



CPP
INVESTMENT
BOARD

Mainstreaming Responsible Investment

Our Approach

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VP – Public Market Investments



Who We Are

- The CPPIB is a professional investment management organization operating in the private sector with public sector accountability
- We manage the assets of the Canada Pension Plan not needed to pay current benefits
- Our mandate is to:
 - Invest in the best interests of CPP contributors and beneficiaries, and
 - Maximize long-term investment returns without undue risk, taking into account the factors that may affect the funding of the Canada Pension Plan and its ability to meet its financial obligations
- Assets under management of \$92.5 billion as of 31 December 2005 – projected to exceed \$200 billion by 2014



Evolution of our position

- First published a policy on Social Investing in March, 2002
- Participated in ongoing dialogue around social investing issues
- Responded to emergence of new methodologies and tools with extensive policy review
 - Considered the many different approaches of institutional investors around the world
 - Played an active role in UN Investor Group developing the Principles of Responsible Investment
- Published current Policy on Responsible Investing (PRI) in October 2005



Development of PRI - Our Challenge

- To develop a policy statement that supported:
 - Our fiduciary duty, mandate and investment objectives
 - Key investment beliefs:
 - Portfolio diversification is an effective way to manage risk adjusted returns
 - Portfolio constraints increase risk or minimize returns over time
 - Disclosure allows investors to better understand, evaluate and assess potential risk and return
- Retained a degree of flexibility – principled but pragmatic



PRI - Key Principles

- Responsible corporate behaviour with respect to ESG factors can generally have a positive influence on long-term corporate performance
- Disclosure is the key that allows investors to better understand, evaluate and assess potential risk and return, including the potential impact of ESG factors on a company's performance
- Investment analysis should incorporate ESG factors to the extent that they affect long-term risk and return
- Portfolio constraints either increase risk or reduce returns over time
- Engagement is a more effective approach to bring about positive change and enhance long-term financial performance.



PRI - Approach

- We don't have an E, S or G agenda - have a fiduciary agenda
 - Maximize returns over the long-term, without taking undue investment risk

- We don't screen but we do engage
 - Engagement widely recognized as an effective tool to bring about positive change, especially for investors with large, relatively passive portfolios

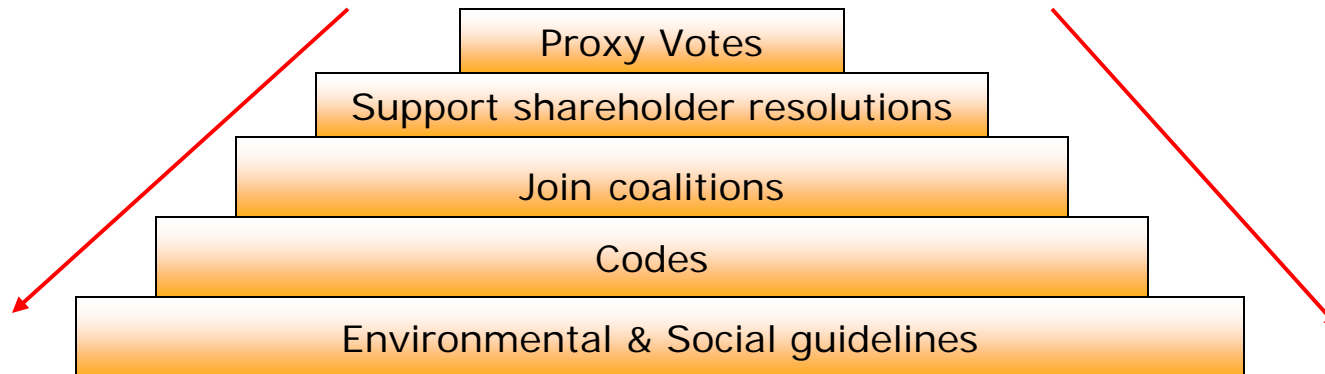
- We are building our engagement capability
 - Committed to build an engagement capability to use its ownership positions in over 1,800 companies to encourage improved performance on and disclosure of ESG factors.

- ... supported by research
 - We are joining with like-minded investors who are commissioning research on the long-term materiality of ESG factors and also building our internal capabilities
 - Research used to inform engagement capability and integrated into portfolio management as an assessment tool - allowing us to make informed decisions in a holistic and consistent manner



Moving Forward With Engagement

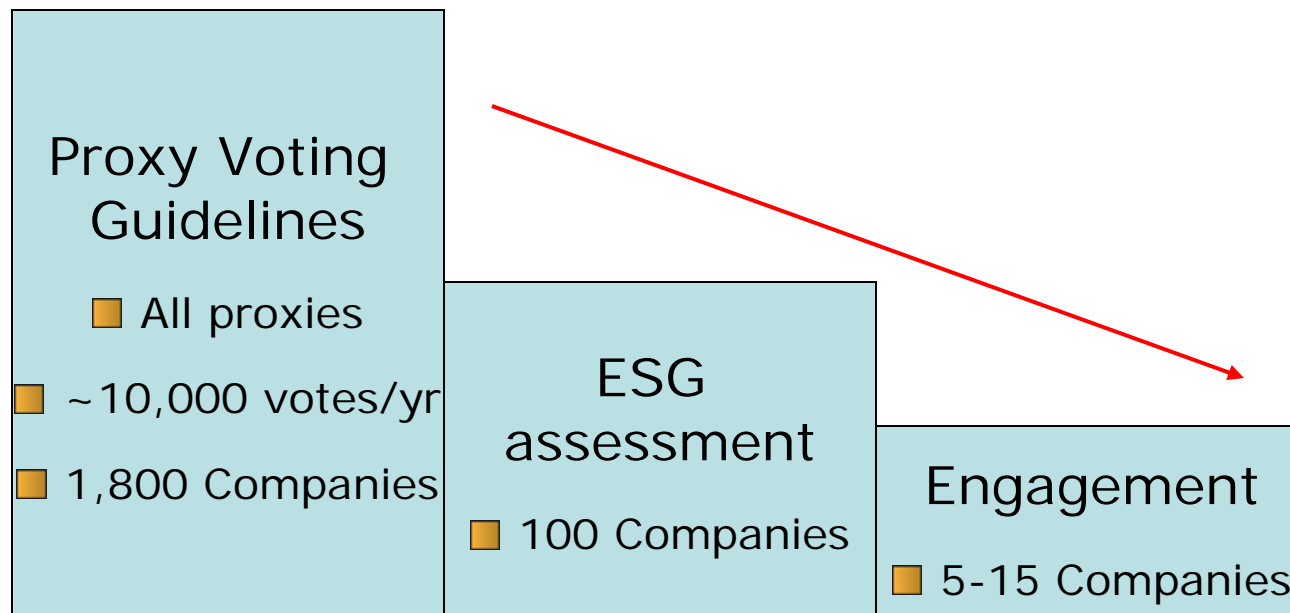
A phased approach....





Moving Forward With Engagement

... that is consistent with our proxy-voting





Action To Date

- CPPIB is the first Canadian pension fund to join the Enhanced Analytics Initiative
- Vote approximately 10,000 proxies per year
- Membership in coalitions of institutional investors: CCGG, ICGN
- Signatory to Carbon Disclosure Project in January 2006
- Participated in Investor Network on Climate Risk (INCR) - not as signatory
- Participated in the development of the UN Principles of Responsible Investment
- Building RI team and enhancing engagement capability - integrated within Public Market Investments department



'Mainstreaming' - Our Perspective

- Paradigm shift over last 3 years
- RI is no longer ...
 - ... led by single issue groups without any financial context
 - ... polarized at extremes
- Growing acceptance that ESG factors can have a material impact
 - Shift from ESG as 'non-investment' criteria to indicators of long-term performance and / or risk
- Business risks and opportunities are more closely associated with ESG factors over longer periods of time
- However, still less data for ESG factors generally - need more data, history, tools and competencies



Outlook

- Majority of future activity, as recent Mercer 2006 survey predicts, will take place within framework of fiduciary responsibility
- RI presents greatest opportunity for long-term investors
- Critical success factors
 - Further research on materiality of ESG factors
 - Ongoing dialogue
- For our part, we will continue to build momentum on our engagement strategy
 - First Canadian Investor to sign up to EAI
 - Actively involved in development of UN PRI