process will not be quick and we expect to meet challenges along the way. But, by using the benefit of our long-term mandate, which enables us to act as a patient provider of capital, we can work with companies and market influencers to bring about lasting improvements.

While the full impact of our sustainable investing efforts may not be immediately quantifiable, we continue to believe the actions and decisions we take as an investor today will ultimately provide the foundation for enhanced, long-term sustainable returns to the benefit of 18 million CPP Fund contributors and beneficiaries for decades to come.

Mark D. Wiseman
President & Chief Executive Officer

HIGHLIGHTS OF PROGRESS ON OUR 2014 PRIORITIES

Engage on our focus areas

- Joined the Steering Committee of the United Nations-Supported Principles for Responsible Investment's (UN PRI's) collaborative engagement on Human Rights in the Extractive Sectors. Extractive Industries is one of our four engagement focus areas.

Deepen ESG integration

- Expanded and reconstituted our Sustainable Investing Committee (formerly called the Responsible Investing Committee) to include representatives from all Investment departments.
- Formally implemented a structured ESG questionnaire into Private Investments' due diligence process for new fund commitments.
- Introduced an annual Real Estate Investments ESG monitoring process for existing investments.

Evolve with best practices

- Conducted a comprehensive review of our *Proxy Voting Principles and Guidelines* to incorporate best practices and emerging trends, including introducing a new guideline on proxy contests and expressing clear support for the concept of board diversity and board renewal.

Leverage our experience

- Joined the Asian Corporate Governance Association, providing a platform to expand our activities globally and to engage collaboratively on governance matters in Asia.

Promote long-term thinking

- Successfully recruited more than 15 leaders from organizations around the world to join the *Focusing Capital on the Long Term* initiative and hosted several working sessions with members to develop actionable recommendations to enhance long-term value creation.

OUR PRIORITIES FOR 2015

1. Continue to expand our activities and collaboration efforts globally.
2. Refine and strengthen our ESG integration processes and tools.
3. Continue our efforts as an engaged participant in capital markets, working directly with public companies to encourage ESG best practices, actively voting our proxies, and continuing to advocate for advancements in governance practices.
4. Promote long-term thinking.

Guided by the Principles for Responsible Investment

As a founding signatory to the United Nations-supported Principles for Responsible Investment (PRI), CPPIB is guided by the Six Principles for Responsible Investment and actively contributes to the improvement in corporate ESG practices globally.

The United Nations-supported Principles for Responsible Investment (PRI) is an international network of investors working to put the Six Principles for Responsible Investment into practice. Today, the PRI is the leading global network for investors like CPPIB to collaborate with peers about ESG factors and currently includes more than 1,260 signatories representing more than US$45 trillion in assets under management.

PRI provides a practical framework to incorporate ESG factors into investment decision-making and ownership practices to improve investment performance. The PRI's Six Principles for Responsible Investment are voluntary and aspirational. The Principles are designed to be tailored to fit each organization's investment strategy, approach and resources, and are intended to be compatible with the investment styles of large institutional investors like CPPIB.

AS A SIGNATORY, CPPIB IS GUIDED BY THE PRI'S SIX PRINCIPLES FOR RESPONSIBLE INVESTMENT

1.	2.	3.	4.	5.	6.
We incorporate ESG factors into investment analysis and decision-making processes.	We are active owners and incorporate ESG factors into ownership policies and practices.	We seek appropriate disclosure on ESG factors by the entities in which we invest.	We promote acceptance and implementation of the Principles within the investment industry.	We work collaboratively to enhance our effectiveness in implementing the Principles.	We report on our activities and progress towards implementing the Principles.

As an active member of the PRI, CPPIB contributes to the improvement in corporate ESG practices globally, for the long-term financial benefit of the companies in which we invest:

Resources and best practices	Our in-house Sustainable Investing group uses PRI tools made available to signatories, including the Implementation Support program, which publishes best practice guidance and hosts webinars on ESG topics.
Collaborative engagement	Over the past several years, we have participated in a number of PRI-facilitated collaborative engagements, including those related to the UN Global Compact (coordinated through the PRI Engagement Clearinghouse), to encourage disclosure by companies that have committed to the Compact's principles (related to human rights, labour, environment and anti-corruption). In 2014, we joined the Steering Committee of the PRI's collaborative engagement on Human Rights in the Extractive Sectors.
PRI reporting	We submit annual reports on our activities to the PRI under its Reporting Framework.
PRI Advisory Council	Eric Wetlaufer, Senior Managing Director & Global Head of Public Market Investments is currently serving a three-year term as a member of the PRI Advisory Council, allowing us to contribute to the PRI's ongoing strategic direction.

Sustainable Investment Decisions

CPPIB looks beyond market cycles to maximize returns over multiple decades and generations of CPP contributors. With our long-term view, ESG factors are of greater importance to CPPIB than to investors with short-term perspectives. As we conduct due diligence, make investment decisions and manage our growing portfolio, we integrate ESG factors to enhance sustainable, long-term returns for the CPP Fund.

GLP MISATO III
50% interest
Japan
Real Estate Investments

First to achieve LEED Platinum certification in Japan

CPPIB partnered with Global Logistics Properties Ltd. (GLP) in 2011 to invest in logistics facilities in Japan. The partnership, termed the Japan Development Fund, signified CPPIB's first direct investment in the Japanese property market.

The first development project under the Japan Development Fund was GLP Misato III, a state-of-the-art logistics facility in Greater Tokyo, which was completed in May 2013. GLP Misato III was built with a strong focus on business continuity and sustainability and is the first logistics facility in Japan to achieve LEED Platinum certification. The facility has advanced features including back-up power supply, solar panels, LED lighting and green parking spaces.

ARQIVA
48% ownership interest
United Kingdom
Private Investments

Smart meters, smart savings

In March 2009, CPPIB acquired a stake in Arqiva, a leading broadcast and wireless communications infrastructure company in the U.K. In September 2013, Arqiva signed a £625 million contract to provide communication services for smart energy meters across the Northern region. Smart meters are a key priority for the U.K. government, which aims to have all homes and small businesses connected by 2020. It is estimated that these meters will deliver £6 billion in net benefits to the U.K. by 2030, by allowing consumers to monitor energy use and save money by adjusting their usage habits. Smart meters also benefit energy suppliers by eliminating the need to manually read meters.

Arqiva is looking to deploy similar communication services for smart water meters in the U.K.

PRIVATIZATION OF COMMONWEALTH PROPERTY OFFICE FUND
50% interest
Australia
Real Estate Investments

Building a sustainable real estate portfolio with market leaders

CPPIB has partnered with leading Australia property group, DEXUS, to privatize the Commonwealth Property Office Fund (CPA). CPA owns 25 high-quality offices across all major Australian cities, with most properties located in Sydney and Melbourne. On average, the offices have high sustainability credentials, with an energy rating of 4.5 stars and water rating of 3.7 stars out of six according to the National Australian Built Environment Rating System (NABERS).

A market leader in corporate responsibility and sustainability, DEXUS is committed to maintaining the highest standards in governance and business ethics. DEXUS is a signatory to the PRI, a member of the FTSE4GOOD Index (an environmental index identifying companies with leading environmental practices) and is listed on the Carbon Disclosure Project's Performance Leaders Index.

During the due diligence process, Real Estate Investments reviewed DEXUS' ESG policies and evaluated its sustainability efforts to ensure alignment with CPPIB's sustainability goals.

EXTERNAL FUND MANAGERS
>80 fund managers
Global
Private Investments

A strong foundation to monitor and evolve ESG practices

CPPIB's Private Investments (PI) has a large portfolio of more than 80 fund managers (General Partners or 'GPs'), many of whom dedicate significant time and resources to integrate ESG considerations into their private equity investment process. This year, PI formally implemented a structured assessment of ESG factors into our due diligence process for prospective new fund commitments to GPs.

Over the last 12 months, we evaluated the ESG policies and practices of 13 GPs as part of our due diligence on new fund commitments. Each GP who we reviewed stated that ESG factors are considered during the review process of potential new investments. By having a structured fact base for each of our fund managers' ESG policies, processes and approach, we now have a strong foundation in place for an ongoing dialogue with our General Partners.

MNP TOWER
50% interest
Vancouver, Canada
Real Estate Investments

High environmental standards for a high-profile tower

CPPIB has partnered with Oxford Properties to develop a high-quality office building in downtown Vancouver. MNP Tower will be one of Vancouver's most significant commercial towers, built on the last available site in the harbour district of the city's business core. The MNP Tower is the first building in Western Canada to be designed by world-class architect Kohn Pedersen Fox and is striving to achieve LEED Core & Shell Gold certification.

The building will feature the latest in energy- and water-efficient technologies, including the use of air source variable refrigerant flow (VRV) heat pumps and demand-controlled heat recovery ventilation; two-speed demand-controlled parking ventilation; low-flow fixtures; local hot water heating; and triple glazing.

99 CENTS ONLY STORES
31% ownership interest
United States
Private Investments

Recycling is in the bag

99 Cents Only Stores (99 Cents) is a leading regional operator of dollar stores across the southwestern U.S. that offers consumers name-brand grocery products at a discount. 99 Cents is committed to promoting better environmental stewardship, recycling over 20,000 tons of cardboard and 704 tons of plastic in its most recent fiscal year. Through the company's "Reverse Logistics" program, 99 Cents encourages its stores to return delivery containers, such as wood pallets and bread trays, enabling retailers to reuse them for future deliveries. To reduce plastic waste, 99 Cents has donated over 9,999 reusable bags over the past two years. Some stores have stopped the use of plastic bags altogether.

Additionally, over 75% of 99 Cents' compressed natural gas (CNG) truck fleet runs on CNG pumped from its onsite filling station. Decreasing the use of standard diesel trucks is expected to reduce total greenhouse gas emissions (GHG) by approximately 6,500 metric tons over the next seven years.

BULLRING
16.5% direct interest
United Kingdom
Real Estate Investments

Efficient operations for increased performance

CPPIB has partnered with leading European retail property developer and manager Hammerson in a 50/50 joint venture to acquire a 33.3% interest of the popular Bullring Shopping Centre in Birmingham, United Kingdom.

In recent years, the centre has undertaken a number of sustainability initiatives, including adopting new LED lighting and water-efficient technology. Hammerson implemented an Environmental Management System that targets and reports the centre's environmental performance. Since 2010, electricity consumption has been reduced by 7%, gas consumption by 24%, and carbon emissions by 8%. The centre achieved ISO 14001 certification and received a Gold Award for recycling from National Recycling Stars. CPPIB will continue to work with Hammerson to improve the operating performance of the centre and achieve new targets for 2015.

ADVANCING OUR ESG INTEGRATION PRACTICES

CPPIB's in-house Sustainable Investing group supports our investment teams to review emerging trends and best practices to continually enhance how we integrate ESG factors into our investment decisions and ownership activities.

Following the formal integration of ESG due diligence procedures into its investment approval process last year, Real Estate Investments (REI) further developed its annual ESG monitoring tools to enhance its evaluation and monitoring of prospective and existing partners. REI introduced an annual ESG monitoring process for existing investment partners to provide formal updates on their most recent ESG initiatives and changes to their existing policies.

REI distributed its first monitoring questionnaire to 37 managers who were identified as major partners. The respondents manage 70% of our real estate equity portfolio. Ninety-two per cent (92%) of respondents indicated that they have an environmental sustainable policy or initiative at their company; most of these managers have or are planning to establish full-time staff dedicated to sustainability initiatives. All respondents have policies for anti-bribery and corruption and close to 90% of respondents have a framework to monitor worker health and safety requirements. Ninety-three per cent (93%) of our office portfolio by equity value (25 out of 29 stabilized office properties) has a green certification, including one Canadian office development currently targeting LEED Platinum. Properties in our portfolio that have achieved LEED Gold include: 5 office buildings in Toronto; 4 office buildings in the U.S.; 3 multi-family communities in the U.S.; and 2 industrial facilities in Japan.

Private Investments (PI) continued to evolve how it incorporates ESG evaluation into the due diligence process for prospective new fund commitments to enhance the team's understanding of each fund manager's ESG practices (including their ESG policies, processes and approach; ESG resourcing; due diligence; and ongoing monitoring and reporting). As part of portfolio monitoring, PI investment teams then seek to receive ESG-related updates, including on underlying portfolio companies, at regular meetings with fund managers.

CPPIB's Portfolio Value Creation group is actively involved in the governance and management of our direct investments in private equity and infrastructure assets. Leveraging the ongoing enhancements to CPPIB's diligence process with respect to ESG factors, the group continued to develop a more structured ESG monitoring approach as part of our regular semi-annual monitoring process.

See "Integrating ESG into Investment Decisions" (page 20) for a detailed look at how CPPIB integrates ESG factors across asset classes from opportunity screening and due diligence, to monitoring, to enhancing outcomes as owners.

Engaging as Long-Term Investors

CPPIB believes that our stewardship of CPP Fund assets must go beyond simply buying and selling investments. By acting as an engaged investor, whether on our own or alongside other investors, we can reduce investment risks and advocate for changes that we believe will lead to sustained returns over the long horizon over which we invest. We seek to develop constructive dialogues with senior executives, board members, regulators, industry associations and other key stakeholders.

REPORT ON OUR ENGAGEMENT FOCUS AREAS

CPPIB selects companies for engagement based on the materiality of their ESG risks, the gap between current ESG practices and best practices, and the size of our holdings. A fundamental part of this process is our identification and selection of key focus areas that have a significant and meaningful impact on the long-term financial sustainability of our public equity portfolio.

OUR FOUR FOCUS AREAS

- Climate Change
- Water
- Extractive Industries
- Executive Compensation

ENHANCING OUR KNOWLEDGE

Best practices on our engagement focus areas continue to evolve across industries. To understand the latest thinking, we routinely participate in industry-oriented initiatives covering a range of issues and sectors relevant to our engagement focus areas and also to other areas beyond them. We believe doing so helps us to have productive and constructive dialogues with companies on relevant, long-term ESG matters.

This year we advanced our knowledge through various channels, such as industry conferences and meetings with industry associations, collaborating on special initiatives related to specific sectors and topics (such as the retail sector and climate change), and participating in government-organized outreach on the extractive sector.

The following pages outline our progress on each focus area this year.

CLIMATE CHANGE

We encourage companies to adopt a more long-term mindset when it comes to climate change, and to provide more complete, standardized disclosure to allow us to make the best long-term investment decisions.

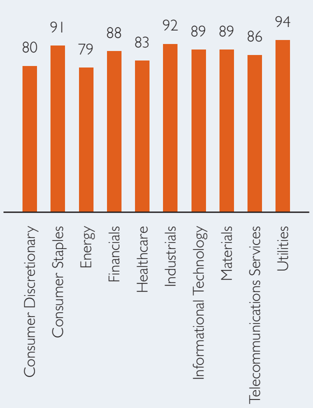
Directly engaged with companies	This year we continued to engage with some of the largest GHG emitters in Canada, including leading a collaboration with other major Canadian investors to engage a large Canadian GHG emitter and provide feedback to the company on the type of disclosure most relevant to long-term investors.
Supported related shareholder proposals	We supported numerous shareholder proposals requesting improved disclosure of management of risks related to climate change, including long-term objectives, goals, risk management practices and mitigation strategies. Proposals we supported included requests for increased disclosure of climate change risks/greenhouse gas emissions at Exxon Mobil Corp., Anadarko Petroleum Corp. and ConocoPhillips.
Signatory to the Carbon Disclosure Project (CDP)	We continued to support the CDP's Climate Change Information Request to disclose climate change management and GHG emissions from companies in developed countries and emerging markets. The 2013 CDP Climate Change Information Request was supported by 767 institutional investor signatories, including CPPIB, representing over US$92 trillion in assets. In February, the 2014 CDP questionnaire was sent to over 5,000 companies, including 200 in Canada, of which 115 responded.

WATER

We continue to encourage companies to increase corporate reporting standards on water-related strategies and performance, to provide more comparable disclosure and enhance their approach to managing long-term water risks.

Directly engaged with companies	This year we continued to monitor water-related industry initiatives and draw from a variety of resources to inform and prioritize our direct engagements with companies to encourage better disclosure practices. Companies we engaged with are now improving disclosure of water performance metrics and longer-term goals, including targets to reduce usage and increase efficiency.
Supported related shareholder proposals	We supported shareholder proposals requesting the improved management and disclosure of water-related risks, including risks related to water availability and quality. Proposals we supported relating to requests for increased disclosure of water risk management practices included those at Occidental Petroleum Corp. and EOG Resources Inc.
Supported the CDP Water Disclosure	In 2014, CPPIB and more than 500 other institutional investors that represent US$60 trillion in assets under management supported the fifth CDP Water Information Request. The 2014 request was sent to over 800 of the largest global companies to encourage better management of water issues, in order to ultimately create long-term shareholder value. CPPIB was among the initial signatories that supported the launch of the CDP Water Disclosure initiative in 2010.

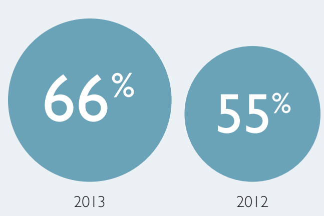
Respondents with evidence of disclosure of climate change information in mainstream filings or other external communications (%)



A majority of companies disclose climate change information

Globally, the CDP climate change initiative continues to achieve significant success (403 companies out of the Global 500 responded to the 2013 request), with notable progress since 2008 in the disclosure of GHG emissions by the largest 500 companies surveyed. In addition, a large percentage of companies across sectors are now providing climate change-related information in mainstream filings. CPPIB continues to address this and other aspects of disclosure with companies in our own direct engagements as well.

Respondents with concrete water management targets or goals (%)



Water management and performance

The CDP Global Water Report 2013 showed there has been an increase in companies adopting concrete targets or goals regarding water management (55% in 2012 versus 66% in 2013). CPPIB has also asked for increased disclosure by companies on water management practices and performance through shareholder proposals we have supported. In addition, we continue to have conversations with companies in our direct engagements on water-related targets, goals and long-term strategies.

EXTRACTIVE INDUSTRIES

We took action to advance the consideration of ESG factors within extractive industries companies and to encourage improved disclosure across the industry to allow investors to better assess long-term performance.

Directly engaged with companies

Alongside other institutional investors, we joined the recently formed Steering Committee of the United Nations-supported Principles for Responsible Investment's (PRI's) collaborative engagement on Human Rights in the Extractive Sectors.

We also continued to engage with Canadian companies that have operations or investments in high-risk countries, and encouraged enhanced disclosure of their management of environmental and social risks. Mining companies we engaged with continue to be committed to mine certification under the International Cyanide Management Code. Companies that adopt this Code have their use of cyanide audited by independent third parties. Thirty-nine gold mining companies are now signatories, of which 16 are Canadian.

Canadian and global companies that we engaged with also increased their corporate commitment to the Voluntary Principles on Security and Human Rights, which serve as a guide for companies in the implementation of security and safety practices to protect human rights.

Supported related shareholder proposals

We supported shareholder proposals requesting improved disclosure of operations in high-risk countries and the consideration of environmental expertise in director skill sets. Proposals we supported relating to requests for increased disclosure of human rights risk management practices included those at Chevron Corp. and Halliburton Co.

Supported the Extractive Industries Transparency Initiative (EITI)

Through the EITI, CPPIB seeks transparency in reporting of tax and royalty payments by oil and gas, mining companies and host governments. We continued to engage with Canadian and global companies to encourage their participation in EITI.

We also continue to participate in regular EITI Investor Group calls with other global investor signatories and provide views on relevant issues for the investor board member to consider taking back to the EITI board.

EXECUTIVE COMPENSATION

We continue to advocate for companies to adopt good governance practices in executive compensation to ensure that the interests of management are aligned with those of long-term investors.

Promoted improved compensation practices through engagement

Pressure from CPPIB and other investors (through advisory votes on executive compensation, commonly referred to as 'Say on Pay' and direct engagement) prompted a number of companies to significantly revise their compensation plans and adopt good governance practices.

The increased dialogue between companies and shareholders and the subsequent improvement in compensation practices led to a continued improvement in Say on Pay approval levels for U.S. companies in 2014. The majority of companies that failed their Say on Pay vote in 2013 received strong support in 2014 after they took action to address concerns.

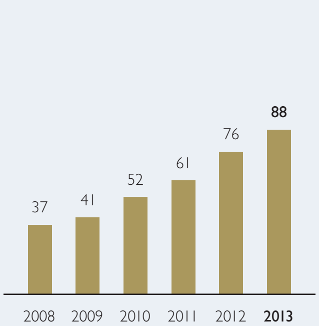
For example, a major U.S. energy company took steps to address concerns that led to a failed Say on Pay vote in 2013. The company conducted an outreach program with its top 120 shareholders and implemented changes to its executive compensation programs, including reducing the upside opportunity for short-term incentives. In response to investor views, the pay mix at U.S. companies is migrating towards a higher proportion of equity awards that are conditioned on meeting measurable performance targets.

Alongside other institutional investors, we also continued a multi-year effort to encourage pay for performance at Barrick Gold. In the wake of the failed Say on Pay vote last year, we engaged with the board and management throughout 2013, resulting in the company introducing a number of compensation changes aimed at reinforcing a longer-term perspective among its management team and adding four new independent directors to its board. Despite these positive changes, we took the view that the company did not adequately address key shareholder concerns related to its co-chair's compensation and voted against Say on Pay again in 2014.

Supported related shareholder proposals

We supported shareholder proposals aimed at strengthening the link between pay and the creation of long-term shareholder value and discouraging excessive risk-taking. Such proposals included requests for the adoption of performance-based equity awards at PulteGroup Inc., pro-rata vesting of equity awards at Walt Disney Company and the adoption of clawback policies at Whole Foods Market Inc.

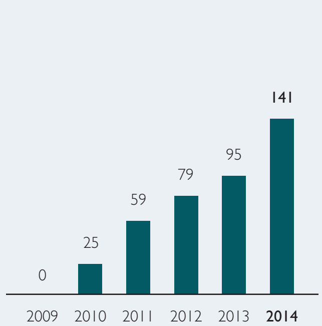
Number of Companies supporting EITI (#)



EITI continues to gain support

The EITI continues to gain support from governments, companies and investors – over 90 global investment institutions representing in excess of US$19 trillion in assets under management now support the initiative. New countries continue to commit, such as the U.S., Senegal and Ethiopia. There are 27 compliant countries, 17 candidate countries and 34 countries producing EITI reports. Eleven Canadian companies are among the 88 oil and gas and mining companies that currently participate.

Say on Pay adoptees on the S&P/TSX Composite Index (#)



More companies now provide Say on Pay

Roughly 47% of TSX Composite Index issuers provide shareholders with an advisory vote on compensation, an increase from 38% in 2012 and 33% in 2011.

See "Actively Engaging as Owners" (page 30) in Part II for more detail on why we believe our focus areas are material to the creation of long-term, sustainable value in the CPP Fund, how we set about determining which companies we engage with from the more than 2,500 public companies in which CPPIB owns shares, and the types of changes and improvements we seek.

Conveying Our Views as Public Market Investors

CPPIB is committed to being an engaged owner of public securities. This year we continued to fully exercise our voting rights and make all of our proxy voting decisions independently. By voting our proxies at annual and special meetings, we not only fulfill our fiduciary responsibility as a shareholder, but also clearly convey our views to boards of directors and management.

CPPIB conducts an annual review of our *Proxy Voting Principles and Guidelines*. This process involves input from our in-house Sustainable Investing group, our investment teams and external advisors. Updates to the guidelines are reviewed annually by CPPIB's Board of Directors.

This year, we conducted a more comprehensive review of the Guidelines to reflect our long-term perspective and global focus. The process included a comparative analysis of voting guidelines from other global institutional investors and a review of regulatory developments to identify best practices and emerging trends. As a result of this year's annual review, we revised our Guidelines to introduce a new guideline on proxy contests and express our clear support for the concept of board diversity and board renewal, among other revisions.

2014 PROXY VOTING OVERVIEW AND REPORT

This year, CPPIB voted on 43,243 agenda items and conveyed our views at 4,253 meetings in the 2014 proxy season. Our website provides a searchable database, by company name, of our votes at each shareholder meeting. The following tables present the key themes in the 2014 proxy season and our voting decisions.

Enhancing Shareholder Democracy

Subject	Vote	General rationale for support	Noteworthy proposals
Majority vote for the election of directors	19/19 FOR (100%)	Majority vote provides shareholders with the opportunity to vote against a director. If he/she does not receive a majority of the votes cast, the nominee should not be appointed.	Alimentation Couche-Tard Inc. Google Inc. Netflix Inc.
Reducing supermajority vote requirements	39/39 FOR (100%)	Requiring more than a simple majority of voting shares may permit management to entrench itself by blocking amendments that are in the best interests of shareholders.	Chesapeake Energy Corporation Hess Corporation Medtronic, Inc.
Proxy access	9/14 FOR (75%)	The ability to nominate board candidates enhances shareholder rights and increases board accountability.	Abercrombie & Fitch Co. International Game Technology SLM Corporation

Strengthening the Link Between Pay and Long-Term Performance

Proposal	Vote	General rationale for vote	Noteworthy proposals
Limiting accelerated vesting of equity awards *(shareholder proposal)*	19/24 FOR (79%)	Pro-rata vesting of equity upon a change in control can more closely align the interests of executives with shareholders, while reducing the risk of potential windfalls merely upon a change in control.	Dean Foods Company Windstream Holdings, Inc. Talisman Energy Inc.
Approve share plan grant *(management proposal)*	36/121 AGAINST (30%)	Voted against where the plan reserved an excessive number of shares and there was an absence of challenging performance criteria under the plans.	PMI Gold Corporation New Hope Corporation Ltd. Wynn Macau Ltd.
Approve remuneration report/Say on Pay *(management proposal)*	180/1,592 AGAINST (11%)	Voted against where the company was deficient in linking pay with performance.	Blackberry Limited McKesson Corporation Yahoo! Inc.

Encouraging Enhanced Disclosure of Environmental and Social Matters and Adoption of Appropriate Practices

Proposal	Vote	General rationale for vote	Noteworthy proposals
Enhance disclosure on environmental and social risks and performance	66/76 FOR (87%)	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.	Altria Group Inc. Halliburton Co. The Kroger Co.
Adopt/disclose corporate responsibility standards	17/28 FOR (64%)	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.	Caterpillar Inc. Chevron Corp. The Estee Lauder Cos Inc.
Report on political contributions/lobbying	75/92 FOR (82%)	Greater disclosure of political spending helps shareholders assess associated costs, risks and benefits.	Duke Energy Corp. Google Inc. Philip Morris International Inc.

2014 PROXY SEASON FACTS

We conveyed our views at:

543 meetings in Canada

1,020 meetings in the United States

2,690 meetings outside North America

4,253 meetings in 2014 proxy season

We voted on:

43,243 agenda items and voted against management in **8.1%** of cases

See Part II (page 33) for more detail on CPPIB's approach to voting our proxies, the type of proposals we generally vote against and for, and our complete *Proxy Voting Principles and Guidelines* (page 38).

Promoting Good Governance Globally

We firmly believe that well-structured and effectively functioning boards are crucial for a company to have a steadfast focus on long-term sustainable growth. We believe that companies with best-in-class governance practices can not only enhance long-term, sustainable value for shareholders, but also pose less risk.

This year we continued to advocate for the adoption of good governance practices in Canada and globally, by engaging directly with companies on their governance practices and through collaborative action with like-minded investors and organizations.

We collaborated with other large institutional investors to advocate for reforms to improve the accountability, transparency and efficiency of the proxy voting system in Canada

- Following the urging of CPPIB and a group of other institutional investors, the Ontario Securities Commission added a review of the proxy voting system to its Statement of Priorities for 2014–2015.
- We met with service providers and industry groups representing members of the voting chain to discuss solutions to key problems within the system.
- We submitted comments to the *CSA Consultation Paper 54–401 Review of the Proxy Voting Infrastructure*.

We promoted and secured advancements in shareholder democracy

- As a result of continued advocacy by CPPIB and others, the TSX agreed to require majority voting listing requirement for uncontested director elections in 2014, marking a major advancement of shareholder democracy in Canada.
- Aided by CPPIB's support, a significant number of shareholder proposals aimed at empowering investors with respect to director elections and in other voting matters were successfully passed at large U.S. companies in 2014. These proposals included calls for declassifying the board, majority voting for director elections and the elimination of supermajority vote requirements.

We continued to be a strong voice advocating for the adoption of governance best practices in Canada and globally

- CPPIB's Managing Director, Head of Sustainable Investing joined the Public Policy Committee of the Canadian Coalition for Good Governance (CCGG), which plays a key role in developing polices and submissions to regulators and other lawmakers. CCGG completed 45 engagements with Canadian boards during the year to discuss and promote best practices with respect to executive compensation and board issues such as the board's risk oversight process and strategy setting. CPPIB also worked closely with CCGG to develop comments on several regulatory proposals.
- A CPPIB representative served on the Corporate Governance Committee of the Pension Investment Association of Canada, contributing to submissions on securities law and corporate governance matters.
- CPPIB became a member of the Asian Corporate Governance Association (ACGA), which provides access to expertise in local governance matters, leading to better informed proxy voting decisions and an established platform for engagement in Asia.

We worked independently and with industry organizations to respond to numerous requests for comments on important regulatory matters impacting capital markets in Canada and globally

Activities we undertook, directly or in collaboration, included:

- **OSC Draft 2014–2015 Statement of Priorities.** We encouraged the Ontario Securities Commission (OSC) to continue to take a leadership role in addressing systemic problems with the Canadian proxy voting system, to focus on gender diversity, to support the creation of a Co-operative Capital Markets regulator and to consider additional shareholder democracy issues.
- **Proposed disclosure requirements regarding the representation of woman on boards and in senior management (April 16, 2014).** Supported increased disclosure requirements proposed by the OSC as an appropriate regulatory response to encourage gender diversity on boards and in senior management.
- **Industry Canada Consultation on the *Canada Business Corporations Act* (CBCA) (May 14, 2014).** Recommended that the CBCA be amended to reflect governance best practices, such as requirements to provide for Say on Pay, majority voting, annual director elections and proxy access.
- **Submission to NASDAQ/NYSE (August 21, 2013).** Supported U.S.-based Council for Institutional Investors in its submissions to NYSE and NASDAQ to adopt a majority voting listing requirement.
- **International Corporate Governance Network (ICGN) Member Consultation on the Draft ICGN Global Governance Principles (May 15, 2014).** Provided input on the proposed update to develop a single set of principles regarding the governance roles and responsibilities of board directors and shareholders, with specific recommendations on improving the clarity of the document.

We continued to influence governance change at investee companies by weighing in on significant contested meetings

- After meeting with and carefully considering the positions of both management and the dissidents on a contested proxy matter at Sherritt Inc., we concluded that the dissident did not make a compelling case for change to Sherritt's board of directors. CPPIB supported the management nominees, all of whom were elected at the contested meeting.

Working with Others

CPPIB believes system-wide progress on ESG factors is essential to allow us to truly fulfill our mandate to maximize investment returns to the CPP Fund over the exceptionally long horizon over which we invest. By working with like-minded organizations, CPPIB contributes our voice to advocate for progress on how market participants regard, report on and manage issues material to enhancing long-term, sustainable value.

Beyond customary ESG issues, we also have an interest in ensuring the companies in which we invest are focused on providing sustainable returns over decades, not meeting next quarter's numbers at the expense of long-term value creation. We actively seek ways to collaborate with other investors on direct engagements with companies and opportunities to communicate our views alongside other investors through participation in collaborative organizations globally. The following case studies demonstrate highlights of our progress and activities this year.

See Part II (page 35) for a list of the like-minded organizations CPPIB collaborates with to advance progress on ESG factors and foster longer-term mindsets.

FOCUSING CAPITAL on the LONG TERM

TAKING ACTION TO FOCUS INVESTORS AND CORPORATIONS ON THE LONG TERM

In May 2013, CPPIB and McKinsey & Company launched *Focusing Capital on the Long Term* (FCLT) – an action-focused initiative to help investors and corporations move beyond short-termism. The initiative aims to develop practical structures, metrics and approaches for longer-term behaviours in the investment and business worlds.

Now, just over one year later, FCLT is a global movement involving investment and corporate leaders from more than 15 top-tier organizations from across the globe, including North America, Europe and Asia-Pacific. These leaders believe that the pressure to deliver strong short-term financial results is on the rise, which destroys value by encouraging companies to prioritize short-term performance over longer-term, value-creating investments.

In bringing together leaders from both the investment and corporate worlds, the FCLT initiative has three clear objectives:

1. Share and discuss perspectives from all parts of the investment value chain;
2. Develop action-oriented and pragmatic recommendations that can be implemented in the near term to focus investors and business on the long term;
3. Encourage the adoption of these recommendations by institutional investors and companies.

Ultimately, the goal is to drive a shift amongst business leaders, policy makers, and other influencers from a short-term orientation towards a way of thinking that will drive long-term value creation. As a long-term investor, CPPIB has a compelling interest in driving a focus on long-term fundamentals. Making this shift is crucial to making us better able to deliver on the long-term mandate to maximize the value of the CPP Fund.

Since inception, much action has been taken in support of FCLT's objectives. CPPIB and McKinsey launched a website (www.fclt.org) to communicate about the initiative and its thinking. Mark Wiseman, President & CEO, CPPIB and Dominic Barton, Global Managing Director, McKinsey & Company co-wrote an article titled, "Focusing Capital on the Long Term," which was published in the January/February 2014 edition of *Harvard Business Review* and outlined practical ideas for change for the world's largest asset owners. Members of FCLT, including CPPIB, have also delivered numerous speeches advocating for long-term thinking.

FCLT members are also taking real action to develop practical structures, approaches and metrics to promote longer-term mindsets and actions within the investment and business community. Messrs. Barton and Wiseman hosted a working session for FCLT CEOs at the World Economic Forum Annual Meeting 2014 in Davos. Members also participate in regular working sessions to continue to develop practical recommendations and have gathered for a variety of workshops on topics such as 'shifting the corporate-investor dialogue toward the long term' and 'reorienting portfolio strategy.'

Fundamentally rewiring the ways we invest, govern, manage, and lead to better focus on long-term outcomes will require taking concrete, pragmatic steps. The work the FCLT initiative is developing will serve as one strong step in that direction.

IN A GLOBAL SURVEY OF SENIOR EXECUTIVES...

84%

Said they felt the most pressure to demonstrate strong financial performance within 24 months

88%

Believed their company would see improved performance (e.g., increased innovation, stronger financial returns, reduction of potential risks) if senior executives more often took a long-term view.

SOURCE: McKinsey-CPPIB 'Focusing Capital on the Long Term' survey 2014

ADVANCING GOOD GOVERNANCE PRACTICES AT HOME

Since 2012, Mark Wiseman has been a member of the Board on the Canadian Coalition for Good Governance (CCGG) and took on the role of Chair of the CCGG Public Policy Committee this year. Stephanie Leaist, Managing Director, Head of Sustainable Investing also sits on the Public Policy Committee.

Members of the CCGG manage almost $2 trillion in assets on behalf of Canadian investors. And, like CPPIB, many of these members are investing to help secure financial security in retirement for Canadians. The CCGG exists to promote good governance practices in the companies owned by its 47 members and believes that good governance practices contribute to a company's ability to create value for its shareholders. The companies with which the CCGG engages are typically members of the S&P/TSX Composite Index.

This year, the CCGG submitted eight comment letters on Canadian and global regulatory and policy matters. The CCGG's success in improving corporate governance through these channels was reflected in the adoption of a listing requirement by the TSX that all listed issuers must have a majority voting policy in place for uncontested director elections, a fundamental tenet of shareholder democracy that the CCGG has advanced since 2005. In addition, the CCGG directly engaged with 45 companies at the board and management level. Topics addressed through these engagements included gender diversity at the board and senior management level and shareholder rights.

Through the CCGG, and in other ways, CPPIB continues to work in collaboration with other Canadian pension plan investors to seek key improvements to the proxy voting infrastructure as a means to support shareholder engagement through the proxy voting process. We believe the proxy voting mechanisms currently in place do not provide adequate assurance in all cases that votes are counted in accordance with how the shareholders actually voted. Addressing this problem has been on the published list of priorities of the Ontario Securities Commission for two years in a row, partly at the urging of our collaboration with other Canadian pension plans.

CPPIB will continue to lend our voice to ensure capital markets operate in a way that allows us to maximize long-term value for the 18 million beneficiaries and contributors to the CPP.

ADDRESSING HUMAN RIGHTS IN THE EXTRACTIVE SECTORS

The Extractive Industries is one of CPPIB's four engagement focus areas. CPPIB believes that oil and gas and mining companies that proactively identify, manage and mitigate key environmental and social issues are more likely to create sustainable value for all stakeholders. CPPIB continues to engage directly with several Canadian and international extractive companies to improve standards and disclosure related to operations in high-risk countries, including human rights practices, local community relations and transparency of taxes and royalty payments.

As part of our efforts to broaden our influence through collaborative engagement alongside other global institutional investors, we joined the Steering Committee of the United Nations-supported Principles for Responsible Investment's collaborative engagement on Human Rights in the Extractive Sectors that was formed in April 2014. As a member of the Steering Committee, CPPIB is contributing to the overall approach and focus of the engagements, as well as providing input on which companies will be selected for engagement. Other Steering Committee members include: Aviva, bcIMC, Calvert, GEPF, Mirova, NEI Investments, PGGM and Standard Life.

This collaborative engagement is in its early stages and over the next two years we expect that significant engagement work will be undertaken in the extractive sectors globally with a number of companies. The UN Guiding Principles on Business and Human Rights and the UN Global Compact/PRI Guidance on Responsible Business in High-Risk and Conflict-Affected Areas will serve as key resources for dialogues with companies.

PART II
Our Approach to Sustainable Investing

Enhancing Long-Term Value for Canadians

Our purpose at Canada Pension Plan Investment Board (CPPIB) is to help support the sustainability of the Canada Pension Plan (CPP) for generations to come. This compels us to consider long-term environmental, social and governance (ESG) factors when we make investment decisions, manage our investments and engage with companies in which we invest.

As a global investment organization seeking the most attractive opportunities for the contributors and beneficiaries of the Canada Pension Plan, considering ESG factors in our investment decisions has a bearing in maximizing CPP Fund returns without undue risk of loss.

The following pages serve as a complement to our yearly *Report on Sustainable Investing* to provide a comprehensive look at the policies, resources and strategies CPPIB uses to integrate the consideration of ESG into our investment decisions and actions as an engaged asset owner.

We believe that organizations that manage ESG factors effectively are more likely to create sustainable value over the long term than those that do not. Given our legislated investment-only mandate, we integrate ESG into our investment analysis, rather than eliminating investments based on ESG factors alone. As an owner, we monitor ESG factors and actively engage with companies to promote improved management of ESG, ultimately leading to enhanced long-term outcomes in the companies and assets in which 18 million CPP Fund contributors and beneficiaries have a stake.

By establishing policies, devoting resources, implementing strategies and undertaking activities to consider ESG, we seek to be active, engaged owners:

- We integrate and recognize both the risks and opportunities of ESG in our evaluation of our investments
- We seek to enhance the long-term financial performance of companies in which we invest by encouraging better management of ESG factors
- We engage with companies individually and collaboratively and exercise our rights as shareholders

CPP INVESTMENT BOARD

ABOUT CPPIB: WORLD-CLASS GOVERNANCE

CPPIB's arm's length governance structure is globally recognized as a best practice for national pension plans. Five key attributes differentiate us:

- **Governance Structure** – CPPIB was specifically designed to be governed and managed independently of the Canada Pension Plan and at arm's length from Canadian governments.
- **Investment-Only Mandate** – We have a legislated investment-only mandate to maximize returns without undue risk of loss. CPPIB's decisions are not influenced by government direction; regional, social or economic development considerations; or any non-investment objectives.
- **Transparency** – We have mandatory disclosure of quarterly and annual financial statements, and public disclosure of portfolio holdings.
- **Segregated Assets** – The assets we manage belong to the 18 million CPP Fund contributors and beneficiaries and are strictly segregated from government funds.
- **Professional Management** – We are a professional investment management organization and seek to recruit top investment professionals globally. Our management team reports not to governments, but to an independent Board of highly qualified Directors.

CPPIB'S APPROACH TO SUSTAINABLE INVESTING FOR LONG-TERM VALUE

Implement focused strategies	**Integrate ESG into investment decisions** All CPPIB Investment groups integrate material ESG factors into their due diligence, investment analysis, monitoring and asset management.	**Actively engage as owners** We act as a constructive, active owner by advocating for progress on our defined engagement focus areas and exercising our voting rights as shareholders.	**Make an impact through collaboration** We collaborate with other global investors to advocate for better performance on ESG factors in companies and markets in which we invest.
Dedicate resources and processes	**In-House ESG professionals** CPPIB's professional in-house Sustainable Investing group supports ESG integration, and undertakes engagement and proxy voting activities.	**Research** The Sustainable Investing and Investment groups conduct and review ESG research into sectors, companies, issues, standards and best practices.	**ESG approach and processes** The Sustainable Investing and Investment groups review current and emerging ESG best practices to continually develop and refine how we consider ESG factors.
Establish governing policies	**Policy on Responsible Investing** Establishes how CPPIB approaches ESG factors within the context of our sole mandate to maximize long-term investment returns without undue risk of loss.	**Proxy Voting Guidelines and Principles** Establishes how CPPIB will exercise our voting rights and advance shareholder democracy as owners in public companies.	**Sustainable Investing Committee** CPPIB's Sustainable Investing Committee approves and oversees all ESG-related matters, with Board and senior management oversight as appropriate.

Guided by the United Nations-supported Principles for Responsible Investment

Integrating ESG into Investment Decisions

CPPIB's assessment of ESG factors in public market, private investments and real estate investments is an important factor in determining whether a potential investment is attractive. Where ESG factors are material, they can significantly affect our assessment of a company's value.

The impact of ESG on financial performance tends to emerge gradually over time. These factors can have clear, direct impacts on a company's profitability, for example, through greater regulation leading to higher operating costs. They can also have indirect impacts on a company's long-term performance by influencing organizational health metrics, such as customer loyalty, corporate brand, ability to attract talent and a company's 'licence to operate.' As a long-term investor, ESG factors are of greater importance to us than to investors with short-term perspectives who typically focus on near-term financial performance metrics. Better disclosure of ESG-related metrics helps us make better long-term investment decisions.

What is ESG?

Environmental
Climate impact and greenhouse gas (GHG) emissions; energy efficiency; air and water pollution; water scarcity; biodiversity; and site restoration.

Social
Human rights; local community impact and employment; child labour; working conditions; health and safety; and anti-corruption practices.

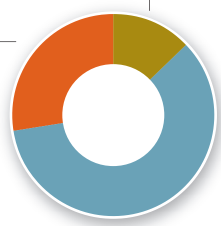
Governance
Alignment of interests; executive compensation; board independence and composition; and voting and other shareholder rights.

Simply put, a company that we expect to generate modest returns over the next few years, yet whose management of ESG will produce significant sustainable growth over decades, is a superior choice for the CPP Fund in comparison to a company that is expected to generate high returns over the short run but fails to address and prepare for ESG factors that could negatively impact the company's value in the coming years.

To evaluate and consider both the risks and opportunities of ESG factors in our investments, CPPIB devotes resources to a dedicated in-house Sustainable Investing group, collaborates with and incorporates the United Nations-supported Principles for Responsible Investment (PRI), conducts research into industry standards and best practices and supports further analysis into the impact of ESG factors.

CPPIB's Sustainable Investing group supports integration of ESG factors into our investment decisions and monitoring, actively engages with companies and stakeholders, and executes our proxy voting rights. The group also conducts in-depth research on companies, industries and assets where ESG factors are significant and have a material impact on investments within the Fund. The group reviews industry standards and best practices on ESG factors, and collaborates with the PRI.

CPPIB INVESTMENT DEPARTMENTS
As at March 31, 2014



Private Investments 27.5%
($60.3 billion)

Makes all private investments globally (excluding real estate) that out-perform comparable passive public alternatives

Real Estate Investments 12.9%
($28.2 billion)

Responsible for investing in real estate globally through direct ownership, JV partnerships and private funds

Public Market Investments 59.6%
($130.6 billion)

Invests actively and passively in 50 countries in equity and fixed income and is active in both "cash" and derivative markets

CPPIB is committed to continuing to enhance and deepen our understanding of ESG factors. To supplement our internal research efforts, we source ESG-related research on specific companies from expert Canadian and global providers. We encourage investment dealers to include consideration of long-term ESG factors in their research, and we take into account the value of their ESG-related research in our ongoing allocations of trading and commissions. We also encourage academics to produce enhanced analysis on the impact of ESG factors on business management and profitability, and on shareholder value.

As a global investment organization, CPPIB invests in a variety of asset classes, public markets, private investments and real estate in countries around the world. Each asset class presents unique risks, opportunities and rights to investors. As such, we implement a tailored approach to how and when we manage ESG factors across asset classes.

CPP INVESTMENT BOARD

ABOUT CPPIB: OUR COMPARATIVE ADVANTAGES

Long Horizon: By its multi-generational nature, the CPP has an exceptionally long investment horizon. CPPIB can and indeed must evaluate potential opportunities, returns and risks over decades, not years or months.

Certainty of Assets: CPP contributions will exceed annual benefits paid until 2022, providing incoming cash for new investments and allowing us to build and adjust the CPP Fund with discipline. We can be flexible, patient investors.

Size and Scale: We can invest substantially in private markets, many of which are larger than their public market counterparts and are expected to offer greater returns over time.

Integrating ESG: Public Market Investments

CPPIB's Public Market Investments (PMI) department invests actively and passively in 50 countries in publicly traded equity and fixed income securities.

Although performance measures on ESG tend to be less available and consistent than traditional financial metrics, the impact of these factors is potentially large and we carefully assess the related risks and opportunities.

Our Sustainable Investing group works closely with PMI's investment teams to:

- Determine how to best assess ESG factors and their impact on a company's value
- Provide updates on evolving trends and best practices regarding ESG
- Provide input on company-specific and broader thematic research
- Exercise our rights as owners of public companies by voting our proxies
- Inform our engagement activities to support a constructive two-way dialogue with companies (See *Actively Engaging as Owners* on page 30 for a more detailed look at how CPPIB engages with public companies.)

While ESG factors are considered across PMI, evaluation of ESG factors plays a key role in the work of our Relationship Investments and Global Corporate Securities groups in particular.

RELATIONSHIP INVESTMENTS: BENEFITING FROM ESG OPPORTUNITIES

Relationship Investments (RI) makes significant minority investments in public companies where a partnership with CPPIB can add value and help generate meaningfully enhanced long-term performance. RI seeks to benefit from being a long-term-focused owner in public markets where the majority of participants are focused on short-term results.

RI views a company's governance structure and its approach regarding environmental and social concerns as clear indicators of its commitment to sustainable growth and long-term value creation. Assessing ESG factors and a company's management of them is an integral part of RI's initial investment opportunity screening. If the investment moves forward to due diligence, the group then does a deep review of ESG factors and practices, including discussions with the company.

Once an investment is made by RI, CPPIB leverages its status as a significant owner to monitor and promote good ESG practices to enhance long-term value creation. We develop an active, ongoing relationship with a company's management team and board of directors. We also obtain governance rights commensurate with the importance of our stake. The company benefits from having a patient and supportive major investor who is committed to helping management generate longer-term outperformance relative to its peers.

GLOBAL CORPORATE SECURITIES: EVALUATING THE IMPACT OF ESG RISKS

Global Corporate Securities (GCS) is responsible for active public equity investment decisions. GCS uses two complementary research disciplines – quantitative and fundamental – to build distinct portfolios of equity securities. The investment strategies take a long-horizon view of up to five years and are global in scope, spanning all major developed and emerging markets.

The GCS Fundamental Investing team undertakes in-depth research to generate unique insights into the underlying reasons for company mispricing and an understanding of how they may be resolved. Evaluating ESG risks is central to the GCS Fundamental Investing process. The team examines ESG risks that could affect a company's ability to execute its business plans, the value of its assets and liabilities, and its future profitability. While ESG risks are more publicized in some sectors than others, they are important across all sectors.

GCS's evaluation of companies includes an ESG profile prepared by CPPIB's Sustainable Investing group and, depending on the initial assessment, can progress into focused research on specific issues relevant to the investment decision. If necessary, the research probes into the practices of both the company and its supply chain. GCS Fundamental Investing also works closely with Sustainable Investing on proxy voting related matters, particularly those that are contentious or key considerations for our investments.

Examples of the types of ESG factors researched and considered as part of such investment decisions include:

Environmental	• Energy management and greenhouse gas (GHG) emissions practices • Waste treatment/disposal compliance and management • Resource sustainability plans
Social	• History of product safety/liability, as well as testing methods • Labour practices and safety record • Internal policies on anti-corruption
Governance	• Executive compensation • Protection of shareholder rights • Share class structure • Board composition and structure

These issues can be significant drivers or barriers to profitability, especially over the long horizon for which CPPIB invests. GCS Fundamental Investing's analysis of these factors informs our risk assessment and return expectations for prospective investments and helps us determine the long-term attractiveness of an investment opportunity.

Anti-Personnel Landmines and Cluster Munitions

CPPIB does not screen out companies based on ESG or other non-investment factors alone; however, pursuant to our *Policy on Responsible Investing*, we only invest in businesses that would be lawful if carried on in Canada. We use third-party expert research to identify companies globally that may be ineligible for investment under our Policy. Our Sustainable Investing group conducts its own research and, if necessary, communicates directly with companies. The Sustainable Investing Committee periodically reviews additions and deletions from CPPIB's list of prohibited companies. These include:

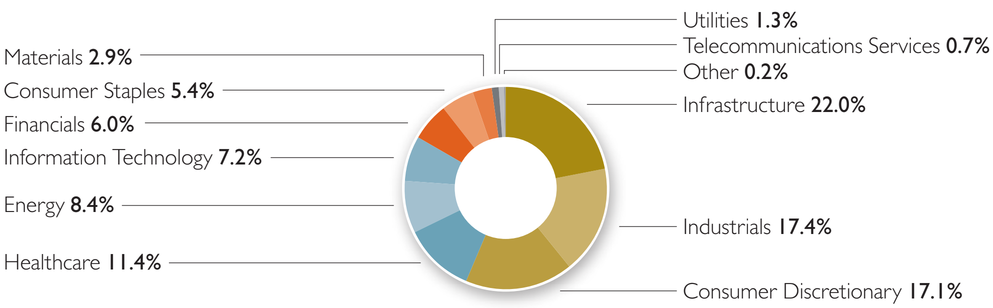
- **Anti-Personnel Landmines:** We will not invest in companies that are not in compliance with Canada's *Anti-Personnel Mines Convention Implementation Act*, or that would not be in compliance if they operated in Canada.
- **Cluster Munitions:** On December 3, 2008, Canada signed the Oslo Convention on Cluster Munitions that prohibits the use, development, production, stockpiling and transfer of cluster munitions. In anticipation of Canadian legislation to implement the Convention, CPPIB identified certain companies that we believed would be not be in compliance, divested our holdings in them and prohibited any new investments.

Our annual disclosure of individual corporate stock exposures may show amounts for companies on our prohibited list. Any and all such exposures are indirect, resulting from CPPIB's use of market-traded index futures contracts. The composition of the indices are standard and beyond the control of CPPIB. Our exposures do not assist or affect the capital formation of these companies, and CPPIB has no direct investment in them.

Integrating ESG: Private Investments

At the end of fiscal 2014, $88.5 billion of the CPP Fund was invested in private assets, including $28.2 billion in real estate investments, making CPPIB one of the largest private investors in the world.

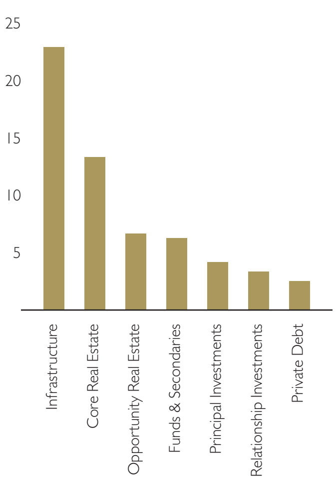
PRIVATE INVESTMENTS BY SECTOR
As at March 31, 2014



Compared to our investments in public markets, CPPIB can have a much larger degree of ownership, interest and influence in our direct private equity and infrastructure investments. We also intend to hold private investments for several years, or more than a decade in the case of infrastructure investments.

CPPIB Expected Average Hold Periods by Asset Type

(in years)



These long investment horizons mean the ongoing management of ESG factors, or the emergence of ESG issues with governments and stakeholders demanding or regulating higher standards from companies, can impact investment values significantly. For this reason, the evaluation of ESG opportunities and risks is an integrated part of Private Investments' due diligence process. We tailor our approach for the ESG evaluation of each transaction as the circumstances and issues differ by deal structure, company, industry and geography.

Once we have made a direct investment in a private company or infrastructure asset, we continue to closely monitor ESG risks and opportunities over the life of the investment. As an owner of a growing private investment portfolio, we must manage ESG factors across a wide range of companies in diverse sectors. To do so, we implement customized monitoring approaches to reflect the industry, geography and other company-specific factors.

The following pages outline CPPIB's approach to managing ESG risks and opportunities in our private investments.

APPROACH TO INVESTMENTS THROUGH FUNDS, SECONDARIES & CO-INVESTMENTS

The Funds, Secondaries & Co-Investments team (FSC) commits capital to top-tier managers of private equity funds around the world who generally share our belief in the importance of good management of ESG factors to enhance long-term value.

Our approach to managing ESG factors with our fund managers is firmly guided by our mandate – we evaluate how the fund manager both reduces risk and increases performance in the companies in which the fund invests. Our approach to evaluating our fund partners is guided by the PRI and industry best practices.

One element of our approach is a structured ESG questionnaire used with fund managers, called General Partners, to help us evaluate a General Partner's approach to ESG factors, how it integrates ESG factors in its due diligence, how it monitors and reports on ESG factors and the resources it commits to such activities.

Evaluating Potential General Partners

Aligned approach	How do the General Partner's ESG policies, processes and approach compare to CPPIB's?
Due diligence integration	What ESG due diligence does the General Partner conduct during the investment review process for potential new investments?
Resources	What resources does the General Partner commit to ESG considerations?
Monitoring and reporting	What ongoing monitoring and reporting of ESG factors and risks does the General Partner implement throughout its ownership of portfolio companies in the fund?

Opportunity Screening and Due Diligence

General Partners are required to complete FSC's ESG questionnaire as part of our due diligence process. FSC uses responses to inform and drive an active dialogue between the FSC team and the General Partner. The FSC team incorporates findings from the questionnaire and due diligence meetings and discussions into the team's investment memorandum.

Monitoring and Enhancing Outcomes as an Engaged Investor

After CPPIB has made a commitment to a General Partner, we remain actively involved in the ongoing monitoring of the General Partner's ESG practices, including regular discussion with the General Partner to identify how its ESG practices may be evolving. This information is then incorporated into FSC's quarterly and annual fund monitoring process as appropriate.

APPROACH TO DIRECT PRIVATE INVESTMENTS IN PRIVATE EQUITY AND INFRASTRUCTURE

CPPIB's approach to managing ESG risks and opportunities in direct private equity and infrastructure is designed to adapt to circumstances that can vary significantly by deal structure, industry and geography.

Guided by the PRI and internationally recognized standards, we focus our ESG evaluation and management approach for direct private investments in six areas: environment; health and safety; labour and working conditions; community relations; business integrity; and corporate governance.

Factors CPPIB Evaluates and Monitors in Our Direct Private Investments

Environment	• Environmental compliance and track record • Relevant policies, audits and certifications • Environmental litigation and outstanding liabilities • Resource usage (e.g. water, energy) • Environmental footprint (e.g. emissions, waste, biodiversity) • Environmental compliance in material contracts and subcontracts
Health and safety	• Occupational health and safety (OH&S) policies, permits and certifications • Accident and incident management • OH&S compliance, litigation and outstanding liabilities
Labour and working conditions	• Human resource policies and labour records • Child labour, forced labour and minimum wage • Employee representation and non-discrimination
Community relations	• Good community relations including proactive engagement with local communities and NGOs • Migrant workers and their impact • Relocation practices
Business integrity	• Anti-bribery and corruption • Anti-money laundering • Accounting integrity
Corporate governance	• Board setup and membership • Governance procedures • Risk management and compliance processes • Minority shareholder rights

The following sections outline how we implement consideration of these factors, from the beginning stages of looking at a potential investment to the ongoing monitoring of ESG factors, as an owner of private assets.

Opportunity Screening and Due Diligence

Every due diligence and investment situation is unique. CPPIB implements a highly customized and structured approach to due diligence of ESG factors in our direct private investments based on best practice in the industry, by government and by other investment organizations.

However, while unique to the circumstance and asset type, all due diligence processes include three stages: opportunity screening, primary due diligence and a governance and investment recommendation.

Stages to Managing ESG Factors in the Diligence of Direct Private Investments

Opportunity screening	CPPIB's deal team identifies and highlights the key ESG factors in the preliminary evaluation of a potential opportunity at the screening stage.
Primary due diligence	If CPPIB proceeds to due diligence, we conduct a structured and intensive review of a target's business model and key ESG risk factors by accessing a number of sources, including senior management and corporate information, and using in-house specialists and contracted environmental, technical, engineering, legal, security and accounting experts as necessary.
Governance and investment recommendation	Material ESG matters are then considered as part of the investment approval process. The deal team assesses the potential commercial impact of the ESG risks and quantifies the associated costs and opportunities. CPPIB encourages best practices for board governance. As owners, we work to put appropriate controls and processes into each of our portfolio assets.

Monitoring

Once CPPIB has acquired a major stake in a private company, we become an active and constructive long-term partner to enhance the company's ongoing operational and financial performance. In particular, ESG issues that we identified as part of the due diligence process (or other ESG factors that may emerge over time) require responsible management, whether directly or through our partners. Relevant ESG factors are monitored via CPPIB's regular quarterly and/or semi-annual monitoring processes for all direct assets.

Depending on the stake of our investment, our ongoing engagement in the company's monitoring of ESG performance can take several forms.

For example, if CPPIB has a board seat, or other access to a company's regular board reporting, we can then monitor and act on essential information on ESG performance indicators. We make our views known through positions on boards and committees, such as health and safety, environmental, compliance, audit and others. This close contact with other directors and senior management gives us valuable insights, provides for close oversight of management's compliance with standards, allows us to encourage responsible business practices from within the organization and, in the long run, is expected to improve the company's financial performance and CPPIB's return on investment.

For companies where we strongly influence or (less commonly) control their governance, we insist on executive compensation arrangements that are not excessive and that are properly aligned with long-term shareholder interests. Further, the composition of boards and board committees must reflect required competencies and independence from company management. Compensation and board composition are high priorities for us; indeed, improvements in these areas may be part of our contractual agreement with a company in which CPPIB is a significant shareholder.

Monitoring ESG: Addressing Social Factors in Direct Private Investments

Social factors cover a wide range of health and safety, labour and community topics, and each portfolio company has a distinct set of issues of greater or lesser materiality. CPPIB has proactively addressed a wide range of important social considerations in our private investments across different industries and asset classes. Examples include:

- **Healthcare:** Compliance with requirements of the U.S. Food and Drug Administration
- **Natural Resources:** Standing Health & Safety Committee and annual confirmation of compliance with policy by all employees and directors
- **Toll Roads:** Compliance with legislated noise emissions levels
- **Transportation Infrastructure:** Community consultation on local area impact, particularly with respect to any planned expansions

Enhancing Outcomes as an Engaged Owner

In CPPIB's experience, prudent or innovative forward-looking decisions on ESG can maintain, and often enhance, financial outcomes. In particular, through the active governance model of private equity, CPPIB and our partners are able to directly influence portfolio companies commensurate with our ownership stake. This influence can include encouraging stronger ESG and sustainability performance.

To ensure we realize the financial benefits that private ownership can provide, our Private Investment department has a Portfolio Value Creation group who are actively involved in the governance and management of CPPIB's direct investments in private equity and infrastructure assets. The group works closely with deal teams, management and partners to drive value within portfolio companies, through board oversight, performance monitoring and value creation from operations.

Portfolio Value Creation monitors developments and commitments by our portfolio companies and can help resolve governance and operational issues as they arise. The group carries out a regular semi-annual monitoring process that includes ESG factors, for major assets where CPPIB holds significant governance rights or control. In addition, the group ensures the implementation of CPPIB's ESG diligence and monitoring process for directly invested assets.

With our extremely long investment perspective, as an owner in private markets we are focused on addressing long-term ESG factors that can enhance financial returns. By taking this long-term perspective, we help encourage more sustainable outcomes for stakeholders and communities.

Integrating ESG: Real Estate Investments

CPPIB's Real Estate Investments department (REI) invests in and manages a diversified global portfolio of high-quality properties. At the end of fiscal 2014, CPPIB's real estate investment portfolio was valued at $28.2 billion and included properties in countries around the world. Similar to our approach to other private assets, CPPIB considers ESG factors in both the due diligence and ongoing monitoring of real estate investments to enhance the long-term value of these assets.

Full compliance with local environmental regulation is a basic requirement for any real estate investment by CPPIB. Yet in pursuit of our mandate to maximize CPP Fund returns without undue risk of loss, we further seek to maximize the value of our real estate holdings through prudent management of ESG factors in partnership with our operating partners. In particular, improvement in environmental performance can increase potential rents and occupancy, reduce operating costs, and thus increase a building's value and return on investment.

The office sector is especially sensitive to environmental factors and operating efficiencies. Leading tenants frequently seek out the most environmentally advanced buildings for their corporate offices as a reflection of their company's own commitment to ESG standards and to control costs. For new office developments or major renovations, environmental quality is a major element in determining the attractiveness of the property to prospective tenants, the rents that can be charged and ultimately the economic value of the property and its sustainability.

Opportunity Screening and Due Diligence

During the assessment of potential investment opportunities, REI follows a formal ESG due diligence procedure that integrates consideration of ESG factors into the investment process. This process includes an assessment of the importance placed by the asset owner or manager on operating efficiencies – including energy consumption, greenhouse gas emissions, water use and waste generation. While the particular factors examined are tailored to the specific opportunity, we examine ESG factors across five broad categories.

Assessing ESG in Potential Real Estate Investments

1. Partner's approach	Determine our prospective partner's approach to responsible investing principles and ESG practices.
2. Regulatory compliance	Ensure environmental regulatory compliance, and where necessary, quantify remediation costs into capital requirements.
3. Sustainability features	Assess the quality and level of green building design, and incorporate these into our assessment of the attractiveness of the asset.
4. Operational efficiencies	Identify and factor in operational efficiencies, often environment-related, and to the extent applicable, incorporate these aspects within our valuation.
5. Social impacts	When applicable, assess social impacts and issues to ensure they are part of the decision process.

Monitoring

Working with CPPIB's real estate partners, REI assesses ESG factors and operating efficiencies on an ongoing basis to maintain and enhance the competitive position, value and marketability of our property investments. Once CPPIB acquires a real estate asset, REI puts in place annual ESG monitoring tools to enhance communications with our investment partners on ESG factors on an ongoing basis. The annual monitoring process involves requesting our operating partners to disclose any significant ESG issues or events to provide updates on the latest regulatory changes with respect to environmental and social matters, and to report on new environmental certification and operating efficiency targets achieved on our invested properties over the past year.

Enhancing Outcomes as an Engaged Owner

CPPIB is committed to ongoing ESG improvements in our real estate assets to enhance their long-term value. The investment professionals in REI continue to enhance their knowledge of current and emerging best practices in sustainability by actively engaging with our existing and new investment partners and participating in a variety of sustainability-focused events.

In North America, the Leadership in Energy and Environmental Design (LEED) certification program and Canada Green Building Council encourage sustainable building and development practices through standards and performance criteria. Similar ratings are used in Europe and other countries. Like CPPIB, our partners in real estate acquisition and management take LEED or equivalent ratings into account in building and operating their property portfolios. While with newer buildings adherence to high LEED or other standards is taken into account pre-construction, CPPIB also examines the ability to enhance the performance of existing buildings through upgrades, such as in the case of our co-ownership of Royal Bank Plaza, the first major Canadian bank tower to receive LEED Gold certification as an existing building after renovation.

BARANGAROO SOUTH

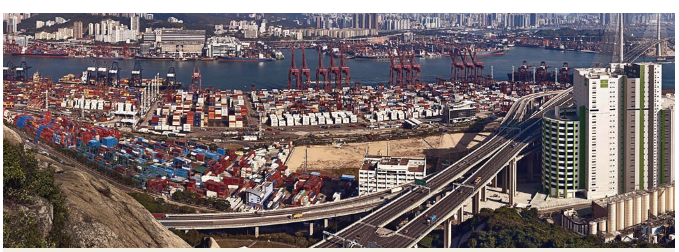
Australia • 50% Interest • Mixed use

Upon completion Barangaroo South aims to be water positive, exporting more recycled water than the potable (drinking water) it uses. Sustainable features of the office towers include solar photovoltaic panels for renewable low carbon energy generation, outdoor sky terraces designed for employee attraction and activity, landscaped podium roofs for enhanced tenant amenity and vertical gardens within the low and mid rises for visual amenity from tenancy space. In May 2014, the Barangaroo South Tower 2 became the largest building to receive the 6 Star Green Star – Office Design v3 rating awarded by the Green Building Council of Australia.

WESTFIELD STRATFORD CITY SHOPPING CENTRE

U.K. • 25% Interest • Retail

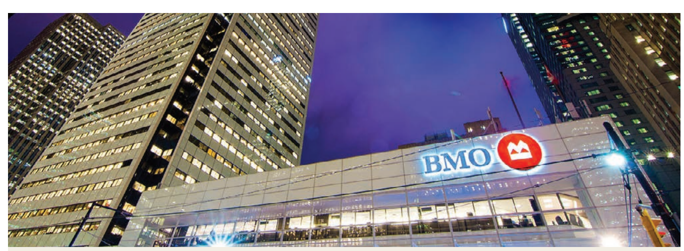
Transformed a former industrial site into a community hub and was designed to be one of the most environmentally efficient retail centres in the U.K. . The centre generates 75% of its own energy needs and has effective insulation, high efficiency lighting, heating and cooling and ability to control solar gain to ensure that the buildings are at least 10% more energy efficient than required by building regulations.



INTERLINK

Hong Kong • 50% interest • Industrial

This 24-level industrial complex achieved a gold rating under HK-BEAM, with environmental features such as carbon monoxide sensors, light and motion sensors and low-energy light fittings.



FIRST CANADIAN PLACE

Canada • 25% Ownership • Office

Post completion of its $100 million three-year renovation, it has seen a 25% reduction in energy use, a 36% reduction in water use and 35% reduction in Greenhouse Gas Emissions compared to 2008.

Actively Engaging as Owners

We believe that engaged investors with long-term orientations can meaningfully reduce investment risks and sustain better returns over time. Whether on our own or alongside other investors, we are committed to driving proactive dialogues with senior executives, board members, regulators, industry associations and other stakeholders.

CPPIB believes that our stewardship of CPP Fund assets must go beyond simply buying and selling investments. Our responsibility is also to conduct ourselves as principled, constructive and active owners. Acting as engaged investors can also significantly reduce investment risks and contribute to enhanced and sustained returns over time.

Through engagement, we can use CPPIB's position as a major institutional investor to:

- Initiate contact with a company where we believe we can encourage more effective management of ESG factors
- Collaborate with other investors to seek improvements in transparency and ESG standards
- Engage in dialogue with senior management and the board of the company to make our views known and discuss avenues for improvement
- Seek increased disclosure on risks and steps being taken by management to mitigate them
- Gain corporate commitments to beneficial change, monitor their progress and follow up to encourage continued improvement, ultimately leading to enhanced financial performance
- Act as a long-term constructive partner to help companies meaningfully address ESG factors to the ultimate benefit of all stakeholders, instead of simply selling our shares

Based on our belief that the effective management of material ESG factors will improve long-term financial performance, CPPIB devotes considerable resources to engaging with corporations both directly and collaboratively with other investors. Collaborative engagement provides us the opportunity to substantially increase the influence, resources and expertise we can bring as part of a group of investors, with a resulting positive influence on corporate behaviour. When we engage with a company on our own or collaboratively, we typically do not disclose publicly or to third parties, its name – although we will do so if we determine that circumstances warrant it.

We provide constructive input to regulatory initiatives on corporate governance and other investment-related matters. We also rigorously exercise our voting and shareholder rights, forming our views on shareholder and management proposals, and making our decisions transparent on our website. Through engagement we seek to enhance critically important disclosures, foster positive corporate conduct and contribute to a practical and balanced regulatory environment.

The following pages describe how we approach engagement to enhance long-term value in the CPP Fund's investments.

DETERMINING WHEN AND WHERE TO ENGAGE

As described previously, in our Private Investments and Real Estate Investments departments CPPIB has approaches and processes in place to monitor and enhance outcomes as an engaged owner. Such processes are often unique to private ownership, which provides 'built-in' opportunities for owners to engage and share their views.

For example, CPPIB acts as an engaged owner of private assets by:

- Using our in-depth access to ESG performance metrics to form the basis for regular discussions with management
- Establishing close relationships with senior management and the board of directors by which we can actively ensure compliance and encourage adoption of best practices
- Holding board seats ourselves and taking an active role on health and safety sub-committees
- Implementing our own asset monitoring processes, including through our Portfolio Value Creation group, to focus the company on enhancing long-term value

This kind of access is not typically available to owners in public markets. Thus, a primary goal of our engagement efforts with public corporations is to achieve more complete and consistent disclosure. In public markets, adequacy and comparability of information ensures that all stakeholders understand relevant risks and how companies are managing them. Greater transparency also facilitates constructive government relations and supports brand values that in turn build customer loyalty and attract talented staff and long-term investors. Beyond disclosure, we encourage companies to improve specific ESG practices to enhance long-term financial outcomes and shareholder value.

The public equities portfolio of the CPP Fund largely replicates market indices, which means it spans all sectors and geographic regions. From the over 2,500 public companies in which we own shares, we select companies for engagement based on the materiality of their ESG risks, the gap between current ESG practices and best practices, and the size of our holdings. As a long-term investor and market participant, when issues arise we have the ability to act as a patient provider of capital and work with companies to bring about change, instead of simply 'voting with our feet' and selling our shares.

To determine where, when and how we should engage public companies, CPPIB follows the selection process outlined below.

DETERMINING WHEN TO ENGAGE: FROM APPROACH TO ACTION

Analyze

Analyze ESG risks of companies in our public equity portfolio using internal and third-party research.

Identify

Identify engagement focus areas considering materiality, time horizon, resource implications and likelihood of success.

Optimize

Determine optimum method of engagement: direct, collaborative, proxy voting and/or input to regulators.

Engage

Develop a list of companies for direct engagement and set specific engagement objectives.

CPPIB's Engagement Focus Areas

To further guide our engagement efforts, we choose focus areas with significant and meaningful impact on the long-term financial sustainability of the public equity portfolio. We report annually on the actions and activities we undertake to achieve our objectives in each focus area.

	Why we engage	What we seek
Climate change	Climate change has the far-reaching potential to result in both direct and indirect financial implications for companies and long-term shareholder value. Such impacts can include increasing regulatory requirements, the introduction of taxes or market-based charges related to GHG emissions, costs for mitigation and/or remediation of impacts, and corporate reputation threats from higher public expectations. CPPIB's activities centre on the Energy and Utilities sectors, which face increasing costs from progressively tighter regulation of GHG emissions. We believe companies that adjust successfully to climate change issues (e.g. by deploying new technologies or approaches) will be rewarded over the long run.	• More complete and more standardized disclosure of emissions and other data • Enhanced reporting on risk management strategies and opportunities • Improved estimates of the impact of future regulation on long-term profitability
Water	Water is one of the world's most critical resources. Effective risk management of water supply and quality is fundamental to the long-term sustainability of a company's performance and thus especially relevant to investors with a long horizon. CPPIB engages primarily with Canadian and global companies in the Energy and Materials sectors. Due to changes in regulatory requirements, their own growth and increasing water scarcity, these companies are facing higher operating costs and restrictions. If these impacts are not handled effectively it can negatively impact their sustainability.	• Increased corporate reporting on water-related strategies and performance • Improved and more comparable disclosure of water-related data
Extractive industries	Oil and gas and mining companies have significant impacts on both the physical environment and the local communities where they operate. CPPIB believes that to be successful, companies in these sectors must earn and maintain a 'social licence to operate' by proactively identifying, managing and mitigating key environmental and social issues to create greater and more sustainable value for all stakeholders.	• Improved disclosure of environmental performance and management strategies, allowing investors to better assess the long-term prospects for the company • Operational standards, including human rights practices, local community relations and anti-corruption initiatives
Executive compensation	CPPIB believes that a clear and appropriate link between pay and performance is critical to aligning the interests of management with those of long-term investors. When these interests are aligned, long-term shareholder value is more likely to be created. When they are not, the result is often ineffective and short-term corporate management.	• A clear link between pay and performance that appropriately aligns the board, management and investors and that emphasizes long-term and sustainable growth of shareholder value • Clear rationale and full disclosure in corporate reporting

Beyond Our Focus Areas

As managers of a diverse and global public equities portfolio, we also regularly engage on specific areas that do not fall into one of our four focus areas. For example, such areas include:

- **Tobacco:** We have requested enhanced disclosure from companies producing tobacco products with respect to how they are responding to the World Health Organization Framework Convention on Tobacco Control (WHO FCTC), particularly for operations in emerging markets. Since 2004, we have supported over 40 shareholder proposals at tobacco companies requesting improved disclosure and standards on a range of ESG factors, including marketing and lobbying practices.
- **UN Global Compact:** The Compact is a voluntary commitment made by companies with regard to the Compact's Principles in the areas of human rights, labour, environment and anti-corruption. Since 2008, we have participated in five collaborative engagements related to the UN Global Compact, coordinated through the PRI Engagement Clearinghouse, to encourage disclosure by companies that have committed to the Compact's Principles.

EXERCISING OUR RIGHTS AS OWNERS IN PUBLIC MARKETS

One of the most effective ways to engage with public companies is by voting our proxies at annual and special meetings of shareholders. CPPIB is an engaged owner of public securities and fully exercises our voting rights.

Voting proxies is both CPPIB's fiduciary responsibility as a shareholder and an important means for us to convey our views to boards of directors and management. CPPIB's published *Proxy Voting Principles and Guidelines* provides guidance on how we are likely to vote on typical issues put to shareholders. In general, we support resolutions that empower boards of directors to act in the best interests of the corporation, that enhance management accountability and that support shareholder democracy.

CPPIB makes all of our proxy voting decisions independently. We engage a service provider (Institutional Shareholder Services Inc.) to make initial, customized recommendations based on our voting guidelines. Our in-house Sustainable Investing group considers these recommendations, conducts research, consults with our investment teams and engages with companies and stakeholders if necessary, to arrive at CPPIB's own voting decision.

As an active owner we believe it is important to be transparent in our voting activities. CPPIB implements the leading practice of posting our individual proxy vote decisions in advance of meetings, to ensure full prior disclosure of our voting intentions and rationale both to the companies concerned and to other interested parties.

MANAGEMENT PROPOSALS

Most agenda items at shareholder meetings are proposed by company management and typically relate to the election of directors, appointment of auditors, and other issues boards deal with in the normal course of business.

Types of management proposals we generally vote against:

- X Say on Pay proposals when executive compensation plans do not properly align pay and performance
- X Approvals to issue equity that provide directors with excessive discretion
- X Election of directors with poor attendance records
- X Equity compensation plans that are inconsistent with CPPIB's guidelines

SHAREHOLDER PROPOSALS

CPPIB reviews and discusses proposals put forward by shareholders. We generally support proposals that seek to improve disclosure or to reduce risks that could negatively impact long-term profitability.

Types of shareholder proposals we generally support:

- ✓ Enhancing disclosure on environmental and social risks and performance
- ✓ Separating the Chair and CEO roles
- ✓ Adopting and disclosing corporate responsibility standards
- ✓ Declassifying the board of directors

CPPIB conducts an annual review of our *Proxy Voting Principles and Guidelines*. The process involves input from the Sustainable Investing group, our investment teams and external advisors. Updates to the guidelines are reviewed and approved annually by CPPIB's Board of Directors.

On our website at www.cppib.com we provide access to an easily searchable database of our voting decisions and our *Proxy Voting Principles and Guidelines*.

ADVOCATING FOR GOOD GOVERNANCE

Corporate directors have a fiduciary duty to represent the best interests of the company. Well-structured and effectively functioning boards are able to focus on the company's long-term sustainable growth, acting as true stewards for the best interests of the company.

CPPIB believes that companies with robust governance practices can create greater long-term value and pose less risk for shareholders. We regularly engage with companies, academics, governments, regulators and other stakeholders to advocate for improved and enhanced governance standards and practices.

CPPIB...	For example we...
Regularly engages with **companies in which we invest** on key governance issues.	Previously worked with Magna Corporation to enhance the public disclosure of detailed voting results from the election of directors. Our effort helped bring a renewed focus on vote disclosure among Canadian companies, prompting proxy advisory firms to introduce new policies to address boards that do not provide detailed voting results.
Reaches out to **regulators and policymakers** to improve laws and governance standards overall.	Are part of a group of institutional investors dedicated to improving the reliability and integrity of the proxy voting system in Canada. We have raised our concerns with securities commissions in Ontario, Alberta, British Columbia and Quebec around the accountability, transparency and efficiency of the voting system, and have encouraged them to examine these issues and facilitate discussions among market participants.
Actively contributes and participates in **governance-related organizations.**	Are a member of the International Corporate Governance Network, the Pension Investment Association of Canada and our President & CEO Mark Wiseman sits on the board of the Canadian Coalition for Good Governance.

Making an Impact Through Collaboration

By working together with other investors, companies and stakeholders, CPPIB contributes our influence as one of the world's largest institutional investors to advocate for system-wide progress on management of ESG factors.

Alongside like-minded organizations, we can collectively use our influence to seek improvements in transparency and standards on ESG and conduct research, education, advocacy and input to legislation. We join and actively contribute to initiatives that focus on specific subject matters, such as governance practices, and others that advocate for broader factors, such as fostering more long-term thinking in the investment and corporate worlds.

All of these efforts further our ability as an investor to enhance the long-term performance of CPP Fund investments.

Signatory of:

PRI Principles for Responsible Investment

Founding Signatory

International network of the world's largest institutional investors working together to put its Six Principles for Responsible Investment into practice.

Eric Wetlaufer, Senior Managing Director & Global Head of Public Market Investments at CPPIB, is a member of PRI's Advisory Council.

Canadian Coalition for GOOD GOVERNANCE THE VOICE OF THE SHAREHOLDER

Member

Organization promoting good governance in Canadian public companies.

Mark Wiseman, President & CEO of CPPIB, is a board member and chair of the Public Policy Committee, on which CPPIB's Managing Director, Head of Sustainable Investing is also a committee member.

ICGN International Corporate Governance Network

Member

Global organization aiming to raise standards of corporate governance worldwide. Membership includes 600 leaders in corporate governance from 50 countries.

ACGA

Member

Independent, non-profit membership organization dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.

Council of Institutional Investors The Voice of Corporate Governance

Member

Non-profit association of pension funds, other employee benefit funds, endowments and foundations promoting good corporate governance and shareowner rights.

PIAC Pension Investment Association of Canada Association canadienne des gestionnaires de caisses de retraite

Member

Group of Canadian pension funds aiming to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

A member of CPPIB's Sustainable Investing group is a member of the Corporate Governance Committee.

CDP DRIVING SUSTAINABLE ECONOMIES

Investor Signatory

Non-profit organization acting on behalf of over 700 institutional investors globally, encouraging companies to measure, disclose, manage and share climate change information. CPPIB also supports the CDP's Water Disclosure initiative.

EITI Extractive Industries Transparency Initiative

Supporting Investor

Multi-stakeholder organization which includes more than 90 institutional investors, promoting revenue transparency and accountability in the extractive sectors.

FOCUSING CAPITAL on the LONG TERM

Co-Founder

Initiative co-founded by CPPIB and McKinsey & Company to develop tools and approaches to help institutional investors and corporate directors enhance long-term value creation.

World Economic Forum

Industry Partner

Independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas. Incorporated as a not-for-profit foundation, the Forum is tied to no political, partisan or national interest.

Mark Wiseman, President & CEO of CPPIB, is a member of the Global Agenda Council on Long-Term Investing.

OECD

LTI Project Partner Member

International organization helping governments tackle the economic, social and governance challenges of a globalized economy.

CPPIB has been a Partner of the OECD's Institutional Investors and Long-Term Investment (LTI) Project (Phase 1) and is a Member of the Network on Institutional Investors and Long-Term Investment, which aim to facilitate long-term investment by institutional investors.

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.com.

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;
- 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.com).

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.

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.com).

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

Proxy Voting Principles and Guidelines

January 17, 2014

I INTRODUCTION

Proxy Voting and Corporate Governance

We believe that good corporate governance enhances long-term shareholder value. Proxy voting is one component of the corporate governance process, enabling shareholders to express their views on a variety of issues. Shareholders can, of course, influence companies in other ways, such as direct engagement with boards and management. In addition, shareholders can work on governance matters in collaboration with other investors, as we do through the Canadian Coalition for Good Governance[1].

These *Proxy Voting Principles and Guidelines* have two purposes: (i) to give the directors and officers of companies in which we own shares guidance on how the CPP Investment Board is likely to vote on matters put to the shareholders; and (ii) to communicate our views on other important matters that boards will deal with in the normal course of business.

We stress that these are guidelines, not rigid rules, and we will respond to specific matters on a company-by-company basis. We recognize that there are often circumstances that even the most well-thought-out guidelines cannot contemplate. In these situations, we would be pleased to hear from a company or director and have set up a special e-mail address, proxyvote@cppib.com, for that purpose.

While these *Proxy Voting Principles and Guidelines* are intended to apply globally, we will take into account local laws and prevailing governance practices when exercising our votes.

Board and Management Responsibilities

In exercising our votes, we do not seek to manage the companies in which we own an interest. We accept the division of authority and responsibilities among the triad of interests that is the core of good corporate governance – owners, directors and managers – based on the following premises:

i. the shareholders own the company and elect the directors to be stewards of the company;
ii. the board of directors is responsible for the overall governance of the company, which includes approving the company's strategy, monitoring its implementation and overseeing management;
iii. management is responsible for developing and implementing the company's strategy and for running its day-to-day operations; and
iv. management is accountable to the board and the board is in turn accountable to the shareholders.

Generally, we support resolutions that empower boards of directors to act in the best interests of the company and reaffirm management accountability.

Long-Term Perspective

The CPP Investment Board is a long-term investor with a multi-generational horizon. With billions of dollars committed to equity ownership, we cannot (nor do we choose to) walk away from companies by selling our shares every time we disagree with a position taken by management or a board of directors. Instead, as a long-term investor, we have the ability to act as a patient provider of capital and to work with companies to bring about change.

Good boards and management teams understand that they can best serve the company by taking a long-term view of its best interests and those of the shareholders. As a long-term investor, we are committed to encouraging business leaders to adopt long-term mindsets and steward their companies towards long-term shareholder value creation, not just better results in the next quarter.

We oppose resolutions that are likely to diminish long-term shareholder value even though they may produce short-term gains.

Responsible Investing

We believe that environmental, social and governance (ESG) factors have the potential to be significant drivers or barriers to profitability and shareholder value over the long term. While our investment-only mandate means we do not pursue or eliminate investments based on any objective beyond earning a maximum long-run rate of return without undue risk of loss, we also consider factors that have the potential to impact returns over a much longer horizon than many other investors. Consideration and management of long-term ESG factors in our investments is crucial to fulfilling our mandate.

Our *Policy on Responsible Investing* sets out the principles of our approach to responsible investing and is available on our website (www.cppib.com). Proxy voting is a key element in our approach to responsible investing.

How Shares are Voted

We make all of our proxy voting decisions independently based on these *Proxy Voting Principles and Guidelines*. We engage an independent service provider, the ISS Governance Services division of MSCI Inc., to make initial, customized recommendations based on these *Proxy Voting Principles and Guidelines*. Our in-house Responsible Investing team considers these recommendations, conducts internal research, consults with our investment teams and engages with companies and stakeholders, if necessary, to arrive at our voting decisions. We post how we intend to vote and, where appropriate, the rationale for our vote on our website (www.cppib.com) prior to each shareholders' meeting.

[1] Information on the Coalition's mandate, membership and governance can be found at www.ccgg.ca.

We take our responsibility to exercise our votes very seriously and use our best efforts to exercise this right in all cases. However, in some circumstances it may be impractical or impossible for us to vote. For example, in international markets where share blocking[2] applies we typically will not vote due to liquidity constraints.

II SHAREHOLDER VOTING

Disclosure of Shareholder Votes

We believe companies should be transparent with respect to proxy voting, while providing confidentiality to individual shareholders. We urge companies to retain an independent third-party service to verify votes.

The disclosure of shareholder votes informs shareholders about the level of support and opposition for matters brought to the shareholders for their consideration. It also encourages boards to pay attention to issues that are supported by a substantial number of shareholders.

Guideline: The percentage of votes cast for, against or withheld as well as the percentage of eligible votes cast should be tabulated and announced at shareholders' meetings and published as soon as possible thereafter. Consider withholding votes from the chair of the nominating/governance committee (or chair of the board) if detailed voting results are not disclosed from the previous shareholders' meeting.

Respect for Shareholder Views

Boards should encourage shareholder engagement and provide opportunities for shareholders to communicate directly with the board.

Although in most cases boards have no legal obligation to do so, they should consider implementing resolutions that receive majority shareholder support in the context of their overall fiduciary obligations to the company. There should be valid reasons for not implementing a majority supported resolution.

Guideline: Where a resolution receives majority shareholder support, the board of directors should report back within a reasonable time, not later than the next shareholders' meeting, on the action taken or explain why no action was taken. Unless a satisfactory explanation has been provided, we will consider withholding votes from all board members for failing to implement a majority supported resolution.

Supermajority

We oppose any attempt to create inequality among shareholders or to constrain minority shareholder rights.

Some companies require a vote of two-thirds or more of the outstanding shares to approve a resolution instead of a simple majority. Generally, such supermajority voting requirements are favoured by dominant or controlling shareholders to strengthen their position at the expense of minority shareholders.

Guideline: Oppose supermajority voting requirements, except as required by law.

Shareholder Proposals

We can and do support shareholder proposals. We will support proposals that are likely to enhance long-term company performance, reduce risk to long-term company performance or improve disclosure reasonably necessary to enable shareholders to assess their investment risk and opportunity. We weigh the benefits of a shareholder proposal against any potential adverse effects the proposal may have on a company. We do not support proposals that are designed to diminish the power of the board of directors of a company or place arbitrary or artificial constraints on a company.

Guideline: Review shareholder proposals on a case-by-case basis.

Linked Proposals

Boards and shareholders sometimes link two or more unrelated proposals in one resolution in the hope that a proposal popular with shareholders will cause them to approve proposals that they would likely oppose if voted on separately.

Guideline: Support linked proposals only if supportive of all proposals individually and discourage boards of directors from linking proposals.

[2] Share blocking is a mechanism used by certain European countries whereby shares are frozen and may not be traded for a specified period of time prior to a shareholders' meeting. Share blocking is intended to facilitate the voting process, however, it also imposes constraints as a pending trade may fail if it settles during the blocked period.

III BOARD OF DIRECTORS

Independence

The cornerstone of effective corporate governance is that boards are required to act in the best interests of the company. This can best be achieved in part by ensuring that a substantial majority of directors are independent.

A director is independent if he or she has no direct or indirect material relationship with the company or the company's senior management or controlling shareholder. A material relationship is a relationship which could, in the view of the company's board of directors, reasonably be expected to interfere with the exercise of an individual's independent judgment.

Board independence may also be impeded through interlocking directorships, where CEOs sit on each other's boards. We do not believe such interlocking directorships are appropriate.

Having a majority of independent directors can be a challenge in a company that has a founder or significant shareholder that has a role in senior management. However, in our view, any company that is publicly traded should have a majority of independent directors.

Guideline: Support election of boards that contain at least a majority of independent directors.

Director Qualifications

The experience, qualifications and character of directors is of utmost importance. The board as a whole must have general business acumen (including specific qualifications in finance, accounting and governance matters) and relevant industry expertise. Furthermore, each director is expected to act with high standards of integrity, demonstrated by a pattern of behaviour and decision making that is consistent with the long-term best interests of the company.

We believe boards should be diverse, including with respect to gender. Having directors with a range of experiences, views and backgrounds will help to ensure the board as a whole has the right mindset to properly evaluate management and company performance.

Considering the significant responsibilities and regulatory demands facing board members, it is important that directors are not overextended to the extent that they jeopardize their ability to serve as effective board members. While directors benefit from their exposure to other company (including not-for-profit) boards, the time demands limit the number of commitments they can manage without compromising their effectiveness.

Guidelines: Support disclosure of the company's expectations for directors. Support disclosure of the business and professional experience and qualifications of each director as they relate to effective oversight of the company's business. Support disclosure of how the board as a whole has the necessary experience and qualifications to fulfill its duties. Support the election of directors with the experience and qualifications necessary to effectively oversee the company's business, taking into account the composition of the board as a whole. If we have concerns about whether a director has displayed character and integrity sufficient to engender confidence in his or her ability to act in the long-term best interests of the company, we will consider withholding votes from that director. We will question companies that have directors sitting on an excessive number of other company boards, taking into account the complexity of those other companies' businesses and the time commitment required of the director. We will also question companies with a CEO who sits on more than two outside company boards.

Separate Voting vs. "Slate" Voting

Shareholders should have the opportunity to vote for or withhold votes from (or vote against) each director separately, rather than voting on a slate of directors recommended by the company.

Guideline: Support process whereby directors are elected individually. We will consider withholding our votes from all board members if the nominees are presented as a slate and other governance, performance or compensation concerns exist.

Annual Elections

Companies should hold annual elections for all directors. Staggered boards (where not all of the directors are up for election each year) reduce director accountability by making it more difficult to replace directors and by depriving shareholders of the opportunity to express any concerns by withholding votes from (or voting against) one or more directors.

Guidelines: Support annual elections for all directors. Support proposals to institute annual elections for all directors.

Majority Vote Standard

Companies should employ a majority vote standard for the election of directors. If a director nominee does not receive support of a majority of the votes cast, the nominee should not be elected. An exemption to the majority vote standard should apply in cases of contested elections, where there are more director nominees than board seats.

Many companies have adopted formal corporate governance policies requiring the resignation of a director who does not receive support of a majority of votes cast unless extraordinary circumstances exist. These policies present an acceptable alternative to a majority vote standard.

Guideline: Support proposals calling for directors to be elected by a majority of votes cast unless a satisfactory resignation policy already exists. The proposal should include an exemption for contested election situations. We will consider withholding our votes from members of the nominating/governance committee if there is no majority vote standard or satisfactory director resignation policy and other governance, performance or compensation concerns exist. Unless a satisfactory explanation has been provided, we will withhold votes from directors standing for re-election who failed to obtain majority support in the previous year. In this circumstance, we will also consider withholding votes from the members of the nominating committee.

Cumulative Voting for Directors

Cumulative voting enables a shareholder to cast all votes for a board of directors in favour of one nominee. It is intended to give board representation to shareholders who have minority ownership.

Guidelines: Despite the value we see in electing directors by majority vote, we will examine cumulative voting proposals on a case-by-case basis. We may support cumulative voting proposals where the board has been unresponsive to shareholder concerns.

Proxy Access

Shareholders of companies in certain jurisdictions do not have the right to nominate candidates for election to the board of directors in the company's proxy materials and must instead incur the cost of a proxy contest to put forward their candidates. In order to improve board accountability to shareholders in these jurisdictions, we believe that shareholders should have access to a company's proxy materials for purposes of director nominations.

Guideline: Generally support proposals requesting that companies implement a procedure to allow shareholders to nominate candidates for election to the board of directors in the company's proxy materials, subject to reasonable and appropriate notice, share ownership and holding period requirements.

Proxy Contests

We review dissident shareholder proposals for director nominees on a case-by-case basis from our perspective as a long-term investor. We oppose proposals that are likely to diminish long-term shareholder value even though they may produce short-term gains.

In reviewing dissident shareholder proposals, we start from the premise that the interests of shareholders are best addressed by the board, which is responsible for providing management oversight and performance review. The onus is on the dissident shareholder to make a compelling case for why changes in the board and/or the company's strategy are necessary to enhance long-term shareholder value. In reviewing proposals, we consider factors such as:

- long-term company performance;
- board performance and responsiveness to shareholder concerns;
- the strategic plans of the dissident shareholder;
- the qualifications of the dissident director nominees and their alignment with the long-term best interests of the company; and
- the strength of the dissident shareholder's position and the board's response.

Guideline: Review proxy contests on a case-by-case basis with a view to enhancing long-term shareholder value.

Maintaining Effective Boards

Boards should consider drafting and publishing a charter of expectations for directors. Boards should implement an annual process for evaluating the effectiveness of the board as a whole, its committees and each director individually. The process should focus on evaluating the need for any board membership change to ensure that the board as a whole has the necessary experience and qualifications to serve the interests of the company. In evaluating its own effectiveness, the board should also consider whether it is sufficiently focused on the long-term best interests of the company.

Directors who underperform should be asked to resign. Triggers, such as age or term limits, or poor meeting attendance, while potentially useful, are not sufficient to ensure the effectiveness of the board.

Guideline: Support the implementation of processes for evaluating and improving the effectiveness of the board as a whole, its committees and each director individually.

Board Renewal

Boards must, on the one hand, be open to new ideas and willing to reconsider the status quo and, on the other hand, maintain some continuity and experience within their membership. In addition, boards must take a long-term view. In considering director succession planning and the appropriate tenure of directors, the board should balance the objectives of continuity and renewal, taking into account the need to maintain independence from management and to ensure new perspectives are being added to the board.

In our view, any decision to adopt age or term limits for directors should be made by the board itself. However, as noted under Director Qualifications, we believe the nominating process should primarily focus on the experience, qualifications and character of a director, and the director's contribution to the board, rather than imposing set limits on a director's age or tenure.

Guideline: Review on a case-by-case basis shareholder proposals that are aimed at facilitating board renewal.

Attendance

Given the board's key role in corporate governance and its overall responsibility for the company's affairs, it is critical that directors attend virtually all board meetings and the meetings of committees of which they are a member in order to discharge their duty.

Guidelines: Support disclosing each director's board and committee attendance record. Withhold votes from a director who attends less than 75% of such meetings without a valid reason.

In-Camera Meetings

A good governance practice is for the independent directors to meet separately at every board and board committee meeting without management and non-independent directors present. After each *in-camera* meeting, the chair of that meeting, or if appropriate, the chair of the board should meet with the CEO to advise him or her of any issues identified by the independent directors.

Guideline: Support *in-camera* meetings without management and non-independent directors present.

Separation of Chair and CEO

A key duty of a board is to provide management oversight on behalf of the shareholders. For example, the board is responsible for recruiting, rewarding and, if necessary, terminating the CEO. The duty of management is to manage the business in the best interests of the company. For example, the CEO is responsible for recruiting, rewarding, promoting and terminating other members of management within policies and procedures approved by the board.

These different responsibilities warrant different leaders. Consequently, we believe that the board chair should be an independent, non-management director.

The board chair should lead the board and ensure that it acts in the long-term best interests of the company. In our view, an independent lead director is not a suitable alternative to an independent board chair.

Guideline: Support separation of the board chair and CEO.

Board Committees

While we recognize that it is the experience, qualifications and character of directors, rather than mere independence, that is of greatest importance, we nonetheless encourage all companies to adopt the practice of having only independent directors oversee nomination and compensation matters.

Guidelines: Support compensation and nominating/governance committees or those committees overseeing these matters being constituted solely by independent directors. Support formal terms of reference for these committees.

Independent Advisors

Companies should have a process for the board, its committees and individual directors to retain independent outside legal and other advisors to assist them with their responsibilities. These costs should be paid by the company.

Guideline: Support boards, their committees and individual directors having the right to retain outside advisors.

CEO Succession Planning

One of the most important decisions that a board must make is the selection of the CEO of the company. We believe boards should be actively engaged in CEO succession planning. Boards should collaborate with the current CEO and senior management to identify candidates who possess the necessary leadership capabilities and ensure that appropriate career development opportunities are in place for any candidates within the company.

Guideline: Support active engagement by the board in CEO succession planning.

IV DIRECTOR COMPENSATION

The compensation package for directors should align the interests of directors with the long-term interests of the company and should be transparent to and easily understood by shareholders.

Director Fees

We believe that fees for non-management directors should be commensurate with their responsibilities as directors, consistent with their focus on the long-term best interests of the company and at a level that makes serving as a director financially worthwhile for qualified individuals.

Guideline: Support non-management director fee levels that reflect the responsibilities, qualifications and time commitment expected.

Director Share Ownership

Share ownership has the potential to align the long-term interests of directors with the long-term interests of the company. We support equity-based awards as a portion of director compensation. However, we do not believe that directors should be incentivized in the same manner as executives and, for that reason, such grants should not be performance-based.

Guidelines: Support reasonable share ownership requirements for directors. Support share grants or deferred share units as a portion of director compensation. Support directors being required to hold such share grants or deferred share units for a mandatory period.

Director Stock Options

We believe that stock options are less effective and efficient than direct share ownership in aligning the interests of directors with those of the company.

Guideline: Oppose stock options for directors.

Other Director Compensation

Compensation for non-management directors should not include retirement benefits, severance payments, significant incentive payments or consulting fees or perquisites that are normally reserved for employees of the company. These forms of compensation increase directors' financial reliance on the company and could compromise their independence.

Guideline: Oppose retirement benefits, severance payments, significant incentive payments or consulting fees or perquisites for non-management directors.

Disclosure of Director Compensation and Share Ownership

It is important that shareholders know how directors are compensated, including the commitment that individual directors have made to the company through share ownership.

Guideline: Support detailed disclosure of director compensation and share ownership.

V EXECUTIVE COMPENSATION

The board of directors and the compensation committee are responsible for, and must be actively engaged in, establishing and overseeing executive compensation policies. Executives should receive market-competitive total compensation and incentives which are tied to individual and company performance and incentivize them to focus on serving the long-term interests of the company. Compensation plans should reward appropriate risk-taking consistent with the risk profile of the company but should discourage executives from taking excessive risks in order to achieve short-term, unsustainable performance. Peer group assessments should compare companies of similar size, geographic location, complexity and performance and they should reflect companies that are competing for executive talent.

Determining compensation and incentives that relate to the achievement of financial objectives and other less precisely measurable performance is one of a board's most important challenges. An independent compensation committee should review and make recommendations to the board with respect to executive compensation and should consult advisors who are independent of management.

Disclosure of Senior Executive Compensation and Share Ownership

To help shareholders understand whether senior executives are fairly compensated and how that compensation relates to corporate performance, companies should disclose the total compensation for each senior executive for whom such disclosure is required under the applicable securities legislation. The disclosure should be in plain language form and should include a detailed explanation of the rationale and structure of the company's executive compensation plan. There should be detailed disclosure of how and why specific compensation decisions were made, including: a discussion of the company's business strategy; disclosure of performance targets, and how they are tied to the compensation paid; and a discussion of advice provided by compensation consultants and other experts. A pay-for-performance analysis should be provided, including a comparison of performance and compensation to those in the peer industry group used as a reference for the company's compensation decisions. Peer groups used for benchmarking or other comparisons should be disclosed. To the extent the peer group used for compensation purposes differs from that used to compare company performance, the differences between the groups and the rationale for choosing them should be explained.

Every component of the total compensation package, including elements such as dollar amounts for signing bonuses, pension plans, supplemental executive retirement plans, perquisites and severance packages should be identified and discussed in detail so that it is clear how all elements fit together. The value of each pay element should be based on recognized actuarial standards and be the same numbers upon which the compensation committee bases its decisions.

Share ownership by senior executives is also important information which should be disclosed.

Guideline: Support full disclosure of total senior executive compensation packages and share ownership.

Executive Compensation and Performance Review

The past performance and future performance expectations for executives, as well as related compensation plans, should be reviewed annually by the board and its compensation committee. Compensation packages should be aligned with the long-term best interests of the company and should encourage appropriate risk-taking. It is important that there is a significant relationship between executive compensation and performance. In order to ensure this relationship, compensation should be linked to meaningful performance targets which are disclosed. Companies should not offer excessive severance or change of control packages, supplemental executive retirement plans or discretionary awards that reward executives when performance objectives have not been met during the term of their employment.

Guidelines: Support a formal process to review the performance of, and compensation for, executives. Support compensation that is linked to performance (meeting targets set by the compensation committee and approved by the board). In situations where there is a significant disconnect between the compensation awarded to executives and company performance, we will consider a number of options, including engaging with the compensation committee and/or voting against an advisory vote on executive compensation as described under Advisory Vote on Executive Compensation. If there is no annual advisory vote on executive compensation and either concerns about compensation practices exist or the board has been unresponsive to shareholders' views on compensation, we will consider withholding votes from compensation committee members.

Equity-Based Compensation Plans

We believe that the granting and vesting of equity-based compensation should be sufficiently performance-based, with clearly disclosed performance criteria and hurdles that are relevant to long-term value creation for shareholders.

Generally, we believe that properly structured stock-based compensation is superior to option-based compensation plans because it provides better alignment of interests of employees with those of shareholders and it is a more efficient and predictable form of compensation.

Shareholders should be allowed to vote on all equity-based compensation plans (including option plans) because of the potential dilutive effect on their existing ownership.

Guideline: We will evaluate equity-based compensation plans on a case-by-case basis. We will generally vote against a plan if any of the following factors apply:

- the total cost of the company's equity-based compensation plans is unreasonable;
- the plan contains provisions allowing for excessive payouts in the event of a change of control of the company;
- the plan expressly permits the repricing of stock options without prior shareholder approval; or
- the plan is a vehicle for poor pay practices and is not sufficiently performance-based.

Executive Share Ownership

Executives should be required to own a minimum amount of the company's shares and to own that minimum while employed by the company and for at least one year after their departure from the company. The minimum amount should be meaningful for the executive and increase with the executive's seniority. Executives should have flexibility in liquidating excess holdings for personal use while maintaining a strong long-term alignment with shareholders.

Guideline: Support minimum share ownership requirement for executives.

Loans to Management and Directors

We do not support loans to directors or employees unless such lending is the company's normal business and only then if the loans are on normal commercial terms.

Guidelines: Oppose preferential loans to employees or directors. Oppose loans secured by company shares or granted to purchase company shares.

Employee Stock Purchase Plans

We support employees having the opportunity to acquire shares of the company in which they are employed on favourable terms. We will generally approve employee stock purchase plans where the purchase price is at least 85% of fair market value and the potential dilution is less than 10%. Where their share ownership is subsidized by the existing shareholders, employees should be required to hold shares purchased for an appropriate period.

Guideline: Support employee stock purchase plans, the terms of which align employee interests with creating long-term value for shareholders.

Advisory Vote on Executive Compensation

We believe that engaging with companies is an effective way to encourage companies to improve their compensation practices and disclosure and that an advisory vote on executive compensation is an important part of the engagement process. We encourage companies to voluntarily adopt an annual advisory vote on executive compensation. We will generally not support other compensation-related shareholder proposals as they tend to be overly prescriptive or duplicative of what can be achieved through engagement and the advisory vote.

Guidelines: Support shareholder proposals requesting an annual advisory vote on executive compensation. Generally oppose other compensation-related shareholder proposals. If there is no annual advisory vote on executive compensation and either concerns about compensation practices exist or the board has been unresponsive to shareholders' views on compensation, we will consider withholding votes from compensation committee members. When voting on an advisory vote on executive compensation, we will evaluate the compensation practices and disclosure on a case-by-case basis taking into consideration the compensation principles and practices outlined in these *Proxy Voting Principles and Guidelines*, including the following:

- pay-for-performance alignment, assessed against meaningful performance targets, which incentivize executives to focus on serving the long-term interests of the company;
- compensation packages which emphasize long-term company performance and discourage excessive risk-taking;
- independent and effective compensation committee;
- clear, comprehensive compensation disclosure;
- avoidance of inappropriate pay, including significant incentive payments or consulting fees, to non-management directors; and
- reasonable severance, change of control entitlements and pension benefits.

Recoupment (Clawback) Policies

In order to ensure that performance-based pay is only awarded in cases where performance targets are actually met, we encourage companies to consider requiring executives to repay performance-based compensation based on misstated financial results.

Guidelines: Support shareholder proposals requesting that boards adopt a policy to recoup, for the benefit of the company, all performance-based compensation paid to executives who have engaged in fraud, negligence or willful misconduct that contributed to or resulted in a restatement of financial results. We will review, on a case-by-case basis, shareholder proposals requesting that boards adopt a policy to recoup, for the benefit of the company, all unearned performance-based compensation from executives to the extent that their corresponding performance targets were later determined not to have been achieved.

VI THE AUDIT FUNCTION

An important determinant of investor confidence is the integrity of a company's financial reporting. The board's audit committee has special oversight responsibilities relating to a company's financial affairs and financial disclosure. Among other duties, it must assess whether management has adequate internal controls and procedures for financial reporting.

We place great importance on the quality and independence of a company's external auditors.

Guidelines: Generally support the appointment of the auditor recommended by the board. Vote against the reappointment of the company's auditor where it appears that its independence has been compromised or where the auditor's past performance is questionable.

VII CAPITAL STRUCTURE

Increase in Authorized Shares

We believe that shareholders should have the opportunity to approve the issuance of common shares which will have a dilutive effect on their holdings.

Guidelines: Generally support fixed increases of up to 25% in authorized common shares. Support larger increases on a case-by-case basis if a specific business need, which will enhance long-term shareholder value, is demonstrated. Oppose unlimited increases in authorized shares.

Dual-Class Share Structures

In dual-class share structures, one class of shares has more votes per share than other shares. These structures give a group of shareholders, usually the founding investors, voting control for a relatively low level of equity ownership. One argument for dual-class share structures is that those with the superior voting rights can ensure stability and continuity in ownership and management. We disagree with this argument and consider dual-class share structures to be contrary to good governance. They can entrench management against shareholder pressure for change and undermine the basic principle linking voting to equity ownership on the basis of one-share-one-vote.

Guideline: Oppose new dual-class share structures. Support the collapse of existing dual-class share structures on terms that are in the long-term best interests of the company. For companies with existing dual-class share structures, oppose any non-equal treatment of shareholders on a change of control transaction.

Pre-emptive Rights, Private Placements, Dividend Policy and Share Buybacks

Guidelines: Generally support pre-emptive shareholder rights, reasonable private placements and share buybacks. Support paying dividends for established companies with sustainable profitability.

VIII TAKEOVER PROTECTION

Because of the size and scope of the CPP Investment Board's equity portfolio, we often find ourselves on both sides of a takeover offer. Consequently, we must evaluate the offer not just in terms of its fairness from a financial point of view to the shareholders, but also on the basis of what is in the long-term best interests of the company.

In some cases, an offer might be in the best short-term interests of shareholders of the target company in releasing unrealized value, but not be in the best interests of long-term investors such as the CPP Investment Board for whom the company's continued independence may create more substantial value over the longer term.

Guideline: Support proposals, policies or plans that strengthen the capacity of a board and management to respond to takeover offers in a manner that enhances long-term shareholder value.

IX RELATED PARTY TRANSACTIONS

As related party transactions can give rise to conflicts of interest, they should receive enhanced scrutiny by the board to ensure that their terms are fair and reasonable. We believe that related party transactions should be (i) reviewed and approved by independent directors of the board with, where appropriate, the benefit of advice from independent and qualified experts, (ii) completed on arm's length terms, (iii) publicly disclosed, and (iv) where appropriate, submitted to shareholders for approval.

Guideline: Review related party transactions on a case-by-case basis.

X ENVIRONMENTAL AND SOCIAL FACTORS

Disclosure enables investors to better understand and evaluate potential risk and return, including the impact of environmental and social factors on a company's long-term performance. We believe companies that effectively manage risks associated with environmental and social factors are likely to achieve better long-term performance.

Our approach to proxy voting seeks to be consistent with the commitments we have made to responsible investment initiatives including the United Nations-supported Principles of Responsible Investing, Carbon Disclosure Project and Extractive Industries Transparency Initiative. Where applicable, we encourage companies to comply with internationally recognized guidelines and principles on environmental and social responsibility, such as the OECD Guidelines for Multinational Enterprises and the UN Global Compact.

Guidelines: We review environmental and social-related shareholder proposals on a case-by-case basis. We do not support shareholder proposals if they are overly prescriptive or duplicative of initiatives already in place or underway or if they are likely to detract from long-term company performance.

Subject to the foregoing, we generally support:

- proposals that request the reasonable disclosure of information related to material environmental and social factors which assist shareholders in assessing potential investment risk and return (including specific environmental and social risks), the environmental and social impacts of a company's operations and products, initiatives to mitigate environmental and social risks, and/or corporate sustainability reports, unless sufficient information is already disclosed and/or available to shareholders; and
- proposals that request the adoption or review of responsible policies and/or practices with regard to environmental and social factors that are likely to enhance long-term company performance and/or mitigate potential exposure to environmental and social risks.

XI STANDARDS AND GUIDELINES OF BUSINESS CONDUCT

We believe companies that adopt and enforce high standards of business conduct are likely to achieve better long-term performance.

All companies should publicly disclose their corporate governance guidelines, codes of business conduct, and conflict of interest management procedures. The governance committee of the board should formally review such policies on at least an annual basis and require them to be published on the company's website.

Guidelines: Support disclosure of corporate governance guidelines, codes of business conduct, and conflict of interest management procedures.

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