2011 REPORT ON RESPONSIBLE INVESTING

Reporting Period: July 1, 2010 – June 30, 2011

CORPORATE PROFILE

The Canada Pension Plan Investment Board (CPPIB) is a professional investment management organization that invests the assets of the Canada Pension Plan (CPP) not required to pay current benefits. CPPIB was created by an Act of Parliament in December 1997 as part of the successful CPP reforms. Our mandate is to help sustain the pensions of 17 million CPP contributors and beneficiaries by maximizing returns without undue risk of loss. In other words, we seek to increase the long-term value of the CPP Fund to help meet the pension promise made to Canadians.

Every three years, the Chief Actuary of Canada projects the CPP's financial health over the next 75 years. The latest report, released in late 2010, dated as at December 31, 2009, confirmed that the plan as currently constituted is sustainable throughout the projection period. The report also projected that contributions will exceed benefits paid until 2021. So, for 10 more years, the CPP Fund will grow significantly as we reinvest investment income along with excess contributions. Growth beyond 2021 will slow somewhat as a small portion of investment income is used to help pay pensions, but we expect the Fund to continue to grow.

CPPIB invests in public equities, private equities, real estate, infrastructure, inflation-linked bonds and fixed income instruments. Our long horizon, combined with our distinct investment approach, secure capital and specialized investment expertise allow us to capitalize on significant long-term investment opportunities. Approximately $80 billion of the current Fund assets of close to $150 billion is invested globally to diversify the portfolio so that income and capital gains from foreign assets flow back to Canada to help pay future pensions.

CPPIB is headquartered in Toronto with offices in London and Hong Kong. Our reputation and global capabilities enable us to attract leading professionals from around the world. Over the past five years we have added a significant number of skilled employees to help manage our rapid growth and execute our active management strategy. We continue to seek those who share our Guiding Principles of Integrity, Partnership and High Performance, fit well into our culture and are committed to a long-term employment relationship.

CPPIB was established as a federal Crown corporation, with a mandate from the federal and provincial governments which oversee the CPP. We are accountable to Parliament and to the federal and provincial finance ministers who serve as the CPP's stewards. However, CPPIB is governed and managed independently of the CPP and at arm's length from governments. We are thus able to function as a professional investment management organization meeting world-class standards. The assets that we invest belong to current and future CPP beneficiaries, not governments. This and several other key attributes distinguish the CPP Fund from sovereign wealth funds created by governments in other jurisdictions. These attributes include an arm's length governance model, independent board and investment-only mandate.

Our Disclosure Policy states: *"Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing."* Comprehensive annual reports, together with our website, public meetings and release of quarterly investment results, are designed to meet this commitment.

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A MESSAGE FROM THE PRESIDENT

DAVID F. DENISON
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Fiscal 2011 was a year of solid accomplishment for the Canada Pension Plan Investment Board (CPPIB), as our long-term, total portfolio approach to investing delivered strong performance. While most investment markets were positive in the first half of 2011, the global economic outlook remains uncertain and markets volatile. But whatever the conditions, we believe that a dedicated and continuous commitment to responsible investment policies and practices will be integral to the sustainability of returns for the Canada Pension Plan (CPP) Fund.

Environmental, social and governance ("ESG") factors will significantly influence the long-term financial performance of almost every corporation in which we invest – not only as potential costs but also as opportunities. Although these factors are fundamental to the conduct of business, their effects may be neither immediate nor obvious. A strategic approach is therefore essential, both for corporations and for long-horizon investors like CPPIB. We believe that high standards of responsible corporate behaviour can have major positive effects. Conversely, risks that are not addressed will eventually take their toll. At CPPIB, we therefore view responsible investing through the lens of long-term risk and return. As prudent investors it is our fiduciary responsibility to evaluate the potential financial impacts of environmental and social factors, and to pursue good governance in our corporate holdings.

A key element of our approach is a comprehensive program of corporate engagement. We believe that proactive dialogue with senior company management, whether with other major institutional investors or on our own, has contributed to significant positive results, for example:

- Expanded regular disclosure by corporations related to environmental factors, such as greenhouse gas emissions and water use. Disclosure not only helps investors make better informed decisions, but can also lead to improved management and operational practices.
- Visible progress over the past few years among major companies towards better alignment of executive compensation practices with shareholder interests.
- Improved Canadian corporate governance such as the election of individual directors each by majority of votes cast (rather than "slate" and "plurality" voting as was typically the case).

Recognizing the increasing importance of water scarcity and quality, last year CPPIB elevated this as an area of particular focus. We were a signatory to the Water Disclosure initiative of the Carbon Disclosure Project at its launch in March 2010. A strong response rate of 50% to this initial survey indicates the relevance of water-related issues to the world's largest companies; this year we participated in a collaborative global engagement to urge 112 major companies who had not responded in 2010 to do so in 2011. In addition we have begun focused conversations with Canadian companies in extractive industries regarding water-related disclosures and practices. Also, water-related risk is clearly one that we research and assess wherever material to specific private investments.

Within our broad range of activities in the upcoming year, three aspects will take priority:

- We will engage constructively with companies, both in conjunction with like-minded investors and on our own, in our focus areas of climate change, extractive industries and water. Our emphasis will be on enhanced and more comparable disclosures. Clearly, enhanced disclosure allows CPPIB to make better informed decisions as a long-term investor. We will remain an active supporter of key global collaborative initiatives relevant to CPPIB, including the United Nations' Principles for Responsible Investment, the Carbon Disclosure Project and the Extractive Industries Transparency Initiative.
- Along with other investors or on our own, we will continue to press for improved shareholder democracy, enhanced executive compensation disclosure, a better proxy voting system and increased adoption of best practices, including making constructive input to regulators.
- We will deepen the integration of responsible investing principles into our day-to-day investment management processes, in both public markets and private investments.

On behalf of the over 17 million Canadians who participate in the CPP, CPPIB will remain a global leader and active participant in responsible investing in order to anticipate and manage ESG risks and opportunities for the Fund and to optimize the financial benefits of responsible actions by corporations, governments and regulators.

DAVID F. DENISON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

WHAT ARE ESG FACTORS?

While varying across sectors and companies, here are some of the environmental, social and governance (ESG) issues we bring up in dialogue with companies, and when evaluating risks, opportunities and long-term returns.

ENVIRONMENTAL

Energy efficiency and greenhouse gas emissions; air and water pollution; water scarcity; biodiversity; site restoration.

SOCIAL

Human rights; local community impact and sourcing; working conditions and safety; health; bribery and corruption.

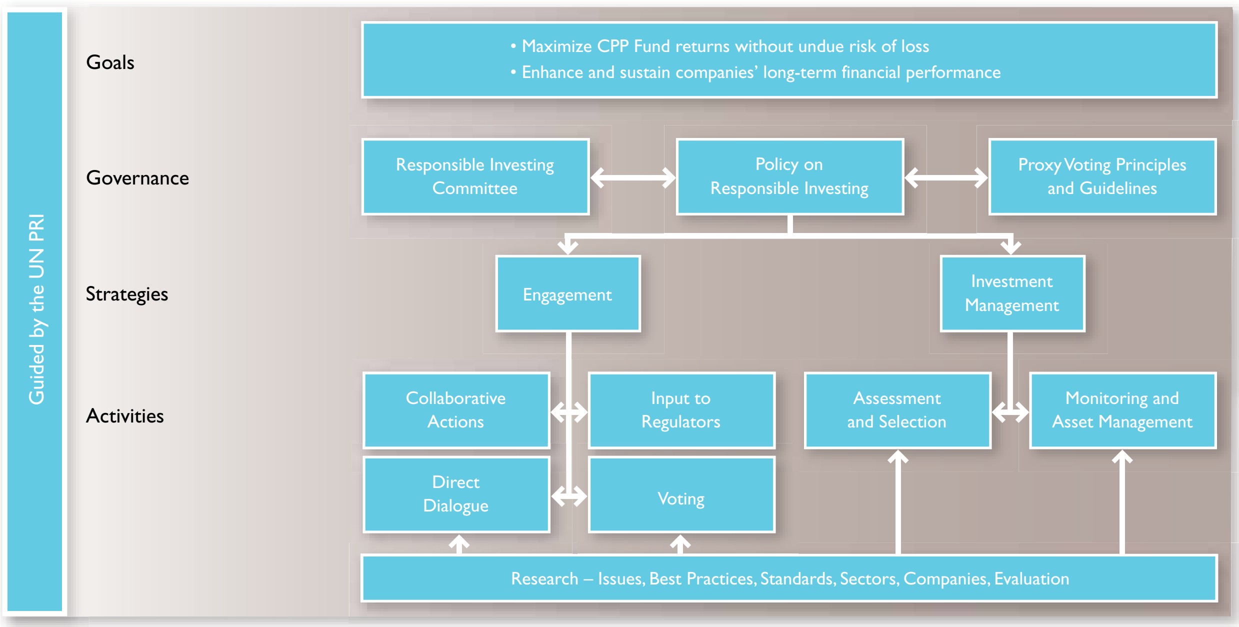
GOVERNANCE

Executive compensation; directors' qualifications and election; board independence; voting and other shareholder rights.

APPROACH TO RESPONSIBLE INVESTING

The mission of the Canada Pension Plan Investment Board (CPPIB) is to help sustain the pensions of Canadians for decades to come. Believing that responsible corporate behaviour can positively influence the long-term financial performance of the companies in which we invest, CPPIB makes responsible investing an integral element in CPPIB's long-horizon investment strategy. The diagram below illustrates our approach, from its fundamental goals to its day-to-day activities.

CPP INVESTMENT BOARD'S APPROACH TO RESPONSIBLE INVESTING



PRINCIPLES

The mandate of CPPIB requires that we adopt the fiduciary perspective of a professional investment management organization seeking to maximize rate of return without undue risk of loss on behalf of CPP members. In part, the Fund is invested in low-cost "passive" participation in public markets, which results in the CPP Fund having positions in over 3,100 companies worldwide. CPPIB also takes active positions, both through company selection within public markets and through major private investments in companies, infrastructure and real estate.

Our *Policy on Responsible Investing* articulates our principles, our strategy and our approach. We do not screen stocks or eliminate investments based on ESG factors alone, believing that constraints ultimately either increase portfolio risks or reduce returns. Rather, we focus on evaluating the impact of ESG factors to the extent they affect long-term risk and return. In public markets investments, ESG factors are incorporated in our assessment of intrinsic value of companies. In private investments, ESG factors are recognized both in due diligence ahead of a commitment, and in ongoing management of our investments.

As active investors, we are also committed to engaging with companies, to seek critically important disclosures and foster positive corporate conduct. Direct engagement is conducted privately because we believe this is more effective. Accordingly, we typically do not disclose names of companies with which we have engaged – although we may do so if we do not see sufficient progress in a given circumstance.

Good corporate governance is fundamental to maximizing and sustaining earnings for shareholders. Our *Proxy Voting Principles and Guidelines* state CPPIB's beliefs on corporate governance, and thereby:

- Provide guidance on CPPIB's likely voting stance and rationale on issues commonly put to shareholders, and
- Provide our perspective on major issues that boards of directors must address.

In keeping with our commitment to transparency, CPPIB publishes this report annually, describing our activities and the results we have achieved. The reporting period runs from July 1 to the following June 30, allowing us to report on our voting activity at completion of each proxy season. Our *Policy on Responsible Investing*, our *Proxy Voting Principles and Guidelines*, and other related information are published on our website at www.cppib.ca. In particular, we now post all individual proxy votes in advance of the meetings, to ensure full prior disclosure of our position both to the companies concerned and to other interested parties.

OVERSIGHT AND MANAGEMENT

CPPIB's Responsible Investing Committee, composed of senior management and chaired by the President and CEO, approves and oversees all responsible investing strategies and activities. It regularly reviews the *Policy on Responsible Investing* and the *Proxy Voting Principles and Guidelines*, and ensures that our activities meet best practices.

We have developed an experienced in-house team of professionals with expertise in ESG matters. Housed within the Public Markets Investments department, this team guides and coordinates our responsible investing activities across the organization, implements engagement activities both directly and in collaboration with multi-stakeholder organizations, and executes our proxy voting. The team also conducts in-depth research on companies whose ESG issues have particular importance, working closely with CPPIB portfolio managers in both public and private investment areas to help inform their decisions.

ENGAGEMENT

Engagement is the process of proactive dialogue with senior executives and board members of companies in which we invest, as well as with regulators, industry associations and other stakeholders. We believe that engagement is often the best approach for shareholders to effect positive change aimed at enhancing both corporate accountability and, ultimately, financial performance. In this way, successful engagement adds value to the companies in which we invest. Engagement can be particularly effective in collaboration with other investors, by combining resources, expertise and collective impact.

A primary purpose of our engagement efforts is to achieve more complete and consistent corporate disclosure. Disclosure ensures that all stakeholders – including potential investors, regulators, local communities, employees and customers – understand relevant risks and how they are being managed. Transparency and comparability facilitate effective evaluation by investors, and may well stimulate better corporate financial performance on ESG factors. Beyond disclosure, we also encourage companies to adopt best practices in the management of ESG issues for improved long-term financial outcomes and enhanced shareholder value.

RESEARCH

Our responsible investing strategy is founded on wide-ranging research of ESG issues and specific companies. Research informs both our engagement activities and our investment decisions. Analysis of relevant ESG factors for specific prospective investments is conducted directly by staff in each of our investment departments, supported by ESG specialists, and integrated into the decision-making process. Also, we encourage investment dealers and others to produce enhanced research and analysis on ESG factors. For existing holdings, research informs the ongoing monitoring of developments in ESG factors as they affect evolving risks and prospects, particularly for our major long-term investments.

CPPIB HAS HELD SEVERAL DISCUSSIONS WITH A LARGE CANADIAN ENERGY COMPANY ABOUT CLIMATE CHANGE AND OTHER ENVIRONMENTAL RISKS. Subsequently, the company began providing public information about its exposure to climate change risks and its management of them, and disclosed greenhouse gas emissions data through annual responses to the Carbon Disclosure Project's request for information. The company has also enhanced its reporting on other key environmental issues, and now provides information on related capital and operating expenditures in its annual reporting. This year, we extended our engagement by discussing enhanced disclosure of the company's water-related risks. Such disclosures allow investors like CPPIB to make investment decisions on a more fully informed basis.

UNITED NATIONS' *PRINCIPLES FOR RESPONSIBLE INVESTMENT*

It has been more than five years since former Secretary-General of the United Nations, Kofi Annan, invited the CPP Investment Board as part of a small group of the world's largest institutional investors to address the issue of responsible investing from global and fiduciary perspectives. With experts from the investment industry, governments, civil society organizations and academia, CPPIB helped formulate the United Nations' *Principles for Responsible Investment* (UN PRI). The UN PRI now has over 900 signatories, representing $25 trillion in assets under management.

The UN PRI provides a practical framework for investors to recognize environmental, social and governance (ESG) factors in investment decision-making and ownership. In an assessment of progress after five years, UN PRI noted:

- 99% of the signatories that joined the PRI five years ago now have a responsible investment policy in place. 94% also have a proxy voting policy, up from 82% in 2007.
- 74% of signatories are using the UN PRI Clearinghouse for collaborative engagements, up from 39% in 2007. Signatories have consistently increased their demands for ESG reporting from companies.
- 48% of 2009 respondents reported increased ESG integration in their internal investment processes this year (2011).

As a founding signatory, the CPPIB commits to and has acted on the UN PRI's six principles, as outlined below.

IN ANNUAL EVALUATIONS BY UN PRI OF PROGRESS IN IMPLEMENTING ITS PRINCIPLES, CPPIB HAS CONSISTENTLY RANKED ABOVE AVERAGE ON ALL SIX AREAS OUTLINED BELOW.

1. INCORPORATE ESG ISSUES INTO INVESTMENT ANALYSIS AND DECISION-MAKING PROCESSES

- CPPIB actively undertakes company and sector analyses that integrate long-term, material ESG factors, notably in the Energy, Materials and Utilities sectors. We source ESG-related research from independent Canadian and international providers, and also recognize this capability in our allocation of trading commissions to investment dealers.
- The Responsible Investing specialist team provides input to internal portfolio managers to help them assess ESG risks and opportunities as they relate to corporate exposures and long-term financial performance, and to incorporate ESG factors into our investment processes.
- In our private equity, infrastructure and real estate investments, relevant ESG factors are evaluated in the due diligence process as standard practice for these long-term investments, and are monitored over the life of our investment.

2. BE ACTIVE OWNERS AND INCORPORATE ESG ISSUES INTO OWNERSHIP POLICIES AND PRACTICES

- Where CPPIB is represented on the boards of companies in which we invest, or where we hold major ownership positions, we seek to ensure that ESG practices meet the standards in our guidelines or those we endorse as a member of investor groups. Likewise, CPPIB applies to itself the governance and compensation practices that it expects of others.
- Following our *Proxy Voting Principles and Guidelines*, we vote our proxies for over 3,100 public equity holdings. As an active participant of the Canadian Coalition for Good Governance (CCGG) we have played a leadership role in numerous policy recommendations, standards and guidelines, which have had a positive effect in Canada on governance and executive compensation practices.
- We also analyze our public equity portfolio annually to identify companies for engagement where ESG issues are potentially material over the long term, and then pursue either collaborative or direct dialogue with them.

3. SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH THEY INVEST

- We have been an investor signatory to the Carbon Disclosure Project (CDP) since 2006. In Canada the response rate as a percentage of market capitalization of Canada's 200 largest companies has grown from 59% in 2006 to 73% in 2010. We have also encouraged companies to include relevant climate change disclosure in their financial reporting. We have also actively supported the CDP Water Disclosure initiative since its launch in 2010, and we have begun additional dialogues with Canadian companies on water-related risks.
- We engage directly with Canadian and global companies in the extractive industries on a variety of environmental and social issues, seeking enhanced disclosure of potentially material risks. We have been a contributing supporter of the Extractive Industries Transparency Initiative (EITI) since 2007, and regularly urge companies to participate.
- Over the past several years, we have participated in four collaborative engagements related to companies' disclosures of their commitments to the UN Global Compact, a strategic policy initiative for businesses to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
- Both directly and through investor organizations such as the Pension Investment Association of Canada, we provide input on desired content and form of disclosures to securities regulators in multiple jurisdictions internationally, and to industry associations (for example, the Canadian Association of Petroleum Producers).

4. PROMOTE ACCEPTANCE AND IMPLEMENTATION OF THE UN PRI WITHIN THE INVESTMENT INDUSTRY

- Senior CPPIB executives regularly communicate CPPIB's approach and views within our industry. We have also reached out to corporate directors, for example through presentations by senior executives to conferences sponsored by the Institute of Corporate Directors.
- We continue to share information and discuss approaches to responsible investing with Canadian and international peers.

5. WORK TOGETHER TO ENHANCE THE EFFECTIVENESS OF THE UN PRI PROCESS

- On many occasions we have participated in engagements with companies facilitated through the UN PRI Engagement Clearinghouse, a private online forum that enables signatories to coordinate in promoting changes in company behaviour, public policies or systemic conditions.
- We work with many other investors in several Canadian and international collaborative initiatives. More information can be found on these at their websites:
  - Canadian Coalition for Good Governance (CCGG) **www.ccgg.ca**
  - Carbon Disclosure Project (CDP) **www.cdproject.net**
  - CDP Water Disclosure **www.cdproject.net/water-disclosure**
  - Council of Institutional Investors (CII) **www.cii.org**
  - Extractive Industries Transparency Initiative (EITI) **www.eitransparency.org**
  - International Corporate Governance Network (ICGN) **www.icgn.org**
  - Pension Investment Association of Canada (PIAC) **www.piacweb.org**
  - United Nations' *Principles for Responsible Investment* (UN PRI) **www.unpri.org**

6. REPORT ON ACTIVITIES RELATED TO, AND PROGRESS TOWARDS, IMPLEMENTING THE UN PRI

- We respond comprehensively each year to the UN PRI survey of signatories. Also, we are fully committed to public transparency on our activities and progress, including through this annual report and other materials on our website at www.cppib.ca, and by addressing questions raised at public meetings which occur across Canada.
- A significant step taken this year is to now disclose CPPIB's voting intentions on our website before company meetings – a global leading practice to improve transparency and foster engagement by companies and other stakeholders.
- We continue to expand on our annual and other disclosures of activities, engagements, proxy voting, and the incorporation of ESG factors into investment decisions.

CONSISTENT WITH THE AIMS OF THE UN PRI, WE BELIEVE OUR ACTIONS OVER THE LAST FIVE YEARS HAVE MEANINGFULLY CONTRIBUTED TO IMPROVED CORPORATE PRACTICES AND ENHANCED DISCLOSURE REGARDING ESG MATTERS, WHICH WE BELIEVE WILL BENEFIT THE LONG-TERM FINANCIAL PERFORMANCE OF COMPANIES IN WHICH WE INVEST.

ENGAGEMENT

CORPORATE ENGAGEMENT

We believe that financially beneficial change can be achieved through proactive dialogue with corporations about their management and disclosures of material ESG issues. The process involves:

- Research to identify which companies to contact on what issues;
- Analysis of issues and development of agenda;
- Structured discussions with senior executives and/or board members; and
- Monitoring changes made by the company, and following up as appropriate.

CPPIB may engage directly with companies, or dialogue may be initiated and pursued collaboratively through a group of major investors or other parties with shared interests. The chart on page 9 outlines our selection process.

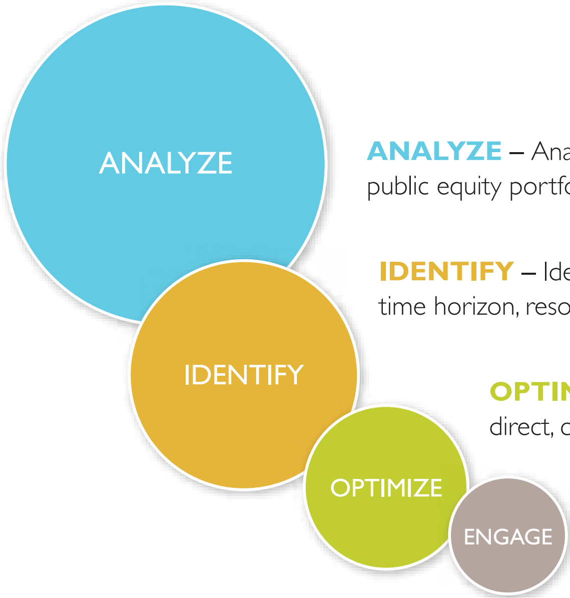
The public equities portfolio of the Fund largely replicates market indices, which means it spans all sectors and geographic regions. We hold shares in more than 3,100 public companies. When researching companies, materiality of the specific ESG risks they face, their current approach relative to best practices, and the relative size of our holdings influence which companies we choose for engagement.

COLLABORATIVE ACTIONS

To amplify our voice on responsible investing issues, we participate in several organizations and global initiatives. Over the past year, we have continued taking a leadership role in the Canadian Coalition for Good Governance (CCGG), which represents 47 institutional investors, managing assets totalling more than C$2 trillion. In June 2011, David Denison, President and Chief Executive Officer of the CPP Investment Board, completed his tenure as Chair of the Board of Directors of the CCGG, but will continue as Vice-Chair. We have actively pursued engagements related to the Carbon Disclosure Project (CDP), which now represents over 550 institutional investors, managing approximately US$70 trillion. Another major collaborative effort is with the Extractive Industries Transparency Initiative (EITI), with implementation underway in 35 countries rich in oil, gas and materials. The EITI is supported by more than 80 institutional investors, and by 56 large oil and gas and mining companies. Other collaborations include the Council of Institutional Investors (CII), the International Corporate Governance Network (ICGN) and the Pension Investment Association of Canada (PIAC).

These coalitions have various objectives, not only for improving transparency and ESG standards, but also in relation to research, education, advocacy and input to legislation.

HOW WE SELECT COMPANIES FOR ENGAGEMENT



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.

ENGAGEMENT FOCUS AREAS

To focus our efforts, we currently concentrate on four areas:

- **Climate change** and **water**, each of which affects multiple industries;
- The **extractive industries**, in which companies typically face a range of ESG-related challenges and which are of particular importance to the Canadian economy; and
- **Executive compensation**.

Our activities in each focus area are described on the following pages.

FOCUS AREA – CLIMATE CHANGE

Clearly, climate change could have major financial consequences for long-term shareholder value, not only directly but through:

- Regulatory requirements that are likely to strengthen over time;
- Taxes or market-based carbon charges;
- Costs for mitigation and/or remediation of impacts; and
- Corporate reputation, in a future likely to be characterized by greater scrutiny and higher public expectations.

These financial consequences on individual companies are not necessarily negative. However, it is our view that companies that adjust successfully, or effectively deploy emerging technologies and approaches, will be rewarded over the long run. Our activities are currently centred in the Energy and Utilities sectors, which face high potential costs from tightening regulation of greenhouse gas (GHG) emissions.

WHAT ARE OUR OBJECTIVES?

- More complete and standardized disclosure of emissions and other data.
- Enhanced reporting on risk management strategies and opportunities.
- Improved analysis of the impact of future regulation on long-term shareholder value.

WHAT ACTIONS DID WE TAKE?

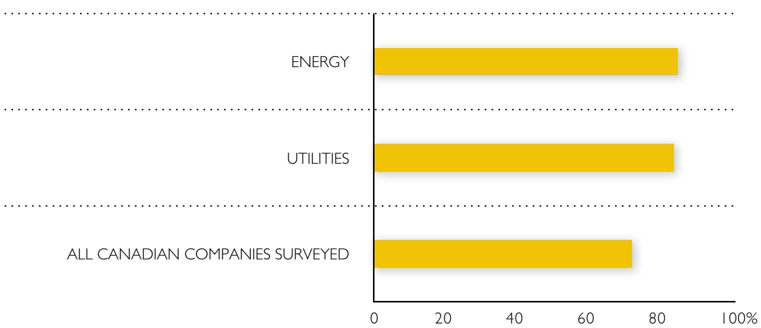
- Continued engagement with several Canadian companies, including some of the largest GHG emitters in Canada.
- Supported the Carbon Disclosure Project (CDP), which annually requests and reports corporate disclosures of climate change management and GHG emissions. The CDP continues to expand globally, now including companies in emerging markets. The 2011 questionnaire was sent in February to over 4,500 companies, including 200 in Canada.

  We helped guide the preparation of the 2010 CDP Canada Report, which highlighted best practices in disclosure by Canadian companies.
- Encouraged equity research analysts at investment dealers to improve their assessments of corporate risks and opportunities related to climate change.
- Communicated our views to companies, regulators and industry associations regarding gaps in disclosure. For example, we participated in the Canadian Association of Petroleum Producers' National Oil Sands Dialogue, a multi-stakeholder forum that addressed the challenges and opportunities related to development of the oil sands.
- Supported several shareholder proposals requesting improved disclosure of climate change–related risks.

WHAT PROGRESS HAS BEEN MADE?

- Several Canadian companies with which we engaged improved the quality of their reporting on climate change and sustainability issues, including providing enhanced disclosure in financial reporting, management commentary on sustainability, and responses to the CDP questionnaire.
- Most large companies and GHG emitters in Canada are now responding to the CDP. The graph below demonstrates the significant progress companies have made since the CDP began requesting disclosure from Canada's largest companies in 2006. Companies representing more than 73% of the market capitalization of Canada's 200 largest companies responded to the 2010 CDP request.
- In October 2010, Canadian Security Administrators (CSA) Staff Notice 51-333 *Environmental Reporting Guidance* was published. Reflecting a number of suggestions by CPPIB and others, this document provides guidance on: meeting existing disclosure requirements regarding environmental risks, oversight and management; forward-looking information on goals and targets; and impact of adoption of International Financial Reporting Standards (IFRS) on disclosure of environmental liabilities.

2010 CDP CANADA 200
RESPONSE RATE BY MARKET CAPITALIZATION



FOCUS AREA – EXTRACTIVE INDUSTRIES

Oil and gas and mining companies can have significant impact on the physical environment where they operate, and their operations can have major effects on the local community. In effect, companies must earn and effectively manage their continuing "licence to operate," and must anticipate the costs of doing so as necessary in sustaining and building long-term shareholder value.

WHAT ARE OUR OBJECTIVES?

- In all countries, improved disclosure of environmental performance and management strategies, allowing investors to better assess the long-term prospects for the company.
- In high-risk countries, improved standards of operations, including human rights practices and local community relations, and reduced corruption risk.

WHAT ACTIONS DID WE TAKE?

- Supported shareholder proposals requesting improved disclosure of community engagement and environmental practices of Canadian and international resource companies.
- Discussed environmental and social risks as part of regular meetings with company managements.
- Continued to engage with Canadian and international oil and gas and mining companies with operations or investments in high-risk countries, encouraging the provision of enhanced disclosure regarding their management of environmental and social risks.
- CPPIB has been a supporting investor of the Extractive Industries Transparency Initiative (EITI) since 2007. EITI is a multi-stakeholder initiative of governments, companies, investors and non-governmental organizations that supports improvements to governance and operations in resource-rich countries. We regularly meet with other supporters, including the investors' representative on the EITI board, to discuss progress and ensure investor feedback reaches the board and secretariat. We also play an active role by engaging directly with Canadian and global companies to encourage their participation.

WHAT PROGRESS HAS BEEN MADE?

- Globally, companies are enhancing reporting and management strategies regarding issues such as environmental risk management, local community engagement and human rights, especially in high-risk countries.
- Several mining companies are implementing standards consistent with the multi-stakeholder *Voluntary Principles on Security and Human Rights*, which guide companies on how to maintain the security and safety of their operations while ensuring respect for human rights.
- Gold mining companies with which we have engaged continue to make progress towards certification of their adherence to the *International Cyanide Management Code for the Manufacture, Transport and Use of Cyanide in the Production of Gold*. Companies that adopt this Code have their use of cyanide audited by independent third parties.
- Eight Canadian companies are now among the 56 companies that actively participate in the EITI process. There are now 10 compliant countries, including Mongolia and Nigeria, and 24 candidate countries including Guatemala.

PROGRESS AT A MINING COMPANY

CPPIB is engaging with a large company operating in several countries to encourage it to enhance disclosure and strategy related to local community impacts, particularly in high-risk countries, and to further its commitment to key initiatives like EITI.

- The company has publicly committed to enhancing its strategies to manage and mitigate key environmental and social risks. It has enhanced its communications with stakeholders on several issues, including human rights concerns and local community relations.
- The company continues to provide support to EITI candidate countries in which it has operations. It has also provided public responses to the CDP Water Disclosure information request since its launch in 2010.

FOCUS AREA – WATER

For some companies, water is a critical resource. Effective management of risks to water supply and quality is fundamental to the ability of these companies to operate and is thus equally relevant to investors with a long time horizon. We have primarily engaged with companies in the Energy and Materials sectors, which could face much higher operating costs and restrictions due to changes in regulatory requirements, their own growth and increasing water scarcity.

WHAT ARE OUR OBJECTIVES?

- Increased corporate reporting on water-related strategies and performance. Improved and more comparable disclosure of water-related data.
- Better research on and analysis of the impact of water-related risks on long-term shareholder value.

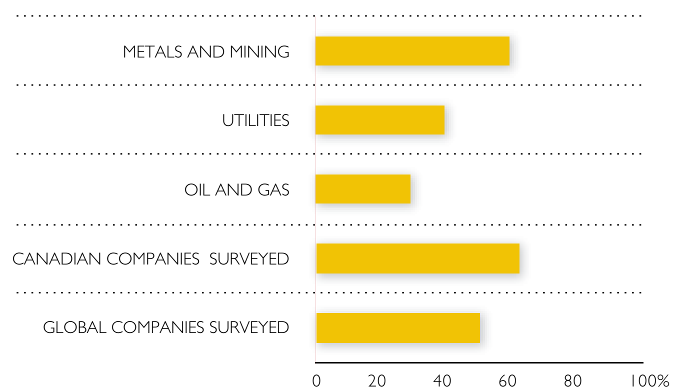
WHAT ACTIONS DID WE TAKE?

- Initiated discussions with select Canadian companies in the Energy sector, with our initial focus on encouraging better disclosures. Continued to support the CDP Water Disclosure initiative as an investor signatory.
- Participated in a collaborative initiative coordinated through the UN PRI Engagement Clearinghouse, focused on companies that did not respond to the CDP Water Disclosure information request in 2010. This initiative included sending letters to 112 Canadian and international companies to encourage them to respond to the 2011 request.
- Supported several shareholder proposals requesting improved disclosure and management of water-related risks.

WHAT PROGRESS HAS BEEN MADE?

- Approximately 50% of companies responded to the CDP Water Disclosure information request in 2010 including 8 of the 13 Canadian companies that received the request. Additionally, two Canadian companies chose to voluntarily respond to the information request.

2010 CDP WATER DISCLOSURE RESPONSE RATE



CDP WATER DISCLOSURE INITIATIVE

In 2011, the CDP Water Disclosure information request was sent out on behalf of 354 investors representing assets of US$43 trillion to over 400 of the largest global companies with particular exposure to water-related risks. The information requested from companies includes their water usage, exposure to water stress in their own operations and in their supply chains, and water management plans and governance. The resulting responses allow investors to review companies' strategies regarding the water-related risks and opportunities they face.

CPPIB, along with many global institutional investors, was among the initial signatories that supported the CDP Water Disclosure initiative at its launch in April 2010. The initiative's first global report was published in November 2010, based on responses by 50% of the 302 companies to which the request was sent, along with 25 additional companies that responded on an unsolicited basis. This strong response to the inaugural request confirmed that water is a significant and pressing issue for many of the world's largest companies.

FOCUS AREA – EXECUTIVE COMPENSATION

CPPIB believes that a clear and appropriate link between pay and performance is critical to aligning the interests of boards of directors and management with those of investors. Poor alignment can lead to inappropriate, short-term corporate decision-making; good alignment is clearly most conducive to creating value for long-term shareholders.

WHAT ARE OUR OBJECTIVES?

- A well-structured link between pay and performance, emphasizing longer-term growth of value, along with clear rationale and full disclosure in corporate reporting.

WHAT ACTIONS DID WE TAKE?

- Continued a leadership role in Canadian Coalition for Good Governance (CCGG) engagements with 50 medium and large cap companies representing 39% of CPPIB's Canadian public equity portfolio.
- Met with a Canadian energy company to provide feedback on its proposed equity compensation plans, focusing on plan design and increased disclosure of performance relative to the company's strategy.
- For a Korean consumer electronics company, provided views on its proposed equity incentive plan and recommendations to improve shareholder democracy.
- Updated our *Proxy Voting Principles and Guidelines* on executive compensation to support annual frequency for advisory votes on executive compensation ("Say on Pay") and to clarify our escalation process in situations where there is a disconnect between CEO pay and company performance.
- Voted against management proposals on executive compensation where we sought to express concern with the design of the incentive plan. Voted against management "Say on Pay" proposals where we viewed poor connections between incentive compensation and corporate performance.
- In connection with the request by the Ontario Securities Commission (OSC) for comment on shareholder democracy issues, encouraged the OSC to mandate advisory votes by shareholders on executive compensation.
- Submitted a comment letter to the Canadian Security Administrators (CSA) through the Pension Investment association of Canada (PIAC) regarding proposed amendments to executive compensation disclosure requirements and suggesting additional improvements.
- Participated in the 2011 development of the CCGG's Policy on Director Compensation.

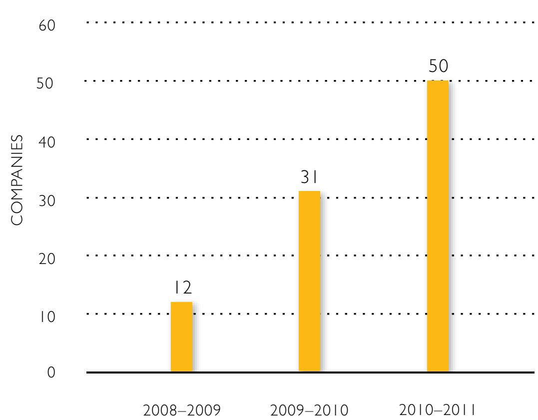
WHAT PROGRESS HAS BEEN MADE?

- Several companies have improved the quality of disclosure by providing a plain language letter from their compensation committee explaining how compensation is designed to incent management to achieve corporate objectives and manage risks over the long term. This is an emerging best practice.
- The quality of compensation disclosure among the S&P/TSX Composite Index generally improved, with a 33% increase this year in companies disclosing the weights of factors considered in the CEO's bonus and a 32% increase in companies disclosing the specific target for each metric.
- Canadian companies have strengthened the linkage to pay and performance, with an 85% increase in S&P/TSX Composite Index companies that include peer performance relatives in CEO incentive factors.
- From 2006 to 2010, total compensation to the CEOs of Canadian banks has moved in line with average annual total shareholder returns.
- In response to shareholder engagements, the U.S. Securities and Exchange Commission mandated an advisory vote on executive compensation for all large U.S. public companies.
- 80 Canadian companies have adopted or plan to adopt the form of "Say on Pay" resolution recommended by the CCGG, including 33 issuers engaged directly by the CCGG and 40 issuers in the TSX 60.

RESTRUCTURING EXECUTIVE COMPENSATION

- Over the past three years, CPPIB participated in CCGG-led dialogue with board members of a financial institution, voicing several concerns about matters such as a guaranteed level of executive incentive compensation, lack of disclosure of how risk factors affect compensation, and insufficient linkage to longer-term performance.
- The company made substantial changes to its executive incentive plan in 2010. It strengthened pay-for-performance, for example, by eliminating the guaranteed payout and moving over half of the award to a deferred, 3+ year performance basis. It also improved the link to risk management, by adding new risk-related metrics including external credit rating.
- The company also enhanced disclosure and shareholder engagement, which included adopting CCGG's "Say on Pay" policy in 2010, providing linkage to company strategy and the rationale for board decisions, and using plain language in its public communications.

CCGG ENGAGEMENTS



BROADER AREAS OF ENGAGEMENT

GOVERNANCE

In all of CPPIB's direct engagements, we raise any key governance issues that could be detrimental to long-term financial performance. Companies are encouraged to review and implement, where appropriate, the guidelines set out in our *Proxy Voting Principles and Guidelines*. For example, at a minimum we request that directors be elected individually and that a majority-voting standard be adopted for director elections.

We were pleased to see the Ontario Securities Commission (OSC), in response to shareholder engagement, undertake a review of shareholder democracy issues and seek comments from the public. We recommended mandating an advisory vote on executive compensation, and encouraged the OSC to prohibit slate voting and impose a majority voting standard for the election of directors. Believing that majority voting is an essential component of shareholder democracy, we have been an active participant in the development of the Canadian Coalition for Good Governance (CCGG)'s updated policy. Together with the CCGG and its other members, we have engaged with a number of companies on this topic; nine have committed this year to adopt a majority voting policy.

As in the past, we will speak out if we are concerned about governance-related policy issues. This year, we filed our first shareholder proposals on majority voting with companies that had been non-responsive to requests to adopt such a policy. One company agreed to adopt a policy before their meeting materials were mailed and, with this change, we withdrew our proposal. The other went to a vote, which was supported by more than 50% of the company's shareholders. The company subsequently confirmed that it will adopt a majority voting policy before the next shareholder meeting. While hopeful that the securities regulators will mandate a majority voting standard, until they do so we will continue to support the CCGG initiative, engaging with a broader range of Canadian companies and, where necessary, filing shareholder proposals.

This year we participated in various discussions on how to improve the Canadian and U.S. proxy voting system. Our participation included responding to the U.S. Securities and Exchange Commission (SEC) Concept Release on the U.S. Proxy System through the Pension Investment Association of Canada (PIAC) and CCGG; discussing, with other industry participants, the paper prepared by the law firm Davies, Ward Phillips & Vineberg entitled "The Quality of the Shareholder Vote in Canada," which examined proxy voting in Canada and the issues around it; encouraging the OSC to conduct a thorough review of the system to evaluate its effectiveness and make necessary improvements; and participating in a shareholder symposium.

With increased shareholder rights come increased shareholder responsibility and scrutiny. In response to initiatives in the United Kingdom and the European Union regarding the role and responsibility of institutional shareholders, we were an active participant in the development of the CCGG's *Principles of Governance Monitoring, Voting and Shareholder Engagement*. We intend to continue our own conduct as an active investor in a manner that is fully consistent with these initiatives.

UN GLOBAL COMPACT

The Compact is a voluntary commitment made by companies with regard to the areas of human rights, labour, environment and anti-corruption. Since 2008, we have participated in four phases of a collaborative initiative coordinated through the UN PRI Engagement Clearinghouse focused on companies' adherence to the disclosure requirements of the Compact.

The most recent phase of this initiative began in February 2011 and included sending letters to 122 Global Compact signatories. Eighty-nine companies were commended for their disclosure, while 33 were asked to improve. Companies that do not submit a Communication on Progress (COP) will be delisted from the UN Global Compact. As of June 2011, 10 of the 33 companies had submitted the COP reporting requirement.

TOBACCO

We continue to monitor 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. The objective of the WHO FCTC is to protect present and future generations from the consequences of tobacco consumption and exposure to tobacco smoke. This initiative is an important catalyst for increasing regulation in emerging markets.

Since 2004, we have supported 32 shareholder proposals (eight this year) at tobacco companies on various issues, including marketing practices and second-hand smoke.

ANTI-PERSONNEL LANDMINES AND CLUSTER MUNITIONS

Investment in companies that are not in compliance with the *Anti-Personnel Mines Convention Implementation Act* is prohibited by the CPP Investment Board's *Policy on Responsible Investing*. We engage directly with international aerospace and defence companies and use third party research to identify companies that are ineligible for investment.

On December 3, 2008, more than 100 countries, including Canada, signed the *Convention on Cluster Munitions* in Oslo, Norway. The Oslo Convention prohibits the use, development, production, stockpiling and transfer of cluster munitions. We continue to monitor the Oslo Convention and Canada's legislative response to ensure that companies with businesses not in compliance with forthcoming Canadian legislation in this regard are excluded from our portfolio. We will continue to review the portfolio and contact companies seeking clarification on whether their businesses comply with the Oslo Convention.

BURMA

The Government of Canada established sanctions on Burma through the *Special Economic Measures Act* (SEMA) in December 2007. As such, we regularly review our portfolio to assess companies' exposure to Burma. Within our extractive industries focus area, we also encourage companies with operations in Burma to address the investment risks related to the environmental and social issues associated with their operations.

PROXY VOTING

Voting proxies is not only our fiduciary responsibility as a shareowner, it is also an important means for conveying the views of the Canada Pension Plan Investment Board (CPPIB) to boards of directors and management. CPPIB's *Proxy Voting Principles and Guidelines* provide guidance on how we are likely to vote on typical issues put to shareholders. In general, we support resolutions that empower boards of directors on behalf of shareholders, or that reaffirm accountability of management.

Working with an independent service provider, our in-house team reviews every item on the agendas of the public companies in which we invest, and we make our own decisions with input from our investment departments. If novel or contentious ESG issues are identified, they are escalated to senior management.

As an active owner, we believe it is important to be transparent in our voting activities. This year, we began disclosing our vote intentions prior to company meetings on our website, which we expect will also increase or encourage engagements with companies that we are invested in.

ANNUAL REVIEW OF PROXY VOTING PRINCIPLES AND GUIDELINES

CPPIB undertakes an annual review of our *Proxy Voting Principles and Guidelines*. The process involves input from the Responsible Investing team to the Responsible Investing Committee of senior management. Further review is undertaken by the Governance Committee of our board of directors, with final review and approval of any changes by the entire board. This year we have adopted a stronger position on separation of the positions of CEO and chair of the board, and added a guideline supporting adoption and disclosure of CEO succession planning policies. As noted earlier, we are also taking stronger positions against slate and plurality voting, and in support of annual advisory votes on executive compensation.

VOTING RECORD

Below are highlights of our proxy voting record for the 2011 proxy season, with examples of our votes on a range of management and shareholder proposals.

551 MEETINGS IN CANADA

584 MEETINGS IN THE UNITED STATES

1,904 MEETINGS – NON-NORTH AMERICAN

3,039 MEETINGS IN 2011 PROXY SEASON

33,825 AGENDA ITEMS;
VOTED AGAINST MANAGEMENT IN 9.4% OF CASES.

WE REVIEW EVERY VOTING ITEM ON THE AGENDAS OF THE PUBLIC COMPANIES IN WHICH WE INVEST.

MANAGEMENT PROPOSALS

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

Although we generally support management recommendations, the following table highlights some types of management proposals that we regularly vote against.

SUBJECT	VOTED AGAINST	RATIONALE FOR NOT SUPPORTING PROPOSAL
Equity compensation plan and introduction or amendment	457 of 1,324 (35%)	Plan did not meet CPPIB guidelines, e.g., because of high cost, excessive dilution of common stock, inclusion of non-employee directors, or overly broad amending powers granted to the board.
Shareholder rights plan adoption or amendment	55 of 113 (48%)	Plan did not increase the board's ability to respond to a takeover bid in a manner that would enhance shareholder value.
Increases in authorized common stock	33 of 57 (58%)	Possible dilutive share issuance without demonstration of a specific business need that would enhance shareholder value.
Election of director with poor attendance	187 withheld or against	Director attended fewer than 75% of board and committee meetings without a valid reason for the absences.

SHAREHOLDER PROPOSALS

We review, and are pleased to discuss, proposals put forward by shareholders on a case-by-case basis. We generally support proposals that seek to improve disclosure or to reduce risks that could negatively affect long-term profitability.

During the 2011 proxy season, CPPIB voted on 792 shareholder proposals. Although representing only 2% of all resolutions that we voted on, these proposals can provide shareholders with an effective means of encouraging companies to adopt policies and practices that enhance long-term shareholder value if other forms of engagement do not succeed. Companies should seriously consider implementation of resolutions that receive majority shareholder support, respecting their overall fiduciary obligations to all shareholders.

A number of shareholder proposals were withdrawn by their proponents following successful engagement, resulting in the companies involved agreeing to take responsive action. Several of these were related to environmental and social issues.

The following tables highlight examples of shareholder proposals that we considered during the 2010 proxy season.

WE REVIEW, AND ARE PLEASED TO DISCUSS, PROPOSALS PUT FORWARD BY SHAREHOLDERS ON A CASE-BY-CASE BASIS.

TYPE OF SHAREHOLDER PROPOSALS WE GENERALLY SUPPORTED

SUBJECT	VOTED FOR	GENERAL RATIONALE FOR SUPPORT	NOTEWORTHY PROPOSALS	REASON SOME PROPOSALS NOT SUPPORTED
Enhance disclosure on environmental and social risks and performance	26 of 45 (58%)	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.	Valero Energy Ameren Amazon.com Emerson Electric	Company already provides adequate disclosure or proposal was overly prescriptive.
Adopt/disclose corporate responsibility standards (e.g., human rights, water management)	14 of 28 (50%)	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.	GenOn Energy Reynolds American Chevron Caterpillar	Proposal was overly prescriptive or duplicative of initiatives already underway.
Move to annual elections	29 of 29 (100%)	The annual election of all directors increases board accountability to shareholders.	McDonald's Western Union Reynolds American	Not applicable.
Report on political contributions	40 of 49 (82%)	Greater disclosure into political spending helps shareholders assess associated costs, risks and benefits.	Occidental Petroleum IBM Raytheon AT&T	Proposal was overly prescriptive or duplicative of initiatives already underway.
Majority vote for the election of directors	10 of 10 (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 elected as a director.	Apple Caterpillar Oracle Sherwin-Williams	Not applicable.
Separate Chair and CEO	20 of 25 (80%)	Different responsibilities of the two positions warrant different leaders.	Exxon Mobil FedEx JPMorgan Chase	Company had appointed an independent lead director with clearly delineated duties. Following the update of our *Proxy Voting Principles and Guidelines* in February 2011, we now support all shareholder proposals to separate the Chair and CEO positions.
Amend articles, by-laws or charter to provide for shareholder rights to call special meetings	25 of 25 (100%)	As in Canada, shareholders owning a specified percentage of shares should have the right to call special meetings of shareholders.	Citigroup Pfizer Wal-Mart	Not applicable.
Reduce super-majority voting requirements	10 of 11 (91%)	Super-majority voting requirements create inequality among shareholders and constrain minority shareholder rights.	H&R Block Southwest Airlines	Proposal not supported had two individuals who combined owned a majority of the total voting power; the super-majority provisions thus offered protection to other shareholders.

TYPE OF SHAREHOLDER PROPOSALS WE GENERALLY DID NOT SUPPORT

SUBJECT	RATIONALE FOR NOT SUPPORTING PROPOSAL
Report on pay disparity	Our focus regarding executive compensation is the link between pay and performance. The requested information would not improve shareholders' ability to evaluate the company's compensation policy from a pay-for-performance perspective.
Compensation related shareholder proposals	We generally prefer to express our views on compensation matters through our advisory vote on compensation rather than supporting shareholder proposals.
Deceptive proposals	These proposals appear to be progressive but actually deter company efforts to address climate change and other ESG risks and opportunities. They are often overly prescriptive and could impose significant costs relative to potential benefits.

INVESTMENT MANAGEMENT

Research on long-term, material environmental, social and governance (ESG) factors plays an integral part in investment strategy at the Canada Pension Plan Investment Board (CPPIB), guiding engagement selection and agendas as well as informing our investment decisions and subsequent asset management.

SUPPORTING RESEARCH

We believe that investment analysis should incorporate ESG factors to the extent that they affect long-term risk and return. Further to our investment-only mandate, we do not screen stocks of companies that fail to meet particular standards. Rather, we take ESG factors into account through our assessment of their impacts on the intrinsic value of a company or investment and the amount of risk associated with it. Data on ESG factors are less available and less consistent than research on traditional financial metrics. Nevertheless, the impact of ESG factors is potentially large in some cases, and is more likely to grow than reduce. We continue to research ways to estimate how ESG factors can affect corporate performance over time, and how best to incorporate ESG factors routinely into our valuations of companies.

In addition to the detailed company research by our Responsible Investing team and portfolio managers, we seek and encourage third party research that incorporates long-term, material ESG factors. An example of this is our sponsorship and support of studies by the Clarkson Centre for Business Ethics & Board Effectiveness, at the University of Toronto's Rotman School of Business, on the link between executive pay and performance. Also, we request or encourage investment dealers to conduct specific studies, and we take account of the value of their ESG-related research in our ongoing allocations of trading and commissions.

INVESTMENT DECISIONS

INVESTMENTS IN PUBLIC MARKETS

CPPIB's Responsible Investing team of specialists is housed in our Public Market Investments department. The team works closely with the Fundamental Research group within Global Corporate Securities – the in-house portfolio management group responsible for active security selections on a long/short basis – in seeking ways to better assess ESG risks and their impact on a company's intrinsic value. The team provides detailed research to portfolio managers on the Fundamental Research and Relationship Investments teams, particularly in the Materials and Energy sectors. For example, Responsible Investing analyzes the ability of mining companies to manage environmental and community issues at operations in high-risk countries. The Materials sector head views this analysis as integral to assessment of companies' capacity to maintain both social and legal licences to operate.

Our Relationship Investments group, which takes significant positions in public companies, believes that companies' approaches to ESG issues strongly indicates their commitment to sustainable growth and their potential for long-term value creation.

INVESTMENTS IN PRIVATE COMPANIES AND PARTNERSHIPS

In our Real Estate and Private Investments departments, ESG factors are evaluated in the due diligence process, wherever applicable to the individual investment. Most private investments are longer term by nature, so the potential impact of ESG factors can be particularly important. Once an investment has been made in a private company or real estate holding, the evolution of ESG risk exposures and opportunities is monitored as an integral element in our management of the asset over the life of the investment.

Clearly, CPPIB must adhere to its own principles in the management of companies where we control or strongly influence their governance. Executive compensation arrangements, and board composition including necessary competence and independent inputs, are a first consideration for appropriate change when we become involved in ongoing management of an entity.

REAL ESTATE

The environmental footprint of commercial buildings – including such items as energy efficiency, GHG emissions, water use and waste generation – is an important factor in determining the marketability of the property to tenants and therefore the economic evaluation of the property and its sustainability. As such these types of factors are considered in our selection of new investments, and also form an important component in ensuring the ongoing competitive position of our investment.

In North America, the Leadership in Energy and Environmental Design (LEED) Green Building Rating System encourages sustainable building and development practices through standards and performance criteria. Similar ratings are also used in Europe. Like CPPIB, our key partners in real estate acquisition and management take LEED and other ratings into account in building their property portfolios. For example, CPPIB partners with Oxford Properties in the Royal Bank Plaza in Toronto, the largest LEED EB Gold certified building in Canada. Other examples are First Canadian Place in Toronto, in process of certification, and the McGraw-Hill Building in Manhattan (1221 Avenue of the Americas) which is reportedly the largest office building with the LEED existing building certification. In ongoing management of our real estate assets, appropriate environmental improvement initiatives are well justified by reliable paybacks.

IMPROVEMENTS IN PERFORMANCE ON ENVIRONMENTAL FACTORS CAN:

- increase potential rents and occupancy (through tenant demands for standards);
- increase building value;
- reduce operating costs significantly; and thus
- improve return on investment.

INFRASTRUCTURE

CPPIB has built a portfolio of over $9 billion in infrastructure investments – e.g., utilities, toll roads, and communications facilities. These are individually large investments, made with a very long-term outlook, often of 20 years or more. Some have major environmental and social footprints, and an assessment of these factors, using both in-house specialists and contracted technical and engineering experts, is standard practice before any infrastructure investment recommendation is made. We evaluate any downside from site pollution, damage or reclamation costs, potential environmental legislation or litigation, social impact or other factors, and consider appropriate mitigation and remediation costs.

Also, the ongoing operation and financial performance of our investment can frequently benefit from enhancements in these areas. For example, a major power utility investment is a market leader in both energy efficiency/conservation and renewable resource power generation. It provides award-winning programs to help customers save energy and money; this not only benefits customers, it solidifies local regulatory treatment and protects long-term pricing and revenues. The utility also balances its obligation to deliver lowest-cost power with evolving legislation requiring a certain percentage of generation to come from renewable resources. Accordingly, the company has proactively enlarged its wind farm capacity, by more than required, thus reducing the future risk of non-compliance with likely strengthened environmental requirements.

In non-competitive markets, regulators will monitor a company's performance to ensure it is delivering services that the customers expect and are paying for. For example, another CPPIB utility investment is subject to extensive benchmarking by its national regulator of its operating performance, including several environmental factors. This is done not only to aid in setting price limits but also to reward utilities that provide high quality service. With support for capital expenditures from our partners in this investment, the utility has become an industry leader in the regulatory incentive scheme and has been awarded a material improvement in its permitted pricing.

PRIVATE EQUITY

CPPIB's private equity investments cover a wide range of companies in diverse sectors. The form and extent of ESG diligence thus also varies widely, so we typically contract independent experts or consultants with relevant experience in the specific area. We also coordinate with our insurance and financial advisors. These reviews address material risks, potential financial impacts and possible remedies, and may also point out opportunities for revenue generation and value enhancement. The information is analyzed by the private equity deal team, and the possible effects are covered in our resulting assessment included in the formal investment recommendation.

A prime example of our activities involves an investment in an oil and gas company operating in Canada's oil sands. In our due diligence, the team reviewed environmental and stakeholder concerns with current and planned operations, and analyzed internal and external environmental audits. We also discussed how the company affects and interacts with local communities. The process highlighted several company initiatives:

- proactive management of compliance, with extensive ongoing training of employees;
- high degree of engagement with local people and economic development in the area, including open houses with employees where the community can stay close to developments, ask questions and provide feedback; and
- substantial employment of local contractors.

As a result of our investments in private companies, CPPIB may have board representation and will in any event remain abreast of ongoing management of the asset. Through the board and other channels we will actively participate in resolving ESG issues, managing risks, and pursuing value creation opportunities.

GOING FORWARD

As global economic difficulties continue, the CPP Investment Board (CPPIB) remains committed to its long-term perspective in helping sustain the pensions of over 17 million Canadians. Responsible investing is clearly aligned with, and an important aspect of, this strategy; we will continue to strengthen our approach in the years ahead.

The United Nations' *Principles for Responsible Investment* guides our activities and we will further strengthen our efforts under its six principles. Our business plan includes three broad objectives:

(1) Enhance integration of ESG factors into investment decision-making processes, through increased provision of risk/value analyses and better assessment of the impact that ESG factors can have on corporate financial performance, and by consideration in fundamental research.

(2) Continue to enhance engagement activities as an active investor, through extended dialogue with Canadian and international companies in the focus areas of climate change, the extractive industries, water, and executive compensation, and through regulatory initiatives and enhanced standards.

(3) Foster best practices in responsible investment relevant to CPPIB's mandate, through participation in effective collaborative initiatives with other major investors.

Governance also remains a key aspect of our activities. As stated by David Denison in his Message from the Chair of the Canadian Coalition for Good Governance in 2011, we are "working to positively impact the governance of public companies," because "corporate governance is a relevant and important investment criterion and [our] commitment to pursue good governance is rooted in the fiduciary responsibilities of asset managers."

Implementing responsible investing is an evolutionary process. As research improves, and as disclosure by companies improves, so too will our ability to focus our engagement efforts and integrate environmental, social and governance considerations into our investment practices. There is a great deal more that can be accomplished, and CPPIB remains dedicated to furtherance of this integral component of our long-term, total portfolio approach to investment of the CPP Fund.

FOR INFORMATION ON THE LATEST DEVELOPMENTS IN RESPONSIBLE INVESTING AT THE CANADA PENSION PLAN INVESTMENT BOARD, PLEASE VISIT THE RESPONSIBLE INVESTING SECTION OF OUR WEBSITE (WWW.CPPIB.CA).

WE WELCOME PUBLIC FEEDBACK. PLEASE E-MAIL YOUR COMMENTS TO COMMUNICATIONS AND STAKEHOLDER RELATIONS AT CSR@CPPIB.CA.