CPP INVESTMENT BOARD

Recognizing Environmental, Social and Governance Factors in Investing for Long-term Value

2012 REPORT ON RESPONSIBLE INVESTING

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The Canada Pension Plan Investment Board (CPPIB) is a professional investment management organization with a critical purpose – to help provide a foundation upon which Canadians build financial security in retirement. We invest the assets of the Canada Pension Plan (CPP); that is, those assets not currently needed by the CPP to pay pension, disability and survivor benefits.

CPPIB is headquartered in Toronto with offices in London and Hong Kong. We invest in public equities, private equities, bonds, private debt, real estate, infrastructure and other areas. Of the Fund's current total assets of $166 billion, about $67 billion (or 40%) is currently invested in Canada, while the rest is invested globally. Over time, our asset allocation has become increasingly international, as we participate in global growth and the vitality of the world's diverse markets.

Created by an Act of Parliament in 1997, CPPIB is accountable to Parliament and to federal and provincial finance ministers who serve as the CPP's stewards. However, we are governed and managed independently from the CPP itself, and operate at arm's length from governments with a singular objective – maximizing returns without undue risk of loss. The funds that we invest belong to the 18 million Canadians who are current and future CPP beneficiaries.

Ranked among the 10 largest retirement funds in the world, CPPIB is pursuing a strategy that contributes to the long-term sustainability of the CPP. The most recent triennial report by the Chief Actuary of Canada indicated that the CPP is sustainable over a 75-year projection period, and that contributions into the Fund will exceed benefits paid until 2021.

CPPIB's assets are projected to reach $275 billion by 2020 and nearly $500 billion by 2040. Our scale is a key advantage, making us a valued business partner and allowing us to participate in the world's largest private equity and real estate deals and significant infrastructure projects. Scale creates investing efficiencies and capacity to build the sophisticated tools, systems and analytics that support a global investment platform.

Scale is only one of our advantages. The certainty of our assets and cash inflows means we can be flexible, patient investors, able to take advantage of opportunities in volatile markets when others face liquidity pressures. Our distinctive investment strategy, known as the Total Portfolio Approach, ensures that we maintain target risk exposures across the entire portfolio as individual investments enter, leave, or change in value. Finally, our long investment horizon is an increasingly important competitive strength. By investing for the next quarter century and beyond, not the next quarter, we can assess and pursue opportunities differently and stay the course when many cannot.

Taken together, our clarity of mission, independence, scale, certainty of assets and long horizon uniquely set us apart from other pension funds, sovereign wealth funds and other institutional investors. These advantages have earned CPPIB an international reputation and help us attract and retain a world-class investment team.

CPPIB adheres to the highest standards of transparency and accountability. Our Disclosure Policy states: "Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing."

Our comprehensive annual reports, together with the extensive information on the CPPIB website and release of quarterly investment results, help meet this commitment. For more information, please visit our website at **www.cppib.ca**.

PRESIDENT'S MESSAGE

Mark D. Wiseman, President and Chief Executive Officer

Despite continued turbulence in capital markets, fiscal 2012 was a successful year for the Canada Pension Plan Investment Board (CPPIB), achieving a solidly positive return including strong value added over the benchmark for the Canada Pension Plan (CPP) Fund.

As a major global investment organization, we manage the Fund's assets through a long-term, total portfolio approach. Our focus on the long term makes the commitment to responsible investing practices an integral element in generating sustainable returns for the Fund.

We believe that Environmental, Social and Governance ("ESG") factors will, over time, significantly influence the financial performance of many organizations and assets in which we invest. These factors do and will increasingly have an impact on both opportunities and costs and will, in our view, have a material impact on long-term cash flows and earnings. Responsible management of ESG factors requires that corporate behaviours, practices and operations be conducted with a view well beyond near-term profits. We firmly believe that organizations which take the opportunities to manage ESG factors effectively are more likely to endure, and create more value over the long term, than those which do not. Conversely, inferior ESG practices are likely to increase risks, harm reputation and impair stakeholders' confidence, and thus can be expected ultimately to negatively impact returns and long term value relative to firms following superior ESG practices.

CPPIB's approach to investing responsibly is driven by two fundamentals. First, our governing legislation states a simple objective "…to invest with a view to achieving a maximum rate of return without undue risk of loss…". This singular mandate intentionally contains no directive to focus on, or avoid, any particular characteristic of investments. Second, CPPIB can, and indeed must, evaluate potential opportunities, returns and risks over decades, not years – a much more extended perspective than most investors. While ESG factors can be expected to become increasingly important to many businesses, their impacts on value may be neither immediate nor obvious. The correlations between ESG factors and impacts are thus much more critical to an investor with a long horizon than to those with shorter term motives.

CPPIB has invested substantially in private assets such as real estate, infrastructure, private equity and private debt. While each situation is unique in its ESG aspects, our attention to these factors is consistent. First, for any new opportunity the material ESG considerations are identified and incorporated into our analysis of investment value. Second, for existing assets, we are increasingly rigorous in our ongoing monitoring and management of ESG factors, to remedy issues as they arise and to take opportunities for enhancing long-term value.

A good example of the synergy between environmental gains and economic benefit is RBC Waterpark Place, a 32-storey office development in downtown Toronto in which CPPIB is a 50/50 partner with Oxford Properties. Originally designed to LEED Gold standards, we agreed to invest in an upgrade to achieve Canada's first LEED Platinum rating, through energy-efficient design, such as cooling by deep lake water, a dedicated outdoor air system, high insulation glazing, and best-in-class plumbing and lighting. These features not only generate major cost savings in the long run, but also increase the building's attractiveness to tenants and hence the value of the property as an investment.

While private assets are important, approximately 34% of the CPP Fund remains invested in public equities. Much of this is invested to replicate major market indices, resulting in stockholdings in more than 3,000 companies. CPPIB carefully exercises its voting rights and responsibilities in all of these companies. Through advance disclosure of our voting intentions on management and shareholder proposals, and also through direct contact with management when we believe this may be effective, CPPIB's views are made clear. Beyond voting, we believe that entering proactive dialogue on ESG issues with senior company management and boards is an effective way to stimulate beneficial change – whether conducted directly or in co-operation with like-minded investing institutions.

This engagement process has contributed to important positive developments, for example:

> Strengthened corporate governance practices, which have a systemic effect from which CPPIB and other long-term participants in the capital markets will benefit.
> Visible progress towards better alignment of corporations' executive compensation practices with shareholder interests, as for example in the increasing impact of "say-on-pay" votes.
> Expanded regular disclosure by corporations related to environmental factors, particularly as related to climate change and water use. More relevant disclosure not only helps investors like CPPIB make better informed decisions, but can also stimulate improvement in a company's strategic management and operational practices leading to enhanced financial results over time.
> Greater importance attached by corporations to their impact on local communities, and to the positive longer-term opportunities that corporations can create for shared value.

CPPIB's approach to responsible investing is a key element in the sustainability of investment returns for the CPP Fund. In this, I pay tribute to my predecessor, David Denison, for his immense contributions to the furtherance of responsible practices in investing for the long term. As far back as 2005, David ensured that CPPIB grasped the opportunity to help draft the foundational United Nations Principles for Responsible Investment. As head of CPPIB's Responsible Investing Committee, he was the prime architect of CPPIB's dedication and approach to ESG issues as they affect the Fund. Not the least of David's many accomplishments in Canada was his active involvement in the Canadian Coalition for Good Governance, ultimately as its Chair. Under David's leadership, the Coalition has become a major force for progress on governance and the advancement of shareholder interests in Canadian corporations, for the benefit of all investors; I am pleased to have the opportunity to follow him, having recently been elected as a member of the Coalition's board. Clearly, I share David's belief in responsible investing as a means to help optimize long term returns for the Fund, aligned with economic, environmental and social gains for the communities where the companies that we invest in operate.

We firmly believe that organizations which take the opportunity to manage ESG factors effectively are more likely to endure, and create more value over the long-term, than those which do not.

As we continue to evolve into a truly global investment organization, CPPIB is highly committed to leadership in responsible investment practices throughout the world. Put simply, we wish to maximize sustainable, long-term economic outcomes by encouraging good business management of environmental, social and governance issues in the corporations and assets in which 18 million Canadians have a stake through the CPP Fund.

M. Wiseman

MARK D. WISEMAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

The purpose of the Canada Pension Plan Investment Board (CPPIB) is to help sustain the viability of the Canada Pension Plan over many generations. CPPIB makes the assessment and furtherance of responsible corporate management of Environmental, Social and Governance (ESG) issues an integral element in its investment strategy.

WHAT ESG FACTORS DOES CPPIB ADDRESS?

While individual to each situation, here are some of the issues that we consider when evaluating opportunities and managing assets, and that we bring up in dialogue with companies to seek improvements in their business practices and disclosure.

Environmental
Climate impact, notably greenhouse gas emissions; energy efficiency; air and water pollution; water scarcity; biodiversity; site restoration.

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

Governance
Balance and alignment of interests; executive compensation; directors' election and terms; board independence and expertise; voting and other shareholder rights.

PRINCIPLES

The legislated mandate of CPPIB requires that we adopt the fiduciary perspective of a professional investment management organization seeking to maximize Fund returns, without undue risk of loss, on behalf of CPP plan members. In part, the Fund is invested in low-cost "passive" participation in public markets, which results in the CPP Fund having positions in more than 3,000 companies worldwide. CPPIB also takes active positions, through specific investments in public and private companies, infrastructure and real estate.

Our *Policy on Responsible Investing* articulates our principles, our strategy and our approach to active investment decisions. We do not screen stocks or eliminate investments based on ESG factors alone, as to do so would be inconsistent with our investment-only enabling statute. However, we believe that better corporate management of ESG issues is a strong indicator of, and contributor to, superior long term financial performance. This belief is reflected in two primary areas of activity:

1. In the selection and management of specific investments, by evaluating and addressing the impact of ESG factors on long-term risk and return.
2. In our initiatives as an active investor, through engagement with company management and boards to promote improvement in their handling of ESG issues, ultimately leading to enhanced long-term outcomes.

Good corporate governance is of particular concern to investors, as it is fundamental to maximizing and sustaining earnings for shareholders. Our *Proxy Voting Principles and Guidelines* for our public markets investments state CPPIB's beliefs on corporate governance and the appropriate treatment of shareholder interests, and thereby:

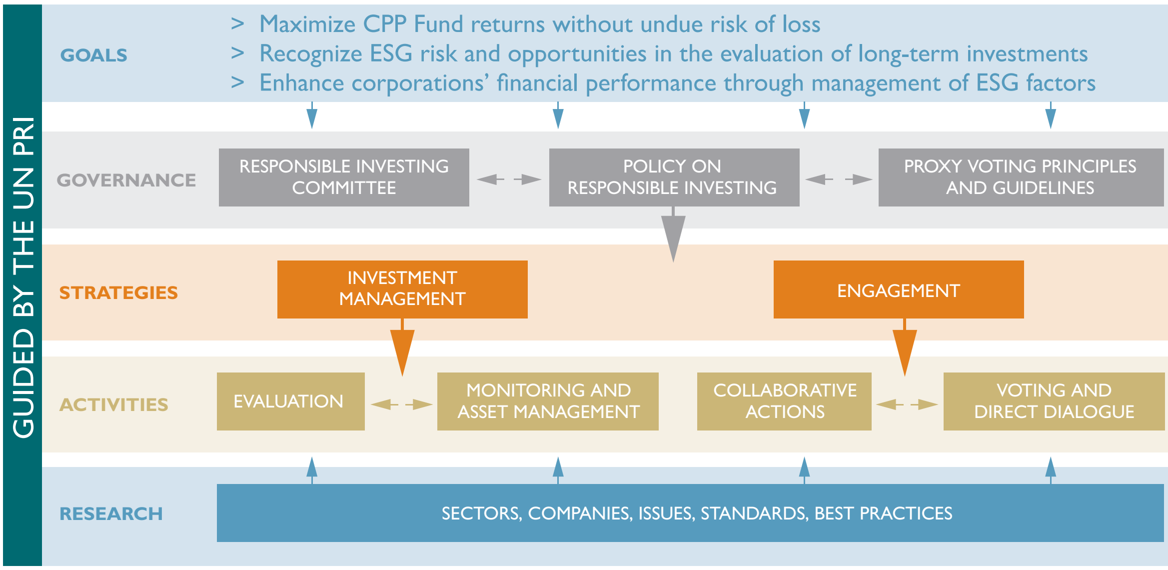
> Provide guidance on CPPIB's likely voting stance and rationale on issues commonly put to shareholders, and

> Provide our perspective on major issues that boards of directors must address.

CPPIB has adopted the leading practice of posting all individual proxy votes in advance of the meetings, to ensure full prior disclosure of our position both to the companies concerned and to other interested parties. In keeping with our views on disclosure, CPPIB publishes this report annually, to specifically address responsible investing. The reporting period runs from July 1 to the following June 30, allowing us to summarize our voting activity at completion of each proxy season.

CPPIB's Responsible Investing Committee, composed of senior management and chaired by the President and CEO, approves and oversees all responsible investing strategies and activities. It ensures that our activities continue to meet best practice standards, and regularly reviews the *Policy on Responsible Investing* and the *Proxy Voting Principles and Guidelines.* These documents and other related information are published on our website at **www.cppib.ca**.

CPPIB's approach to investing responsibly, from its fundamental goals to its day-to-day activities:



Strategies – Investment Management

In our active decisions on public markets investments, the materiality of any relevant ESG factors is assessed during the initial steps of the investing process. Where ESG factors are material, they can significantly affect our assessment of the intrinsic value of a company. The impact of ESG factors tends to emerge progressively over many years, whether through greater regulation and higher costs, or through direct impacts on a company's profitability, customer loyalty, or even its "licence to operate." Corporate brand increasingly commands a significant component of an organization's value, and its ESG stance can be a material contributing element. All else equal, ESG factors are thus of greater importance to CPPIB as a long-term investor than to the majority of other investors whose short-horizon views typically drive current market prices. In simple terms, faced with the choice between a firm (public or private) that can generate high returns over, say, the next five years, before ESG factors catch up and adversely impact its business model, versus another firm that is expected to produce more modest initial returns but with significantly more sustainable growth over decades, the latter may well be the superior choice in generating value for the CPP Fund.

In our direct private investments, CPPIB will have a much larger degree of ownership, interest and influence. Also, our investments in areas such as infrastructure and real estate, and also in private equity, are almost always made with the expectation of a multi-year holding period. While each situation will have distinctly different ESG characteristics, their expert-driven assessment is an essential aspect of our extensive due diligence ahead of any commitment. Before final commitment, we pursue any changes needed to ensure an appropriate ongoing governance structure of the organization. After CPPIB has acquired a major stake in a private corporation, we act as an active and constructive long-term partner. For example, CPPIB can make its views known through positions on boards or on committees such as health and safety, environmental, compliance, governance and others. The close contact with senior management provides more comprehensive information, and enables input to encourage responsible business practices. In the long run, we expect that enhanced financial performance will result.

In private investments made through funds, and in co-investments, we work with partners who share our beliefs in the importance of progressive practices on governance, environmental and social issues. We determine whether these partners are signatories to the United Nations Principles for Responsible Investment ("UNPRI"), and, if not, we encourage adoption of their own documented principles and practices.

Strategies – Engagement

As active and engaged investors, we are committed to proactive dialogue with senior executives and board members of companies, as well as with regulators, industry associations and other stakeholders. We seek to enhance critically important disclosures, foster positive corporate conduct and contribute to practical and balanced legislation.

We believe that engagement is often the best approach for shareholders to contribute to positive change. Our direct engagement with a company is conducted bilaterally because we believe this is more effective. Accordingly, we typically do not disclose names of companies with which we have engaged – although we may do so if we determine that this is the best path to achieve results in a given circumstance. Engagement is particularly powerful through collective action alongside other investors, with its impact being substantially increased by combining our clout, resources and expertise.

A primary purpose of our engagement efforts is to achieve more complete and consistent disclosure by public corporations. Adequacy and comparability of information ensures that all stakeholders – including potential investors, regulators, local communities, employees and customers – understand relevant risks and how they are being managed. Greater transparency also stimulates competition among firms; it encourages them to build enduring franchises and brand values that attract talented staff, customer loyalty and long-term investors; and it facilitates constructive government relations.

Beyond disclosure, we continue to engage directly with companies where we believe they can be encouraged to improve practices in the management of specific ESG issues, with consequent improved long-term financial outcomes and thus enhanced shareholder value.

Research and Support

Seeing ESG risks and opportunities as integral in our investment decision-making, we have developed an experienced in-house team of professionals with specific related expertise. This group fosters and supports our responsible investing activities across the organization, as well as implementing engagement activities and executing our proxy voting.

WHAT DOES "ENGAGEMENT" MEAN?

Engagement is the process of using CPPIB's position as a major and respected institutional investor, whether individually or in collaboration with like-minded organizations, to:

> Initiate contact with a company where we believe we can encourage more effective management of environmental, social or governance issues.
> Hold conversations or maintain other forms of dialogue with senior management and the board of the company, in order to make our views known and to discuss avenues for improvement.
> Increase 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.

Housed in our Public Markets Investment department, but working also with the Private Investments and Real Estate Investments departments as well, the Responsible Investing group conducts in-depth research on companies, industries and assets where ESG issues have particular importance and which comprise material investments of the Fund. We also source ESG-related research on specific companies from expert independent Canadian and international providers. We request investment dealers to conduct specific studies, and we take account of the value of their ESG-related research in our ongoing allocations of trading and commissions. Further, we encourage investment dealers and others to produce enhanced analysis on the impact of ESG factors on business management and profitability, and on shareholder value. An example of this is our support of studies by the Clarkson Centre for Business Ethics & Board Effectiveness, at the University of Toronto's Rotman School of Business, on the link between executive pay and performance.

Both external and internal research inputs inform the ongoing monitoring of developments in ESG factors as they affect evolving risks, prospects and investment values of existing and prospective holdings. Also, research by the Responsible Investing group guides selection of companies where we believe dialogue may be effective in seeking change in their practices, and informs constructive agendas.

UNITED NATIONS' *PRINCIPLES FOR RESPONSIBLE INVESTMENT*

In 2005 the Secretary-General of the United Nations invited the CPP Investment Board as part of a small group of the world's largest institutional investors to address the issue of responsible investing from global and fiduciary perspectives. With experts from the investment industry, governments, civil society organizations and academia, CPPIB helped formulate the United Nations' Principles for Responsible Investment (UN PRI). The UN PRI provides a practical framework for investors to recognize environmental, social and governance (ESG) factors in investment decision-making and ownership.

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As a founding signatory, the CPPIB commits to and continues to be guided by the UN PRI's six principles:

1 *We will incorporate ESG issues into investment analysis and decision-making processes*

2 *We will be active owners and incorporate ESG issues into ownership policies and practices.*

3 *We will seek appropriate disclosures on ESG issues by the entities in which we invest.*

4 *We will promote acceptance and implementation of the Principles within the investment industry.*

5 *We will work together to enhance our effectiveness in implementing the Principles.*

6 *We will each report on our activities and progress towards implementing the Principles.*

THE GLOBAL INFLUENCE of UNPRI is evident in its 1075 signatories worldwide representing over $32 trillion in assets under management – an increase of 178 signatories over the previous year, and now comprising 640 investment managers, 254 asset owners (of which CPPIB is one) and 177 service providers. Consistent with the aims of the UN PRI, we believe that CPPIB's actions since the UN PRI's inception have contributed meaningfully to a global improvement in corporate ESG practices, which will benefit the long-term financial performance of companies in which we invest.

In September 2012, Eric Wetlaufer, Senior Vice President – Public Market Investments, was elected to the UN PRI Advisory Council for a three-year term, an opportunity for CPPIB to further contribute to the UN PRI as it builds on its success.

INVESTMENT MANAGEMENT ACTIVITIES

INVESTMENTS IN PUBLIC MARKETS

The Public Markets Investments (PMI) department invests in publicly-traded equity and debt securities, and in listed and over-the-counter derivatives related to asset prices, interest rates, currencies and commodities. The department's mandate has two aspects: the management of market-index related exposures, and the conduct of active strategies seeking value added. Bringing a wide range of experience, CPPIB's Responsible Investing group of specialists is housed in the PMI department. The team works closely with the Fundamental Research team within Global Corporate Securities (GCS) – the in-house group responsible for active public equity selections on a long/short basis – and with the Relationship Investments group, which takes significant positions in public companies on a long-term, relationship basis. Although data on ESG factors are much less available and consistent than on traditional financial metrics, the impact of ESG factors is potentially large in some cases and the risks and/or opportunities must be carefully addressed. The Responsible Investing group works with the portfolio managers in seeking ways to better assess ESG risks, to keep up to date on evolving ESG factors and best practices, and to integrate their impact into our calculation of a company's intrinsic value. The group supports the portfolio managers by providing both company-specific and broader thematic research.

Global Corporate Securities

The GCS Fundamental Research team undertakes in depth, bottom-up analysis, focusing on the long term drivers of companies and their profitability. The team also provides input to proxy voting and engagement activity. Governance issues are considered in all sectors, and environmental and social issues are a particular focus in the Materials and Energy sectors where environmental impacts may be substantial and where social issues may be especially significant in local communities. ESG factors can be significant drivers for certain businesses, especially as their impacts tend to increase over the longer horizon for which CPPIB invests. We aim to optimize the risk/return profile of our portfolio, and therefore include ESG factors, wherever relevant, in both our risk assessment and our return expectations.

For mining companies, ESG factors are critical to the ability of a company to obtain and maintain both legal and social licences to operate, and to its profitability. The Responsible Investing specialists work closely with the Materials team in Fundamental Research to better inform investment decisions.

Relationship Investments

This group makes significant minority investments in public companies, often providing strategic capital to generate meaningful long term enhanced performance. The group invests with the belief that a company's governance structure, and its attitude and actions regarding environmental and social concerns, strongly indicate its commitment to sustainable growth and thus the potential for long term value creation. The assessment of ESG risks and a company's handling of them commences at the initial opportunity screening stage. Following the opportunity screen, a deeper review of ESG risks and practices is an integral part of the due diligence process, including direct discussions with members of the company's board of directors and key committee chairs. Once a relationship has been established, CPPIB leverages its relationship with the company to monitor and promote continued good practices.

INVESTMENTS IN PRIVATE COMPANIES AND PARTNERSHIPS

Currently, over one-third of the CPP Fund is invested in private assets, making CPPIB one of the largest such investors in the world. In our Real Estate and Private Investments departments, ESG factors and risks are evaluated as a matter of course in the due diligence process prior to making any investment. The circumstance and issues differ from one situation to another, so the appropriate analyses are individually customized. Most private investments are longer term – 5 to 10 years or more for many, or much longer in the contemplated life of infrastructure investments – so the growing emergence of ESG issues as governments and the public demand higher standards can affect investment values significantly.

Once we have made a direct investment in a private company or real estate holding, the evolution of ESG risk exposures and opportunities is monitored as an integral element in our management of the asset over the life of the investment. We look for a similar approach to responsible investing in our preferred partners in these investments, and in the preferred managers of private funds through which we invest.

Clearly, CPPIB must adhere to its own principles in the management of companies where we strongly influence or, less commonly, control their governance. We insist on executive compensation arrangements that are not excessive and that are properly aligned with long-term shareholder interests. Board and committees' composition must include necessary competencies and independence. Both of these areas are a first consideration for appropriate modification, and may be part of our contractual agreement, when CPPIB becomes a significant shareholder and thus will remain directly involved in ongoing management of an entity.

Real Estate

Approximately 10% of the CPP Fund is invested in real estate equity and debt. Governance and social issues are infrequent, although they may be more significant in emerging markets. Full compliance with local environmental regulation is a basic requirement for investment. The importance of operating efficiencies – including energy consumption, greenhouse gas (GHG) emissions, water use and waste generation – varies by sector and market but is incorporated into our evaluation of the assets and their long term value. The office sector in particular is sensitive to environmental factors and operating efficiencies, as leading tenants frequently view these as an important part of their own commitment to ESG standards and a means to controlling costs. Where we undertake new office developments or major renovations, these again are significant in our plans recognizing that they can be major elements in determining the attractiveness of the property to tenants, the rents that can be charged, and therefore the economic evaluation of the property and its sustainability.

Allowing for the impact of these types of factors is standard practice in our selection of new investments. With varying significance depending on the sector and country of investment, five areas are addressed:

1. Determine our prospective partner's approach to responsible investing principles and practices, with due consideration to socio-economic risks and opportunities.
2. Ensure environmental regulatory compliance, and where necessary, quantify remediation costs into capital requirements (vetted by a third party).
3. Assess the quality and level of "green" building design, and incorporate these into our assessment of the attractiveness of the asset.
4. Identify and factor in operational efficiencies, often environment-related, and to the extent applicable incorporate these aspects within the projected 10-year cashflows and net operating income.
5. When applicable, assess social impacts and issues to ensure they are part of the decision process.

Ongoing management of these issues, working with our committed partners, is then a corresponding element to maintain and enhance the competitive position, value and marketability of CPPIB's property investments.

IMPROVEMENTS IN PERFORMANCE ON ENVIRONMENTAL FACTORS CAN:

> increase potential rents and occupancy – quality tenants demand standards,

> reduce operating costs significantly, and thus

> increase a building's value and return on investment.

Comprising over 3 million sq ft of commercial area, Barangaroo is one of Sydney's largest development projects this century. A carbon neutral, water positive development, it will generate zero waste and enhance the wellbeing of the community.

A top tier environmental and energy efficient building, RBC WaterPark Place will be Toronto's first LEED Platinum office tower.

In North America, the Leadership in Energy and Environmental Design (LEED) Rating System of the U.S. and Canada Green Building Councils encourages sustainable building and development practices through standards and performance criteria. Similar ratings are also 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.

Among numerous examples of CPPIB's commitment is the McGraw-Hill Building in Manhattan (1221 Avenue of the Americas), reportedly the largest office building in New York City with the LEED existing building certification. In Australia, we recently announced CPPIB's largest single-property investment, an A$1 billion 50% partnership in the development of two high quality office towers on Sydney's waterfront – energy efficiency is a key consideration in their architecture. As noted in the President's Message, CPPIB partners equally with Oxford Properties in the RBC WaterPark Place development in Toronto; we have agreed the costs and likely benefits of a significant design upgrade for the building to become a LEED Platinum certification in Canada. This complements CPPIB's co-ownership of Royal Bank Plaza, the first major Canadian bank tower to receive LEED Gold certification as an existing building.

Infrastructure

CPPIB has built a portfolio of over $9 billion in 12 infrastructure investments such as gas and electricity transmission networks, water utilities, tollroads, and communications towers. These are individually large investments, made with a very long term outlook, often of 20 years or more. Being large assets, most have major environmental and social footprints. The assessment of these factors, using both in-house specialists and contracted technical, engineering and legal experts as necessary, is standard practice before any infrastructure investment is made. Three stages are involved:

1. Opportunity screening – Providing public services, these investments are often heavily regulated with controls over delivery standards and pricing. This may have upside as well as downside, as regulators seek arrangements that financially incent high performance including environmental and social dimensions.
2. Primary due diligence – More detailed consideration is given to environmental risks and remediation, and to social impact. Associated costs and opportunities are quantified.
3. Governance and Investment Recommendation – CPPIB follows best practice for Board governance and works to put appropriate controls and processes into each of its portfolio assets. Material ESG matters are considered as part of the investment approval process.

A recent example of the foregoing is CPPIB's acquisition, with two major institutional partners, of a 24.1% interest in Gassled, a company owning the bulk of the natural gas pipeline infrastructure on the Norwegian continental shelf. Given the complex set of corporate entities involved in gas extraction and ownership, pipeline operation, and shipping to customers as well as the Norwegian authorities, in the first stage of diligence described above our key issue was to gauge CPPIB's ability to sufficiently influence decisions around ongoing management and future investment. Notably, we had to become satisfied about the ability of the system operator to meet its responsibilities for health, safety and environmental issues, along with Gassled's direct controls. In the second stage we assessed, among others, the likelihood of and exposure to liability for pollution. In the third stage, CPPIB investigated the alignment of interests of the parties involved, to be sufficiently confident in the collective governance and maintenance of the physical integrity of the network.

Following any such major investment, its ongoing operation and financial performance then become critical. The environmental and social issues that were

Wind turbines at Lower Snake River Wind Facility owned and operated by Puget Sound Energy, a subsidiary of Puget Energy.

previously identified or that emerge over time require responsible management, whether directly or through partners. In the Gassled case, CPPIB and its consortium partners developed comprehensive management procedures in conjunction with the Norwegian Ministry of Petroleum and Energy.

Financial outcomes can be maintained, and at times enhanced, by prudent or innovative forward-looking decisions in environmental and social areas. For example, a major power utility investment is a market leader in both energy efficiency/conservation and renewable resource power generation. Helping the utility's customers save energy and money, and enlarging renewable power generation sources, not only benefits sustainability and the customers but also solidifies local regulatory treatment and protects long term pricing and revenues.

Private Equity

CPPIB's private equity investments now represent over 16% of the CPP Fund. Originally made through private equity funds, and now increasingly through direct investments, they cover a wide range of companies in diverse sectors. For direct investments, our due diligence involves an intensive review of a target's business model, operating performance, and financial position. It benefits from access to senior management and corporate information. The diligence process must be customized for each investment and its material issues, including ESG factors. Further, under the active governance model of private equity, CPPIB and its partners are able to influence portfolio companies to a greater degree than is possible for shareholders of public companies.

On environmental issues, reviewing a target company's track record and identifying risks are standard components of our due diligence process. In addition, legal counsel will review any litigation, material contracts, and compliance matters related to the environment. This is especially important in companies with significant manufacturing operations. Our experience is that sound environmental decisions can lead to enhancement of investment returns. For example, an aircraft leasing company in which CPPIB has a significant interest is upgrading its fleet towards quieter, more fuel-efficient aircraft. These aircraft command a higher lease rate and are expected to be valued at a premium multiple if an exit were to take place.

Environmental factors are an area of particular focus in extractive industries (oil and gas, metals, minerals). CPPIB has made several early stage oil and gas investments; while the companies have not reached full production, all have established processes to track and remedy spills, and monitor contractor compliance with environmental guidelines. Each has an environmental, health and safety committee of the board, to provide oversight of management's compliance with standards.

Social factors cover a wide range, and each portfolio company will have a distinct set of issues of greater or lesser materiality. Examples of important social considerations that we have addressed are:

> At healthcare companies, compliance with requirements of the U.S. Food and Drug Administration; board committee monitoring of product quality; standing Ethics Committee and annual confirmation of compliance with policy by all employees and directors; Quality Committee focused on reviewing quality of care.
> Membership of environmental, health and safety committees at several organizations.
> Proactive company engagement with First Nations and local communities, including discussions of planned drilling programs, the development of aboriginal employees, environmental compliance and remediation.

The private equity governance model aligns management and shareholders through a number of means including significant management investment. We require that the bulk of management incentive compensation ties payouts to the shareholders' return. We maintain regular transparent dialogue around the company's goals and progress towards them, for example standing calls to review financial performance, as well as participating in regular board meetings. We work closely with management on investments, refinancing, and exits, and can provide modeling assistance. This level of active governance is supported by a detailed level of financial reporting. Our experience is that private equity reporting packages are more data-rich than those provided to public company boards and that a detailed understanding of operating and financial performance improves the quality of our dialogue with management. Combined, our approach to governance materially enhances the value of CPPIB's investments for the CPP Fund.

ENGAGEMENT ACTIVITIES

CPPIB believes that its 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 and lenders. We do this not only as a fiduciary duty to protect and preserve the Fund assets, but also because we believe that engaged investors, provided they have a long-term orientation as CPPIB has, can meaningfully reduce investment risks and sustain better returns over time.

Several aspects comprise our initiatives. We devote considerable resources to engaging with corporations – both collaboratively with other investors and directly – as we believe that long-term and financially beneficial change can be achieved through proactive dialogue with corporations about their management of material ESG issues. We provide constructive input to legislative initiatives on corporate governance and other investment-related matters. And we carefully fulfill our responsibility to exercise all CPPIB's voting and shareholder rights, forming our views on all shareholder and management proposals and making our decisions transparent.

COLLABORATIVE INITIATIVES

Amplifying our voice, we participate in several organizations and global initiatives. Notably,

> With the appointment of Mark Wiseman, President and CEO of CPPIB, to the board of the Canadian Coalition for Good Governance, CPPIB continues to take a leadership role in furtherance of governance and executive compensation practices in Canada. The organization now numbers 46 institutional investors, managing assets totalling more than C$2 trillion;

> We have actively pursued engagements related to the Carbon Disclosure Project (CDP), to which we have been an investor signatory since 2006. CDP now represents over 550 institutional investors, managing approximately US$70 trillion;

> Another major collaborative effort is with the Extractive Industries Transparency Initiative (EITI), of which we have been a supporter since 2007. Implementation is underway in 35 countries rich in oil, gas and materials. The EITI is a multi-stakeholder organization which includes more than 80 institutional investors.

CPPIB has recently become a partner in a major initiative by the Organization for Economic Co-operation and Development (OECD) promoting longer-term investing by institutional investors. Our definition and practice of responsible investing as engaged capital fits squarely into this initiative, aligning the prospect of sustainable returns for the Fund from increased investment in areas such as infrastructure with broad economic and societal benefits.

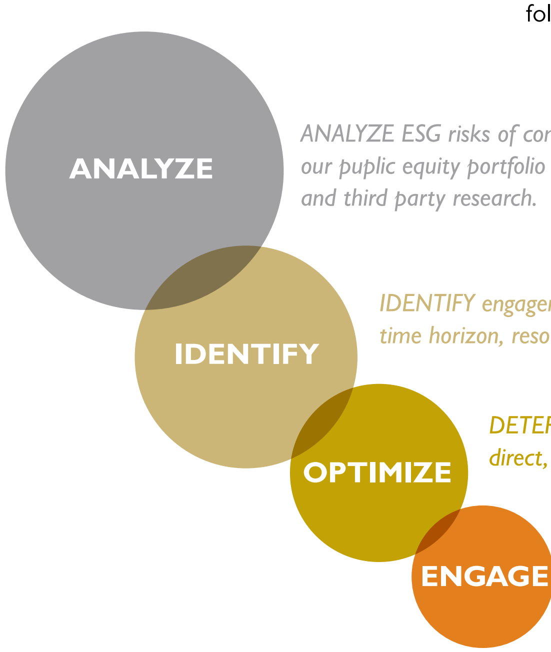
In addition to these groups, CPPIB remains actively involved with UNPRI, and with several other organizations that have various related objectives, not only for improving transparency and ESG standards, but also research, education, advocacy and input to legislation. More information can be found for some of these at the following websites:

> United Nations *Principles for Responsible Investment* (UN PRI) www.unpri.org
> Canadian Coalition for Good Governance (CCGG) www.ccgg.ca
> International Corporate Governance Network (ICGN) www.icgn.org
> Council of Institutional Investors (CII) www.cii.org
> Pension Investment Association of Canada (PIAC) www.piacweb.org
> Carbon Disclosure Project (CDP) www.cdproject.net
> CDP Water Disclosure www.cdproject.net/water-disclosure
> Extractive Industries Transparency Initiative (EITI) www.eitransparency.org

Engagement Focus Areas

The public equities portfolio of the Fund largely replicates market indices, which means it spans all sectors and geographic regions. From the more than 3,000 public companies in which we own shares, we select companies for engagement based on the materiality of their ESG risks, the gap between their current management and best practices, and the size of our holdings.

Outlined below is our selection process. Our activities in each focus area are described on the following pages.



ANALYZE ESG risks of companies in our puplic equity portfolio using internal and third party research.

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

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

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

TO FOCUS OUR EFFORTS, WE CURRENTLY CONCENTRATE ON FOUR AREAS:

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

FOCUS AREA – CLIMATE CHANGE

Climate change may well have major financial consequences for long-term shareholder value, not only directly but through:

> regulatory requirements that are only likely to increase,
> introduction of taxes or market-based charges related to carbon,
> costs for mitigation and/or remediation of impacts, and
> corporate reputation, under more intense scrutiny and higher public expectations.

The financial consequences on individual companies will not necessarily be negative. We believe that those which adjust successfully or more effectively deploy emerging technologies and approaches will be rewarded over the long run. Our activities centre on the Energy and Utilities sectors, which face increasing costs from progressively tighter regulation of greenhouse gas (GHG) emissions.

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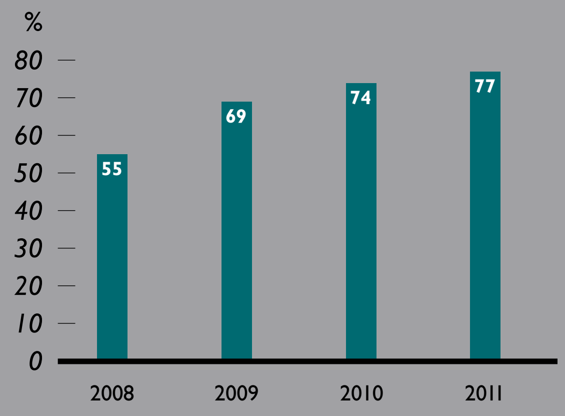
CDP GLOBAL 500 DISCLOSURE OF GHG EMISSIONS



WHAT DO WE SEEK?

> 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.

WHAT ACTIONS DID WE TAKE?

> Continued direct engagements with companies, including some of the largest GHG emitters in Canada.

> Supported the Carbon Disclosure Project (CDP), which annually requests and reports corporate disclosures of climate change management and GHG emissions, from companies in both developed countries and emerging markets. The 2012 questionnaire was sent in February to over 4500 companies, including 200 in Canada.

> Joined the CDP's Canada Advisory Council to work with other investors encouraging Canadian companies to respond.

> Supported several shareholder proposals requesting improved disclosure of risks and actions related to climate change.

WHAT PROGRESS HAS BEEN MADE?

> Several Canadian companies with which we engaged further improved their reporting on climate change and sustainability issues.

> Among Canada's largest 200 companies by market capitalization, 108 are now responding to CDP.

> Globally, the CDP initiative is achieving significant success, with notable progress since 2008 in the disclosure of GHG emissions by the largest 500 companies surveyed, as shown in the graph.

FOCUS AREA – EXTRACTIVE INDUSTRIES

Oil, gas and mining companies have significant impact on both the physical environment and the local community where they operate. Successful companies earn and effectively manage their continuing "social licence to operate". They make and fulfil a commitment to do so as integral to the creation of greater and more sustainable value for all stakeholders.

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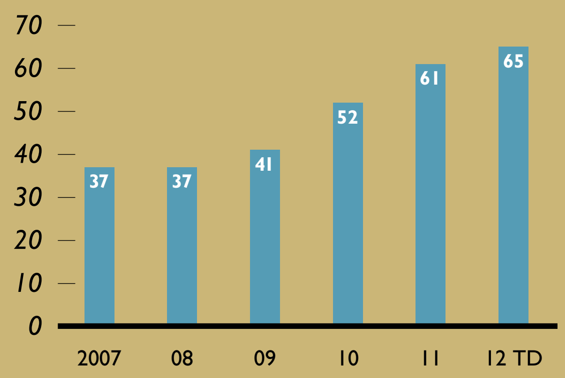
NUMBER OF COMPANIES SUPPORTING EITI



WHAT DO WE SEEK?

> Improved disclosure of environmental performance and management strategies, allowing investors to better assess the long-term prospects for the company.

> Standards of operations, including human rights practices and local community relations, and anti-corruption initiatives.

WHAT ACTIONS DID WE TAKE?

> Supported shareholder proposals requesting improved disclosure of community and First Nation engagements.

> Supported shareholder proposals requesting the appointment of directors with environmental expertise.

> Continued to engage directly with Canadian companies with operations or investments in high-risk countries, encouraging enhanced disclosure regarding their management of environmental and social risks.

> Within the Extractive Industries Transparency Initiative (EITI), CPPIB seeks transparency in reporting that ensures all payments and revenues to governments are captured, while respecting commercially sensitive information. We also actively engage with Canadian and global companies to encourage their participation.

WHAT PROGRESS HAS BEEN MADE?

> Globally, companies are enhancing reporting and management strategies regarding environmental risk management; and also regarding local community engagement and human rights, especially in developing countries.

> Increased corporate commitment is evident to the *Voluntary Principles on Security and Human Rights,* which guide companies on how to maintain the security and safety of their operations while ensuring respect for human rights.

> Mining companies with which we have engaged continue making progress with regard to mine certification under the *International Cyanide Management Code*. Companies that adopt this Code have their use of cyanide audited by independent third parties. 36 gold mining companies are now signatories, of which 11 are Canadian.

> EITI continues to gain support. New countries continue to commit, such as Colombia, Senegal and Ukraine. The number of compliant countries doubled in 2011 to 14, and another 21 are now candidate countries. Eight Canadian companies are among the growing number that now actively participate, as shown in the graph.

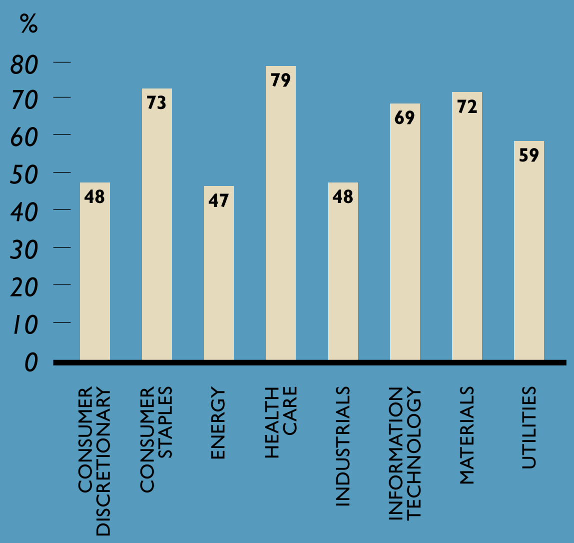
FOCUS AREA – WATER

Water is one of the world's most critical resources. Effective management by companies of risks to water supply and quality is fundamental to sustainable success of these companies, and is thus especially relevant to investors with a long time horizon. We have primarily engaged with companiesin the Energy and Materials sectors, which must seek increased water efficiency to offset higher operating costs and restrictions due to changes in regulatory requirements, their own growth and increasing water scarcity.

CDP WATER DISCLOSURE INITIATIVE

In 2012 more than 470 institutional investors representing over $50 trillion in assets supported the third CDP Water Disclosure request to over 350 of the largest global companies, to disclose and ultimately manage water issues in order to create and sustain long term shareholder value. CPPIB was among the initial signatories that supported the CDP Water Disclosure initiative at its launch in April 2010.

RESPONSE RATE BY SECTOR



WHAT DO WE SEEK?

> Increased corporate reporting on water-related strategies and performance; and improved and more comparable disclosure of water-related data.

> Better research on water-related risks, and improved analysis of their impact on long-term shareholder value.

WHAT ACTIONS DID WE TAKE?

> Continued direct discussions with select Canadian and international companies, with a primary focus on encouraging better disclosure.

> Signatory to the CDP Water Disclosure 2012 information request. Participated in the CDP Water Disclosure collaborative initiative coordinated through the UN PRI Engagement Clearinghouse, encouraging companies to respond.

> Supported several shareholder proposals requesting improved disclosure and management of water-related risks, and assessments of short and long-term risks including hydraulic fracturing.

WHAT PROGRESS HAS BEEN MADE?

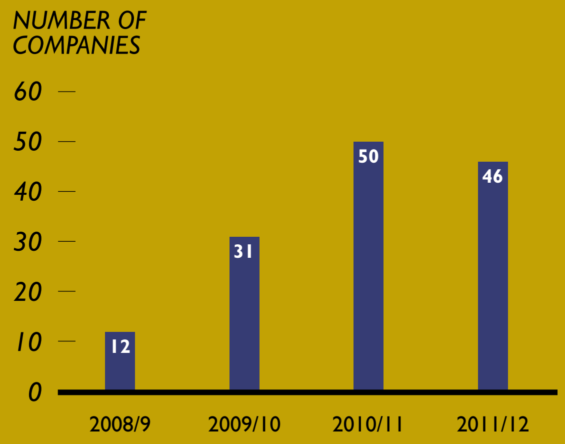
> Leading companies are providing enhanced sustainability reports, with increased disclosure of water-related issues and opportunities.

> The number of companies participating in CDP Water Disclosure has been increasing significantly, with the response rate growing from 50% in 2010 to 60% in 2011. Financial opportunities were identified by 63% of respondents, including cost reductions from increased water efficiency, revenue from new water-related products or services, and improved brand value. Nearly 80% of the opportunities are expected to impact business within the next five years. The graph shows response rate by sector.

FOCUS AREA – 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 investors. Good alignment is clearly most conducive to creating and sustaining value for long-term shareholders. Poor alignment can lead to inappropriate, short-term corporate decision-making.

CCGG ENGAGEMENTS



WHAT DO WE SEEK?

> A well-structured link between pay and performance, one that appropriately aligns the board, management and investors and that emphasizes longer term and sustainable growth of shareholder value.

> Clear rationale and full disclosure in corporate reporting.

WHAT ACTIONS DID WE TAKE?

> Continued a leadership role in Canadian Coalition for Good Governance (CCGG) engagements with 46 medium and large cap companies representing approximately 50% of the value of CPPIB's Canadian public equity portfolio.

> Met with a US healthcare company to discuss its compensation plans, encouraging the company to consider attaching pre-established and rigorous performance conditions to its long-term incentive awards.

> Updated our *Proxy Voting Principles and Guidelines* on executive compensation to clarify our belief that engagement and advisory votes on executive compensation should be the primary tools by which shareholders express their views on a company's compensation plans.

> Voted against management proposals on executive compensation where we sought to express concern with the design of the incentive plan. Voted against management advisory votes on compensation where we viewed poor connections between incentive compensation and corporate performance.

> As part of the request by the Ontario Securities Commission (OSC) for comment on its 2012–13 Statement of Priorities, encouraged the OSC to mandate advisory votes on executive compensation.

WHAT PROGRESS HAS BEEN MADE?

> Advisory votes on executive compensation have significantly increased the level of engagement between companies and shareholders. They have prompted companies and boards to articulate the rationale for their compensation decisions much better than in the past, and in several countries we are witnessing a decline in some of the most egregious practices.

> The disclosure of specific financial targets in the determination of CEO bonuses allows shareholders to assess the alignment and rigour of performance-based incentive plans. More than half of S&P/TSX Composite Index companies now disclose such targets, an increase of 21% from the previous year.

> The percentage of S&P/TSX Composite Index companies requiring performance hurdles for stock options or share units rose by 9% this year, enhancing the link between pay and performance.

> 99 Canadian companies have adopted or plan to adopt the form of "Say on Pay" resolution recommended by the CCGG, including 32 issuers engaged directly by the CCGG and 45 issuers in the TSX 60.

BROADER AREAS OF ENGAGEMENT

We believe that companies with robust governance practices can create greater long term value and pose less risk for shareholders.

GOVERNANCE

Beyond our focus area of executive compensation, we regularly engage with specific companies on key governance issues affecting the value of Fund investments, such as how the board is structured and operates. In addition, we also reach out to regulators and policymakers to improve laws and governance standards for the benefit of the broad market.

> In this spirit, as part of a multi-year initiative we played a key role in advancing meaningful changes to Magna Corporation's board of directors and improving the quality of its governance practices. After Magna failed to disclose detailed voting results from its 2011 shareholders' meeting, CPPIB and others commenced legal action to obtain this information. Ultimately, Magna disclosed the requested information, indicating that three Board members failed to receive majority support; Magna subsequently announced that these directors would not stand for re-election in 2012. Among several other material enhancements in its corporate governance, Magna has implemented a formal policy that it will publicly disclose detailed voting results at each shareholders' meeting. The efforts of CPPIB and others resulted in a renewed focus on the issue of insufficient vote disclosure among Canadian companies, prompting proxy advisory firms to introduce new policies to address boards that do not provide detailed voting results.

> To address our concerns with prolonged financial underperformance at Canadian Pacific Railway Limited, CPPIB supported nominees to the board whom we believed would be best positioned to achieve constructive change at the company. As with Magna, our action was entirely consistent with CPPIB's stance and practice as an active, long-term investor; it does not represent adoption of a short-term "activist" strategy, nor does CPPIB intend to move in this direction.

> In our response to the Ontario Securities Commission's (OSC) request for comment on its 2012–13 Statement of Priorities, we pressed for greater shareholder empowerment by reiterating our call for the ability to elect directors individually, mandatory majority voting, and enhanced vote disclosure.

> CPPIB has joined a working group of institutional investors to develop and promote solutions aimed at improving the proxy voting system in Canada. In this initiative we wrote to and met with the Chairs and securities commissions in Ontario, Alberta, British Columbia and Quebec, suggesting that regulators conduct an empirical analysis to review concerns raised about the accountability, transparency and efficiency of the voting system and facilitate discussions amongst market participants. In response to comments from CPPIB and others, the OSC has added reform of the proxy voting system to its 2012–13 Statement of Priorities.

UN GLOBAL COMPACT

The Compact is a voluntary commitment made by companies with regard to the areas of human rights, labour, environment and anti-corruption. In March 2012, we participated in our fifth collaborative initiative coordinated through the UN PRI Engagement Clearinghouse, to encourage disclosure adherence by signatory companies that have to date failed to submit their communication on progress. This group engaged with a total of 116 companies – commending 89 leaders and requesting improvements from another 27 companies considered lagging in disclosure.

TOBACCO

Since 2004, we have supported 36 shareholder proposals at tobacco companies requesting improved disclosure and standards on a range of ESG issues, including marketing and lobbying practices.

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

ANTI-PERSONNEL LANDMINES AND CLUSTER MUNITIONS

As noted earlier, we do not screen out companies based on ESG or other non-investment factors. However, our *Policy on Responsible Investing* states that CPPIB 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. Accordingly, 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.

On December 3, 2008 Canada signed the *Convention on Cluster Munitions* in Oslo, Norway. The Oslo Convention prohibits the use, development, production, stockpiling and transfer of cluster munitions. In anticipation of Canadian legislation implementing the Convention, in 2008 CPPIB identified certain companies that we believed would be not be in compliance; we divested any existing holdings in such companies, and prohibited any new investments. Related legislation is currently in progress through the Canadian parliament.

We use third party expert research to identify companies globally that may be ineligible for investment under our Policy. Our specialist Responsible Investing team also conducts internal research, and if necessary engages directly with aerospace and defence companies to determine their business and practices in these areas. The *Responsible Investing Committee* reviews at least annually additions and deletions from CPPIB's list of prohibited companies.

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 only from CPPIB's use of market-traded index futures contracts. Such contracts are used by CPPIB to benefit the Fund by most efficiently achieving the returns on market indices for a portion of the portfolio, and by creating liquidity needed to make other investments. The constituents of the market indices on which the contracts are based are standard and beyond the control of CPPIB. In particular, such exposure does not assist or affect the capital formation of these companies, in which, as stated above, CPPIB makes no direct investment.

PROXY VOTING

Voting proxies is not only our fiduciary responsibility as a shareholder, it is also an important means for conveying the views of the Canada Pension Plan Investment Board (CPPIB) to boards of directors and management.

CPPIB's Proxy Voting Principles and Guidelines provide guidance on how we are likely to vote on typical issues put to shareholders. In general, we support resolutions that empower boards of directors on behalf of shareholders, or that reaffirm accountability of management.

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

As an active owner, we believe it is important to be transparent in our voting activities. This year, we began disclosing our vote intentions prior to company meetings, and we are prepared to discuss these intentions with the proposers.

ANNUAL REVIEW OF PROXY VOTING PRINCIPLES AND GUIDELINES

CPPIB undertakes an annual review of our Proxy Voting Principles and Guidelines. The process involves input from the Responsible Investing team to the Responsible Investing Committee of senior management. Further review is undertaken by the Governance Committee of our board of directors, with final review and approval of any changes by the entire board. This year we have:

- further enhanced our vote disclosure practices,
- expressed our opposition to the practice of linking two or more unrelated proposals (this is done in the hope that a proposal popular with shareholders will induce them to approve a linked proposal that they would likely oppose if voted on separately), and
- clarified our stance on Board responsiveness to shareholder views, excessive number of directorships, annual director elections, and majority voting.

As noted earlier, we have also expressed our belief that engagement and advisory votes should be the primary tools by which shareholders express their views on a company's executive compensation plans.

VOTING RECORD

Below are highlights of our proxy voting record for the 2012 proxy season, with examples of our votes on a range of management and shareholder proposals.

2012 PROXY SEASON FACTS

612
MEETINGS IN CANADA

598
MEETINGS IN THE UNITED STATES

2,415
MEETINGS – NON-NORTH AMERICAN

3,625
MEETINGS IN 2012 PROXY SEASON

36,923
AGENDA ITEMS

VOTED AGAINST MANAGEMENT IN 9.1% OF CASES

We review every voting item on the agendas of public companies in which we invest.

MANAGEMENT PROPOSALS

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

Although more often than not we support management recommendations, the following table highlights some types of management proposals that we generally vote against.

Type of Management Proposals We Generally Voted Against

SUBJECT	*VOTED AGAINST*	*RATIONALE FOR NOT SUPPORTING PROPOSAL*
Management advisory vote on executive compensation	*167 of 1030 (16%)*	*The company's compensation plans did not provide an appropriate alignment between pay and performance.*
Equity compensation plan and introduction or amendment	*398 of 923 (43%)*	*Plan did not meet CPPIB guidelines, e.g. because of high cost, excessive dilution of common stock, inclusion of non-employee directors, or overly broad amending powers granted to the board.*
Issuance of equity or equity-linked securities without preemptive rights	*182 of 489 (37%)*	*The authority to issue new shares provided excessive discretion, allowing directors to renew the issuance amount without shareholder approval and/or to issue shares at major discounts to related parties.*
Shareholder rights plan adoption or amendment	*46 of 80 (58%)*	*Plan did not increase the board's ability to respond to a takeover bid in a manner that would enhance shareholder value.*
Increases in authorized common stock	*22 of 36 (61%)*	*Possible dilutive share issuance without demonstration of a specific business need that would enhance shareholder value.*
Election of director with poor attendance	*333 for whom withheld support or voted against*	*Director attended fewer than 75% of board and committee meetings without a valid reason for the absences.*

SHAREHOLDER PROPOSALS

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

During the 2012 proxy season, CPPIB voted on 907 shareholder proposals, and supported 392, or 43% of them. Although representing just over 2% of all resolutions that we voted on, these proposals can provide shareholders with an effective means of encouraging companies to adopt policies and practices that enhance long-term shareholder value if other forms of engagement do not succeed. Companies should seriously consider implementation of resolutions that receive majority shareholder support, respecting their overall fiduciary obligations to all shareholders.

A number of shareholder proposals were withdrawn by their proponents following successful engagement, resulting in the companies involved agreeing to take responsive action.

The following tables highlight examples of shareholder proposals that we considered during the 2012 proxy season.

Type of Shareholder Proposals We Generally Supported:

SUBJECT	VOTED FOR	GENERAL RATIONALE FOR SUPPORT	NOTEWORTHY PROPOSALS	REASON SOME PROPOSALS NOT SUPPORTED
Enhance Disclosure On Environmental and Social Risks and Performance	20 of 46 (43%)	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.	Enbridge Inc. Chevron Corporation	Company already provides adequate disclosure or proposal was overly prescriptive
Adopt / Disclose Corporate Responsibility Standards	14 of 28 (50%)	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.	YUM! Brands Inc. Exxon Mobil Corporation	Proposal was overly prescriptive or duplicative of initiatives already underway
Move to Annual Elections of Directors	32 of 33 (97%)	The annual election of all directors increases board accountability to shareholders.	Apache Corporation Chipotle Mexican Grill, Inc. Moody's Corporation	Directors at the company could be removed at each meeting by simple majority vote
Report on Political Contributions	39 of 63 (62%)	Greater disclosure into political spending helps shareholders assess associated costs, risks and benefits.	Bank of America Corporation FedEx Corporation Verizon Communications Inc.	Proposal was overly prescriptive or duplicative of initiatives already underway
Majority Vote for the Election of Directors	22 of 22 (100%)	Majority vote provides shareholders with the opportunity to vote against a director. If he/she does not receive a majority of the votes cast, nominee should not be appointed.	Apple Inc. Baker Hughes Incorporated Exxon Mobil Corporation	Not applicable.
Separate Chair and CEO	48 of 48 (100%)	Different responsibilities of the two positions warrant different leaders.	Dell Inc. Research in Motion Limited PepsiCo, Inc.	Not applicable.
Amend Articles, By-Laws or Charter to Provide for Shareholder Rights to Call Special Meetings	10 of 10 (100%)	As in Canada, shareholders owning a specified percentage of shares should have the right to call special meetings of shareholders.	Ford Motor Company Pfizer Inc. Wal-Mart Stores, Inc.	Not applicable.
Adopt Proxy Access Right	6 of 6 (100%)	The ability to nominate board candidates enhances shareholder rights and increases board accountability	The Charles Schwab Corporation Wells Fargo & Company The Western Union Company	Not applicable.

Type of Shareholder Proposals We Generally Did Not Support

Report on Pay Disparity	Our focus regarding executive compensation is the link between pay and performance. The requested information would not improve shareholders' ability to evaluate the company's compensation policy from a pay-for-performance perspective.
Compensation Related Shareholder Proposals	We generally prefer to express our views on compensation matters through our advisory vote on compensation rather than supporting shareholder proposals.

GOING FORWARD

Through changing investment environments, the CPP Investment Board (CPPIB) will consistently bring its long term perspective and other structural advantages to investing the CPP Fund for the benefit of its over 18 million beneficiaries and contributors. Responsible investing activities that take account of environmental, social and governance factors are clearly aligned with, and an important aspect of, our broad investment strategy; we will continue to strengthen our approach in the years ahead.

The United Nations' *Principles for Responsible Investment* guides our activities, and as a global organization committed to leadership, we will work constructively to implement these principles. This year, our business plan includes three primary objectives:

1. Broaden and deepen the integration of ESG factors into investment research and decision-making processes for both public and private assets; monitor and enhance the business management of these factors in investments where CPPIB has a position of influence.
2. Continue to engage with companies as an active shareholder, in the focus areas of climate change, the extractive industries, water and executive compensation; foster best practices in companies' disclosure and business management of ESG factors, with the goal of better long-term financial performance.
3. While maintaining the level of research and engagement on Canadian companies, increasingly extend a global approach to all activities while taking account of regional variations.

The conduct of investment management as a responsible and engaged provider of capital, in a manner sustainable over decades, continues to evolve. Much more can be accomplished, and CPPIB remains dedicated to furtherance of its long term investment philosophy, principles and practice.

For information on the latest developments in responsible investing at the Canada Pension Plan Investment Board, please visit the Responsible Investing section of our website (www.cppib.ca).

We welcome public feedback. Please e-mail your comments to Public Affairs and Communications at pac@cppib.ca.

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Ce rapport est aussi disponible en français.

CPP INVESTMENT BOARD