



# 2008 Report on Responsible Investing

REPORTING PERIOD: JULY 1, 2007 – JUNE 30, 2008

# Corporate Profile

The *Canada Pension Plan 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 17 million Canadian contributors and beneficiaries. Its long-term goal is to contribute to the financial strength of the CPP and help sustain the pensions of CPP participants by investing CPP assets and maximizing returns without undue risk of loss.

As set out in the *Canada Pension Plan Investment Board Act*, the organization must manage and invest CPP assets in the best interests of CPP contributors and beneficiaries, while refraining from conducting any business inconsistent with its mandate.

Contributions are expected to exceed annual benefits paid through to the end of 2019, providing an 11-year period before a portion of the investment income is needed to help pay pensions. The Chief Actuary of Canada's 2007 report has projected the CPP assets will grow to more than \$300 billion beyond 2020 and that the CPP, as currently constituted, is sustainable throughout the 75-year period covered by the report. By increasing the long-term value of funds available to the CPP, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

In order to build a diversified portfolio of CPP assets, the CPP Investment Board invests cash flows in public equities, private equities, real estate, inflation-linked bonds, infrastructure and fixed income instruments. More than half the holdings are invested in Canada through a broadly diversified portfolio, while the rest is invested globally so that income from foreign investments flows back to Canada to help pay future pensions.

With a mandate from the federal and provincial governments, the CPP Investment Board is a Crown corporation accountable to Parliament and to the federal and provincial finance ministers who serve as the stewards of the CPP. Headquartered in Toronto, with offices in London and Hong Kong, the CPP Investment Board is governed and managed independently of the CPP and at arm's length from governments.

For more information on the CPP Investment Board, visit our website at [www.cppib.ca](http://www.cppib.ca).

## CONTENTS

1	A Message from the President	9	Proxy Voting
2	Approach to Responsible Investing	12	Research and Integration
4	United Nations' <i>Principles for Responsible Investment</i>	13	Going Forward
5	Engagement Activities		

## A Message from the President

I am pleased to introduce the CPP Investment Board's first Report on Responsible Investing. This expanded report replaces our previous proxy voting report and incorporates, for the first time, a section on our engagement activities with companies on responsible investing issues.

The CPP Investment Board invests in more than 2,600 public companies around the world, including more than 700 Canadian companies. As a long-term investor and owner, we believe that responsible behaviour by these companies with respect to environmental, social and governance (ESG) factors can generally have a positive influence on corporate financial performance.

As outlined in our *Policy on Responsible Investing*, first adopted in 2005, we consider ESG factors from a risk/return point of view and encourage companies to adopt policies and practices that enhance long-term corporate financial performance.

We express our views by engaging with companies, both directly and in collaboration with other investors, through voting our proxies and by supporting and using research that seeks to integrate ESG factors into sound financial analysis.

In keeping with our commitment to disclose our responsible investing activities, this report provides a detailed review of our activities and achievements. I also encourage you to consult our *Policy on Responsible Investing* which is available on our website at [www.cppib.ca](http://www.cppib.ca).

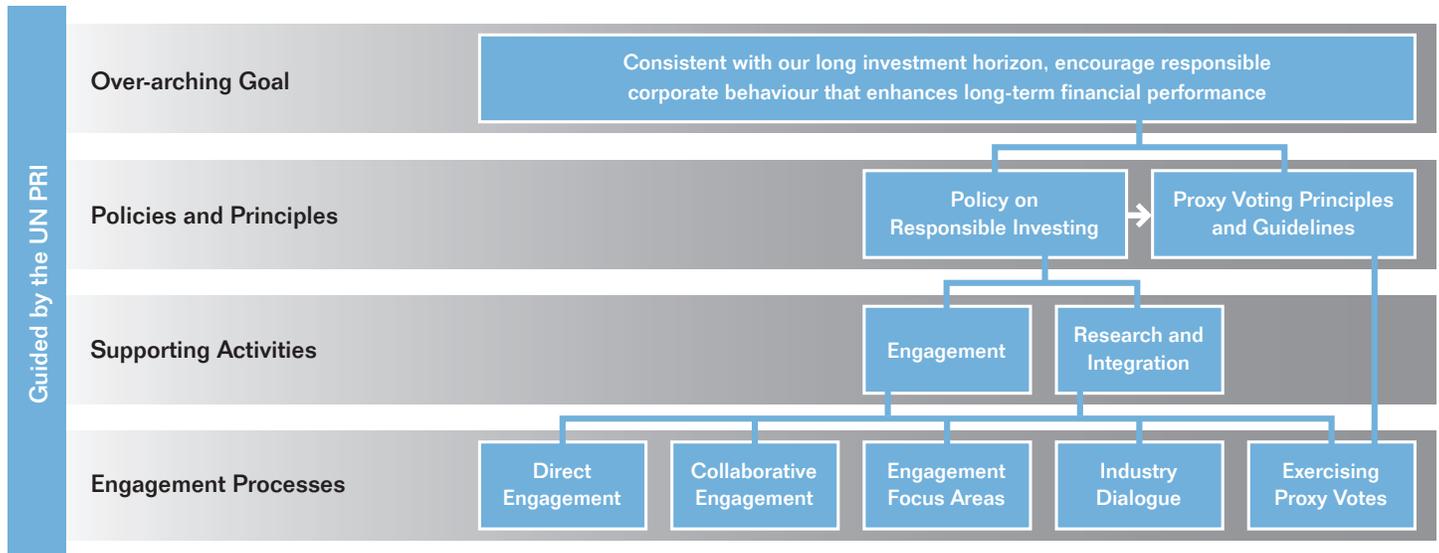


David F. Denison  
*President and Chief Executive Officer*  
*CPP Investment Board*

# Approach to Responsible Investing

As illustrated in the diagram below, our approach to responsible investing is guided by an over-arching goal, directed by policies and principles, and executed through our supporting activities and engagement processes.

## CPP INVESTMENT BOARD'S APPROACH TO RESPONSIBLE INVESTING



## Policies and Principles

Our *Policy on Responsible Investing* articulates our approach to responsible investing and describes the main activities and processes we use to pursue our goals and objectives.

Our *Proxy Voting Principles and Guidelines* set out how the CPP Investment Board is likely to vote on issues put to shareholders and communicates our views on other important issues that boards deal with in the normal course of business.

## Engagement

Consistent with our long investment horizon, we encourage corporate conduct that enhances long-term financial performance through a policy of engaging with companies. Given our belief that constraints decrease returns and/or increase risk over time, we do not screen stocks.

Engagement involves dialogue with senior executives and board members of companies in which we invest as well as regulators, industry associations and other stakeholders. Engagement can be direct or collaborative with other investors in order to combine resources and expertise.

We believe that engagement enables shareholders to effect positive change aimed at enhancing long-term financial performance and therefore assists us in fulfilling our mandate of maximizing investment returns without undue risk of loss. We currently focus our engagement activities in three areas: climate change, extractive industries (oil & gas and mining) and executive compensation.

One of the main objectives of our engagement efforts is to encourage greater levels of disclosure and transparency by companies in which we invest. We believe 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. Beyond disclosure, we also encourage companies to adopt best practices in the management of ESG issues that can impact long-term financial performance.

### **Proxy Voting**

One of the most effective mechanisms we have at our disposal in the engagement process is proxy voting. As owners in public companies we have the right to vote on proposals brought before shareholders at annual and special meetings. Proxy voting allows us to engage with all public companies in our portfolio on matters concerning their long-term financial performance.

### **Research and Integration**

We actively encourage investment dealers and other research providers to produce enhanced research and analysis on ESG factors. This information assists us in integrating these factors, where relevant, into our investment process.

### **Management of Our Responsible Investing Activities**

We have developed a team of professionals with experience in ESG matters. This team helps guide our responsible investing activities and implement our *Policy on Responsible Investing*. Senior management of the CPP Investment Board, including the President and CEO, plays an active role in the oversight of our responsible investing activities. Our board of directors also receives quarterly updates on our responsible investing activities.

#### **Examples of ESG Factors Include:**

- Greenhouse gas emissions
- Human rights risks
- Executive compensation practices
- Election of board directors

# United Nations' *Principles for Responsible Investment* (UN PRI)



In early 2005, United Nations Secretary-General Kofi Annan invited the CPP Investment Board 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, intergovernmental and governmental organizations, civil society organizations and academia, we helped formulate the United Nations' *Principles for Responsible Investment* (UN PRI). The UN PRI provides a best-practice framework for investors to integrate consideration of ESG factors into investment decision-making and ownership practices.

Adoption of the UN PRI has been steadily gaining momentum. In 2008, the number of signatories more than doubled and the current 362 signatories represent US\$14 trillion in assets under management.

As a founding UN PRI signatory, the CPP Investment Board commits to the six UN PRI principles, which serve as a guide for our activities and reporting related to responsible investing. The following list provides examples of some of the ways in which we implement the six principles.

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

The CPP Investment Board actively seeks enhanced research and analysis, including allocating trading commissions, to encourage investment research that better integrates long-term, material ESG factors.

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

We implement our *Proxy Voting Principles and Guidelines* and vote our proxies for our public equity holdings. We also meet directly with companies regarding performance and disclosure on ESG issues.

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

We support a range of initiatives to encourage improved transparency from companies on ESG issues such as climate change risk and executive compensation. This also includes providing input to regulators and industry associations.

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

We played a leadership role this year through the Chartered Financial Analysts (CFA) Institute as an advisor for the publication titled *Environmental, Social, and Governance Factors at Listed Companies: A Manual for Investors*.

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

We collaborate with other investors in Canada and internationally through organizations such as the Canadian Coalition for Good Governance and the Carbon Disclosure Project.

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

We disclose how we voted following every public company shareholders' meeting and have published an annual summary of our proxy voting activities. With this report, we have also begun annual reporting on our broader responsible investing activities.

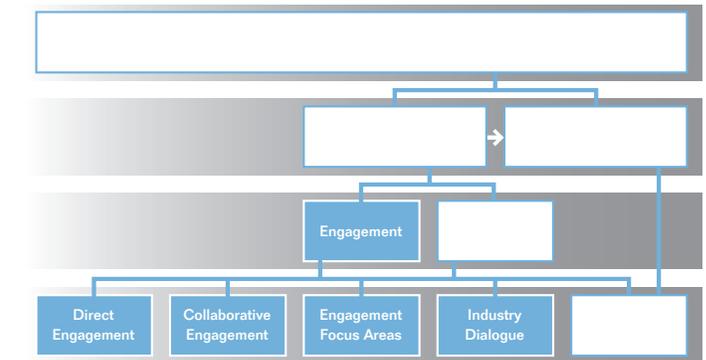
# Engagement Activities

## Direct Engagement

As a large institutional investor with a long investment horizon, the CPP Investment Board uses engagement with public companies to encourage improved disclosure and management of material long-term ESG issues. We analyze our public equity portfolio annually to identify potential engagement opportunities for the upcoming year. Among other considerations, we select companies for engagement based on the relative size of our holdings and the specific ESG risks they face. Most of the companies we select are Canadian; however, we will select international companies if we identify potentially significant ESG risks.

## Collaborative Engagement

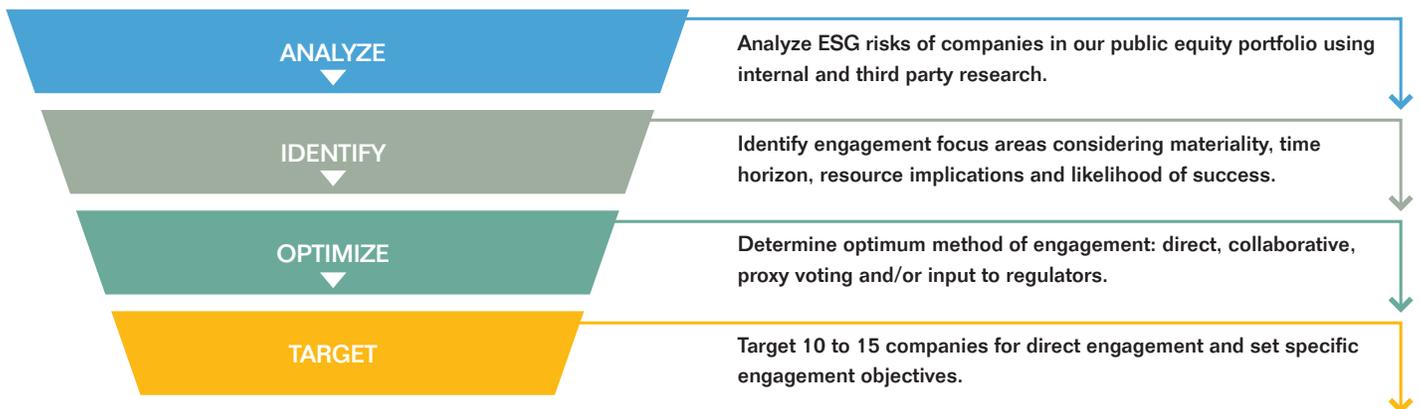
We participate in a number of organizations and collaborative initiatives globally to strengthen our voice in regards to responsible investing issues. We have taken on a leadership role in several of these organizations, including the Canadian Coalition for Good Governance (CCGG), which represents 44 institutional investors managing assets totalling \$1.4 trillion, the Carbon Disclosure Project (CDP), which represents 385 investors managing



US\$57 trillion and the UN PRI. Others include the Council of Institutional Investors (CII), the Extractive Industries Transparency Initiative (EITI), the International Corporate Governance Network (ICGN) and the Pension Investment Association of Canada (PIAC).

These coalitions develop policies and guidelines, engage with regulators and conduct research on ESG issues.

## HOW WE SELECT COMPANIES FOR ENGAGEMENT



## Engagement Focus Areas

We currently concentrate our engagement efforts on: **climate change** and **executive compensation** – issues that affect multiple industries – and the **extractive industries** – a sector of particular importance to the Canadian economy and one in which companies typically face a range of ESG-related challenges. Our research shows that these focus areas represent ESG risks for many companies in our portfolio.

### FOCUS AREA: CLIMATE CHANGE

#### WHY CLIMATE CHANGE?

We focus on climate change because emerging risks related to climate change could have significant consequences for long-term shareholder value. Our engagement activities with respect to climate change have focused on the Energy and Utilities sectors, which face high potential costs from tightening regulation of greenhouse gas (GHG) emissions.

#### WHAT ARE OUR OBJECTIVES?

- Improved disclosure of GHG emissions data.
- Corporate reporting on strategies to manage climate change risks and opportunities through annual sustainability and financial reporting.
- Improved research and analysis on the impact of tightening regulation of GHG emissions on long-term shareholder value.

#### WHAT ACTIONS DID WE TAKE?

- We engaged with several Canadian companies in the Energy and Utilities sectors, including some of the largest GHG emitters in Canada, encouraging improved disclosure of performance and management strategies.
- We played a global leadership role in the CDP, which sends out a request for disclosure of climate change management and GHG emissions to companies around the world each year. This year's questionnaire was sent to over 3,000 companies, including 200 in Canada. We are a member of the CDP Canada Advisory Group and helped sponsor the CDP Canada Report, which highlights best practices in disclosure by Canadian companies.
- We encouraged equity research analysts at investment dealers to improve analysis of corporate risks and opportunities related to climate change.

- We communicated our views regarding gaps in disclosure to regulators and industry associations. For example, we requested improved guidance from the Canadian Institute of Chartered Accountants (CICA) regarding disclosure of climate change-related risks in companies' financial reporting, including the Management's Discussion & Analysis (MD&A).
- We supported several shareholder proposals requesting improved disclosure of climate change-related risks.

#### WHAT DID WE ACHIEVE?

- Several Canadian companies we engaged improved their reporting on climate change and sustainability issues.
- The quantity and quality of responses to the CDP questionnaire improved globally in 2008. For example, compared with 2007, response rates rose from 88 to 103 in Canada, and responses from S&P 500 companies in the U.S. improved significantly from 282 to 321 companies.
- Following our requests, a number of investment dealers in Canada and elsewhere produced research reports integrating climate change-related risks into financial analyses.

### FOCUS AREA: EXTRACTIVE INDUSTRIES

#### WHY EXTRACTIVE INDUSTRIES?

We focus on extractive industries because oil & gas and mining companies deal with a range of environmental and social issues which, if managed poorly, can have significant consequences for long-term shareholder value. Conversely, companies that effectively address environmental and social risks may experience stronger support from local communities and governments and better position themselves to capture opportunities for value creation.

#### WHAT ARE OUR OBJECTIVES?

- Improved standards relating to operations in high-risk countries, including standards on human rights practices, local community relations and transparency of taxes and royalty payments.
- Improved disclosure of environmental performance and management strategies in annual sustainability and financial reporting.

#### WHAT ACTIONS DID WE TAKE?

- We engaged with Canadian and international oil & gas and mining companies operating in high-risk countries, including Burma, the Democratic Republic of Congo and Guatemala, to encourage improved transparency and risk management strategies.

- Our portfolio managers discussed environmental and social risks with several Canadian and international oil & gas and mining companies as part of regular meetings with senior management.
- We are a supporting investor of the EITI. The EITI is a multi-stakeholder initiative of governments, companies, investors and non-governmental organizations that supports improved governance in resource-rich countries through verification and publication of company tax and royalty payments and government revenues from oil & gas and mining companies.
- We participated in multi-stakeholder initiatives and industry forums regarding corporate social responsibility and extractive industries.
- We supported shareholder proposals requesting improved disclosure or adoption of environmental practices and human rights policies at Canadian and international oil & gas and mining companies.

#### WHAT DID WE ACHIEVE?

- Several oil & gas and mining companies agreed to review or implement enhancements to reporting and management strategies on issues such as environmental risk management, human rights and transparency on taxes and royalty payments.
- Five companies produced or committed to producing enhanced annual sustainability reports.
- Several mining companies are implementing improved practices; for example, agreeing to review or join the EITI or implementing standards such as the *Voluntary Principles on Security and Human Rights*.

#### FOCUS AREA: EXECUTIVE COMPENSATION

##### WHY EXECUTIVE COMPENSATION?

We focus on executive compensation because a clear link between pay and performance is the best way to align the interests of boards of directors and management with those of shareholders and thereby ensure that shareholder value grows over the long term.

##### WHAT IS OUR OBJECTIVE?

- A clear link between pay and performance along with clear and complete disclosure with respect to executive compensation in corporate reporting.

##### WHAT ACTIONS DID WE TAKE?

- We met with Canadian companies in the Financials, Energy and Utilities sectors to provide feedback on executive compensation-related issues.
- We participated in a collaborative engagement along with members of the CII to encourage a U.S.-based health-care company to improve its compensation disclosure and amend certain elements of its compensation program to enhance the link between pay and performance.
- We played an active role in several collaborative initiatives that promoted improved corporate governance practices and standards.
- We provided input, both directly and collaboratively, with organizations such as PIAC and the CCGG regarding the revision of the Canadian Securities Administrators' (CSA) executive compensation disclosure rules.
- We supported shareholder proposals or voted against management proposals in cases of poor disclosure of executive compensation or a weak link between compensation and company performance.

##### WHAT DID WE ACHIEVE?

- The health-care company with which we engaged in collaboration with CII took steps to amend several aspects of its compensation program and to improve its transparency.
- A company in the Information Technology sector increased performance thresholds under its Long-Term Incentive Plan after the CPP Investment Board and other shareholders did not support the plan originally proposed by the company at its annual general meeting.
- In the CCGG's latest scorecard on executive compensation, 29 companies scored well, exhibiting reasonably thorough and complete compensation disclosure practices, up from 23 companies last year.
- The CSA's revised compensation disclosure rules include many of the changes recommended by the CPP Investment Board. These rules will help investors to better assess the link between compensation packages and corporate performance.

## Engagement Beyond the Focus Areas

While we concentrate our engagement activities on our three focus areas, we also engage with companies on other ESG issues and react to engagement opportunities as they arise.

### GOVERNANCE

We ensure that key governance matters are raised in conjunction with all of our direct engagements. Companies are encouraged to review and implement, where appropriate, the guidelines set out in our *Proxy Voting Principles and Guidelines*. As an example, at a minimum, we request that directors be elected individually and that a majority voting standard is adopted for director elections.

### UN GLOBAL COMPACT

In January 2008, we joined a collaborative initiative coordinated through the UN PRI focused on adherence to the disclosure requirements of the UN Global Compact. The Global Compact is a voluntary commitment made by companies with regard to the areas of human rights, labour, environment and anti-corruption. The initiative, which included 20 investors representing approximately US\$2.1 trillion in assets under management, sent letters to 103 Global Compact signatories in more than 30 countries. Twenty-five companies received the group's congratulations, while 78 were asked to improve disclosure regarding their commitment to the Global Compact. Companies that do not communicate on progress will be delisted from the UN Global Compact.

### TOBACCO

We contacted all tobacco companies in which we invest and asked them to disclose how they are responding to the World Health Organization's *Framework Convention on Tobacco Control*. The objective of the Convention is to protect present and future generations from the consequences of tobacco consumption and exposure to tobacco smoke. This initiative is an important catalyst that drives increasing regulation in emerging markets.

### BURMA

In response to the Government of Canada's decision to impose sanctions on Burma through the *Special Economic Measures Act (SEMA)*, we have undertaken a review of our portfolio and confirmed that the CPP Investment Board is in compliance with the regulations introduced in December 2007.

Companies with operations in Burma are also subjects of our extractive industries engagement program. We encourage companies with operations in Burma to address the investment risks related to the environmental and social issues associated with their operations.

### OTHER

We monitor portfolio holdings to ensure that they are lawful and not prohibited by legislation in Canada. For example, investment in companies not in compliance with the *Anti-Personnel Mines Convention Implementation Act* is prohibited. Accordingly, we engaged with several international aerospace and defence companies and used third party research to identify companies that are ineligible for investment.

We have also been monitoring the *Convention on Cluster Munitions* (Oslo Convention) and Canada's legislative response to ensure that companies with businesses not in compliance with forthcoming Canadian legislation regarding the Oslo Convention are excluded from our portfolio. On December 3, 2008, more than 100 countries, including Canada, signed the *Convention on Cluster Munitions* in Oslo, Norway. This Convention prohibits the use, development, production, stockpiling and transfer of cluster munitions. Subsequent to the reporting period of our 2008 Report on Responsible Investing, we conducted a review of our portfolio and contacted companies seeking clarification on whether or not their businesses comply with the Oslo Convention. As a result, we have divested our holdings in four international aerospace and defence companies.

# Proxy Voting

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

We review every item on the agendas of the public companies in which we invest. We escalate proposals to an expert within our responsible investing team or more broadly within the Public Market Investments department as necessary. If novel or contentious ESG issues are identified they are escalated to senior management.

All individual proxy votes are posted on our website following company meetings ([www.cppib.ca](http://www.cppib.ca)).

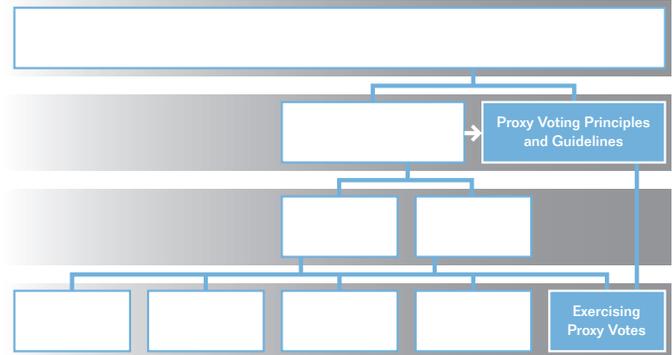
## Annual Review of CPP Investment Board's *Proxy Voting Principles and Guidelines*

The CPP Investment Board undertakes an annual review of our *Proxy Voting Principles and Guidelines*. The process involves input from the responsible investing team and a senior management committee chaired by the President and CEO. Further review is undertaken by the governance committee of our board of directors with final review and approval by the entire board.

## Management Proposals

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

Type of Management Proposal	Proposals We Voted Against	Rationale for Not Supporting Proposal
Equity compensation plan introduction or amendment	396 of 973 proposals (41%)	Plan did not fit within our guidelines, possibly because of high cost, excessive dilution of common stock, inclusion of non-employee directors, or overly broad amending powers granted to the board.
Shareholder rights plan adoption or amendment	48 of 101 proposals (48%)	Plan did not increase the board's ability to respond to a takeover bid in a manner that would enhance shareholder value.
Increases in authorized common stock	34 of 51 proposals (67%)	Dilutive share issuance without demonstration of a specific business need that would enhance shareholder value.
Election of a director with poor attendance	94 withheld or against	Director attended fewer than 75 per cent of board and committee meetings without a valid reason for the absences.



## Voting Record

Below are highlights of our proxy voting record for the 2008 proxy voting season, providing examples of our votes on a range of management and shareholder proposals.

### 2008 Proxy Season Facts

- 2,626 meetings
  - Canada – 660
  - United States – 736
  - Non-North America – 1,230
- 16,039 agenda items
- Voted against management 14 per cent of the time

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

## Shareholder Proposals

We review proposals put forward by shareholders on a case-by-case basis and are pleased to hear from shareholders who wish to discuss their proposals.

During the 2008 proxy season, the CPP Investment Board voted on 882 shareholder proposals. Altogether, shareholder proposals comprised 5.5 per cent of all resolutions that we voted on, the other portion being proposals brought forward by management.

It is notable that a large number of proposals were withdrawn by their proponents following successful engagement, resulting in companies agreeing to take action in response to the proposals. Several of these were environmentally and socially related proposals filed at Canadian companies.

We support proposals that seek to improve disclosure and reduce risk to long-term profitability.

The following tables highlight examples of shareholder proposals that we considered during the 2008 proxy season.

### TYPES OF SHAREHOLDER PROPOSALS WE GENERALLY SUPPORTED

Proposal Subject	Proposals We Voted For	General Reason for Supporting Shareholder Proposal	Noteworthy Proposals	Reason Some Specific Proposals Not Supported
Prepare a sustainability report or climate change report	9 of 16 proposals (56%)	Improved disclosure allows investors to better evaluate corporate strategy and performance on financially relevant, long-term environmental and social factors.	Dover Corporation ExxonMobil Corp. Massey Energy Corp. Pulte Homes, Inc. Ultra Petroleum Corp.	We did not support proposals if the company already provides disclosure or if the proposal was overly prescriptive.
Enhance disclosure on community/ environmental impact	4 of 6 proposals (67%)	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.	Barrick Gold Corporation Chevron Corporation ConocoPhillips Co.	We did not support proposals if the company already provides disclosure or if the proposal was overly prescriptive.
Adopt/disclose corporate responsibility standards (e.g., human rights, water)	12 of 30 proposals (40%)	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.	Chevron Corporation Halliburton Company PepsiCo Inc. Power Corporation of Canada	We did not support proposals if they were overly prescriptive or duplicative of initiatives already in place.
Majority vote for the election of directors	22 of 30 proposals (73%)	Majority vote provides shareholders with the opportunity to vote against a director. If a nominee does not receive a majority of the votes cast, the nominee should not be elected as a director.	Great-West Lifeco Inc. Power Financial Corp. RadioShack Corp.	Company had an acceptable majority voting policy or by-law in place.

Proposal Subject	Proposals We Voted For	General Reason for Supporting Shareholder Proposal	Noteworthy Proposals	Reason Some Specific Proposals Not Supported
Separate chairman and CEO positions	17 of 25 proposals (68%)	Different responsibilities of the two positions warrant different leaders.	ExxonMobil Corp. Pfizer Inc. Walgreen Co.	Company had appointed an independent director as lead director with clearly delineated duties.
Declassify board of directors	22 of 26 proposals (85%)	Classified boards make it more difficult to replace directors and it is not possible to replace the entire board at once. We oppose classified boards where nominees are presented as a slate.	Invacare Corp. Lubrizol Corp.	We support classified boards where nominees are elected individually and may be removed by a simple majority vote.
Advisory vote on executive compensation	36 of 75 proposals (48%)	We supported proposals brought at U.S. companies if they had poor pay practices.	The Bank of New York Mellon Corp. Citigroup Inc. Merrill Lynch & Co., Inc. Electronic Data Systems Corp.	We did not support proposals brought at Canadian companies as we believe that engagement with selected Canadian issuers on compensation will be more effective in achieving our goals.
Adopt claw-back policy	0 of 5 proposals (0%)	Management should be required to repay performance-based compensation awarded based on incorrect financial results, in particular if the executive has engaged in fraud, negligence or wilful misconduct.	General Electric Co. Motorola, Inc. Wal-Mart Stores, Inc.	We did not support proposals as they were all at companies that already had a claw-back policy.

#### TYPES OF SHAREHOLDER PROPOSALS WE GENERALLY DO NOT SUPPORT

Proposal Subject	Reason for Not Supporting Proposal
Pay for superior performance proposals	These proposals are often overly prescriptive. Compensation committees are best placed to determine the metrics most likely to result in performance that yields long-term shareholder value and ensure pay for performance.
Deceptive proposals	These proposals appear to be progressive but actually deter company efforts to address climate change and other ESG risks and opportunities.  These proposals are often overly prescriptive and could impose significant costs relative to potential benefits.
Proposals to prohibit non-binding proposals	These proposals would remove an effective and relatively efficient means of communication between companies and their owners.

# Research and Integration

The CPP Investment Board integrates ESG factors, where relevant, into investment decisions across all asset classes of our portfolio.

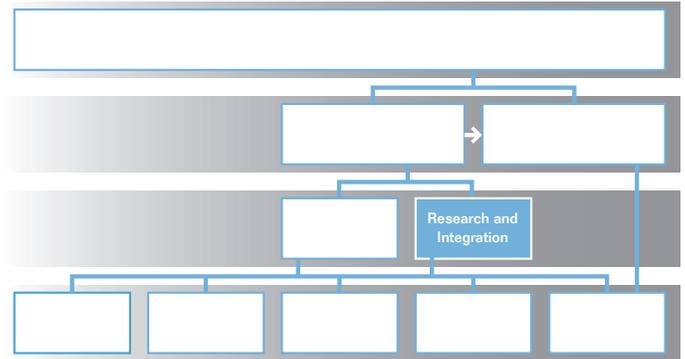
For public equities, the CPP Investment Board's responsible investing team regularly participates in meetings with our research analysts and portfolio managers to discuss ESG risks and opportunities as they relate to overall corporate performance.

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.

## Supporting Research

We believe that investment analysis should incorporate ESG factors to the extent that they affect long-term risk and return. As such, in collaboration with other investors and through direct dialogue with investment dealers, we actively seek and encourage third party research that incorporates long-term, material ESG factors.

We acknowledge that integrating ESG factors into the investment process is an approach that remains in the developmental stage. Data on ESG factors is less available and less consistent than research on traditional financial metrics. There is a need for additional research on how ESG factors can affect corporate performance over time, and to explore the link between certain ESG factors and financial returns.



The CPP Investment Board is a participant in the Enhanced Analytics Initiative (EAI), which is an international collaboration between asset owners and asset managers aimed at encouraging investment research that incorporates ESG factors. The 30 members of the EAI, with total assets under management of US\$2.7 trillion, commit a portion of their commissions to those dealers who provide the best research.<sup>1</sup>

Better analysis enables us to target engagement efforts towards issues and companies that are more likely to enhance the long-term performance of our portfolio.

Our efforts and the efforts of other like-minded investors have resulted in increased and improved analysis of ESG factors. Approximately 300 reports by global investment dealers addressing long-term ESG factors were reviewed by the EAI during the 12 months ending June 30, 2008.

<sup>1</sup>In late 2008, the Enhanced Analytics Initiative (EAI) was merged with the United Nations' *Principles for Responsible Investment*.

## Going Forward

While we have made significant headway in using engagement, including proxy voting, to improve disclosure and corporate management of ESG factors within our portfolio, there is still a great deal more that can be accomplished. We recognize that implementing a responsible investing strategy is an evolutionary process.

We will continue to dedicate resources and to participate in collaborative activities that support improved research into the materiality of ESG issues. As research improves and as disclosure by companies improves, so too will our ability to focus our engagement efforts and integrate ESG considerations into our investment portfolio. In response to the insights we gain, we will continue to revisit and revise our *Policy on Responsible Investing* and our *Proxy Voting Principles and Guidelines*.

We will also continue to take a leadership role, through participation in industry groups and in collaboration with other investors, in promoting our understanding of the impact ESG factors can have on long-term corporate financial performance. In particular, we will continue to promote the UN PRI as a strong international framework for implementing responsible investing practices.

### For More Information

For more information on the collaborative initiatives in which the CPP Investment Board participates, please visit the individual website for each initiative.

- Canadian Coalition for Good Governance  
[www.ccg.ca](http://www.ccg.ca)
- Carbon Disclosure Project  
[www.cdproject.net](http://www.cdproject.net)
- Council of Institutional Investors  
[www.cii.org](http://www.cii.org)
- Extractive Industries Transparency Initiative  
[www.eitransparency.org](http://www.eitransparency.org)
- International Corporate Governance Network  
[www.icgn.org](http://www.icgn.org)
- Pension Investment Association of Canada  
[www.piacweb.org](http://www.piacweb.org)
- United Nations' *Principles for Responsible Investment*  
[www.unpri.org](http://www.unpri.org)

For information on the latest developments in responsible investing at the CPP Investment Board, please visit the Responsible Investing section of our website ([www.cppib.ca](http://www.cppib.ca)).

The CPP Investment Board welcomes public feedback. Please e-mail your comments to Communications and Stakeholder Relations at [csr@cppib.ca](mailto:csr@cppib.ca).