Policy on Sustainable Investing

November 9, 2021

CPP Investments

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NOVEMBER/2021

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1.0 About CPP Investments

The Canada Pension Plan Investment Board (CPP Investments) is a professional investment management organization. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan (CPP) and help sustain the pensions of CPP participants. The organization invests with a view to achieving a maximum rate of return, without undue risk of loss, taking into account factors that may affect the ability of the CPP to meet its financial obligations. Our Policy on Sustainable Investing is consistent with the fulfilment of our clear legislative objectives.

CPP Investments operates at arm's length from federal and provincial governments with the oversight of an independent, highly qualified professional Board of Directors. CPP Investments' management reports not to governments, but to the CPP Investments' Board of Directors. CPP Investments' Board approves investment policies, determines with management the organization's strategic direction and makes or oversees critical operational decisions. CPP Investments is accountable to Parliament and to the federal and provincial finance ministers who serve as the joint stewards of the CPP.

2.0 Purpose and Scope of Policy

This Policy sets out how CPP Investments approaches sustainable investing within the context of our clear legislative obligations and how CPP Investments integrates environmental, social and governance (ESG) considerations into our investment decisions and asset management activities.

This Policy is approved by the CPP Investments' Board of Directors. The Policy may be updated periodically to reflect changes to our approach to sustainable investing.

3.0 Our Sustainable Investing Principles

Over our long investment-horizon, ESG factors, including climate change, have the potential to be significant drivers of profitability and shareholder value. The nature of economic business risks and opportunities has fundamentally changed in this century. In addition, heightened and rapidly evolving stakeholder expectations have brought ESG issues to the fore.

We believe that companies that are resilient, agile and able to anticipate, manage and integrate material ESG factors into their strategy are more likely to create and preserve value over the long term than those that do not. In our view, shareholder value is inextricably linked to the proactive integration of material ESG factors into company culture and strategy.

The principles underlying our approach to sustainable investing include, but are not limited to, the following:

- Given our legislative objectives, we consider and integrate both ESG risks and opportunities into our investment analysis and asset management activities, rather than eliminating investments based on ESG factors alone;
- We consider the economic impacts from ESG risks and opportunities not only across the asset lifecycle, but across asset classes;

- As an active owner, we monitor ESG factors and engage with companies consistent with this policy to promote improved management of ESG factors to enhance long-term outcomes in the companies and assets in which we invest (See Section 6.0 for how we determine where to engage);
- We expect disclosure of financially relevant, potentially material ESG factors to allow investors to better understand, evaluate and assess these risks and opportunities, including their potential impact on a company's performance; for private companies, this pertains to reporting to their shareholders and boards of directors. We support alignment of reporting with the VRF's SASB Standards and the Task Force on Climate-related Financial Disclosures (TCFD);
- We support the division of authority and responsibilities among the triad of interests that is the core of good corporate governance – shareholders, directors and managers, and we view directors as responsible to the company on whose board they serve, but accountable to owners; and
- Employees, customers, suppliers, governments and the community at large have a vested interest in forward-thinking corporate conduct and long-term business performance.

We strive to be both principled and pragmatic, taking into account industry norms, corporate performance, competitive issues, regulatory requirements and other factors necessary to put specific issues into context.

4.0 Integrating ESG Considerations into Our Investment and Asset Management Activities

We integrate ESG factors into our investment analysis and asset management activities because we believe it supports generating better returns across our portfolio. Where such considerations are material, they can affect our assessment of an investment's risk profile and value. We believe that fully considering ESG risks and opportunities in due diligence and asset management activities makes us better investors, able to both enhance returns and reduce risk for the Fund. As such, CPP Investments aspires to integrate ESG factors for all asset classes within the portfolio.

Through our Fund-wide approach to sustainable investing, we integrate the assessment of ESG issues at all stages of our investment process from pre-investment due diligence to post-investment monitoring through exit.

For any publicly traded equity holdings, the Sustainable Investing group also supports our role as an active, engaged owner by carrying out all proxy voting activities.

5.0 Our Approach to Climate Change

Climate change represents a significant risk and investment opportunity for the Fund as the whole economy transitions. Active investment programs across CPP Investments consider both climate change opportunities and risks in material investment decisions and asset management activities. Wherever climate change-related transition and physical risks are material to the company, we expect portfolio companies to have a strategy to navigate through the challenges and capture opportunities presented by climate change. We expect boards, in turn, to ensure climate change-related opportunities and challenges are considered and integrated into the company's strategy. Where these expectations are not met, we take action through our shareholder voting practices and our board representation on companies to ensure this is addressed.

We also seek attractive risk-adjusted returns by investing in this whole-of-economy transformation, including investments in renewables, clean technology and services, green buildings and companies seeking to decarbonize or transform their businesses. We pursue these opportunities through multiple investment programs across public and private markets, both directly and through investment funds.

We are guided by the following Climate Change Principles to inform our decision-making:

- Principle 1: Invest for a whole economy transition required by climate change. As a long-term investor with an investment horizon that spans multiple decades, our portfolio design and security selection must anticipate both the opportunities and risks presented by the whole economy transition required by climate change; not doing so would be imprudent.
- Principle 2: Evolve our strategy as transition pathways emerge and global standards for decarbonization materialize. We will seek to invest in the optimal transition. This pathway is not yet defined, but will be influenced by government policy, consumer preferences, financial markets and technology innovation. Our legislative objectives will guide our actions as the full picture emerges.
- Principle 3: Exert influence to create value and mitigate risk. We will leverage our comparative advantages as an engaged and constructive provider of long-term capital to seek to ensure our portfolio companies have developed robust transition strategies that support value creation, reduction of greenhouse gas (GHG) emissions and mitigation of climate risks.
- Principle 4: Support a responsible transition based on our investment beliefs and expertise. As we seek attractive risk adjusted returns, we will make investments in green assets and transition solutions, but we also stand ready to make investments in industries where supporting these businesses to transition generates superior returns. Accelerating the global energy transition requires a sophisticated, long-term approach rather than a blanket divestment. We are in a position to provide capital that advances decarbonization of the economy to support responsible transition. This includes the sectors and companies at the core of our economy.
- Principle 5: Report on our actions, their impacts and our portfolio emissions. We commit to disclose the actions we take to deliver upon these principles including the investments we make, the meaningful engagement we undertake and the evolution of our portfolio emissions. The global economy transition will be dynamic and not linear. We will provide reporting of GHG emissions from our portfolio and commit to evolving this reporting as relevant new metrics emerge.

6.0 Engagement

We conduct ourselves as active, principled and thoughtful owners managing our investments in the best interests of the Canada Pension Plan's contributors and beneficiaries. We expect proactive identification and management of ESG factors, including climate change, by portfolio companies and communicate and action this through engagement[1]. We believe that engagement with companies, either directly or in collaboration with like-minded investors, is an effective means through which shareholders can influence productive change, reduce investment risks, realize opportunities and enhance and sustain long-term competitiveness and financial performance.

Our active ownership involves engagement with our portfolio companies where we believe it will create better long-term outcomes on ESG matters and, in turn, generate more sustainable value for CPP Investments. We engage with our portfolio companies through our board representation and shareholder voting rights, as applicable; discussions and correspondence, and collaboration with like-minded organizations.

We determine where to engage either proactively on our own initiative, or reactively in response to a company's request by:

- Analyzing ESG risks and opportunities in our portfolio companies using internal and third-party research.
- Identifying engagement objectives considering materiality, time horizon, resource implications and likelihood of success.
- Selecting the best method of engagement: direct, collaborative and/or exercising shareholder voting and other rights.

6.1 Collaborative Engagement and Industry Dialogue

Engaging collaboratively with other like-minded institutional investors leverages internal resources and may be the most efficient mechanism for all involved parties. It is an effective way to encourage improved transparency and performance on material ESG factors across CPP Investments' portfolio.

CPP Investments also participates in broader domestic and international discussions about definitions, priorities, standards and best practices in sustainable investing.

Please refer to our Report on Sustainable Investing for examples of collaborative engagement initiatives we may participate in or reference in our work, as well as for a list of industry organizations in which CPP Investments participates.

[1] Boards should 1) ensure that company reporting reflects all material ESG risks and opportunities and 2) provide shareholders with quantitative sustainability information on a regular basis. We encourage companies to report in line with the industry specific SASB Standards metrics and to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

6.2 Proxy Voting

We believe that appropriate corporate governance practices enhance long-term shareholder value. Proxy voting is one component of the corporate governance process and an effective form of engagement with public companies, enabling shareholders to express their views on a variety of issues. Our Proxy Voting Principles and Guidelines are reviewed and approved annually by our Board of Directors. They set out how CPP Investments is likely to vote on a range of topics. We also provide timely disclosure of our voting decisions relating to public companies.

We generally support proposals that are likely to enhance long-term company performance, reduce risk to long-term company performance or improve disclosure, including climate change-related, reasonably necessary to enable shareholders to assess their investment risk and opportunity. We oppose resolutions that are likely to diminish long-term shareholder value even though they may produce short-term gains.

We view directors as responsible to the company, but accountable to owners. Where we conclude individual directors, board committees or the board in its entirety is failing to demonstrate that it is acting in the company's best interests we will withhold support for their reappointments.

7.0 Exclusions and Exit

As a long-term investor, we prefer to actively engage with and attempt to influence companies when we disagree with a position taken by management or a board of directors of our active holdings. We have the ability to be a patient provider of capital and to work with companies to bring about change. However, we may conclude not to pursue or maintain investments in companies for reasons including the following:

- We conclude that management's strategy or lack of engagement with ESG issues undermines the long-term sustainability of the business;
- Where brand and reputation considerations from ESG factors may generate risk impacts beyond expected risk-adjusted returns; and
- Legal considerations.

These are not applied to our exposure to companies through broad-based indices. Such exposures are indirect, resulting from CPP Investments' use of market traded index future contracts. No actual securities are held by the organization in those companies. Further, composition of these indices is beyond the control of CPP Investments. Our exposures do not assist or effect the capital formation of these companies.

8.0 Reporting

CPP Investments is committed to public transparency of our sustainable investing activities. We produce an annual Report on Sustainable Investing which provides a detailed review of our activities. The Sustainable Investing section of our website provides additional information on our work. We also publish our climate change-related disclosures, in alignment with the recommendations of the TCFD in our Annual Report.

We recognize the importance of disclosure on how these principles translate into investment and engagement outcomes, especially those tied to climate change. We also appreciate the growing expectation of our stakeholders for disclosure. We will continue to expand the scope of reporting in our annual Report on Sustainable Investing of the Fund's carbon intensity, exposure to carbon intensive assets and transition solutions and outcomes from our engagement activities.