2015 REPORT ON SUSTAINABLE INVESTING

Integration
Engagement
Collaboration

CPP
INVESTMENT
BOARD

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 for 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.

TABLE OF CONTENTS

PART I

2015 Report on Activities

CPPIB emerged out of a realization in the 1990s that the CPP Fund's long-term financial health was not assured. Because of demographics, the growing number of retirees drawing benefits from the Fund was quickly outpacing the number of workers contributing to it. Canadian governments took two actions to ensure the long-term viability of the Canada Pension Plan: increasing contribution rates, and creating CPPIB to manage and invest the Fund.

OUR COMPARATIVE ADVANTAGES

Long-Term View

We have an exceptionally long investment horizon. The Chief Actuary who looks at the sustainability of the Canada Pension Plan Fund does so with a 75-year scope.

Certainty of Assets

The CPP will collect excess contributions until 2023, allowing us to build and adjust our portfolio with discipline. Investment returns will not be required to make benefit payments until after this time.

Size and Scale

We can make substantial investments in private markets, many of which are larger than their public market counterparts and are expected to offer greater returns over time.

$264.6 Billion

CPP Fund at March 31, 2015

$52.9 Billion

Implied Assets Under Management for Active Public Market Programs

$107.5 Billion

Investments in Private Assets

41

Total Number of Countries in Which We Have Private Holdings

208

Global Investment Partners

President's Message

I recently made my second trip to Canada's far north. My first was in 2012 and I was so enthralled by the experience that I immediately decided I would be going back.

It was the most startling and beautiful geography that I have ever seen, but it is also incredibly fragile. Swiftly receding glaciers, dwindling herds of caribou, and the northern migration of some southern species all point to the impact we are having on our planet.

My travels constantly remind me of the significance of CPPIB's work on sustainability. The decisions we make every day influence everything from a British water company we invest in, to the farmland we own in the United States, to the evolution of corporate governance practices in emerging markets. I am proud that sustainability is central to how CPPIB conducts business, and of the steady progress we have been making, year after year.

OUR MANDATE

CPPIB's mandate is to maximize the investment returns of the Canada Pension Plan, on behalf of Canadian workers, without undue risk of loss. We are investing not only for this generation, but for future generations of Canadian workers. This long-term outlook dovetails with our approach to sustainable investing, which is also focused on the long term. We consider environmental, social and governance (ESG) factors in investment decisions and in our ongoing asset-management activities. As I have said before, we believe that organizations that manage ESG factors effectively are more likely to create value over the long term. Thoughtful actions in this area also speak volumes about the quality of corporate management, whom we are depending on to make day-to-day operational decisions with a view to the interests of long-term owners such as ourselves.

For CPPIB, sustainable investing is not an aspirational goal or a sideline operation grafted onto our day-to-day investment activities. We have been working hard to integrate it throughout our business – across continents, investment departments and asset classes.

FOCUSING CAPITAL ON THE LONG TERM

We have also been working beyond the walls of our own organization because we believe that all market participants, including ourselves, will benefit from stronger sustainable investing activities system-wide. We believe that long-term thinking must be part of the solution when it comes to tackling issues such as climate change and water supply. Further, the shift away from the short-term mindset that pervades markets, investors and companies today must be a true 'sea change,' not a passing fad.

In 2011, I read an article in the *Harvard Business Review* by Dominic Barton, Global Managing Director of McKinsey & Company and a long-time friend of mine. Entitled "Capitalism for the Long Term," it was a powerful indictment of so-called 'short-termism' in markets everywhere.

As a result of this article, in 2013, CPPIB and McKinsey launched "Focusing Capital on the Long Term" (FCLT) to raise awareness of the problem and to give investors and corporations the tools and performance measures to create long-term value for companies, shareholders and society. While FCLT's aims extend beyond the principles of ESG, they clearly embrace them. No enterprise today can build strategies for the long term without incorporating sustainability. FCLT now includes leading financial and investment organizations from around the world, and our collaborative efforts to date have produced an impressive body of work that is increasingly uncovering tangible, practical ideas that corporate leaders can use to orient their organizations towards the long term. Along with our partners, we also convened the Long-Term Value Summit in New York City that brought together 120 global business and government leaders.

One of the business leaders aptly captured the thinking of Summit participants by saying:

> *"Short-term metrics are actually disastrous. At the end of the day, I can remove all R&D, all capital expenditures, and I'll be a phenomenal CEO for a year or two and enrich myself…"*

But if he were to do so, his company would cease to exist in a few years' time. He went on to say that it's more difficult to demonstrate the benefits of undertaking work that's for the greater good over the long term. Through FCLT, we're hoping to make that easier.

GETTING INVOLVED

Members of our Board, Senior Management and Leadership Teams took on several new engagements this year with organizations dedicated to enhancing corporate governance and responsible growth and investment.

CPPIB Board Chair Heather Munroe-Blum and I became founding members of the Canadian chapter of the 30% Club, an international organization aimed at improving gender balance at all levels of business organizations. I am a board member of the Canadian Coalition for Good Governance (CCGG), and Stephanie Leaist, Managing Director and Head of Sustainable Investing, and I both serve on CCGG's Public Policy Committee, which I also chair.

CPPIB has been heavily involved with the United Nations–supported Principles for Responsible Investment initiative (PRI) for several years, and was instrumental in its creation about a decade ago. This year, we participated in the PRI's Steering Committee for collaborative engagement on Human Rights in the Extractive Sectors. Last March, the Steering Committee held a roundtable at CPPIB's headquarters on this issue that included six global mining and oil & gas companies. Eric Wetlaufer, Senior Managing Director & Global Head of Public Market Investments, also contributed to the review and enhancement of the PRI's governance structure.

> *"Short-term metrics are actually disastrous. At the end of the day, I can remove all R&D, all capital expenditures, and I'll be a phenomenal CEO for a year or two and enrich myself…"*

GLOBAL BEST PRACTICE

As CPPIB continues to expand its geographical reach to find the best long-term investment opportunities, we have given much thought to ensuring our sustainable investing practices keep pace with our growth. During the year, our Sustainable Investing team collaborated with our Hong Kong investment teams to leverage local expertise, ensure that CPPIB makes informed proxy voting decisions in Asia, and enhance the integration of ESG factors into our investment decisions in the region and across the globe.

We decided to join Hermes Equity Ownership Services' engagement platform to supplement and expand our engagement with companies we invest in globally. Our four focus areas for engagement are currently climate change, water, extractive industries (mining and oil & gas), and executive compensation.

Efforts such as these, and others described more fully in this report, require time and resources. Ever mindful of our responsibilities to more than 18 million Canadian workers and retirees, we carefully consider our sustainable investing initiatives within the context of our mandate.

ACTING LIKE AN OWNER

Active, engaged ownership generates long-term value and is thus an important part of CPPIB's strategy to earn long-term returns from the companies we invest in. One of the most powerful tools of engagement is proxy voting.

A substantial part of this report is devoted to our proxy voting policies and activities. By the numbers, we had a very 'engaging' proxy season! CPPIB voted at 4,467 meetings on 47,574 agenda items. We also worked with regulators and leading organizations like the Canadian Securities Administrators to improve Canada's proxy voting infrastructure.

CONCLUSION

As you read through this report, I am confident you will find that CPPIB is making steady progress as a sustainable investor, and in fact is leading by example. I look forward to updating you again next year.

Mark D. Wiseman
President & Chief Executive Officer

HIGHLIGHTS OF PROGRESS ON OUR FISCAL 2015 PRIORITIES

Continue to expand our activities and collaboration efforts globally

- Played an active role on the Steering Committee of the United Nations–supported Principles for Responsible Investment's (PRI's) collaborative engagement on Human Rights in the Extractive Sectors. For more information see page 13.
- Contributed to the PRI's strategic direction as a member of its Board, including enhancing the governance structure and 2015–2018 Strategic Plan. For more information see page 20.
- Decided to join Hermes Equity Ownership Services platform to increase ESG collaborative engagement with companies in CPPIB's public equity portfolio. For more information see page 19.
- Participated in collaborative engagement through the Asian Corporate Governance Association (ACGA) and in an ACGA-led investor delegation in China. For more information see page 19.
- Our Board Chair and CEO each became founding members of the 30% Club (Canada), a group that encourages organizations to take voluntary steps to achieve better gender balance. For more information see page 19.

Refine and strengthen our ESG integration processes and tools

- Enhanced the sustainability monitoring questionnaire that our Real Estate Investments team uses in their annual assessment of our partners' management of ESG factors. For more information see page 8.
- Our Portfolio Value Creation group continued to refine its structured ESG due diligence approach for direct private investments.
- Our Sustainable Investing team worked more closely with CPPIB's Hong Kong investment teams to enhance integration of ESG considerations into investment decisions, leverage local expertise, and exercise more informed proxy voting decisions in Asia.

Continue our efforts as an engaged participant in capital markets

- Continued direct engagements with companies regarding water and climate change risks. For more information see page 12.
- Supported a high number of shareholder proposals related to environmental risks, especially climate change. For more information on proxy voting see page 15.
- Increased levels of engagement with Asian companies to provide our views on corporate governance practices. For more information see page 19.
- Promoted the adoption of governance best practices by providing input on regulatory consultations. For more information see page 14.
- Urged regulators to prioritize efforts aimed at improving the proxy voting infrastructure in Canada. For more information see page 14.

Promote long-term thinking

- Alongside McKinsey & Company and BlackRock, convened the Long-Term Value Summit in New York City. The summit brought together more than 120 investment and corporate leaders from 18 countries to tackle the problem of short-termism and identify ways to focus on long-term value creation. For more information see page 18.
- Published *A roadmap for focusing capital on the long term* (Roadmap) outlining action areas for asset owners, asset managers, boards of directors, and corporate management to better focus on long-term value creation. Roadmap was one of the key outputs from the FCLT effort which CPPIB co-founded in 2013 and has since grown to a global effort with more than 20 other organizations. Roadmap and other findings can now be found on fclt.org.

PRIORITIES FOR 2016

1. Increase environmental, social and governance engagement globally with publicly traded companies.
2. Continue to proactively identify and manage environmental, social and governance factors across our investment and ownership activities, including enhancing our processes where appropriate.
3. Continue to promote long-term thinking by institutional investors and companies globally.

Sustainable Investing

At CPPIB 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.

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.

We are responsible for helping to support the financial wellbeing of the Canada Pension Plan for generations to come. Given our legislated mandate to maximize returns without undue risk of loss, we integrate environmental, social and governance factors into our investment analysis, rather than eliminating investments based on those factors alone.

We consider and integrate both ESG risks and opportunities when:

Making Investment Decisions	Managing Our Investments	Engaging With Companies In Which We Invest

We seek better long-term outcomes in the companies and assets in which 18 million CPP Fund contributors and beneficiaries have a stake. This yearly report forms part of our transparency commitment to Canadians and profiles investments, initiatives and actions CPPIB pursued from July 1, 2014, to June 30, 2015, to enhance long-term, sustainable returns for the CPP Fund through a focus on ESG factors. This reporting period allows us to summarize our voting activity at the completion of each proxy season. Our fiscal year runs to March 31.

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.

Sustainable Investment Decisions

Our exceptionally long-term view gives us the freedom to make investment decisions that incorporate environmental, social and governance factors both before and after making investments. As an engaged investor, we work with our investment partners and the companies in which we invest to improve ESG performance over time. On the following pages you will find some highlights of our work in this area over the past year.

SUSTAINABLE INVESTING GROUP CREATED MORE THAN 45 ESG PROFILES

CPPIB's in-house Sustainable Investing group works to continually enhance our ability to integrate environmental, social and governance factors into investment decisions and ownership activities. One of the group's regular activities is creating ESG profiles of publicly traded companies for our investment teams, primarily GCS Fundamental and Relationship Investments, to consider in their active investment decisions, enabling them to identify material ESG risks and opportunities early on. The profiles provide an analysis of companies' practices, policies and oversight mechanisms related to ESG risks. The analysis is informed by a variety of sources, including third-party research and corporate disclosure, as well as the Sustainable Investing group's own domain expertise and ESG engagement activities. The Sustainable Investing group provided more than 45 ESG profiles to our investment teams this year.

NEW THEMATIC INVESTING GROUP INTEGRATING ESG FACTORS

In April 2014, CPPIB created a Thematic Investing group to identify major structural changes or broad trends that are expected to evolve and affect security prices significantly in the long term. The team then identifies the asset classes, industries and companies that are expected to gain or lose from these changes so CPPIB can make investment decisions accordingly. One of the team's first areas of research is the impact of changing demographics on markets over a long period of time. The group is considering ESG factors in this work because they are an important indicator of a company's long-term orientation.

PRIVATE INVESTMENTS CONTINUES TO INCORPORATE ESG EVALUATION

Since 2013, the due diligence process for prospective new fund commitments to fund managers, called General Partners, has included a structured assessment of ESG factors. Over the last 12 months we evaluated the ESG policies and practices of 17 General Partners. This work enhances the team's understanding of each fund manager's ESG practices, including their policies, processes, approach, resourcing, due diligence, and ongoing monitoring and reporting. CPPIB's Portfolio Value Creation group, which is involved in the governance and management of direct investments in private equity and infrastructure, continued to refine its structured ESG due diligence approach.

DEVELOPED BEST PRACTICE GUIDELINES FOR DIRECTORS SERVING ON CPPIB'S INVESTEE COMPANY BOARDS

CPPIB strives to differentiate itself by providing best-in-class corporate governance and support to its investments, in order to deliver value over the long term. To ensure the best possible diversity, experience and expertise at the Boards of companies where CPPIB has governance rights, we retain and appoint both CPPIB-employee and third-party directors. This year, CPPIB undertook a company-wide initiative to develop a set of guidance documents for all CPPIB-appointed directors of companies we invest in. The various investment departments within CPPIB continue to collaborate on the refinement of these best practices and the development of implementation and training tools.

SUSTAINABLE INVESTING COMMITTEE

CPPIB's Sustainable Investing Committee is comprised of nine individuals from across the organization, and is responsible for overseeing the functions of the Sustainable Investing group, with Senior Management and Board oversight as appropriate. The committee held six formal meetings this year in addition to other ad hoc interactions, exploring and discussing a wide range of topics including updates on the integration of ESG risks and opportunities by CPPIB's three Investment departments, and updates to CPPIB's *Proxy Voting Principles and Guidelines*.

WORKING WITH OUR INFRASTRUCTURE PARTNERS: ANGLIAN WATER – LOVE EVERY DROP

Anglian Water Services Ltd. is guided by a clear vision: "Putting water at the heart of a whole new way of living."

Anglian supplies water and water-recycling services to more than six million residential and business customers in the east of England and north-eastern town of Hartlepool. It is owned by a consortium of investors, including a 32.9% share by CPPIB, which also holds two seats on the company's board of directors. Anglian's business plan, entitled *Love Every Drop*, focuses on two major challenges: managing the global impacts of climate change and the long-term water needs of a regional population that has grown by 20% in the last 20 years. Since sustainability is integrated into business plans, remuneration is linked to achievement of business objectives, and therefore automatically to sustainability.

LOVE EVERY DROP TODAY

Ofwat, the United Kingdom's water regulator, monitors Anglian's performance monthly, and Anglian publishes its results against key indicators annually. Over the past five years, Anglian has achieved a number of sustainability milestones, including halving the amount of carbon in the materials used to build and replace assets, reducing operational carbon by 10%, and diverting 96% of its waste from landfill. Anglian's leakage rates are consistently almost half the industry average, with this year's rate being the lowest in the industry. With an accident frequency rate of 0.21 accidents per 100,000 hours worked, Anglian's health and safety performance has been recognized by the Royal Society for the Prevention of Accidents for the 10th consecutive year.

In April 2015, Anglian Water was awarded the *Queen's Award for Enterprise: Sustainable Development*, the U.K.'s highest accolade for business success. It recognizes the significant contribution the company has made in setting new national standards for sustainability and for embedding sustainability throughout its operations.

LOVE EVERY DROP TOMORROW

Recognizing that water is vital to the long-term sustainability of the planet and that its stewardship is a shared responsibility, Anglian consulted with a wide range of customers and community and business leaders to revise its business plan for 2015–2020. The result was an agreement on a set of outcomes for the environment, local communities and the economy – in essence, the goals that Anglian Water's stakeholders indicated should guide the company into the future.

The targeted outcomes, which are illustrated in this graphic, include no accidents, no pollution events, zero waste, a greater than 7% reduction in operational carbon by 2020 from a 2015 baseline, and a 70% reduction in carbon embedded in capital assets by 2030 from a 2010 baseline.

LOVE EVERY DROP IN ACTION

Anglian Water has developed a combined heat and power generation (CHP) platform at its facilities in the U.K. to turn waste sewage into gas for use onsite. The gas produced by the sludge treatment process is used as fuel to run CHP engines. These produce renewable electricity along with heated water and steam that feed back into the treatment process. This cogeneration displaces power purchased by Anglian from the grid and provides for a lower carbon footprint. The output of these CHP engines reached 84 gigawatt hours this past year.

Real Estate Updates

ENHANCED REAL ESTATE ESG MONITORING QUESTIONNAIRE

Our Real Estate Investments group reviewed and enhanced the sustainability monitoring questionnaire that it uses to inform its annual assessment of how well its partners integrate and perform on ESG factors. Forty major investment partners completed the monitoring questionnaire this year. Together, the respondents manage 92% of CPPIB's real estate equity portfolio. Close to 85% indicated that they have an environmental sustainability policy or initiatives at their company and more than half of respondents have or are planning to establish full-time staff dedicated to sustainability initiatives. Most have policies in place for anti-bribery and corruption and close to 90% have a framework to monitor worker health and safety requirements.

CONTINUED PROGRESS ON GREEN CERTIFICATION

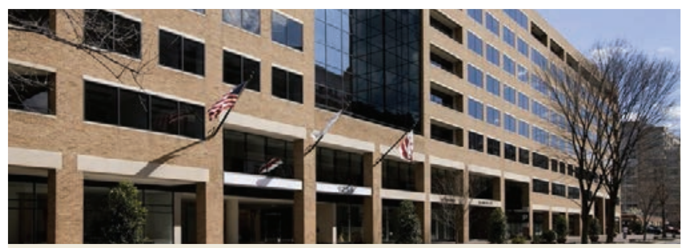
An important metric we use to assess the quality of an asset in our real estate portfolio is its level of green certification. We work closely with our partners to ensure that (i) new development projects are designed and constructed using environmentally friendly materials and (ii) energy and water-saving features are incorporated into major retrofits of existing buildings. We made significant progress on the green certification status of our existing properties this year:

- Three office properties that we own in partnership with Oxford Properties in Canada received new green certification in 2014.
- In Japan, we have three industrial facilities in our joint venture with Global Logistic Properties that obtained LEED Gold pre-certification and our GLP Misato III LEED Platinum logistics facility was awarded the 2014 Global Award for Excellence by the Urban Land Institute for its sustainable attributes.
- In addition, we have four retail, two office, one multifamily and one mixed-use property that obtained upgrades from their previous green certification this year.

TIETE SHOPPING CENTRE
Brazil • 38% Interest

Market leaders in building sustainable properties in emerging markets

CPPIB partnered with Cyrela Commercial Properties (CCP) in 2011 to invest in Tiete Shopping Centre, a prime retail development project in São Paulo that became one of a select number of malls to achieve LEED silver certification in Brazil upon its completion in 2014. It features a thermo accumulation system that stores cold water to be used by the HVAC system during peak consumption periods; high-performance glass was installed in the building's exterior to provide better thermal insulation, reducing exterior heat penetration by up to 70%; and a water reclamation system now collects grey water for irrigation and sanitation uses, resulting in a 50% reduction in water use compared to a conventional shopping centre.



1255 23rd STREET
Washington D.C., USA • 45% Interest

Focus on improving operating performance of existing assets

CPPIB partnered with Carr Properties in 2011 to acquire an office property at 1255 23rd Street in Washington, D.C. A number of energy-conservation and water-efficiency initiatives were subsequently put in place, and the property obtained LEED Gold certification in 2014. These initiatives included a strategy to reduce energy costs during peak hours and a Water Efficiency Technologies (WET) program. With these measures, the property was able to achieve a 9% savings on its annual electricity costs and a 5% savings on its annual water expense in 2014. It was awarded a 20% water improvement certificate by the U.S. Environmental Protection Agency.

CONSTITUTION SQUARE
Ottawa, Canada • 50% Interest

Target to achieve the highest environmental standards

Constitution Square is part of a portfolio of high-quality Canadian assets co-owned by CPPIB and Oxford Properties. The three-tower office and retail complex in Ottawa's Central Business District became the first building to obtain LEED Platinum certification in the city. New features include water and energy sub-metering, and energy-efficient washroom fixtures. The building currently ranks in the top 5% in the country with respect to energy performance. In addition, an indoor air quality audit was used to identify potential pollutants and improve the workplace environment. A number of tenant engagement programs, such as occupant-comfort surveys and alternative commute (public transit and carpooling) awareness, were also initiated to enhance the environmental performance of this property.

SILVERBURN
United Kingdom • 50% Direct Interest

ESG focus in reinvestments

CPPIB, in partnership with leading European retail property developer and manager, Hammerson, recently completed a 115,000-sq.ft. expansion of the Silverburn Shopping Centre in Glasgow, United Kingdom. The extension is set to achieve a design and construction BREEAM environmental assessment rating of Very Good, thanks to sustainable initiatives such as using low-energy LED lighting, procuring sustainable and responsibly sourced materials (FSC-certified timber and recycled aggregates) and diverting a high proportion of construction waste from landfill (96%). In addition, biodiversity initiatives, such as net wildlife habitat and dredging and protection of the Brock Burn Falls to reduce contamination and pollution, were considered. The majority of tenants have also committed to a range of environmental standards which supported the high assessment rating.

See Part II for a detailed look at how CPPIB integrates ESG factors into our investment decisions across asset classes from opportunity screening and due diligence, to monitoring, to enhancing outcomes as owners.

Engagement

As the trusted manager of retirement money for 18 million contributors and beneficiaries, we have an obligation to protect and enhance the value of their fund. One of the ways we do it is by advocating for changes we believe can build value over our long investment horizon. We select companies for engagement based on the materiality of their ESG risks, the gap between current ESG practices and best practices, the size of our holdings, and our key focus areas. As one of the world's largest pension funds, we have a strong voice. We seek to develop constructive dialogue with senior executives, board members, regulators, industry associations and other key stakeholders.

REPORT ON OUR ENGAGEMENT FOCUS AREAS

The following are our key focus areas. These have been chosen because they 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 (Mining and Oil & Gas)

Executive Compensation

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

ENHANCING OUR KNOWLEDGE

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

Activities that we undertook this year to advance our knowledge included participating in a roundtable on proxy access to explore the merits of enhanced nomination rights for shareholders and hosting a roundtable about practices related to human rights with oil & gas and mining companies.

APPROACH TO ENGAGEMENT

We approach engagement through a variety of means, always balancing the resources that we dedicate with the impact that they will have. This spectrum of activities includes thoughtfully exercising our proxy voting, directly interacting with companies on our own or increasingly in collaboration with others, and taking a leadership role in global organizations that undertake engagement activity.

Given the scale of our portfolio, working in collaboration with others is key to achieving coverage across our active and passive portfolios. We also apply a subject-matter focus so our engagement is targeted at factors where improvement will add the most value to our portfolio. We serve in leadership roles so we can increase our impact through a broader strategic and oversight role.

Examples of our approach to engagement

Leadership Roles

Principles for Responsible Investment Board (PRI)

Steering Committee of the Principles for Responsible Investment's collaborative engagement on Human Rights in the Extractive Sector

Canadian Coalition for Good Governance Board and Public Policy Committee

Founding Member of the 30% Club (Canada)

Focusing Capital on the Long Term

Expanding Reach Through Collaboration

Hermes Equity Ownership Services

Asian Corporate Governance Association

CDP Investor Signatory

Proxy Voting

Thoughtfully voting proxies as an active investor

Updating and publishing *Proxy Voting Principles and Guidelines* annually

Being transparent about our proxy voting intentions

WHY DISCLOSURE MATTERS

We believe that disclosure is a powerful engine for change over time. Transparency not only enables comparisons across companies, it also encourages continual improvements.

CLIMATE CHANGE

At CPPIB we recognize that climate change has the potential to significantly impact our investments. We encourage companies to adopt a more long-term mindset, and to provide better disclosure regarding climate change-related risks and opportunities to allow us to make better long-term investment decisions. We believe that engaging with companies on this topic and pressing for improvement is necessary to protect long-term value.

Directly engaged with companies	We seek enhanced disclosure from the largest greenhouse gas emitters in Canada. This year we continued to lead an engagement along with other major Canadian investors requesting enhanced disclosure regarding the greenhouse gas emissions strategy and performance of a large Canadian company with significant direct emissions. We provided feedback to the company on the type of disclosure most relevant to long-term investors, including emissions reduction initiatives. The company agreed to consider our input as it enhances its reporting going forward.
Supported shareholder proposals	Climate change was a key topic for shareholder proposals this year, in the lead-up to the United Nations conference on climate change that will take place in Paris in December 2015. Various types of proposals focused on what companies are doing to prepare for the possibility that global policy-makers agree to significantly limit greenhouse gas emissions to limit warming to 2 degrees Celsius. We supported 43 climate change-related proposals this year, including requests for increased disclosure about the management of climate change risks and performance with respect to greenhouse gas emissions at Southern Company, Shell, BP and Marathon Oil.
Signatory to the CDP Climate Change Information Request	We continue to support the annual Climate Change Information Request that the CDP (formerly the Carbon Disclosure Project) sends to more than 5,000 publicly traded companies on behalf of investors. This year's request was supported by 767 institutional investor signatories representing more than US$92 trillion in assets. In 2014, over 2,500 companies provided a response to the CDP climate change questionnaire, including over 100 Canadian companies.

WATER

We 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	Work is being done among companies in the materials and energy sectors to create consensus around key performance indicators. We researched, and selected for engagement, companies where we saw potentially material water risks and the need for enhanced disclosure about the management of such risks. Following our discussions with companies, we expect that they will enhance their disclosure in this area, including reporting on performance against key performance indicators.
Supported shareholder proposals	We continued to support shareholder proposals requesting the improved management and disclosure of water-related risks, including those stemming from water availability and quality. Proposals we supported relating to requests for increased disclosure of water risk management practices included those at Chevron Corp. and Exxon Mobil Corp.
Signatory to the CDP Water Information Request	CPPIB was among the initial investor signatories that supported the launch of the CDP Water Disclosure initiative in 2010. The most recent CDP Water Information Request was supported by 573 institutional investor signatories representing over US$60 trillion in assets. In 2014, 302 companies were sent the questionnaire and 174 responded. The CDP 2014 Global Water Report noted that 68% of respondents reported that water poses a substantial risk to their business, and 43% of the reported risks were anticipated to materialize in the near term (less than three years) while 24% were expected to materialize over a longer time frame (more than six years). Almost one-quarter (22%) of responding companies reported that water-related risks could limit the growth of their business.

EXTRACTIVE INDUSTRIES

We took action to advance the consideration of environmental, social and governance factors by mining and oil & gas companies and to encourage improved disclosure across the industry to allow investors to better assess long-term performance.

Directly engaged with companies	This year we played an active role on the Steering Committee of the United Nations–supported Principles for Responsible Investment's collaborative engagement on Human Rights in the Extractive Sectors. The focus of the engagement is to encourage companies to implement the UN Guiding Principles on Business and Human Rights and to improve the level of disclosure of human rights policies and processes. As a member of the Steering Committee, CPPIB contributed to designing the overall approach, subject-matter scope and focus of the engagement, and provided input on which companies to select for engagement. In March 2015, CPPIB, alongside other Steering Committee members, hosted a roundtable at CPPIB's office with six global mining and oil & gas companies to discuss best practices related to human rights, implementation challenges related to the UN Guiding Principles, and ways to improve the level and consistency of disclosure. The topics discussed included human rights practices related to due diligence, reporting, grievance mechanisms, key stakeholders and conflict zones. Based on the framework developed by the Steering Committee, engagements with a broad group of mining and oil & gas companies will now be led by signatories to the Principles for Responsible Investment. CPPIB will continue our involvement in this collaborative initiative and lead engagements with select companies.
Supported shareholder proposals	We supported shareholder proposals requesting improved disclosure of risks related to high-risk countries and the consideration of environmental expertise in director skill sets.
Ongoing support of the Extractive Industries Transparency Initiative	Through the Extractive Industries Transparency Initiative, CPPIB seeks transparent reporting of tax and royalty payments by oil, gas and mining companies as well as host governments. We participate in regular Investor Group calls with other global investor signatories. The initiative continues to progress with 48 implementing countries. More than 90 of the world's largest oil, gas and mining companies have chosen to support the initiative.

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	Corporate awareness of best practices related to executive compensation increased again this year as a result of the emphasis that CPPIB and other investors are placing on the topic by way of advisory votes (commonly referred to as 'Say on Pay') and direct engagement. The increased dialogue between companies and shareholders caused a number of companies to revise their compensation plans and adopt improved practices, particularly U.S. companies that had low levels of support for their Say on Pay vote in the prior year. For example, following a failed Say on Pay vote in 2014, a major U.S. hospitality company engaged in outreach efforts with its top 25 shareholders. It held one-on-one meetings with investors representing approximately 44% of the outstanding shares, including CPPIB. Based on the feedback provided in the meetings, the company implemented a number of positive changes to its compensation program, including eliminating guaranteed components of pay, adding performance metrics linked more directly to value creation, and strengthening stock ownership guidelines to better align the interests of management with those of long-term shareholders. In addition we saw strong continuation of the trend toward increased levels of performance-based pay. This year, approximately 80% of U.S. companies with long-term pay have a performance-based component, up from 73% last year. Negative pay practices are on the decline, with 10% fewer companies in the Russell 3000 Index paying discretionary bonuses and 12% fewer companies issuing time-vesting stock options.
Supported shareholder proposals	We support shareholder proposals aimed at strengthening the link between pay and the creation of long-term shareholder value and discouraging excessive risk-taking. Such proposals this year included requests for the adoption of performance-based equity awards at General Growth Properties, pro-rata vesting of equity awards at International Business Machines and the adoption of clawback policies at Brocade Communications Systems.

See "Actively Engaging As Owners" (page 34) 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 2,700 public companies in which CPPIB owns shares, and the types of changes and improvements we seek.

Promoting Good Governance in Public Markets

We believe that well-structured and effectively functioning Boards are crucial for a company to have a steadfast focus on long-term sustainable growth and that companies with best-in-class governance practices can enhance long-term, sustainable value for shareholders and pose less risk.

We took a number of steps this year to advocate for the adoption of good governance practices, both in Canada and globally, by engaging directly with publicly listed companies and advocating for positive market-wide changes.

Improving the Canadian proxy voting system

- Following the urging of CPPIB and a group of other institutional investors (the Proxy System Working Group), the Canadian Securities Administrators (CSA) undertook a multifaceted review of the proxy voting infrastructure in Canada. The review included publishing a consultation paper, hosting several roundtables and forming a technical working group with key proxy voting representatives. In January 2015, the CSA provided an update on their findings and announced their next steps in the initiative. Going forward, the CSA will continue their review and direct key entities to develop appropriate industry protocols for improving the vote reconciliation process, which was identified as a key issue by the Proxy System Working Group.

Promoting best practices

- CEO Mark Wiseman continued to be a member of the Board on the Canadian Coalition for Good Governance (CCGG) and also Chair of its Public Policy Committee (PPC), which plays a key role in developing policies and submissions to regulators and other lawmakers. CPPIB's Head of Sustainable Investing also serves on the PPC. CPPIB worked through the PPC to develop comments on several regulatory proposals and best practice guidelines, such as *"Shareholder Involvement in the Director Nomination Process: Enhanced Engagement and Proxy Access."* CPPIB supports the ability of shareholders to nominate directors as proposed in this policy and believes that it is consistent with shareholder democracy and good governance.
- The CCGG completed 45 engagements with Canadian Boards during the year to discuss and promote best practices with respect to executive compensation and issues such as Board composition and risk oversight. According to a study conducted by researchers at the University of Toronto, the CCGG's engagements had a major impact on convincing companies to adopt leading corporate governance practices. The study found, for example, that companies were 10 per cent more likely to provide a Say on Pay vote after engagement with the CCGG.
- A member of our Sustainable Investing group served on the Corporate Governance Committee of the Pension Investment Association of Canada, contributing to submissions on securities law and corporate governance matters.

Weighing in on important regulatory matters

Activities we undertook, directly or in collaboration, included:

- Submission to the CSA re: Request for Comments on Proposed Amendments regarding gender diversity and term limits (September 2, 2014). We supported proposed amendments to National Instrument 58-101, *Disclosure of Corporate Governance Practices*, regarding gender diversity as we believe they are an appropriate regulatory response to the persistent lack of gender diversity on Boards and in senior management of Canadian public companies.
- Submission to OSC re: OSC Staff Consultation Paper 15-401 *Proposed Framework for an OSC Whistleblower Program* (May 4, 2015). We supported initiatives aimed at providing a greater deterrence of serious misconduct in the marketplace.
- Proposed Amendments to *TSX Company Manual* to modify, expand and formalize certain exemptions available to interlisted issuers (March 9, 2015). We recommended that the TSX should retain discretion in the granting of exemptions to majority voting requirements based on our belief that majority voting is a fundamental component of shareholder democracy, irrespective of the market.
- Request for Comments on Venture Issuer Regulation (August 19, 2014). We opposed the proposal to streamline venture issuer regulation because we believe negative consequences from reducing governance and executive compensation disclosure requirements would outweigh the possible benefits of simplifying compliance.

Influencing the strategic direction of publicly listed companies

- After carefully considering the positions of both management and the dissidents on a contested proxy matter at Dupont, we concluded that the dissident did not make a compelling case for change to Dupont's board of directors. CPPIB supported the management nominees, all of whom were elected at the contested meeting. Following our transparent process, CPPIB provided advance disclosure of our voting intentions ahead of the shareholder meeting and was one of the first institutional investors to publicly express support for Dupont's management.

Conveying Our Views as Public Market Investors

CPPIB is committed to being an engaged owner of public securities. We 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 responsibility as an active 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 and approved by CPPIB's Board of Directors.

We made a number of revisions as a result of this year's review. Our Guidelines now discourage excessive reliance on peer benchmarking for executive compensation, because it can lead to a structural escalation in executive pay unsupported by company performance. We believe that if peer benchmarking is used it should be balanced against internal, company-specific metrics. Other changes included providing additional guidance on best practices related to the process for director nominations.

2015 PROXY VOTING OVERVIEW AND REPORT

In the 2015 proxy season, CPPIB voted on 47,574 agenda items and conveyed our views at 4,467 meetings. 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 2015 proxy season and our voting decisions.

Enhancing Shareholder Democracy

Subject	Vote	General rationale for support	Noteworthy proposals
Proxy access	77/80 FOR (96%)	The ability to nominate Board candidates enhances shareholder rights and increases Board accountability.	Hess Corporation Nabors Industries Ltd. eBay Inc.
Reducing supermajority vote requirements	8/8 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.	Costco Wholesale Corporation PPG Industries, Inc. Visa Inc.
Require independent Board chair	55/55 FOR (100%)	An independent chair is better able to represent shareholder interests and oversee management without conflict.	Abbott Laboratories Chevron Corporation Starbucks Corporation

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

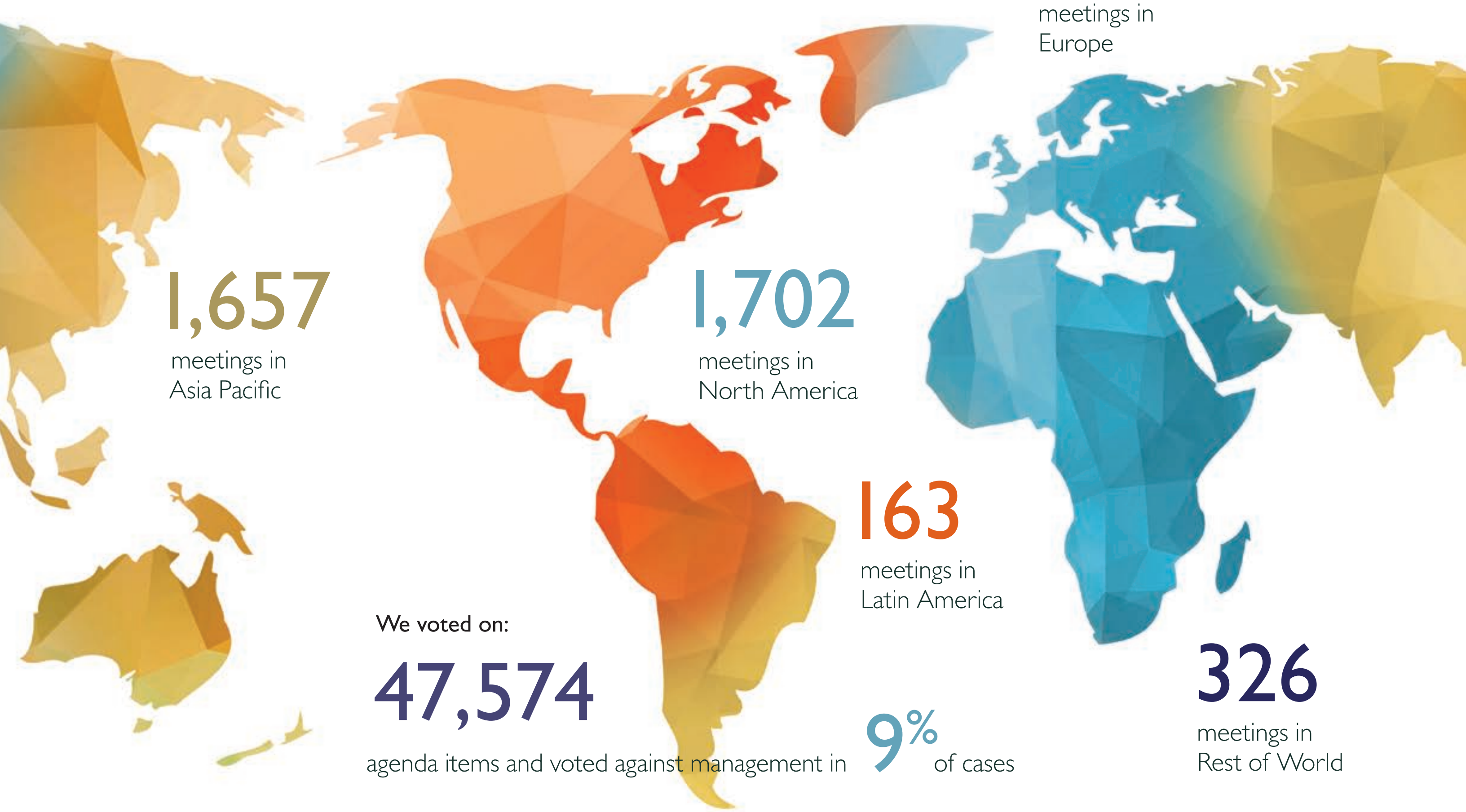
Proposal	Vote	General rationale for vote	Noteworthy proposals
Enhance disclosure on environmental and social risks and performance	58/72 FOR (81%)	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.	Chevron Corporation DTE Energy Company Marathon Oil Corporation
Adopt/disclose corporate responsibility standards	33/54 FOR (61%)	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.	The Southern Company Bunge Ltd. Tyson Foods, Inc.
Report on political contributions/lobbying	65/79 FOR (82%)	Greater disclosure of political spending helps shareholders assess associated costs, risks and benefits.	Philip Morris International Inc. ConocoPhillips Amazon.com, Inc.

Strengthening the Link Between Pay and Long-Term Performance

Proposal	Vote	General rationale for vote	Noteworthy proposals
Amend clawback policy *(shareholder proposal)*	14/15 FOR (93%)	Strengthening the company's existing clawback policy would help mitigate compensation-related risk.	Brocade Communication Systems, Inc. Occidental Petroleum Corporation The Boeing Company
Approve share plan grant *(management proposal)*	856/3392 AGAINST (25%)	Voted against where the plan reserved an excessive number of shares and there was an absence of challenging performance criteria under the plan.	Cablevision Systems Corporation: Voted against the proposal due to problematic plan features, such as provisions allowing liberal share recycling, and because the total cost of the compensation plan was too high. Moog Inc.: Voted against the proposed option plan as it allowed unlimited non-employee director participation and the total cost of the plan was too high.
Approve remuneration report / Say on Pay *(management proposal)*	201/1528 AGAINST (13%)	Voted against where the company was deficient in linking pay with performance.	Canadian Imperial Bank of Commerce: Voted against Say on Pay as we believed that the terms of retirement compensation arrangements granted to the former CEO and COO were unreasonable and inconsistent with the governance principle of pay for performance. Barrick Gold Corporation: Voted against Say on Pay due to our continued concerns with the company's practice of granting outsized awards to its chair on a largely discretionary basis. IMAX Corp.: Voted against Say on Pay in light of continuing problematic pay practices, including the award of discretionary incentives and significant equity grants devoid of links to performance criteria.

2015 PROXY SEASON FACTS

We conveyed our views at:



See Part II (pages 37 and 38) 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 42).

Working with Others

CPPIB believes in the power of collaboration. Working together to improve ESG-related practices and advocating for long-term-oriented policies and approaches reduces risks and promotes value-building growth for all investors, including ourselves. We know that two voices are stronger than one, and we frequently join with like-minded organizations on initiatives that we believe will make a difference over the long term.

FOCUSING CAPITAL on the LONG TERM

In 2013, CPPIB and McKinsey & Company launched the Focusing Capital on the Long Term (FCLT) effort as an action-oriented initiative to develop practical structures, metrics and approaches for longer-term behaviours in the investment and business worlds.

A 2014 global survey of more than 600 C-suite executives and directors conducted by CPPIB and McKinsey found that senior executives today are seeing increased short-term pressure on financial performance, notwithstanding their belief that a long-term approach to business decisions is a key driver of company performance. Unfortunately, nearly two-thirds of respondents said that the pressure to deliver strong short-term financial performance stemmed from their own Board and executive team. One-quarter of respondents also pointed to their institutional shareholders.

When executives are focused on running companies with a goal of providing long-term sustainable value, not maximizing short-term profits, it is to the benefit of all stakeholders, including investors like CPPIB.

FCLT is working to address the problem of short-termism by taking an action-oriented approach with three clear objectives:

- Bring together leaders from the investment and corporate worlds to share perspectives from all parts of the investment value chain to identify practical ideas where our members can affect change.
- Engage investment and corporate professionals to refine and develop these practical ideas into actionable recommendations.
- Generate broad awareness and debate around our ideas in the business and investment community by using our influence and reach as global leaders.

See Part II (page 39) for a list of the like-minded organizations CPPIB collaborates with to advance progress on ESG factors and foster longer-term mindsets.

With these goals in mind, what began as an effort between CPPIB and McKinsey grew to a global effort comprising over 20 different organizations from around the world with representation from three key parts of the investment value chain: asset owners, asset managers, and corporate Boards. Through hundreds of working sessions, meetings and interviews these organizations collectively developed new thinking about how corporations and investors can focus on long-term value creation.

All of this thinking can now be found on the initiative's website (FCLT.org) and includes:

Perspectives on the long term

Provides personal insights from some of the world's foremost economic actors, including CEOs, board members, investors, and regulators, about what it will take to change the current system.

A roadmap for focusing capital on the long term

Presents the final four areas for action stemming from the FCLT initiative:

- Reorient the portfolio strategy and management of institutional investors
- Unlock value through engagement and active ownership
- Improve the dialogue between investors and corporations
- Shift the focus of Boards to supporting long-term strategy and sustainable growth

Straight talk for the long term

Discusses how companies can seek to strike a better balance between short-term performance and long-term value creation by taking on three areas for action:

1. Build and communicate a compelling long-term strategy
2. Measure value-creation initiatives and performance relative to metrics that are specific to your company and long-term strategy
3. Report to and engage with long-term investors

Investing for the future

Provides new insights about what it truly means to be a long-term investor and recommends five core action areas for institutional investors to address to take a longer-term perspective:

- Investment beliefs
- Risk appetite statement
- Benchmarking process
- Evaluations and incentives
- Investment mandate

Highlights from the Long-Term Value Summit

Alongside the Global Managing Director of McKinsey (Dominic Barton) and the CEO of BlackRock (Larry Fink), CPPIB's President and CEO Mark Wiseman co-chaired the Long-Term Value Summit in New York City on March 10. The Summit brought together over 120 participants from all parts of the investment value chain, including executives, investors, and board members from 18 countries to review FCLT's final recommendations. During the day, participants rolled up their sleeves and actively participated in discussions to find near- and longer-term solutions to tackle short-termism. Following the Summit, FCLT published a comprehensive summary of the discussion.

A fundamental change in mindset and culture is required to move our markets towards a longer-term focus. Doing so will require a concerted effort by leaders throughout the financial markets ecosystem. CPPIB remains committed to advancing this ultimate goal by continuing our role as a vocal advocate for long-term thinking both in markets broadly and within our own organization.

EXPANDING OUR COLLABORATIVE ENGAGEMENT REACH GLOBALLY

In 2015, the Sustainable Investing group decided to join the Hermes Equity Ownership Services (Hermes EOS) engagement platform, which will conduct additional ESG engagement on behalf of CPPIB with companies in our international public equity portfolio. The Hermes EOS platform offers an effective means to expand our engagement activities across a larger number of companies globally and to increase the topics addressed. Hermes EOS will not be engaging on our behalf with Canadian companies and we will continue to pursue our own engagement activity globally, as well.

Hermes EOS has a multi-national 26-person corporate-engagement team that holds dialogue with more than 400 companies in close to 50 countries each year. It has the depth to effectively engage with senior management and boards of directors at companies around the world. Hermes EOS has more than £124 billion of assets under advice and its clients include corporate and public pension funds and asset managers from 10 different countries across all major regions of the world. As a client we will also benefit from the efforts and insights of other clients, including formally within a Client Advisory Committee that meets twice a year.

PROMOTING GOVERNANCE BEST PRACTICES IN ASIA

Since 2013, CPPIB has been a member of the Asian Corporate Governance Association (ACGA), an independent organization dedicated to implementing effective corporate governance practices throughout Asia. Membership in the ACGA provides us with access to expertise in local governance matters, leading to better-informed proxy voting decisions and an established platform for engagement in the region.

CPPIB has participated in collaborative initiatives through the ACGA to promote governance best practices in Asia. In 2014, a CPPIB representative participated in an ACGA-led investor delegation in China to meet with companies and regulators. The delegation allowed us to have direct dialogue with corporate leaders and officials on governance practices in that market.

CPPIB also participated in a collaborative engagement with ACGA members and Australian companies that conduct their shareholder meetings by a show of hands. Counting votes in this manner disenfranchises shareholder rights since only one vote is counted no matter how many shares an investor holds. In response to our letters, a number of companies implemented the best practice of voting by poll on all items at their annual meetings to ensure that shareholders are accorded voting rights based on their respective stake.

ADVOCATING FOR GENDER DIVERSITY IN THE BOARDROOM

In June 2015, CPPIB's Chair, Heather Munroe-Blum, and President and CEO, Mark Wiseman, became founding members of the 30% Club (Canada). The 30% Club is a group of business leaders committed to better gender balance at all levels of organizations through voluntary actions. The club works to bring about change through a number of targeted initiatives that include encouraging and supporting Boards to appoint more women, providing information and help for businesses trying to improve their diversity, and keeping the spotlight on the issue through media channels and educational programs. The 30% Club launched in the U.K. in 2010 and has since become an international business initiative with clubs in Australia, Hong Kong, Ireland, South Africa and the United States, among other countries.

The driving premise of the 30% Club is that gender diversity is about business performance, rather than a women's issue. It addresses gender diversity from the perspective of building long-term value in companies. Despite its name, the 30% Club does not believe mandatory quotas are the right approach. Instead, it aims for meaningful, sustainable change in the representation of women.

CPPIB's participation in the club is consistent with other steps we have been taking to improve gender diversity on Boards and in senior management. For example, CPPIB supported an initiative of the Canadian Securities Administrators (CSA) to increase the number of women on Boards and in senior management of Canadian public companies.

PLAYING A LEADING ROLE TO STEWARD THE UNITED NATIONS–SUPPORTED PRINCIPLES FOR RESPONSIBLE INVESTMENT

In 2005, the United Nations Secretary-General invited CPPIB, along with a small group of the world's largest institutional investors, to address the issue of responsible investing from a global and fiduciary perspective. In collaboration with experts from the investment industry, civil society and academia, among others, we helped formulate the United Nations–supported Principles for Responsible Investment (PRI). Today, the PRI has grown to include nearly 1,400 signatories worldwide, representing more than US$59 trillion in assets under management.

Eric Wetlaufer, CPPIB's Senior Managing Director & Global Head of Public Market Investments, became a member of the PRI Advisory Council in 2012, which has allowed us to contribute to the PRI's ongoing strategic direction. Through Eric's role on the Advisory Council and the Governance Committee, we played an active role in an 18-month comprehensive governance review process, which included extensive consultation with the signatories to the PRI on a new governance structure. An overwhelming majority of voting PRI signatories approved a new governance structure in January 2015. The new structure, which came into effect in April 2015, is more transparent and accountable. With a single governing body, it is also less complex. The changes saw the PRI Advisory Council and former Board combined into the PRI Association Board (the Board). It is composed of one independent Chair confirmed by a vote by signatories, and ten Directors (seven elected by asset owner signatories, two by investment manager signatories and one by service provider signatories). Representatives from the PRI's founding UN partners, UN Global Compact and UNEP Finance Initiative, serve as permanent advisors to the Board.

The PRI 2015-2018 Strategic Plan was developed following consultation with signatories and input from the Board. The focus is on evolving the organization from awareness to impact and extending the PRI's collective influence. Objectives include supporting signatories' progress on implementing the Principles, increasing the representation and participation of asset owners, strengthening capacity and expertise in key markets, and providing increased opportunities for signatories to share knowledge and collaborate.

As an active member of the PRI, our Sustainable Investing team has participated in PRI-facilitated collaborative engagements. We have been a member of the Steering Committee of the PRI's collaborative engagement on Human Rights in the Extractive Sectors since April 2014. After more than a year of preparation work by the Steering Committee, the engagement was launched for PRI signatories in June 2015 (please refer to the Extractive Industries Engagement Focus Area on page 13 for further detail on this initiative).

Finally, asset owner and investment manager signatories are accountable with respect to their implementation of the Six Principles through the PRI Reporting Framework. In addition to CPPIB's annual *Report on Sustainable Investing*, we provide information on our sustainable investing activities annually to the PRI, which is publicly available on the PRI's website.

As a signatory, CPPIB is guided by the PRI's Six Principles for Responsible Investment:

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

PART II

Our Approach to Sustainable Investing

Enhancing Long-Term Value for Beneficiaries

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, we consider ESG factors in our investment decisions as part of our mandate to maximize 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 we 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** – Oversight of CPPIB is provided by an independent Board of Directors. 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** – Disclosure of quarterly and annual financial statements is mandatory for CPPIB. We hold biennial public meetings in each participating province during which Canadians and stakeholder groups can ask questions of our Chair and CEO.
- **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

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

CPPIB dedicates resources to Sustainable Investing prudently, within the framework of our obligation to maximize value for our contributors and beneficiaries without undue risk of loss. We believe that the resources that we dedicate to this area will contribute to long-term value.

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.

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.

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 we manage ESG factors across asset classes.

In January 2015, a new investment department was created called Investment Partnerships. The new Investment Partnerships department comprises the existing Funds, Secondaries and Co-Investments, Thematic Investing and External Portfolio Management groups. As one integrated department, the team will focus on broadening relationships with CPPIB's external managers in private and public market funds, secondaries and co-investments, expanding direct private equity investments in Asia and further building thematic investing capabilities. Performance reporting for this fourth investment department will begin in fiscal 2016.

Integrating ESG: Public Market Investments

CPPIB's Public Market Investments (PMI) department invests actively and passively in publicly traded equity and fixed income securities around the world. At the end of fiscal 2015, CPPIB held $157.2-billion in public market investments.

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 34 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 or soon-to-be public companies where a partnership with CPPIB can add value and help generate enhanced long-term performance. RI seeks to benefit from being a long-term focused investor 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 factors 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 to the due diligence phase, relevant ESG factors and practices are reviewed through discussions with the management team and key directors, internal analysis and expert advice.

Once an investment is made by RI, CPPIB leverages its status as a significant shareholder to monitor and seek improved ESG practices to enhance long-term value creation. We develop an active, ongoing relationship with a company's management team and board of directors. 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 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 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 Fundamental'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 ESG factors relevant to the investment decision. GCS Fundamental 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:

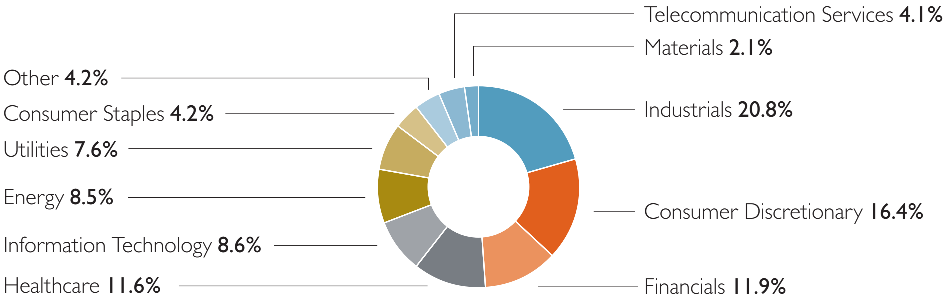
- **Anti-Personnel Landmines:** We will not invest in companies that are not in compliance with Canada's *Anti-Personnel Mines Convention Implementation Act*, or that would not be in compliance if they operated in Canada.
- **Cluster Munitions:** We will not invest in companies that are not in compliance with Canada's *Prohibiting Cluster Munitions Act*, or that would not be in compliance if they operated in Canada.

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 2015, CPPIB held $73.4 billion in private investments (excluding real estate holdings), making it one of the largest private investors in the world.

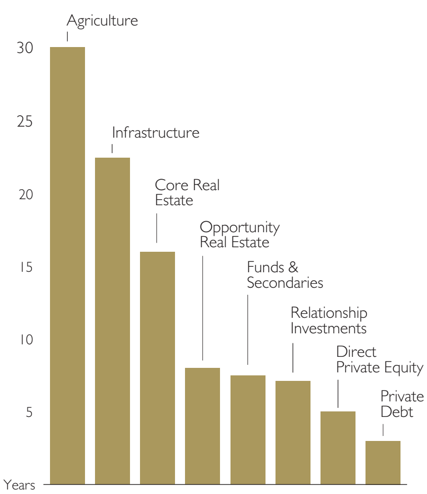
PRIVATE INVESTMENTS BY SECTOR
As at March 31, 2015



CPPIB has a large degree of ownership, interest and influence in our direct private equity and infrastructure investments. We 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 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 financial 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 and other ESG factors that may emerge over time require active 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 major 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 relevant ESG performance indicators. We make our views known through positions on Boards and committees, such as health, safety, and environment, 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 press for 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 Investments 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 all major investments in direct private equity and infrastructure.

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.

Agriculture

CPPIB has invested in both the U.S. and Canadian farmland markets and intends to build out a global portfolio over time. Our management teams on the ground work closely with local farmers and communities to help ensure that the farmland we own, and the businesses and local communities that we invest in, are sustainable over the long term.

Farming has changed significantly over the past 50 years, with increased mechanization and efficiency. Productivity has continued to improve from an arable farmland base that has been slowly declining due to urbanization, soil degradation and erosion. As farming becomes more intensive, it is critical that farming practices are sustainable. Across our agriculture investments, our teams partner with top-quality farmers that are focused on promoting soil quality and the efficient use of water resources. One example is a move towards minimum-tillage farming, which saves energy, increases organic matter in the soil and traps soil moisture to increase water efficiency.

Farming is a local, community-based profession that is undergoing a significant structural and demographic transition. We recognize this and want to make sure that we are promoting and supporting local communities beyond simply providing investment to a capital-constrained industry. Our investment strategies provide an entry point for young farmers, growth opportunities for expanding farmers, and a variety of exit opportunities for those wishing to retire, thereby helping this transition and promoting the intergenerational sustainability of the communities that we invest in.

In the U.S., we have improved land quality and productivity potential by installing proper drainage in wet fields and leveling land in uneven fields. We have invested significant capital into developing tail water recovery systems, which collect run-off water from fields that is then recycled for agricultural production purposes. In Canada, we undertook extensive onsite environmental remediation in our Saskatchewan land portfolio, including:

- Demolition and removal of abandoned buildings, some of which contained asbestos
- Removal of abandoned oil, diesel and gasoline storage tanks which had underground bases that had the potential to contaminate soil and local water sources
- Removal and clean-up of scrap metal, waste and disused equipment sites
- Cleaning ponds that had previously been used to dump waste
- Capping abandoned water wells

As CPPIB continues to invest in the agriculture sector, we remain committed to promoting sustainable farming practices across our investments over the long term.

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 2015, CPPIB's real estate investment portfolio was valued at $34.2 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 property'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 sustainable 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 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 in Toronto, the first major Canadian bank tower to receive LEED Gold certification as an existing building after renovation.

KISTA GALLERIA

Sweden • 50% Interest • Retail

A new, state-of-the art digital library was opened in August 2014 supporting community offerings in one of the largest retail shopping centres in Stockholm, Sweden. The new library features the latest digital technology in addition to traditional books, providing visitors access to interactive devices such as tablets and other services including a digital blackbox theatre.

BARANGAROO SOUTH

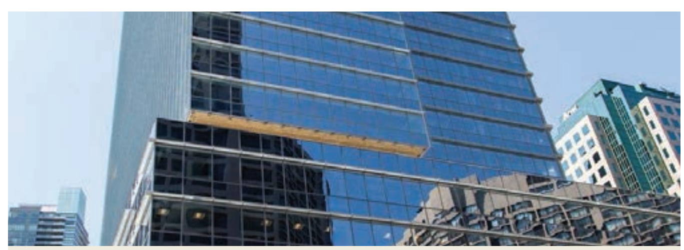
Australia • 50% Interest • Mixed use

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.

RAFFLES CITY CHENGDU

China • 15% interest • Mixed use

A 3.4 million-sq.ft. mixed use development located in Chengdu, China. The project is completed and achieved LEED Core and Shell Gold certification in 2014 with more than 15% of construction materials having recycled content and 80% of construction waste diverted from landfill disposal or incineration. High-performance building envelope and fair-face concrete were used to reduce heat gain, provide better thermal insulation and reduce carbon footprint.



WATERPARK PLACE III

Canada • 50% Ownership • Office

First building in Canada to earn LEED Platinum recertification in 2014. The building features an integrated system that allows the manager to target energy savings and monitor occupant comfort instantly.

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 thoughtfully 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 an effective 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 board 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. 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 spans all sectors and geographic regions. From the over 2,700 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 & 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 45 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 responsibility as an active owner 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 a range of 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

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*.

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.

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.

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 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 the PRI Association Board.

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 Public Policy 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 800 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

February 12, 2015

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.

Sustainable 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 sustainable investing and is available on our website (www.cppib.com). Proxy voting is a key element in our approach to sustainable 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, Institutional Shareholder Services Inc., to make initial, customized recommendations based on these *Proxy Voting Principles and Guidelines*. Our in-house Sustainable Investing team considers these recommendations, conducts internal research, consults

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

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.

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 the results should be 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 were 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 that have a director who is a CEO and has multiple directorships.

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.

Director Nominations

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. Support nominating frameworks which ensure that shareholders have sufficient information and time to assess the suitability of potential nominees to the Board.

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.

We encourage companies to offer universal proxies for all contested meetings. Universal proxies include the names of all known management and dissident nominees to the Board and provide shareholders with the ability to select the optimal combination of candidates.

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. We caution companies against over-reliance on external peer benchmarking, as it can lead to a structural escalation in executive pay unsupported by company performance. If used, external peer benchmarking should be balanced against internal, company-specific metrics.

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 or forfeit performance-based compensation based on misstated financial results or other performance metrics.

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.

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.

HEAD OFFICE

TORONTO
One Queen Street East
Suite 2500
Toronto, Ontario
Canada M5C 2W5
T: +1 416 868 4075
F: +1 416 868 8689
Toll Free: 1 866 557 9510

www.cppib.com

INTERNATIONAL OFFICES

HONG KONG
18/ F York House, The Landmark
15 Queen's Road Central
Central, Hong Kong
T: +852 3973 8788
F: +852 3973 8710

LONDON
40 Portman Square
2nd Floor
London W1H 6LT
United Kingdom
T: +44 20 3205 3500
F: +44 20 3205 3420

NEW YORK
510 Madison Avenue, 15th Floor
New York, NY 10022 U.S.A.
T: +1 646 594 4900
F: +1 646 564 4980

SÃO PAULO
Av. Brigadeiro Faria Lima, 4300 – 14° andar
São Paulo – SP, 04538-132, Brasil
T: +55 11 3216 5700
F: +55 11 3216 5780

Ce rapport annuel est aussi disponible en français.

CPP INVESTMENT BOARD