CPP Investments Updates Proxy Voting Principles and Guidelines Elevating Expectations for Board Diversity and Annual Director Elections

- *Changes extend the 30% threshold for board gender diversity and signal future ambitions for emerging markets*
- *New policy holds portfolio public company boards to account where directors are shielded from annual shareholder votes*
- *Will consider voting against all directors put up for election where the board is classified and there are oversight failures related to climate change, board gender diversity or deficient corporate governance*
- *Policy continues to respect the division of responsibilities between owners, directors and managers*

Toronto, Canada [March 10, 2022] – Canada Pension Plan Investment Board (CPP Investments) has updated its Proxy Voting Principles and Guidelines (PVPGs) for 2022, with changes that enhance board and director accountability. The PVPGs have two purposes: to give the directors and officers of companies in which we own shares guidance on how CPP Investments is likely to vote on matters put to the shareholders; and to communicate our views on other important matters that boards must deal with in the normal course of business. The PVPGs are approved annually by CPP Investments' Board of Directors, and are aligned with our Investment Beliefs which serve as a foundation for our long-term investment goals while ensuring that we make consistent investment decisions and mitigate risk and contribute to enduring value-building growth. Corporations that better identify and appropriately manage environmental, social and governance factors and other long-term strategic issues are more likely to endure, and create greater value over the long term, than those that do not. As a participant in global capital markets we benefit from enhanced governance on a company by company basis and systematically as well.

Board Gender Diversity

A prominent element of our PVPGs is our board diversity voting practice – CPP Investments first introduced its board gender diversity voting practice in Canada in 2017 and has continued to evolve our practices each year. In 2022, based on market developments, evolving expectations and our experience during the last voting season, we are enhancing our gender diversity voting practice by expanding the countries to which our 30% threshold for female representation applies. We are also extending accountability to all incumbent directors where sufficient progress has not been made in subsequent years following our initial vote. In addition, we added language to highlight that best practice for effective boards does not stop at hiring diverse directors but goes further to ensure that there is inclusion in boardroom dynamics.

"We have enhanced our gender diversity voting practice by expanding the countries where our 30% threshold for female representation applies to include South Africa and New Zealand. To further spur action on gender diversity, in cases where there has been a stagnation in progress on board gender diversity, we may vote against all incumbent directors, as opposed to only those who sit on the nominating committee," said Richard Manley, Managing Director, Head of Sustainable Investing, CPP Investments. "We expect to apply a 30% threshold to more countries and markets in the next few years, particularly in emerging markets where board diversity can be as low as one woman on the board. We recognize that companies need time to diversify their board membership and we want to flag our intentions ahead of future changes to our PVPGs."

Classified Boards
For 2022, we also added a new voting policy to escalate our concern regarding classified boards at our public portfolio companies. Under a classified board, only a subset of directors is put forward for election by shareholders at each annual general meeting. While this structure can provide enhanced continuity and stability, for example in the immediate years following IPO, classified boards actively inhibit the rights of shareholders to hold specific directors to account annually. For this reason, for public companies with classified boards, CPP Investments will consider voting against **all** directors up for election where votes against one or more directors who are not up for re-election are warranted under our PVPGs. We expect companies with classified boards to clearly set out appropriate sunset provisions defining when annual director elections will commence, aligned with its transition to have a distributed shareholder base as a seasoned listing, and that governance will converge to best practice on a reasonable timeframe.

Climate Change
CPP Investments recently announced a commitment to have our investment portfolio and operations achieve net-zero GHG emissions across all scopes by 2050. In respect of listed companies within our portfolio, the PVPGs set out that a board can only be deemed to be acting in the best interests of the company and its stakeholders if climate risks and opportunities have been identified, quantified and integrated into strategy, operations and reporting. Where a company fails to articulate a coherent governance structure to address climate risks and opportunities, has no identification or quantification of these, and/or no articulation on how the company has integrated related insights into strategy and operations, CPP Investments will consider voting against the reappointment of the chair of the risk committee, or an appropriate equivalent committee. We will also consider escalating this voting practice to the entire risk committee or equivalent, the board chair and entire board where we see inaction in addressing this area in future years.

In addition, CPP Investments believes that directors who contribute to material ESG failures should be asked to resign promptly. Our updated PVPGs indicate that in circumstances where directors remain on, or return to, boards following failures of oversight, we consider it appropriate to vote against the re-election of the relevant director and against the most appropriate incumbent director for failing to promptly remove that director from the board.

"Boards are responsible and accountable for approving the company's strategy, monitoring its implementation, and overseeing management. As a long-term investor, we are committed to encouraging business leaders to adopt long-term mindsets and steward their companies towards enduring shareholder value creation," added Manley. "We cannot nor do we choose to walk away from companies by selling our shares every time we disagree with a position taken by management or a board of directors. Instead, as a long-term investor, we can engage with companies to bring about change. We plan to step up our engagement in cases of oversight failures related to climate change, board gender diversity and governance."

The full PVPGs can be accessed at https://www.cppinvestments.com/the-fund/sustainable-investing/proxy-voting and are being applied for the 2022 proxy season.

About CPP Investments

Canada Pension Plan Investment Board (CPP Investments™) is a professional investment management organization that manages the fund in the best interest of the more than 20 million contributors and beneficiaries of the Canada Pension Plan. In order to build diversified portfolios of assets, investments are made around the world in public equities, private equities, real estate, infrastructure and fixed income. Headquartered in Toronto, with offices in Hong Kong, London, Luxembourg, Mumbai, New York City, San Francisco, São Paulo and Sydney, CPP Investments is governed and managed independently of the Canada Pension Plan and at arm's length from governments. At December 31, 2021, the Fund totalled C$550.4 billion. For more information, please visit www.cppinvestments.com or follow us on LinkedIn, Facebook or Twitter.

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