2016 REPORT ON SUSTAINABLE INVESTING

Engagement | Integration | Collaboration

CPP INVESTMENT BOARD

Canada Pension Plan Investment Board (CPPIB) is a professional investment management organization with a critical purpose – to help provide a foundation on which 19 million CPP contributors and beneficiaries build financial security for retirement. We invest the assets of the Canada Pension Plan (CPP) not currently needed to pay pension, disability and survivor benefits. We adhere to the principles of integrity, partnership and high performance.

CPPIB'S MANDATE IS TO MAXIMIZE RETURNS WITHOUT UNDUE RISK OF LOSS

When Canadian governments decided that the CPP's assets should be professionally and independently managed, they legislated a single objective for CPPIB: to maximize returns without undue risk of loss on behalf of contributors to, and beneficiaries of, the CPP. This mandate is to be undertaken without regard to political, regional, social or economic development considerations, or any other non-investment objectives. The clarity of our mandate underscores the important investment challenge we face to achieve sufficient growth to help sustain the CPP Fund.

We believe that organizations that manage environmental, social and governance factors effectively are more likely to endure, and create sustainable value over the long term. It is within this context that we evaluate these factors in our investment decisions.

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[1] This report covers the period from July 1, 2015, to June 30, 2016. This reporting period allows us to summarize our voting activity at the completion of each proxy season, and differs from our fiscal year, which ends March 31.

PART I

2016 Report on Activities

CPPIB emerged out of a realization in the 1990s that the Canada Pension Plan Fund's long-term financial health was not assured. Because of demographics, the growing number of retirees drawing benefits from the Fund was quickly outpacing the number of workers contributing to it. As a result, Canadian governments increased contribution rates and created CPPIB to manage the Fund, in order to ensure that it would remain viable. The CPP Fund is now one of the world's most sustainable retirement funds.

$287.3* Billion
CPP FUND

7
GLOBAL OFFICES

$53.1 Billion
CANADIAN ASSETS

$234.0 Billion
INTERNATIONAL ASSETS

OUR COMPARATIVE ADVANTAGES

Long-Term View

The 75-year scope of the Canadian Chief Actuary's CPP projection enables us to view opportunities, returns and risks over decades, not quarters or years. We are able to withstand short-term losses, staying the course on investments in pursuit of enhanced long-term returns.

Certainty of Assets

The CPP will continue to collect excess contributions in the years ahead, allowing us to build and adjust our portfolio with discipline. Investment returns will not be required to make benefit payments until after this time.

Size and Scale

As one of the largest retirement fund managers in the world, we can access major opportunities globally that few others can, in a diverse range of asset categories to prudently diversify the Fund.

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[1] The above figures are all as at June 30, 2016
* This asset figure includes non-investment assets (such as premises and equipment) and non-investment liabilities, totalling $0.2 billion.

President's Message

On June 13, 2016, I became President & CEO of Canada Pension Plan Investment Board (CPPIB), having previously led CPPIB's international operations. It has been an honour to assume the helm of this remarkable organization, and that is particularly true at this point in time.

It was 10 years ago that CPPIB embarked on a path to actively manage the CPP Fund, rather than continue to rely predominantly on passive investment strategies. It was also a little more than a decade ago that CPPIB created its first detailed policy on responsible, or sustainable, investing and became a founding signatory of the United Nations-supported Principles for Responsible Investment. Since then, the Fund has grown from less than $100 billion to more than $285 billion (as at June 30, 2016), the percentage of assets invested outside of Canada has risen from 35.7% to more than 80%, and CPPIB has gone from having one office in Toronto to seven stretching across four continents. CPPIB is a truly global investment organization today, and in the following pages you will read about the work that we are doing on environmental, social and governance matters not only in Canada, but around the world.

Climate Change and Collaboration

In December 2015, 195 countries signed the Paris Agreement, a plan to limit global temperature increases. This historic agreement has raised international awareness about climate change, and we have received a number of questions about our approach to managing climate change risks. You can read more about our current work with respect to climate change, which has been an area of focus for CPPIB for a decade now, starting on page 7.

CPPIB's sole mandate, which is enshrined in Canadian legislation, is to maximize returns without undue risk of loss for the CPP's 19 million contributors and beneficiaries. This organization was born out of a need to ensure that the Canada Pension Plan would be sustainable for generations to come, and this goal underlies everything that we do. Government leaders made the decision that, in order to preserve a national plan for generations, a dedicated investment focus was required to achieve higher returns than the legacy plan had delivered by then. We believe that organizations that manage environmental, social and governance factors effectively are more likely to create sustainable value over the long term, and so we evaluate risks posed by these factors in our investments and advocate for improvements at companies that we own.

On the topic of divestment and climate change, research has shown that investors with longer horizons tend to be more engaged with the companies that they invest in, and CPPIB is a case in point. As responsible owners, we believe that in many cases selling our shares to investors who might be less active in terms of considering material risks, including climate change, would be counterproductive.

We apply a thoughtful and long-term oriented approach to our investment activities, including the consideration of risks and opportunities related to climate change and its potential impact on asset values, markets and economies. CPPIB has established a cross-departmental Climate Change Working Group (see page 11) to consider how physical risks, as well as technological, regulatory and market developments will impact climate change-related risks, and create opportunities, in the future. We are looking at our portfolio as a whole, as well as the decisions that we make about individual investments, with climate change in mind.

One theme that you'll find in this report is collaboration. We collaborate with other investors and organizations not merely because two voices are stronger than one, but because it is an efficient way to expand our reach, learn from others and amplify our influence. One example of this is the work that Stephanie Leaist, our Head of Sustainable Investing, is doing as a member of the Financial Stability Board's

"Having spent a quarter century in international finance, I am more convinced than ever that sustainable investing is the right approach – indeed the only viable approach – to ensuring that we pass along not only a healthy planet, but a healthy economy, to future generations."

Task Force on Climate-related Financial Disclosures (see page 9). CPPIB is one of a small number of asset owners on the 31-member Task Force, which is developing recommendations to improve climate-related financial disclosures. This dovetails with the engagement work that we have been doing on climate change over the past decade. Other examples of our collaborative work include CPPIB's involvement with the Principles for Responsible Investment's Steering Committee on Human Rights in the Extractive Sectors (see page 13), the Canadian Coalition for Good Governance (see page 20), Hermes Equity Ownership Services (see page 17), and Focusing Capital on the Long Term.

Focusing Capital on the Long Term

CPPIB, alongside McKinsey & Company, is a founding member of *Focusing Capital on the Long Term* (FCLT), a collaborative effort along with 20+ global asset owners, asset managers and corporations that seek to encourage and facilitate long-term thinking and action among investors, corporate boards and business managers (see page 28).

FCLT member companies like CPPIB are moving to integrate FCLT principles and methods into their daily operations. To this end, this year we developed a set of principles that will help CPPIB's investment professionals focus on long-term issues when working with current or potential investee companies.

This comes as FCLT itself entered a new phase during the year, having been transformed into an independent not-for-profit company, FCLT Global. CPPIB helped to recruit FCLT Global's first CEO and secured funding for the launch of the new enterprise, in partnership with BlackRock Inc., The Dow Chemical Company, McKinsey & Company and Tata Sons, the other four founding members of FCLT Global.

This past year CPPIB also worked with S&P Dow Jones Indices and RobecoSAM to create the S&P Long-Term Value Creation (LTVC) Global Index to facilitate investment in companies that are positioned to create long-term value based on sustainability and financial-quality criteria. CPPIB has allocated $1 billion to an investment program based on this index.

Human Rights

Another important development this year was CPPIB's addition of human rights as a focus area for engagement, along with the existing climate change, water and executive compensation areas (see page 12). Human rights-related matters include improper labour practices, health and safety, security issues and company interactions with the local community. While we have already been engaging on human rights matters within the oil & gas and mining sectors, we are now broadening this work to include other sectors that we consider to be prone to human rights-related risks, such as consumer goods and information technology. Despite this change, CPPIB's engagement with companies in the extractive industries will remain a key priority.

Conclusion

CPPIB's commitment to act as a responsible investor is one of the things that appealed to me about the organization when I first joined. As a pension fund manager with a public purpose, which is to maximize our investment returns without undue risk of loss, we are extremely mindful of always making the best use of our resources. I am pleased with how much we have accomplished on environmental, social and governance issues within this context so far, and I look forward to updating you again next year.

Our fiscal year at CPPIB runs from April 1 to March 31, but in order to capture all of the work that we do during the calendar year's "proxy voting season" within one report, our Sustainable Investing Reports cover the period from July 1 to June 30 (in this instance, July 1, 2015 to June 30, 2016). It's important to point out that the initiatives we're reporting on this year were undertaken during the leadership of our former President & CEO Mark Wiseman. During his four years as CEO, Mark demonstrated wisdom, foresight and unwavering commitment in the area of sustainable investing. He has left a strong legacy in this area, and it's one that I look forward to building on with great enthusiasm.

Having spent a quarter century in international finance, I am more convinced than ever that sustainable investing is the right approach – indeed the only viable approach – to ensuring that we pass along not only a healthy planet, but a healthy economy, to future generations. This has been obvious to me as I have watched both the enormous benefits but also the substantial damage that has been caused by economic development in parts of Asia.

While I mentioned at the outset that our decisions increasingly have impact around the world, at CPPIB we are investing on behalf of the 19 million individuals whose money we have been entrusted to manage, and it is for them in particular that we provide the information in this report.

Mark Machin
President & Chief Executive Officer

Priorities for This Coming Year

1 Work across CPPIB investment teams to enhance review of climate change-related investment risks and opportunities

2 Actively contribute to the work of the Financial Stability Board's Task Force on Climate-related Financial Disclosures

3 Continue to augment proactive environmental, social and governance-related engagements globally with publicly traded companies

4 Build on collaborative efforts with global institutional investors and other capital market participants

HIGHLIGHTS OF PROGRESS ON LAST YEAR'S PRIORITIES

Increase environmental, social and governance engagement globally with publicly traded companies

- Joined the Financial Stability Board's Task Force on Climate-related Financial Disclosures (see page 9).
- Added human rights as an engagement focus area (see page 12).
- Continued to serve on the Steering Committee of the United Nations-supported Principles for Responsible Investment's (PRI's) collaborative engagement on human's rights in the extractive sector, covering over 30 global oil & gas and mining companies (see page 13).
- Joined Hermes Equity Ownership Services (Hermes EOS) global collaborative engagement platform. Stephanie Leaist, Managing Director, Head of Sustainable Investing joined its Advisory Board (see page 17).
- Co-filed 'Aiming for A' climate change-related shareholder proposals at Rio Tinto plc and Glencore plc. (see page 8).
- Joined a global collaborative engagement related to human rights and child labour concerns in the cobalt mining industry in the Democratic Republic of the Congo (see page 13).

Continue to proactively identify and manage environmental, social and governance factors across our investment and ownership activities, including enhancing our processes where appropriate

- Formed a cross-functional Climate Change Working Group to review our investment and asset management practices with respect to climate change risks and opportunities across investment departments (see page 11).
- Refined the environmental, social and governance factors integration process among our Global Corporate Securities – Fundamental investment team, identifying key issues for individual sectors (see page 21).

Continue to promote long-term thinking by institutional investors and companies globally

- Worked with S&P Dow Jones Indices and RobecoSAM to develop and launch the S&P Long-Term Value Creation Global Index. Some of the world's largest institutional investors, including CPPIB, invested in this Index as a powerful tool to focus markets on the long term (see page 27).
- Developed a set of company engagement principles as a tool to help CPPIB investment professionals focus on long-term matters when engaging with our potential or current investee companies (see page 27).
- Helped recruit the inaugural CEO of FCLT Global, an independent standalone entity to further the Focusing Capital on the Long Term collaborative initiative, and secured funding for its launch.

Sustainable Investing

At CPPIB we believe that organizations that manage environmental, social and governance (ESG) factors effectively are more likely to endure and create sustainable value over the long term.

ESG FACTORS

While the specifics vary by company, industry and geography, we consider a common set of ESG factors when evaluating opportunities, making decisions, managing our investments and engaging with companies to seek improvements in business practices and disclosure.

Climate impact and greenhouse gas (GHG) emissions, energy efficiency, air and water pollution, water scarcity, biodiversity, and site restoration.

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

Alignment of interests, executive compensation, board independence and composition, and other shareholder rights.

Why Don't We Divest?

We are responsible for helping to support the financial well-being of the Canada Pension Plan for generations to come. Given our legislated mandate to maximize returns without undue risk of loss, we integrate environmental, social and governance factors into our investment analysis, rather than eliminating investments based on those factors alone.

We believe that we can have a more powerful impact as a responsible, engaged owner that presses for change, than by selling all of our holdings in any particular industry to investors who might be less engaged.

Our goal is to enable better long-term outcomes in the companies and assets in which 19 million CPP Fund contributors and beneficiaries have a stake.

Read Part II of this Report (page 31), 'Our Approach to Sustainable Investing,' for a comprehensive look at the policies, resources and strategies CPPIB uses to integrate ESG into our investment decisions and actions as an asset owner.

Engagement with Companies and Other Key Stakeholders

As the trusted manager of pension money for 19 million individuals, we have an obligation to protect and enhance the value of their fund. One of the ways that we do this is by advocating for changes that we believe will build value at companies during the exceptionally long horizon over which we invest and hold assets. This is what we refer to as engagement. We select companies for engagement based on the materiality of their environmental, social and governance risks, the gap between current ESG practices and best practices, the size of our holdings and our key focus areas. As the manager of one of the world's largest retirement funds, we have a strong voice. We must carefully weigh the resources that we devote to engagement activities, ensuring that they will ultimately provide value to the beneficiaries of the CPP Fund. We seek to develop constructive dialogues with senior executives, board members, regulators, industry associations and other key stakeholders.

WHAT DO WE MEAN BY ENGAGEMENT?

When we talk about engagement in this context, we mean communicating with companies that we invest in or other key stakeholders about enhancing environmental, social or governance disclosure and practices. We use a variety of methods to do this depending on the situation, including in-person meetings and formal correspondence, either independently or in collaboration with other investors.

OUR FOUR FOCUS AREAS

The following are our key focus areas for engagement. These have been chosen because they have a significant and meaningful impact on the long-term financial sustainability of our public equity portfolio. Because the topics that we engage on are interconnected, engagements may cover more than one focus area. While we focus our engagement efforts on these four areas, we also discuss other topics that we consider relevant.

As a general practice, we do not name companies we engage with as it has been shown that this negatively impacts the dialogue and ultimate outcome. We normally reserve identifying companies we engage with as a tool of last resort.

This year, we introduced human rights as a focus area for engagement. The Sustainable Investing group previously engaged on human rights-related matters through the extractive industries engagement focus area, but has decided to broaden the scope of human rights engagements to also include other sectors, such as consumer goods and information technology. We remain focused on engagement with the extractive sector (please see page 12).

Climate Change

Climate change is one of the most challenging issues that we consider as a long-term investor. It is an investment risk with the potential to negatively impact our returns. It is also leading to opportunities in areas such as renewable energy as the world continues to reduce its reliance on fossil fuels in favour of less carbon-intensive sources of energy.

At CPPIB we believe that it is our responsibility to take climate change into account to ensure that we are making sound investments over the long term. The potential impact from climate change, as well as the interplay between it and numerous other global concerns – from water to food to weather to geopolitics – make it a vital and yet complex area for investors to consider. We are pursuing a comprehensive approach that integrates climate change considerations across our investment activities.

It is our responsibility to be an engaged owner that presses for continuous improvement at companies that we invest in, including how they are thinking about climate change. We believe that doing so is a win-win and will ultimately add value to our investments.

Climate change has been one of our four focus areas for a decade now. A thorough understanding of the climate change risks in our portfolio begins with a comprehensive understanding of the climate change risks at the companies we invest in; the work that we are doing with the Financial Stability Board's Task Force on Climate-related Disclosures will be beneficial in this respect (see the following page for more information).

We have put and will continue to put resources toward understanding climate change risks and opportunities across our portfolio because we think it makes investment sense.

CONSIDERATIONS FOR INVESTORS:

- *Regulatory developments;*
- *How demand for various sources of energy from consumers, corporations and governments will change;*
- *How shifts in the sources of energy supply will unfold;*
- *Physical impacts of climate change;*
- *Technological developments that relate to climate change; and*
- *Impacts on sectors other than energy such as transportation, agriculture, retail and manufacturing.*

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Above: Plenary meeting of the Financial Stability Board's Task Force on Climate-related Financial Disclosures, May 2016 in Washington, D.C.

ENGAGEMENT

We have been engaging with companies that are large emitters of greenhouse gas emissions for more than a decade to seek better disclosure and improve their practices related to climate change. There are many different types of capital providers in the world and, as a large long-term active investor, we believe we can have a powerful influence on the companies that we invest in. Instead of simply selling our investments exposed to climate change risks, we are an active asset owner and seek to be an agent of change.

Direct Engagements

Over the past year, we continued to work alongside major Canadian investors to encourage enhanced disclosure regarding greenhouse gas emissions strategies and performance from large carbon emitters. Our view is that expectations around disclosure of climate change-related risks and opportunities are evolving at a more rapid pace in light of global developments. We will continue to deliver that message and work with companies to improve disclosure.

Hermes EOS Engagements on Climate Change

In addition to the engagement work done by CPPIB's Sustainable Investing group directly, we also work with Hermes EOS as part of its global collaborative engagement platform. Hermes EOS engages with additional companies globally on our behalf on a range of climate change-related issues. Its work focuses on sectors most exposed to climate change, including oil & gas, mining, utilities, automotive sectors and financial services. During the reporting period, Hermes EOS engaged with 35 companies globally on climate change on behalf of CPPIB and others. In addition to engagements with companies, Hermes EOS works alongside other global organizations on climate change, including the Institutional Investors Group on Climate Change (IIGCC) and the United Nations Environment Programme Finance Initiative.

SHAREHOLDER PROPOSALS

We co-filed "Aiming for A" shareholder proposals at Rio Tinto plc and Glencore plc alongside other global investors. These resolutions sought deeper disclosure on five areas of climate change risk and opportunity management: ongoing operational emissions management, asset portfolio resilience post-2035 scenarios, low carbon energy research and development and investment strategies, strategic key performance indicators and executive incentives, and public policy interventions. After engagement, these shareholder resolutions at Rio Tinto plc and Glencore plc were supported by the companies' boards and management and received overwhelming support from shareholders globally.

Over the reporting period, CPPIB supported more than 50 climate change-related shareholder resolutions including key shareholder proposals at Suncor Energy, Exxon Mobil Corporation and Chevron Corp.

CDP CLIMATE CHANGE

Since 2006, we have supported the CDP – formerly known as the Carbon Disclosure Project – which seeks increased disclosure and management of climate change risks from more than 5,700 companies globally. More than 825 investors have now signed on to the initiative, representing US$100 trillion in assets under management supporting CDP's climate change program.

Photographer: Ralph Atswang

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Above: Members of the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

CPPIB JOINS THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

CPPIB's Head of Sustainable Investing, Stephanie Leaist, became a member of the Task Force on Climate-related Financial Disclosures (Task Force) in May 2016.

Why was the Task Force Created?

The Task Force was established in December 2015 by the Financial Stability Board (FSB)*, which said that "appropriate disclosure is a prerequisite for both the private sector and authorities to understand and measure the potential effects on the financial sector of climate change, as markets evolve and as the wider economy transitions towards a low-carbon economy." The Task Force is modelled on a prior initiative that developed recommendations for banks to improve their reporting on a variety of financial risks (such as capital adequacy and credit risks) in the wake of the global financial crisis. The FSB believes that more effective disclosures about climate change will help to reduce financial stability risks by avoiding an abrupt re-pricing of asset values as the impact of climate change becomes clearer.

What Will the Task Force Do?

The Task Force is developing recommendations for voluntary climate-related financial disclosures for companies that would be useful to lenders, insurers, investors and other stakeholders. It seeks to develop a principles-based framework that promotes consistent and comparable disclosures, enhances market understanding of possible linkages between climate-related risks/opportunities and financial impacts, and aids the economic decision-making of capital markets participants and the financial sector. It aims to deliver a Phase II Report with these specific recommendations for voluntary disclosure guidelines by the end of 2016. More information can be found at www.fsb-tcfd.org.

*

The Financial Stability Board (FSB) is an international body that was created in the wake of the global financial crisis to monitor the stability of the financial system. It is currently chaired by Bank of England Governor Mark Carney and is affiliated with the G20.

> "The [Financial Stability Board] is asking the Task Force on Climate-related Financial Disclosures to make recommendations for consistent company disclosures that will help financial market participants understand their climate-related risks."
>
> – Mark Carney, December 4, 2015

^ **Pictured Top:** Mark Carney, Chair of the Financial Stability Board and Governor of the Bank of England.

^ **Pictured Bottom:** Stephanie Leaist, Managing Director, Head of Sustainable Investing at CPPIB.

The Task Force will consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures in this area

Chaired by Michael Bloomberg

31 members

THE TASK FORCE IS CONDUCTING ITS WORK IN TWO PHASES:

Phase I COMPLETE

The Task Force determined the scope, objectives and fundamental principles of disclosure to inform the development of its recommendations in Phase II.

Phase II ONGOING

The Task Force will articulate specific recommendations for voluntary disclosure guidelines. These will be published in a Phase II Report, which is expected to be presented to the Financial Stability Board by the end of 2016.

CLIMATE CHANGE WORKING GROUP

In order to channel our efforts with respect to climate change more effectively and harmonize work that is taking place in various parts of the organization, CPPIB has created a cross-departmental Climate Change Working Group (CCWG). This investment-driven initiative is led by CPPIB's Head of Sustainable Investing. Its mandate is to (1) consider the impact of climate change on CPPIB's investments, including both risks and opportunities, and (2) recommend actions for CPPIB to address these risks and opportunities in its existing and future investments. As part of this, we are doing work to thoughtfully consider the implications of climate change to our portfolio as a whole. This review, which will take some time, is being done from a long-term perspective in light of how the gradual transition to a lower-carbon global economy might unfold. The expectation is that the responsibilities of the CCWG will evolve over time in order to meet CPPIB's ongoing needs in considering climate change risks and opportunities over the long-term. As such, the work of the CCWG is intended to be ongoing and will continue to serve as a foundation for work in future fiscal years on this key long-term investment matter.

Q&A on Renewable Energy

WITH MARTIN LAGUERRE

Martin Laguerre joined CPPIB in April 2016 as a Senior Principal. He is based in the New York office and is working closely with investment teams such as Natural Resources and Infrastructure as they explore investment opportunities in renewable energy and green technology.

Q: Can you describe your background and current role at CPPIB?

A: I have been working in the renewable energy sector for nearly a decade. Prior to joining CPPIB, I was at General Electric where I was a Managing Director with its Global Power and Renewable Energy business. Before that, I held investment banking and principal investing roles at global financial institutions, with a focus on renewable energy and clean technology. I joined CPPIB in April 2016 as a Senior Principal and am now playing a leading role in CPPIB's ongoing pursuit and assessment of investment opportunities in renewable energy.

Q: What is your outlook on the Renewable Energy sector?

A: As renewable energy continues to become more economically viable, it will become a more prominent part of the global energy mix. Areas like wind and solar, that are still considered to be on the fringe by some, are close to becoming mainstream. Annual deployments of renewable energy are growing very fast all over the world. For example, in the U.S., over 65% of new capacity additions are solar and wind combined, which is greater than gas. The cost of renewable energy to consumers is decreasing quickly, even without factoring in subsidies. Supply and investments in the sector are both up and over US$250 billion of capital was invested in the sector, conservatively defined, in 2015.

Q: How does renewable energy fit into CPPIB's approach to the transition to a low-carbon economy?

A: We are actively exploring opportunities in the renewable energy sector, but are doing so in a thoughtful, prudent manner in keeping with our overarching objective to maximize returns without taking excessive risk. Conventional fossil fuels will continue to be an important source of energy in the decades ahead, while countries embark on a long-term energy transition in the wake of the Paris Agreement. That being said, as is the case for most investments, the attractiveness of any given opportunity depends on characteristics that are specific to it. When it comes to evaluating opportunities in the renewable sector, we consider factors such as natural resources, technological efficiency, intellectual property, scale, economics, impact on existing and new infrastructure, the strength of management, balance sheet health and the project pipeline.

Human Rights

This year, we introduced human rights as a focus area for engagement. The Sustainable Investing group has been engaging on human rights-related matters through the extractive industries (i.e. oil & gas and mining) focus area, but has decided to broaden the scope of human rights engagements to include other sectors, such as consumer goods and information technology. As existing work under the extractive industries engagement focus area will now be captured by the new human rights focus area and the existing climate change and water focus areas, the extractive industries focus area is no longer necessary. Despite this change, CPPIB's engagement with oil & gas and mining companies will remain a key priority.

WHAT DO WE MEAN BY HUMAN RIGHTS?

We consider human rights broadly, in line with the definitions set out in the United Nations Universal Declaration of Human Rights. Relevant issues related to companies can take the form of forced, slave or child labour; may involve impacts from bribery and corruption; and can result from poor working conditions (including health and safety practices), poor relations with the local population and indigenous peoples or poor security practices. Any of the above topics can also manifest as relevant human rights matters within the supply chains of companies.

We believe that strong human rights practices contribute to long-term value and engaging with companies in our portfolio on this topic is therefore an important part of our strategy to maximize long-term returns. Companies with comprehensive human rights policies and processes are less likely to face disruptions to operations from regulatory actions, legal risk, protests or other activities, and have less reputational issues due to human rights-related controversies. We also assess human rights risks within the supply chain of companies, primarily in respect of poor working conditions and labour issues (e.g. child labour), and are focusing our engagement efforts on supply chains in the consumer and information technology sectors.

ENGAGEMENTS	DESCRIPTIONS
UNITED NATIONS-SUPPORTED PRINCIPLES FOR RESPONSIBLE INVESTMENT'S COLLABORATIVE ENGAGEMENT ON HUMAN RIGHTS IN THE EXTRACTIVE SECTORS	› We have been a member of the Steering Committee of the United Nations-supported Principles for Responsible Investment's (PRI's) collaborative engagement on Human Rights in the Extractive Sectors (i.e. oil & gas and mining companies) since 2014. The focus of the engagement is to encourage companies to implement the UN Guiding Principles on Business and Human Rights and to improve the disclosure of their human rights policies and processes. › The engagement was launched to PRI signatories in June 2015 and will continue through 2017. We continue to take an active role in this collaborative engagement and have chosen to lead and actively support a number of the 30+ engagements on human rights alongside over 50 global investors.
COLLABORATIVE ENGAGEMENT ON CHILD LABOUR IN SUPPLY CHAINS	› We are part of a collaborative engagement related to child labour and human rights concerns in the cobalt mining industry in the Democratic Republic of the Congo. The engagement aims to encourage 13 electronics, automotive and battery manufacturing companies to improve their supply chain management systems, particularly related to identifying and mitigating human rights risks in the procurement of cobalt. We have also engaged with the Electronics Industry Citizenship Coalition (EICC) to understand the industry-level activities related to this issue and to encourage improved practices and systems at its member companies.
HERMES EOS ENGAGEMENTS ON HUMAN RIGHTS	› Human rights is a priority theme for engagements conducted by Hermes EOS, the global collaborative engagement platform, through which we conduct additional engagements. Companies are engaged on topics such as poor working conditions, child labour and local community relations. Companies are also encouraged to adhere to or align with initiatives such as the Global Business Initiative on Human Rights and the UN Guiding Principles on Business and Human Rights. During the reporting period, Hermes EOS engaged with 51 companies on human rights-related matters on behalf of CPPIB and others.
HUMAN RIGHTS-RELATED SHAREHOLDER PROPOSALS	› Over the reporting period, CPPIB supported five human rights-related shareholder proposals, including proposals requesting more disclosure of human rights risk assessment processes and human rights risks in supply chains.

Water

Water is one of the world's most critical resources. Climate change is adding to challenges related to water quality and availability. Water can pose significant operational risks to companies across geographies and sectors. We engage with companies to (1) improve corporate reporting of water-related strategies and performance, (2) provide disclosure in a format that is comparable, and (3) seek better management of long-term water risks.

ENGAGEMENT

Directly Engaged with Companies

We have engaged with companies in the materials and energy sectors over the years and learned that additional work was being done within these industries to create consensus around key performance indicators for water. Based on these discussions, our hope was that disclosures on water risks would be enhanced including reporting on agreed upon key performance indicators. Improved disclosure makes comparisons easier and is one of the reasons why CPPIB is an investor signatory to CDP Water (see below).

WHAT IS CDP WATER?

CDP Water was developed by the CDP initiative (formerly known as the Carbon Disclosure Project) to seek increased disclosure and management of water-related risks from companies. The most recent CDP Water information request that was sent out to more than 1,000 companies on behalf of 617 institutional investor signatories representing more than US$63 trillion in assets under management.

Following our research on and discussions with companies in key sectors this year, we continue to see insufficient disclosure on water risks. Over the coming year we will continue to work with companies and industry bodies on how water disclosure can be improved and to contribute to building consensus around what metrics and information are most relevant to key stakeholders.

Supported Shareholder Proposals

We continued to support shareholder proposals requesting improved management and disclosure of water-related risks, including those stemming from water availability and quality. Proposals we supported this year relating to requests for increased disclosure of water risk management practices included those at Chevron Corporation and ExxonMobil Corporation.

Hermes EOS Engagements on Water

Water-risk engagements have been a long-standing theme for Hermes EOS, the global collaborative engagement platform, and will continue to be in the coming years. These focus on the consumer goods, mining and utilities sectors and include topics such as water stress (shortages of water), water management systems and water risk in supply chains. Companies are also encouraged to respond to the CDP Water Disclosure initiative. Hermes EOS engaged with five companies on water-related matters on behalf of CPPIB and others during the reporting period.

CDP WATER

CPPIB was among the initial investor signatories who supported the launch of the CDP Water Disclosure initiative in 2010. In 2015, 1,073 companies were sent the water questionnaire and 405 responded. The CDP 2015 Global Water Report noted that 60% of respondents disclosed all water withdrawals by source, discharges by destination and consumption data for 'at risk' facilities.

Executive Compensation

We continue to advocate for companies to adopt good governance practices with respect to executive compensation to ensure that the interests of management are aligned with those of long-term investors.

ENGAGEMENT

Promoted Improved Compensation Practices Through Direct Engagement

CPPIB's Sustainable Investing group engaged with more than 20 companies on executive compensation issues during the reporting period. The engagements provided an opportunity for companies to explain their thinking behind key compensation decisions and for our Sustainable Investing group to provide feedback aimed at strengthening the link between pay and performance, encouraging an appropriate level of risk taking and promoting long-term decision-making.

Hermes EOS Engagements on Executive Compensation

CPPIB also engages on executive compensation matters through the global collaborative engagement platform, Hermes EOS. Hermes EOS engages with company remuneration committees and boards, regulatory authorities and industry bodies globally to promote remuneration structures which align executives' interests with those of long-term investors. During the reporting period, Hermes EOS engaged with 55 companies on executive remuneration on behalf of CPPIB and others.

PROXY VOTING

Communicated Our Views on Executive Compensation Through Proxy Voting

"Say on Pay" is an important part of an ongoing engagement process between shareholders and boards, providing shareholders with the means to provide direct feedback on the board's compensation decisions. We believe that Say on Pay encourages better dialogue between investors and companies on executive compensation, leading to improved disclosure and pay practices. A number of companies that received low support for Say on Pay in 2015 responded to feedback from CPPIB and other investors and implemented positive changes this year.

Proxy voting can be a powerful engagement tool. For example, in 2015, CPPIB voted against a major U.S. bank's pay plan due to pay-for-performance concerns, driven primarily by the decision to award a large discretionary cash bonus without a sufficient rationale. In response to feedback received during engagements with CPPIB and other shareholders, the company reduced cash bonuses and delivered all long-term equity awards in the form of a performance share unit plan subject to risk-mitigating provisions, such as a post-vesting hold requirement. This change is notable as the financial industry has been slow to transition away from a discretionary approach and this move could encourage peers to consider a more objective methodology for determining incentive pay.

WHAT DO WE MEAN BY "SAY ON PAY"?

"Say on Pay" refers to the ability of shareholders to vote directly on executive compensation. Depending on regulatory requirements or internal corporate policies, Say on Pay can be either a binding or non-binding vote.

See "Actively Engaging as Owners" (page 46) in Part II for more details on why we believe our focus areas are material to the creation of long-term, sustainable value in the CPP Fund, how we set about determining which companies we engage with from the more than 2,700 public companies in which CPPIB owns shares, and the types of changes and improvements we seek.

Special Report on Outside of Plan Executive Compensation Awards

CPPIB released a joint report this year on "outside of plan" executive compensation awards in collaboration with the Ontario Teachers' Pension Plan (OTPP). This report summarizes the results of a study we conducted on outside of plan awards granted by U.S. companies in 2015. The study focused on awards granted at U.S. companies given the predominance of awards in the U.S. market. However, the conclusions and next steps set out in the report are also applicable to Canadian companies.

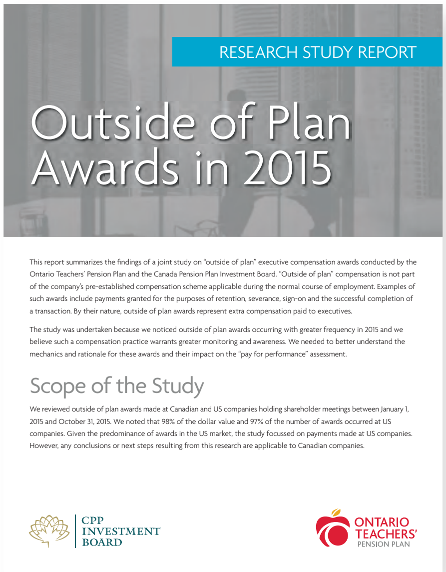
CPPIB and OTPP had identified outside of plan awards as an emerging executive compensation practice in advance of the 2016 proxy voting season. We conducted the study to raise awareness of the practice of issuing outside of plan awards and encourage better disclosure from companies.

The study found that outside of plan awards occur with high frequency and that the value of these awards is significant. Of the 2,354 U.S. companies in the study, 48% granted outside of plan awards in 2015 to an average of 3.5 executives. The value of outside of plan awards granted by U.S. companies in 2015 totalled US$4.1 billion. The study also found that only 13% of these outside of plan awards were linked to company performance.

These findings raised a number of questions, including whether the use of outside of plan awards points to issues with the design and structure of pay plans and whether the absence of performance metrics attached to outside of plan awards has negative consequences for pay and performance alignment. We are continuing to track and study outside of plan awards to better understand the answers to these questions and others raised by our findings set out in the report. The report has gained positive attention and is raising awareness of the practice of issuing outside of plan awards among shareholder groups, media sources, academics and corporate advisors.

We also updated our *Proxy Voting Principles and Guidelines* to consider outside of plan awards when voting on advisory votes on executive compensation. We factored these awards into our vote decisions during the 2016 proxy season. Outside of plan awards were a significant factor in at least 7% of the Say on Pay proposals we opposed during the reporting period. We believe that certain outside of plan awards may be acceptable forms of executive compensation. However, boards must provide a clear rationale for granting outside of plan awards, as well as how the structure and quantum were determined, to give shareholders clarity on why any awards granted are acceptable.

The full report can be accessed at: **www.cppib.com/OutsideOfPlanAwards**



RESEARCH STUDY REPORT

Outside of Plan Awards in 2015

This report summarizes the findings of a joint study on "outside of plan" executive compensation awards conducted by the Ontario Teachers' Pension Plan and the Canada Pension Plan Investment Board. "Outside of plan" compensation is not part of the company's pre-established compensation scheme applicable during the normal course of employment. Examples of such awards include payments granted for the purposes of retention, severance, sign-on and the successful completion of a transaction. By their nature, outside of plan awards represent extra compensation paid to executives.

The study was undertaken because we noticed outside of plan awards occurring with greater frequency in 2015 and we believe such a compensation practice warrants greater monitoring and awareness. We needed to better understand the mechanics and rationale for these awards and their impact on the "pay for performance" assessment.

Scope of the Study

We reviewed outside of plan awards made at Canadian and US companies holding shareholder meetings between January 1, 2015 and October 31, 2015. We noted that 98% of the dollar value and 97% of the number of awards occurred at US companies. Given the predominance of awards in the US market, the study focussed on payments made at US companies. However, any conclusions or next steps resulting from this research are applicable to Canadian companies.

CPP INVESTMENT BOARD

ONTARIO TEACHERS' PENSION PLAN

^

Source: *Report Cover Page, CPPIB and OTPP, 2016*

WHAT DO WE MEAN BY "OUTSIDE OF PLAN"?

The term "outside of plan" awards describes compensation granted to executives that is not part of a company's pre-established compensation scheme applicable during the normal course of the executive's employment. Examples of these awards include payments granted for the purposes of retention, severance, sign-on and the successful completion of a transaction. By their nature, outside of plan awards represent extra compensation paid to executives.

Hermes Equity Ownership Services

EXPANDING OUR COLLABORATIVE ENGAGEMENT REACH GLOBALLY

In August 2015, the Sustainable Investing group joined the Hermes Equity Ownership Services (Hermes EOS) global collaborative engagement platform. The Hermes EOS platform offers an effective means to expand our environmental, social and governance engagement activities across a larger number of our international public equity portfolio companies and to increase the scope of topics addressed. We will continue to pursue our own engagement activity globally as well.

Hermes EOS has a multi-national corporate engagement team of more than 25 people that hold dialogues with more than 450 companies in close to 50 countries each year. It has the depth to effectively engage with senior management and boards of directors at companies around the world. Hermes EOS has more than £188.8 billion of assets under advice (as at June 30, 2016) and its clients include approximately 40 corporate and public pension funds and asset managers from eight different countries across all major regions of the world.

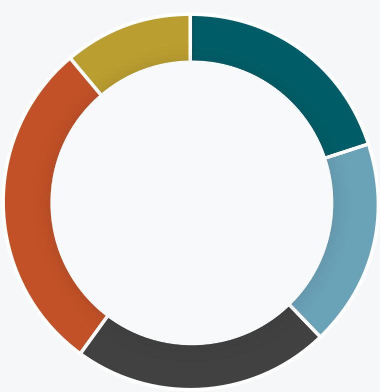
CPPIB's Head of Sustainable Investing, Stephanie Leaist, is a member of the Hermes EOS Advisory Board. The Advisory Board provides guidance to the Hermes EOS management team on matters such as Hermes EOS' coverage of engagement themes, emerging issues, asset classes and client services. The Advisory Board meets three times per year, in addition to ad hoc calls.

The Sustainable Investing group considers Hermes EOS a key partner and has worked collaboratively with their engagement team on several initiatives such as co-filing climate change-related shareholder proposals alongside the Aiming for A coalition (see page 8 for more details). We value the domain expertise and engagement practices of the Hermes EOS engagement team and will continue to leverage their work to enhance our engagement coverage and inform our own engagement activities and practices.

ENGAGEMENT COVERAGE

Hermes EOS currently engages with over 200 public companies globally on behalf of CPPIB. The graphs below show the percentage of companies with engagement objectives by region and the percentage of engagement objectives by theme.

COMPANIES ENGAGED BY HERMES EOS BY REGION[1]



DEVELOPED ASIA 20%

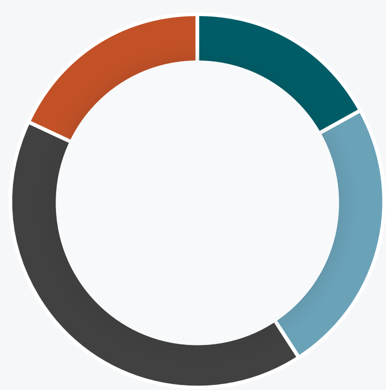
EMERGING MARKETS 18%

EUROPE 22%

NORTH AMERICA 29%

UNITED KINGDOM 11%

ENGAGEMENT OBJECTIVES BY THEME[1]



ENVIRONMENTAL 17%

SOCIAL 24%

GOVERNANCE 41%

STRATEGY & RISK 18%

[1] Source: *Hermes EOS, 2016*

Conveying Our Views as Public Market Investors

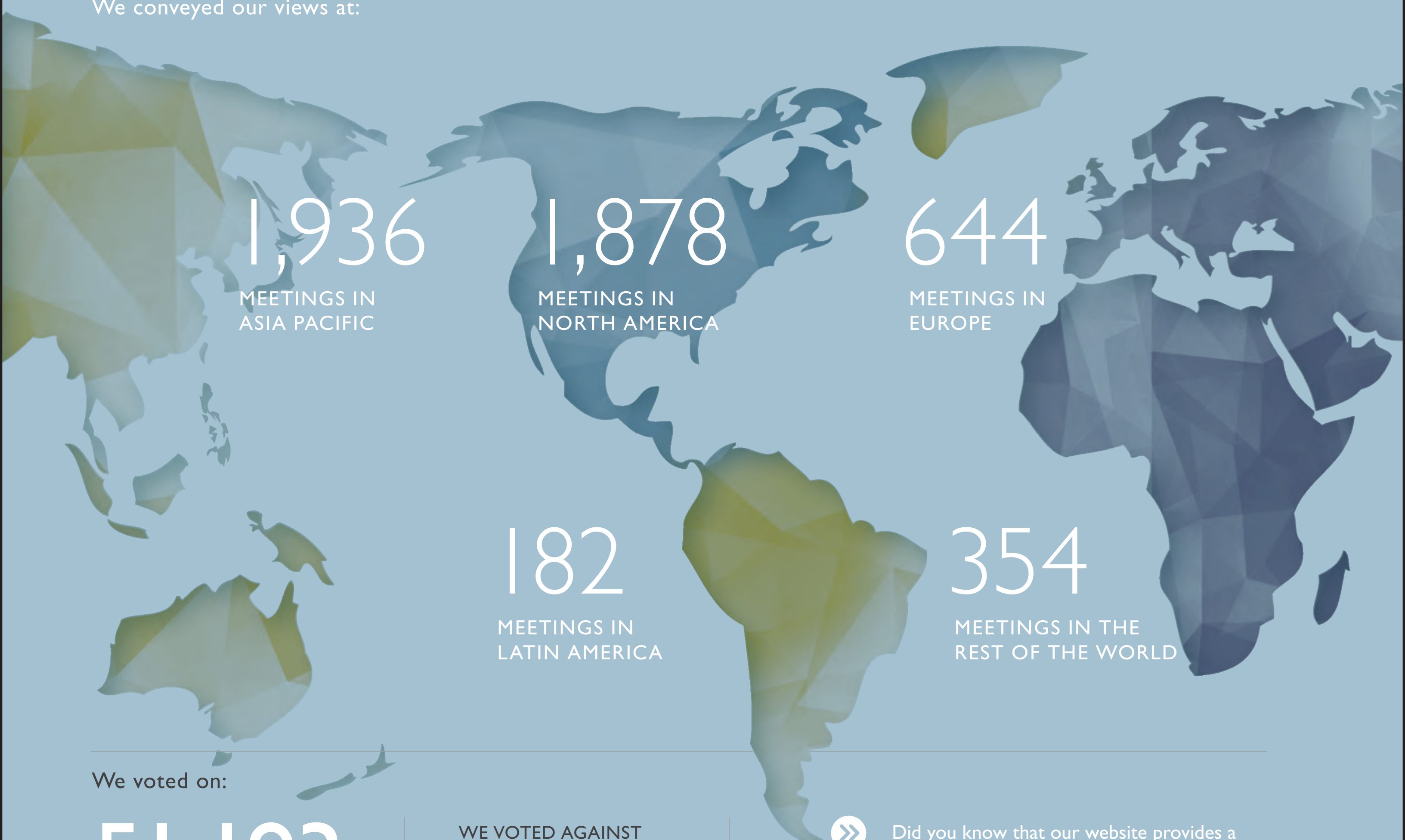
CPPIB is committed to being an engaged owner of public securities. We fully exercise our voting rights and make all of our proxy voting decisions independently. By voting our proxies at annual and special meetings, we not only fulfill our responsibility as engaged owners, but also clearly convey our views to boards of directors and management.

CPPIB conducts an annual review of our *Proxy Voting Principles and Guidelines*. This process involves input from our in-house Sustainable Investing group, our investment teams, our Sustainable Investing Committee and external advisors. Revisions to the Guidelines are reviewed and approved annually by CPPIB's Board of Directors.

We made a number of revisions to our Guidelines as a result of this year's review. Our Guidelines now indicate that we consider awards granted to management outside of regular incentive compensation plans as a factor when voting on advisory votes on executive compensation. (See page 16 for more information on our views on awards granted outside of regular incentive compensation plans and a joint study we conducted on this topic.) Our Guidelines have also been updated to provide additional guidance on our voting practices related to dual-class share structures and to reflect our view that enhanced shareholder engagement can foster a long-term shareholder base and serve to negate the perceived need for a controlling share structure.

2016 PROXY SEASON FACTS

We conveyed our views at:



1,936 MEETINGS IN ASIA PACIFIC

1,878 MEETINGS IN NORTH AMERICA

644 MEETINGS IN EUROPE

182 MEETINGS IN LATIN AMERICA

354 MEETINGS IN THE REST OF THE WORLD

We voted on:

51,193 AGENDA ITEMS

WE VOTED AGAINST MANAGEMENT IN 10.41% OF CASES

Did you know that our website provides a searchable database, by company name, of our votes at each shareholder meeting? You can access it at: www.cppib.com/ProxyVoting

2016 PROXY VOTING OVERVIEW AND REPORT

CPPIB voted on 51,193 agenda items and conveyed our views at 4,994 meetings during the reporting period. The following tables present key themes in the 2016 proxy season and our voting decisions.

ENHANCING SHAREHOLDER DEMOCRACY

SHAREHOLDER PROPOSAL	VOTE (CPPIB VOTE/TOTAL NUMBER OF PROPOSALS)	GENERAL RATIONALE FOR VOTE
Proxy Access	70/70 FOR (100%)	The ability to nominate board candidates enhances shareholder rights and increases board accountability.
Reduce Supermajority Vote Requirement	15/15 FOR (100%)	Requiring more than a simple majority of voting shares may permit management to entrench itself by blocking amendments that are in the best interests of shareholders.
Require Independent Board Chair	42/42 FOR (100%)	An independent chair is better able to represent shareholder interests and oversee management without conflict.

ENCOURAGING ENHANCED DISCLOSURE AND PRACTICES ON ENVIRONMENTAL AND SOCIAL MATTERS

SHAREHOLDER PROPOSAL	VOTE (CPPIB VOTE/TOTAL NUMBER OF PROPOSALS)	GENERAL RATIONALE FOR VOTE
Enhance disclosure on environmental and social risks and performance	55/77 FOR (70%)	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.
Adopt/disclose corporate responsibility standards	30/53 FOR (57%)	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.
Report on political contributions/lobbying	69/83 FOR (83%)	Greater disclosure of political spending helps shareholders assess associated costs, risks and benefits.

STRENGTHENING THE LINK BETWEEN PAY AND LONG-TERM PERFORMANCE

MANAGEMENT/SHAREHOLDER PROPOSAL	VOTE (CPPIB VOTE/TOTAL NUMBER OF PROPOSALS)	GENERAL RATIONALE FOR VOTE
"Say on Pay" / Approve Remuneration Report *(management proposal)*	294/1708 AGAINST (17%)	Voted against where the company was deficient in linking executive pay with long-term company performance.
Approve Share Plan Grant *(management proposal)*	147/246 AGAINST (60%)	Voted against where the plan cost was excessive and did not contain challenging performance criteria.
Compensation-Related Shareholder Proposals	60/103 FOR (58%)	Supported shareholder proposals that strengthen pay and performance alignment and help mitigate compensation-related risk.

See Part II (page 48) for more details on CPPIB's approach to voting our proxies, the type of proposals we generally vote against and for, and our complete *Proxy Voting Principles and Guidelines* (page 54).

Promoting Good Governance

We firmly believe that well-structured and effectively functioning boards are crucial for a company to have a steadfast focus on long-term sustainable growth. We believe that companies with best-in-class governance practices are better positioned to enhance long-term, sustainable value for stakeholders and pose less risk.

We took a number of steps this year to advocate for the adoption of good governance practices both in Canada and globally.

Improving the Proxy Voting System

With the rise of shareholder democracy, increasingly important governance matters are being decided at shareholder meetings and it is more critical than ever that the proxy voting system is operating effectively. In response to concerns regarding the lack of accuracy, reliability and transparency of Canada's proxy voting infrastructure expressed by CPPIB and a group of other institutional investors (the Proxy System Working Group), the Canadian Securities Administrators (CSA) continued its review of the proxy voting system in Canada and took concrete steps to improve its quality.

As part of its review, the CSA identified both information and communication gaps in the meeting vote reconciliation process. For instance, meeting tabulators are not always provided accurate and complete vote entitlement information, which can lead to intermediaries over-voting a position. In addition, the absence of a standard communication channel in the voting chain means that beneficial owners are not routinely notified if their proxy votes were not accepted at a meeting or told the reasons why. In 2015, the CSA formed a working group composed of industry participants to help develop a set of voluntary meeting vote reconciliation protocols to address these gaps.

The proposed protocols, which the CSA expects to finalize in time for the 2017 proxy season, will provide shareholders with more visibility into the impact of flawed vote reconciliation, which is expected to increase pressure on entities involved in the proxy voting system to achieve more accurate meeting vote reconciliation and minimize instances of over-voting.

Weighing In on Important Regulatory Matters

We contributed our views on a number of regulatory matters globally. Examples of our submissions on regulatory matters in Canada include:

- Submission to the Ontario Ministry of Government and Consumer Services regarding the Ontario Business Law Agenda (October 16, 2015). Provided comments requesting that fundamental shareholder rights, including proxy access and majority voting, be enshrined in corporate law.
- Submission to the Ontario Securities Commission (OSC) regarding the Draft 2016–2017 Statement of Priorities (April 25, 2016). Urged the OSC to focus its resources and actions to address important shareholder democracy issues, such as "Say on Pay."

See page 26 for examples of comment letters submitted by the Asian Corporate Governance Association on behalf of members, including CPPIB, to promote best practices in corporate governance and shareholder stewardship in Asia.

Spoke Out on Governance Best Practices

Members of the Sustainable Investing group presented at a number of events to educate and engage in a dialogue with board directors on governance best practices and investor expectations related to issues such as executive compensation, board renewal and shareholder engagement.

Improving Governance Disclosure and Practices Through Engagement

The Sustainable Investing group engaged with almost 40 companies on governance issues during the reporting period. The engagements provided CPPIB with an opportunity to share our overall approach to corporate governance and focused on ways in which companies could improve executive compensation and shareholder democracy practices. In a number of cases, we met with board chairs or directors, which helped inform our proxy voting decisions by providing a better understanding of the context and rationale behind key governance decisions.

Integration Practices

Driven by our exceptionally long-term view, we make investment decisions that incorporate a wide range of environmental, social and governance (ESG) factors both before and after making investments. Our in-house Sustainable Investing group works with colleagues throughout the organization in this regard, to help them carry out their responsibilities related to ESG matters. On the following pages you will find some highlights of our work in this area over the past year.

Sustainable Investing Group's Work with CPPIB's Public Market Investments Department

Our in-house Sustainable Investing group works closely with CPPIB investment teams in Public Market Investments to continually enhance our ability to integrate environmental, social and governance factors into investment decisions and ownership activities. We tailor our approaches to ensure each is well-suited to the investment strategy and the specific needs of the team. The Sustainable Investing group acts as internal environmental, social and governance domain experts, providing analysis and advice to investment teams on specific investments and on matters that could impact an investment or strategy.

One of the Sustainable Investing group's regular activities is creating ESG profiles and high-level reviews of publicly traded companies for our investment teams, primarily **Global Corporate Securities – Fundamental Investing*** and **Relationship Investments***, to consider in their active investment decisions, enabling them to identify material ESG risks and opportunities early on. The profiles provide an analysis of companies' practices, policies and oversight mechanisms and performance related to ESG matters. The analysis is informed by a variety of sources, including corporate disclosure and third-party research, as well as the Sustainable Investing group's own domain expertise and experience from interactions with companies and stakeholders. High level reviews of companies are provided at an early stage of the investment process and may be followed by a more in-depth profile if the investment proceeds. The Sustainable Investing group provided more than 50 ESG profiles and high level reviews to our investment teams this year.

In addition to being involved in the investment decision process through the creation of ESG profiles and high level reviews for publicly traded companies, the Sustainable Investing group also provides valuable input and guidance once an investment is made. We believe that due diligence is an ongoing process that endures throughout the holding period rather than a discrete, one-time step. For example, over the past year, the Sustainable Investing group has worked alongside investment teams to discuss issues such as executive compensation, director compensation,

CONTINUED ON FOLLOWING PAGE >>>

WHAT DO WE MEAN BY INTEGRATION?

When we talk about integration in this context, we are referring to how the risks stemming from potentially material ESG factors are incorporated into investment decision-making processes and asset management activities throughout the organization.

*

Global Corporate Securities – Fundamental Investing (GCS-F) conducts sector research to determine a specific company's intrinsic value and build long/short portfolios based on the findings. Leveraging insights from this research, GCS-F then executes positions in various global companies through public market securities.

Relationship Investments (RI) makes significant direct minority investments in public (or soon-to-be public) issuers where an investment by CPPIB can make a meaningful difference to the success of the company and therefore generate long-term outperformance relative to peers.

shareholder rights, climate change and sustainability reporting with our investee companies at the Board and senior management levels. As ESG factors continue to gain traction in the investment community, there has been increased demand by our portfolio companies to engage with CPPIB in a more active dialogue and leverage our in-house expertise on a variety of environmental, social and governance matters.

Private Investments' Environmental, Social and Governance Practices Continue to Evolve

CPPIB's Private Investments department has had a structured and consistent approach in place related to due diligence and monitoring of ESG risks since 2012. This approach is highly adaptive, designed to be applicable to any industry and any geography and encompasses priorities such as environmental impacts, water usage and human rights. CPPIB's Portfolio Value Creation (PVC) group, which is involved in the governance and management of direct investments in private equity and infrastructure, continues to work with our investment teams and external advisors to refine this approach. Since 2012, more than 90 potential investments have been subject to our due diligence process using the structured approach. Further improvements will continue to be rolled out in the next fiscal year.

The Sustainable Investing group also continues to work with teams in Private Investments to consider the potential investment implications of key ESG matters, including by providing domain expertise on issues related to climate change and water.

Consulting with Investment Teams on Proxy Voting

The Sustainable Investing group is responsible for voting CPPIB's shares at all shareholder meetings for our publicly traded companies. The Sustainable Investing group frequently consults with our investment teams for their views on voting matters and integrates those views into voting decisions. Our investment teams are located across all of CPPIB's global offices and provide valuable input based on their in-depth knowledge of specific companies, industries and geographic markets.

This year, the Sustainable Investing group considerably increased its interaction with the External Portfolio Management (EPM) team in Hong Kong on proxy voting matters in Asia. The EPM team was consulted on votes at more than 75 shareholder meetings during the proxy voting season. Integrating views from the EPM team into voting decisions helps to ensure we are leveraging our global expertise and relationships.

Another development this year was the implementation of a new automated system for notifying investment teams of upcoming shareholder meetings. This system will help to ensure that investment teams are notified of relevant information related to upcoming shareholder meetings in real-time and facilitates two-way communication between the investment teams and the Sustainable Investing group on voting matters.

Sustainable Investing Committee Working Across the Organization

CPPIB's Sustainable Investing Committee is comprised of nine individuals from across the organization, and is responsible for overseeing the functions of the Sustainable Investing group, with Senior Management and Board oversight as appropriate. A wide range of topics are explored, discussed and/or approved, including climate change-related matters, engagement focus areas, ESG integration process updates with investment teams and revisions to CPPIB's *Proxy Voting Principles and Guidelines*. Committee members also share their teams' ESG-related activities, experience and expertise with the Committee and keep their respective teams informed about the Sustainable Investing group's activities. The Committee held six formal meetings this year in addition to other ad hoc interactions.

CPPIB Joins the Hedge Fund Standards Board

Poul Winslow, Managing Director, Head of Thematic Investing & External Portfolio Management became a director of the Hedge Fund Standards Board (HFSB) in September 2015 and CPPIB joined as a member of the HFSB Investor Chapter in November 2015. The HFSB is a standard-setting body for the hedge fund industry and custodian of the Hedge Fund Standards which create a framework of transparency, integrity and good governance for the industry and facilitate investor due diligence.

Hong Kong Broadband Network Limited (HKBN) Award

HKBN is Hong Kong's second-largest residential broadband service provider by number of subscriptions, reaching more than 2.1 million residential homes and 2,100 commercial buildings. CPPIB invested HK$1.6 billion (US$210 million) in HKBN and is the largest shareholder with 18% ownership and a representative on the company's board of directors. In a 2016 investor survey of best-managed companies in Asia by FinanceAsia, HKBN was one of the highest-ranked companies in Hong Kong. HKBN was voted second in corporate governance, second in corporate social responsibility and third in best-managed company overall. During our investment due diligence, CPPIB noted HKBN's strong performance on environmental, social and governance factors.

Real Estate Investments ESG Integration Process

Adding Customized Real Estate ESG Monitoring Questions

Our Real Estate Investments department reviewed and enhanced its sustainability monitoring questionnaire, which is an annual assessment used to inform how well our partners integrate and perform on environmental, social and governance factors. The annual monitoring questionnaire is one of the major tools we use to communicate with our operating partners about their environmental, social and governance initiatives. This year, we included additional customized questions for partners who participated in our review last year in order to deepen our understanding of their sustainability operations and near-term objectives. Over the past year, we have seen an improvement in awareness of ESG factors among our partners. Almost all indicated that they have environmental sustainability policies or initiatives in place at their companies. An almost equal number indicated they have policies in place for anti-bribery and corruption and frameworks to monitor worker health and safety requirements.

RESPONSE RATE TO ESG QUESTIONNAIRE[1]

Increased Focus on Health & Safety and Anti-Bribery & Corruption

This year, we have increased our focus on managing health and safety, and anti-bribery and corruption risks. Towards the end of 2015, we began the search for an advisor to assist with enhancing oversight of our partners and third-party contractors at development projects in emerging markets, such as Brazil, India and China. We are currently evaluating proposals from potential vendors.

SURVEY RESULTS[1]

PERCENTAGE OF SURVEY RESPONDENTS WITH SUSTAINABILITY-RELATED POLICIES

[1] **Source:** *CPPIB Survey, 2016*

EXAMPLES OF GREEN BUILDING CERTIFICATIONS

As at March 31, 2016

1

MNP Tower
Vancouver, Canada
50% interest
LEED Platinum

2

Essex Mosso Apartments
San Francisco, U.S.
45% interest
LEED Gold

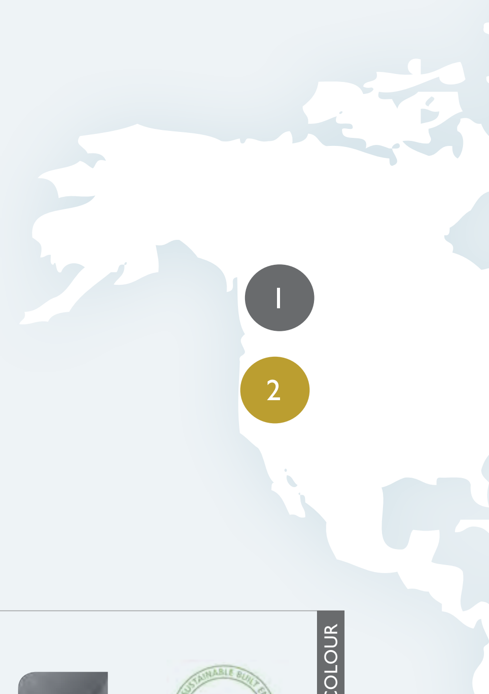
3

Puerto Venecia Shopping Center
Zaragoza, Spain
50% interest
LEED Gold

Continued Focus on Green Certified Investments

We continue to focus on acquiring assets with high sustainability metrics that align with our long-term investment goals. The level of green certification is one of the most important metrics we use to assess the quality of an asset. For example, in May 2015, we formed a strategic joint venture with Unibail-Rodamco to grow its retail real estate platform, which consists of seven high-quality shopping centres located primarily in major cities across Germany. Over 60% of the portfolio (by acquisition value) obtained the Excellent BREEAM In-Use Certification (BREEAM is one of the world's longest-standing rating systems for sustainable buildings), and 75% is certified by DGNB (the German Sustainable Building Council) with Gold or Platinum standing, the highest rankings in the rating system.

Today, we have a total of 159 green certified buildings in our portfolio spanning across 14 countries. This map highlights some of them.



GREEN BUILDING CERTIFICATIONS GLOBALLY

14
COUNTRIES

120
BUILDINGS IN **FISCAL 2015**

159
BUILDINGS IN **FISCAL 2016**

GREEN BUILDING CERTIFICATIONS BY COLOUR

LEED Platinum (USGBC) – dark grey; LEED Gold (USGBC) – gold; DGNB – light grey; BREEAM – light green; ICSC – black; Green Star – dark green; NABERS – blue

4

Höfe Am Brühl
Leipzig, Germany
45% interest
DGNB Platinum, BREEAM Excellent/Outstanding, ICSC European Shopping Centre Awards 2014 2nd Place Winner

5

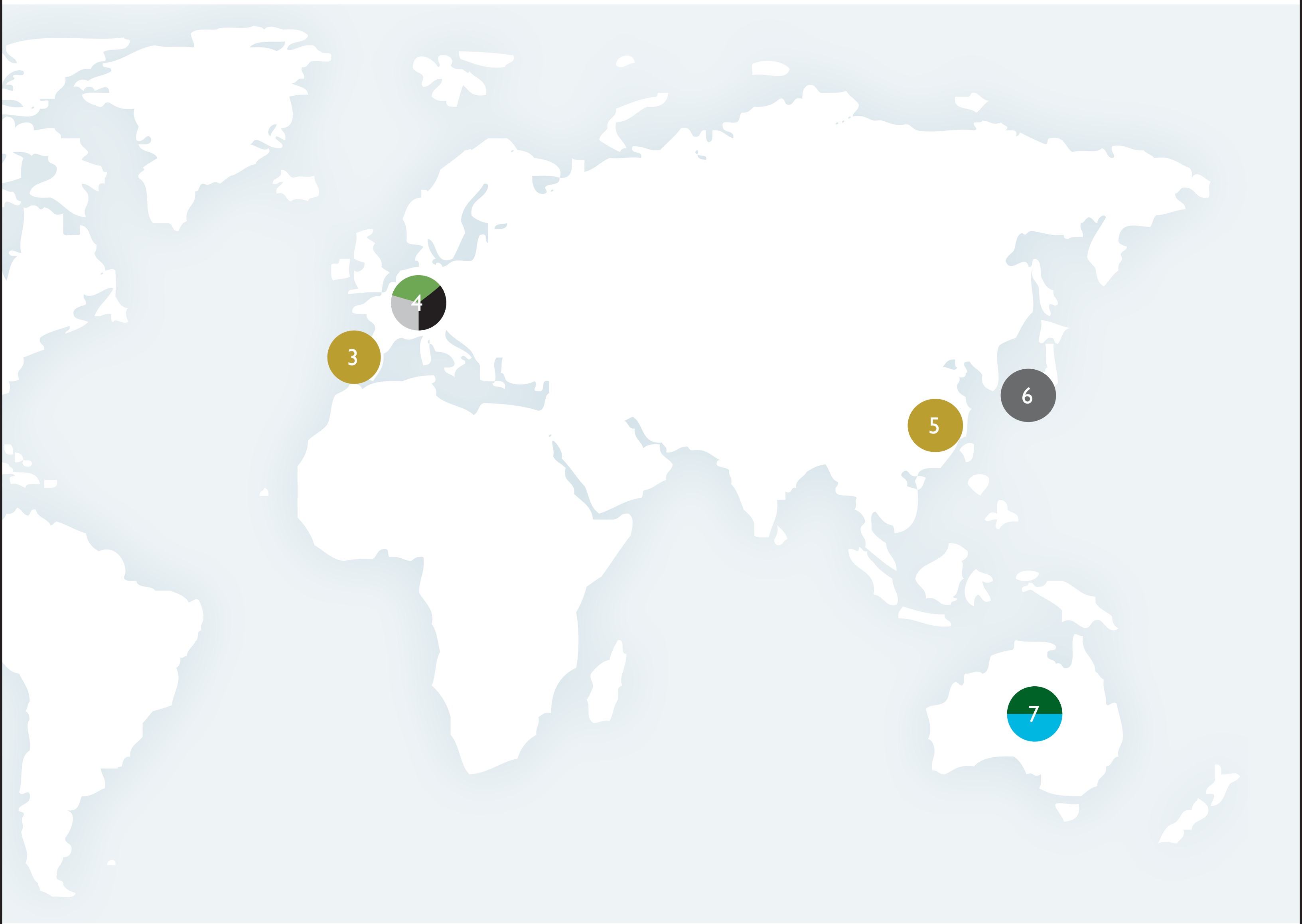
Raffles City Chengdu
Chengdu, China
15% interest
LEED Gold

6

GLP Zama
Tokyo, Japan
50% interest
LEED Platinum, CASBEE A

7

International Towers Sydney
Sydney, Australia
50% interest
NABERS Water and Energy 5.0 Star Rating, Green Star 6 Star Rating



Working with Others

CPPIB believes strongly in the power of collaboration. Working together to improve environmental, social and governance-related practices and advocating for long-term minded policies and approaches reduces risks and promotes value-building growth for all investors. We know that two voices are stronger than one and we frequently join with like-minded organizations on initiatives that we believe will make a difference over the long term.

PROMOTING GOVERNANCE BEST PRACTICES IN ASIA

Since 2013, CPPIB has been a member of the Asian Corporate Governance Association (ACGA), an independent organization dedicated to implementing effective corporate governance practices throughout Asia. Membership in the ACGA provides us with access to expertise on local governance matters, leading to better informed proxy voting decisions and an established platform for engagement in the region. For example, CPPIB's Sustainable Investing group incorporated research from the ACGA to ensure that voting decisions related to share issuances in Hong Kong and China were aligned with local market expectations.

Our membership in the ACGA helps CPPIB remain current on corporate governance issues in Asia. CPPIB participated in bi-monthly ACGA Investor Discussion Group calls which provide a forum for global investors to raise emerging governance matters and solicit support for collaborative engagement initiatives. In addition, the calls provide an opportunity for members to provide input on ACGA's advocacy work.

Advocacy with financial regulators, stock exchanges and other standard setting bodies is a key element of the ACGA's scope of work. During the year, the ACGA submitted a number of comment letters on behalf of members, including CPPIB, to promote best practices in corporate governance and shareholder stewardship.

CPPIB has also participated in collaborative initiatives through the ACGA to promote governance best practices in Asia. For example, CPPIB continued its participation in a collaborative engagement initiated in 2014 with ACGA members targeting Australian companies that conduct their shareholder meetings by a show of hands. Counting votes in this manner disenfranchises shareholder rights since only one vote is counted no matter how many shares an investor holds. In response to letters, two-thirds of companies contacted improved their practices at shareholder meetings, with most moving to the best practice of voting by poll on all items at their annual meetings to ensure that shareholders are accorded voting rights based on their respective stakes.

SELECT ACGA INITIATIVES

Hong Kong Exchanges and Clearing Consultation Paper on Review of ESG Reporting Guide (September 25, 2015) and Singapore Exchange Consultation Paper on Sustainability Reporting (January 5, 2016). Agreed with the introduction of clear mandatory obligations to shape the content of listed-company ESG disclosure and associated governance processes.

Taiwan Stock Exchange Consultation Paper on Stewardship Principles for Institutional Investors (February 15, 2016). Backed efforts to promote the fulfilment of stewardship responsibilities by institutional investors in Taiwan.

The Central Bank of Malaysia Concept Paper on Corporate Governance (May 13, 2016). Supported the Bank's focus on improved standards for financial institution boards and provided comments aimed at ensuring that underlying standards for director time commitments, independence, conflicts of interests and skill levels are practical.

Hong Kong Monetary Authority Consultation on the Empowerment of Independent Non-Executive Directors in the Banking Industry in Hong Kong (May 13, 2016). Provided comments encouraging the adoption of best practices related to independent directors to address systemic risks in the financial sector.

FOCUSING CAPITAL ON THE LONG TERM

In 2013, CPPIB and McKinsey & Company launched Focusing Capital on the Long Term (FCLT), an action-oriented initiative to develop practical structures, metrics and approaches for longer-term behaviours in the investment and business worlds. Over the course of the intervening years, the 20+ global asset owners, asset managers and corporations involved in the initiative developed a set of actionable recommendations to encourage long-term value creation within their own organizations and in markets more broadly. In the past year, CPPIB has continued to take steps to integrate FCLT recommendations, consistent with our mandate and structure, into our daily operations. These include:

Clearly Articulating Investment Beliefs

As mentioned in FCLT's Long-Term Portfolio Guide, "Investment beliefs are tenets and principles based both on conviction and fact. They set the investment philosophy, provide a long-term compass to select investment strategies, and help navigate short-term turbulence." CPPIB's investment beliefs articulate our long-term views on capital markets, our comparative advantages, investment strategy and total portfolio management. For instance, we believe that ESG factors that are material to risk-adjusted returns over short, medium and long-term horizons should be integrated into our investment review and asset management activities.

Improving the Investor-Corporate Dialogue

Improving the flow of information and ideas between corporations and investors allows investors, like CPPIB, to be more active and engaged owners. Keeping this in mind, an intra-departmental working group of experts from various teams within CPPIB, including External Portfolio Management, Global Corporate Securities – Fundamental Investing, Global Tactical Asset Allocation, Relationship Investments, Sustainable Investing and Thematic Investing, developed a set of company engagement principles. These principles were developed as a tool to help CPPIB investment professionals focus on long-term issues when engaging with our potential or current investee companies. We believe that successful adherence to these principles will help us enhance our understanding of companies and businesses while emphasizing our support for actions that result in long-term value creation.

Developing Benchmarks Focused on Long-Term Value Creation

CPPIB worked with S&P Dow Jones Indices and RobecoSAM to develop the S&P Long-Term Value Creation (LTVC) Global Index. The Index is comprised of companies that seek to create long-term value and measures stocks ranking highly in global equity markets, using both sustainability and financial quality criteria. Importantly, this is a mainstream index rather than an ESG one as the sustainability criterion is based on RobecoSAM's "Economic Dimension Score" and largely focuses on corporate governance.

As a sign of the relevance of this Index, six of the world's largest institutional investors, including CPPIB, invested in it as a powerful tool to focus markets on the long term. Support of this sort should send a clear signal to corporations that economic sustainability and financial quality factors are important considerations for investors interested in generating value-building growth over time for savers. In addition, CPPIB's CAD$1 billion allocation to an internally managed program to track the S&P LTVC Global Index shows our commitment to "put our money where our mouth is" and stand behind corporate management teams that decide to focus on these factors.

See page 50 to learn more about how we make an impact through collaboration with our partners.

CANADIAN COALITION FOR GOOD GOVERNANCE

Former President & CEO Mark Wiseman was a member of the board of the Canadian Coalition for Good Governance (CCGG) and also Chair of its Public Policy Committee (PPC) during the reporting period. CPPIB's Head of Sustainable Investing also serves on the PPC, which plays a key role in developing policy positions on various corporate governance issues and making submissions to regulators and standard-setting organizations.

CPPIB worked through the PPC to develop comments on several regulatory proposals and guidelines which have resulted in the adoption of best practices in the market. Following the release of the CCGG's Model Declaration of Trust Provisions and subsequent engagement with trustees, nearly one-third of business trusts in the S&P/TSX Income Trust Index recommended amending their declarations of trust to include fundamental rights and remedies available to shareholders of public corporations governed by the *Canada Business Corporations Act.*

New CCGG Policies Introduced in 2015–2016

- "Model Declaration of Trust Provisions" addressing inconsistencies in the governance provisions of Canadian public trusts and closing significant gaps in investor protection.
- "Board Gender Diversity" summarizing the CCGG's position on gender diversity on boards.
- "Universal Proxy Policy" supporting best practices for board elections at contested meetings.

The CCGG conducted 42 board engagement meetings with Canadian issuers during the review period, representing 15% of the total market capitalization of the S&P/TSX Composite Index. The board engagements focus on companies in the energy and materials sector ranging from $1 billion to $5 billion in market capitalization. The scope of dialogue included discussions on governance policies, executive compensation, risk management, strategy setting and succession planning.

Examples of Engagement Success

As a result of engagement with the CCGG, several companies improved their disclosure and executive compensation practices. Examples include:

- Providing a skills matrix assessing each director against a list of skills deemed critical by the board.
- Disclosing shareholder engagement policies and providing a method of initiating contact with the board.
- Enhancing compensation-related disclosure by setting out corporate-level financial goals under bonus plans and the rationale for selecting peers.
- Enhancing CEO share ownership requirements that extend post-employment to ensure alignment with the interests of long-term shareholders and discourage excessive risk taking.

ADVOCATING FOR GENDER DIVERSITY IN THE BOARDROOM

CPPIB's Chair, Heather Munroe-Blum, and former President & CEO, Mark Wiseman, became founding members of the 30% Club (Canada) and Mark Machin joined upon becoming President & CEO in 2016. The 30% Club is a group of business leaders committed to better gender balance at all levels of organizations, including boards and senior executives. The 30% Club works to bring about change through a number of targeted initiatives that include encouraging and supporting boards to appoint more women, providing information and help for businesses trying to improve their diversity, and keeping the spotlight on the issue through media channels and educational programs. The 30% Club launched in the U.K. in 2010 and has since become an international business initiative with chapters in Australia, Hong Kong, Ireland, South Africa and the United States, among other countries.

The driving premise of the 30% Club is that gender diversity is about business performance, rather than being a women's issue. It addresses gender diversity from the perspective of building long-term value in companies. Despite its name, the 30% Club does not believe mandatory quotas are the right approach. Instead, it aims for meaningful, sustainable change in the representation of women.

ACTIVE INVOLVEMENT IN THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

In 2005, the United Nations Secretary-General invited CPPIB, 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, civil society and academia, among others, we helped formulate the Principles for Responsible Investment (PRI), which are supported by the United Nations. Today, the PRI has grown to include over 1,500 signatories worldwide, representing more than US$62 trillion in assets under management.

Eric Wetlaufer, CPPIB's Senior Managing Director & Global Head of Public Market Investments, was a member of the PRI Board from December 2012 to December 2015, making a significant contribution to the PRI's ongoing strategic direction. During Eric Wetlaufer's time on the Board, the PRI 2015–2018 Strategic Plan was developed following consultation with signatories and input from the Board. The focus is on evolving the organization from awareness to impact and extending the PRI's collective influence. Objectives include supporting signatories' progress on implementing the Principles, increasing the representation and participation of asset owners, strengthening capacity and expertise in key markets and providing increased opportunities for signatories to share knowledge and collaborate.

As an active member of the PRI, our Sustainable Investing group has participated in PRI-facilitated collaborative engagements. We have been a member of the Steering Committee of the PRI's collaborative engagement on Human Rights in the Extractive Sectors since April 2014. The engagement was launched for PRI signatories in June 2015 and will continue through 2017 (please refer to the Human Rights Engagement Focus Area on page 12 for further details on this initiative).

Finally, asset owner and investment manager signatories are accountable with respect to their implementation of the Six Principles (see below) through the PRI Reporting Framework. In addition to CPPIB's annual *Report on Sustainable Investing*, we provide information on our sustainable investing activities once a year through the PRI Reporting Framework, which is publicly available on the PRI's website.

AS A SIGNATORY, CPPIB IS GUIDED BY THE PRI'S SIX PRINCIPLES FOR RESPONSIBLE INVESTMENT

1. We incorporate ESG factors into investment analysis and decision-making processes
2. We are active owners and incorporate ESG factors into ownership policies and practices
3. We seek appropriate disclosure on ESG factors by the entities in which we invest
4. We promote acceptance and implementation of the Principles within the investment industry
5. We work collaboratively to enhance our effectiveness in implementing the Principles
6. We report on our activities and progress towards implementing the Principles

OUR SUSTAINABLE INVESTING GROUP

Our Sustainable Investing group is made up of individuals with expertise in environmental, social and governance matters. The group works with our investment departments to ensure that environmental, social and governance risks and opportunities are incorporated into our investment decision-making and asset management activities, as standard practice. It also supports our role as an active, engaged owner and works to enhance long-term performance of companies in which we invest by engaging, either individually or collaboratively, with other investors.

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Pictured (left to right): Michael Ma, Lauren Gonsalves, Adriana Morrison, Stephanie Leaist, Redon Gallani, Tammy Bodnar and Samantha Hill.

PART II

Our Approach to Sustainable Investing

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Enhancing Long-Term Value for Beneficiaries

Our purpose at Canada Pension Plan Investment Board (CPPIB) is to help support the sustainability of the Canada Pension Plan (CPP) for generations to come. This compels us to consider long-term environmental, social and governance (ESG) factors when we make investment decisions, manage our investments and engage with companies in which we invest.

As a global investment organization seeking the most attractive opportunities for the contributors and beneficiaries of the Canada Pension Plan, we consider environmental, social and governance factors in our investment decisions as part of our mandate to maximize CPP Fund returns without undue risk of loss.

The following pages provide a comprehensive look at the policies, resources and strategies CPPIB uses to integrate environmental, social and governance considerations into our investment decisions and actions as an engaged asset owner.

We believe that organizations that manage ESG factors effectively are more likely to create sustainable value over the long term than those that do not. Given our legislated mandate to maximize returns without undue risk of loss, we integrate these factors into our investment analysis, and consider them in our ongoing engagement with companies, rather than screening out or divesting of entire sectors. As an owner, we monitor ESG factors and actively engage with companies to promote improvements, ultimately leading to enhanced long-term outcomes in the companies and assets in which we have a stake.

BY ESTABLISHING POLICIES, DEVOTING RESOURCES, IMPLEMENTING STRATEGIES AND UNDERTAKING ACTIVITIES TO CONSIDER ESG FACTORS, WE SEEK TO BE ENGAGED OWNERS

› *We integrate and consider the risks and opportunities of ESG factors in our evaluation of our investments*

› *We seek to enhance the long-term financial performance of companies in which we invest by encouraging better management of ESG factors, engaging with companies individually and collaboratively, and exercising our rights as shareholders*

› *We work together with other like-minded organizations to advocate for ESG improvements that we believe will add value over the long term*

WHAT IS ESG?

Climate impact and greenhouse gas (GHG) emissions, energy efficiency, air and water pollution, water scarcity, biodiversity, and site restoration.

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

Alignment of interests, executive compensation, board independence and composition, and other shareholder rights.

CPPIB's Approach to Sustainable Investing for Long-Term Value

IMPLEMENT FOCUSED PROGRAMS	DEDICATE RESOURCES AND PROCESSES	ESTABLISH POLICIES AND OVERSIGHT MECHANISMS
Integrate Environmental, Social and Governance (ESG) Factors into Investment Decisions CPPIB investment teams integrate material ESG factors into their due diligence, investment analysis, monitoring and asset management	**In-House ESG Professionals** CPPIB's in-house Sustainable Investing group supports ESG integration practices, undertakes global engagements and manages proxy voting activities with input from relevant investment teams	**Policy on Responsible Investing** Establishes how CPPIB approaches ESG factors within the context of our sole mandate to maximize long-term investment returns without undue risk of loss
Actively Engage as Owners We act as a constructive, active owner by advocating for progress on our defined engagement focus areas and other relevant areas and by exercising our voting rights as shareholders	**Research and Analysis** The Sustainable Investing group produces ESG research and analysis alongside investment teams regarding companies, sectors, issues, standards and best practices	**Proxy Voting Guidelines and Principles** Provide guidance on how CPPIB is likely to vote on matters put to shareholders and communicate CPPIB's views on governance matters
Make an Impact Through Collaboration We collaborate with other global investors to advocate for better performance on ESG factors and greater focus on the long-term in companies and markets in which we invest	**ESG Approach and Processes** The Sustainable Investing group works closely with investment teams to assess and refine how we consider ESG factors and how best to approach ESG integration	**Sustainable Investing Committee** With members from the Sustainable Investing group and investment teams, CPPIB's Sustainable Investing Committee oversees ESG-related matters across CPPIB

BUILD LONG-TERM INVESTMENT VALUE

ABOUT CPPIB:

World-Class Governance

CPPIB's arm's length governance structure is globally recognized as a best practice for national pension plans. Five key attributes differentiate us:

Governance Structure

Oversight of CPPIB is provided by a Board of directors that operates independently of government.

Investment-Only Mandate

We have a legislated investment-only mandate to maximize returns without undue risk of loss. CPPIB's decisions are not influenced by government direction; regional, social or economic development considerations; or any non-investment objectives.

Transparency

CPPIB discloses quarterly and annual financial statements. We hold biennial public meetings in each province that participates in the Canada Pension Plan, during which Canadians and stakeholder groups can ask questions of our senior leadership.

Segregated Assets

The assets we manage belong to the 19 million CPP Fund contributors and beneficiaries and are strictly segregated from government funds.

Professional Management

We are a professional investment management organization and seek to recruit top investment professionals globally. Our management team reports not to governments, but to an independent Board of highly qualified directors.

Integrating Environmental, Social and Governance Factors into Investment Decisions

CPPIB's assessment of ESG factors in Public Markets, Private Investments, Investment Partnerships and Real Estate Investments is an important factor in determining whether a potential investment is attractive. Where such factors are material, they can significantly affect our assessment of a company's risk profile and value.

The impact of ESG on financial performance tends to emerge gradually over time. These factors can have clear, direct impacts on a company's profitability, for example, through greater regulation leading to higher operating costs. They can also have indirect impacts on a company's long-term performance by influencing customer loyalty, corporate brand, ability to attract talent and a company's 'license to operate.' As a long-term investor, environmental, social and governance factors are of greater importance to us than to investors with short-term perspectives who typically focus on near-term financial performance metrics. The longer an asset is held, the greater is the relevance of these factors. Better disclosure of related metrics helps us make better long-term investment decisions.

Simply put, a company that we expect to generate modest returns over the next few years, yet whose management of environmental, social and governance factors will produce significant sustainable growth over decades, is a superior choice for the CPP Fund in comparison to a company that is expected to generate high returns over the short run but fails to address and prepare for ESG factors that could negatively impact the company's value in the coming years.

To evaluate and consider both risks and opportunities in our investments, CPPIB devotes resources to a dedicated in-house Sustainable Investing group, incorporates the UN-supported Principles for Responsible Investment (PRI), conducts research regarding industry standards and best practices, and supports further analysis into the impact of ESG factors.

We frequently negotiate governance rights, focusing on obtaining one or more seats on a company's board of directors and the directors we place on boards continue to provide oversight of ESG factors at the board level.

CPPIB's Sustainable Investing group supports integration of ESG factors in our investment decisions and monitoring, actively engages with companies in which we are invested and executes our proxy-voting rights. The group also conducts in-depth research on companies, industries and assets where ESG factors are material to the value of our investments. The group reviews industry standards and best practices, and collaborates with other investors and organizations globally.

CPPIB dedicates resources to sustainable investing, prudently balancing these initiatives with our obligation to maximize value to our contributors and beneficiaries. We believe that the resources that we dedicate to this area will pay off in the long-term because of our aforementioned belief in the existence of a correlation between ESG practices and value. The costs of ESG initiatives in any given year are something that we must consider seriously as a responsible, accountable investor.

INTEGRATING ESG:

Public Market Investments

CPPIB's Public Market Investments department (PMI) invests actively and passively in publicly traded equity and fixed income securities around the world. At the end of fiscal 2016, PMI managed $115.4 billion in net assets.

Although performance measures on environmental, social and governance factors tend to be less available and consistent than traditional financial metrics, the impact of these factors is potentially large and we carefully assess the related risks and opportunities.

Our Sustainable Investing group works closely with Public Market Investments teams to:

- Determine how to best assess ESG factors and their impact on a company's value
- Provide updates on evolving trends and best practices in these areas
- Provide input on company-specific and broader thematic research
- Exercise our rights as owners of public companies by voting our proxies
- Inform our engagement activities to support a constructive two-way dialogue with companies (See Actively Engaging as Owners on page 46 for a more detailed look at how CPPIB engages with public companies)

While ESG factors are considered across the Public Market Investments department, evaluation of environmental, social and governance factors plays a key role in the work of our Relationship Investments and Global Corporate Securities groups in particular.

RELATIONSHIP INVESTMENTS: BENEFITING FROM ESG OPPORTUNITIES

Relationship Investments (RI) makes significant minority investments in public or soon-to-be public companies where a partnership with CPPIB can add value and help generate enhanced long-term performance. RI seeks to benefit from being a long-term focused investor in public markets where the majority of participants are focused on short-term results.

RI views a company's governance structure and its approach to managing environmental and social factors as indicators of its ability to grow sustainably and create long-term value. Assessing such practices is an integral part of RI's initial investment opportunity screening process. If the investment moves to the due diligence phase, relevant ESG factors and practices are further evaluated through discussions with the company's management team and key directors, internal analysis and expert advice.

Once an investment is made, RI can often leverage its status as a significant shareholder to monitor and promote improved ESG practices to enhance long-term value creation. We develop an active, ongoing dialogue with a company's management team and board of directors. The company benefits from having a patient and supportive large investor who is committed to helping management generate long-term outperformance relative to its peers.

GLOBAL CORPORATE SECURITIES: EVALUATING THE IMPACT OF ESG RISKS

Global Corporate Securities (GCS) is responsible for active public equity investment decisions. GCS uses two complementary research disciplines – quantitative and fundamental – to build distinct portfolios of equity securities. The investment strategies take a long-horizon view of up to five years and are global in scope, spanning all major developed and emerging markets.

The Global Corporate Securities – Fundamental Investing (GCS-F) team undertakes in-depth research to generate unique insights into the underlying reasons for company mispricing and an understanding of how they may be resolved. Evaluating environmental, social and governance risks is central to the GCS-F process. The team examines risks that could affect a company's ability to execute its business plans, the value of its assets and liabilities, and its future profitability. While ESG risks are more publicized in some sectors than others, they are important across all sectors.

GCS-F's evaluation of companies includes an ESG profile prepared by CPPIB's Sustainable Investing group and, depending on the initial assessment, can progress into focused research on specific ESG factors relevant to the investment decision. GCS-F also works closely with Sustainable Investing on proxy voting-related matters, particularly those that are contentious or relate to key considerations for our investments.

Examples of the Types of ESG Factors Researched and Considered as Part of Such Investment Decisions Include:

ENVIRONMENTAL	› Energy efficiency and greenhouse gas (GHG) emissions practices › Waste treatment/disposal compliance and management › Water availability
SOCIAL	› Product safety and quality › Human rights, including community relations and labour practices › Health and safety programs › Policies on anti-corruption
GOVERNANCE	› Executive compensation › Protection of shareholder rights › Share class structure › Board composition and structure

These issues can be significant drivers or barriers to profitability, especially over the long horizon for which CPPIB invests. GCS-F's analysis of these factors informs our risk assessment and return expectations for prospective investments and helps us determine the long-term attractiveness of an investment.

ANTI-PERSONNEL LANDMINES AND CLUSTER MUNITIONS

CPPIB does not screen out companies based on ESG factors alone; however, pursuant to our Policy on Responsible Investing, we only invest in businesses that would be lawful if carried on in Canada. We use third-party expert research to identify companies globally that may be ineligible for investment under our Policy. Our Sustainable Investing group conducts its own research and, if necessary, communicates directly with companies. The Sustainable Investing Committee reviews and approves all additions and deletions from CPPIB's list of prohibited companies. These include:

- Anti-Personnel Landmines: 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.
- Cluster Munitions: We will not invest in companies that are not in compliance with Canada's *Prohibiting Cluster Munitions Act*, or that would not be in compliance if they operated in Canada.

Our annual disclosure of public equity holdings may show amounts for companies that would be precluded for investment under the Policy on Responsible Investing. Any and all such exposures are indirect, resulting from CPPIB's use of market-traded index futures contracts. The composition of the indices is standard and beyond the control of CPPIB. Our exposures do not assist or affect the capital formation of these companies and CPPIB has no direct investment in them.

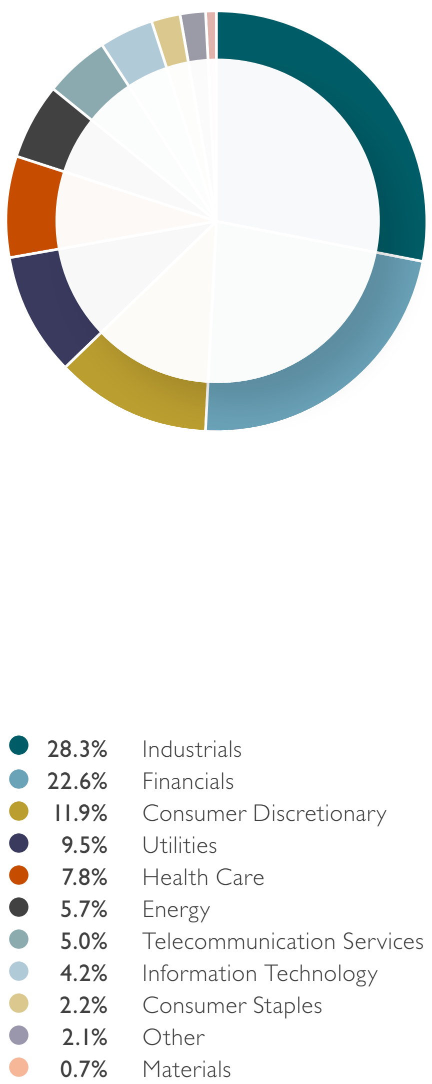
INTEGRATING ESG:

Private Investments

At the end of fiscal 2016, CPPIB's Private Investments department (PI) held $56.3 billion in net assets.

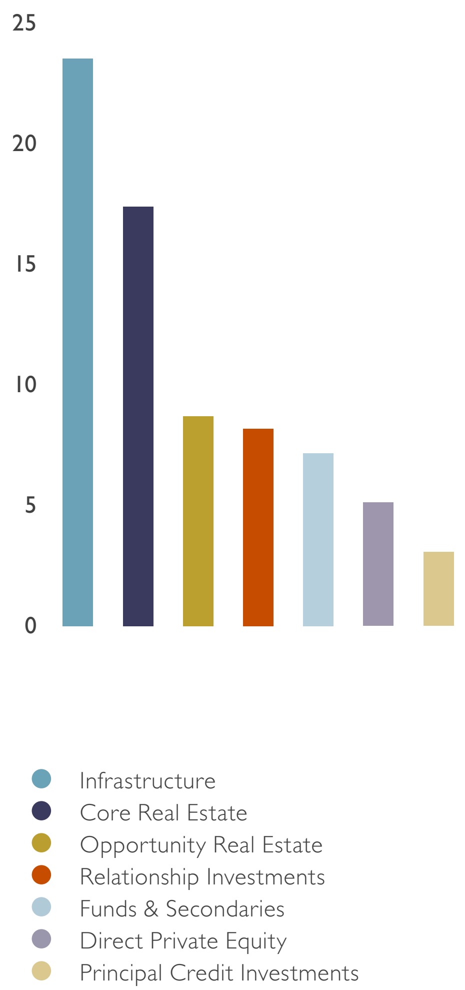
PRIVATE INVESTMENTS BY SECTOR

AS AT MARCH 31, 2016



CPPIB EXPECTED AVERAGE HOLD PERIODS BY ASSET TYPE (YEARS)

AS AT MARCH 31, 2016



Some of these asset types are held by investment departments other than Private Investments

CPPIB has a large degree of ownership, interest and influence in our direct private equity and infrastructure investments. We intend to hold private investments for several years, or more than a decade in the case of infrastructure investments. These long investment horizons mean that environmental, social and governance factors can impact investment values significantly. For this reason, the evaluation of ESG opportunities and risks is an integrated part of Private Investments' due diligence process. We tailor our approach for the ESG evaluation of each transaction as the circumstances and issues differ by deal structure, company, industry and geography.

CPPIB's due diligence is never time-bound; rather, it is an ongoing concern, including the consideration of ESG factors. Once we have made a direct investment in a private company or infrastructure asset, we continue to closely monitor ESG risks and opportunities over the life of the investment. As an owner of a growing private investment portfolio, we must manage ESG factors across a wide range of companies in diverse sectors. To do so, we implement customized monitoring approaches to reflect the industry, geography and other company-specific factors.

The following pages outline CPPIB's approach to managing ESG risks and opportunities in our private investments.

APPROACH TO DIRECT PRIVATE INVESTMENTS IN PRIVATE EQUITY AND INFRASTRUCTURE

Guided by the UN-supported Principles for Responsible Investment and internationally recognized standards, we focus our ESG evaluation and management approach for direct private investments in six areas: environment; health and safety; labour and working conditions; community relations; business integrity; and corporate governance.

Factors CPPIB Evaluates and Monitors in Our Direct Private Investments

ENVIRONMENT	› Environmental compliance and track record › Relevant policies, audits and certifications › Environmental litigation and outstanding liabilities › Resource usage (e.g. water, energy) › Environmental footprint (e.g. emissions, waste, biodiversity) › Environmental compliance in material contracts and subcontracts
HEALTH AND SAFETY	› Occupational health and safety (OH&S) policies, permits and certifications › Accident and incident management › OH&S compliance, litigation and outstanding liabilities
LABOUR AND WORKING CONDITIONS	› Human resource policies and labour records › Child labour, forced labour and minimum wage › Employee representation and non-discrimination
COMMUNITY RELATIONS	› Good community relations including proactive engagement with local communities and non-governmental organizations › Migrant workers and their impact › Relocation practices
BUSINESS INTEGRITY	› Anti-bribery and corruption › Anti-money laundering › Accounting integrity
CORPORATE GOVERNANCE	› Board setup and membership › Governance procedures › Risk management and compliance processes

The following sections outline how we implement consideration of these factors, from the beginning stages of looking at a potential investment to the ongoing monitoring of environmental, social and governance factors, as an owner of private assets.

Opportunity Screening and Due Diligence

Every due diligence and investment situation is unique. CPPIB implements a highly customized and structured approach to due diligence of ESG factors in our direct private investments based on best practices.

However, while unique to the circumstance and asset type, all due diligence processes include three stages: opportunity screening, primary due diligence and a governance and investment recommendation.

Stages to Managing ESG Factors in the Diligence of Direct Private Investments

OPPORTUNITY SCREENING	CPPIB's deal team identifies and highlights the key ESG factors in the preliminary evaluation of a potential opportunity at the screening stage.
PRIMARY DUE DILIGENCE	If CPPIB proceeds to due diligence, we conduct a structured and intensive review of a target's business model and key ESG risk factors by accessing a number of sources, including senior management and corporate information, and using in-house specialists and external environmental, technical, engineering, legal, security and accounting experts as necessary.
GOVERNANCE AND INVESTMENT RECOMMENDATION	The investment approval process includes an assessment of material ESG matters. The deal team assesses the potential financial impact of the ESG risks and quantifies the associated costs and opportunities. CPPIB encourages best practices for board governance. As owners, we work to put appropriate controls and processes into each of our portfolio assets.

Monitoring

Once CPPIB has acquired a major stake in a private company, we become a highly engaged and constructive long-term partner to enhance the company's ongoing operational and financial performance. This approach seeks to create even greater value, which is in the best interests of our 19 million contributors and beneficiaries. In particular, ESG issues that we identified as part of the due diligence process and other ESG factors that may emerge over time require active management, whether directly or through our partners. Relevant ESG factors are monitored via CPPIB's regular quarterly and/or semi-annual monitoring processes for all direct assets.

Depending on the stake of our investment, our ongoing engagement in monitoring the company's ESG performance can take several forms.

For example, if CPPIB has a board seat, or other access to a company's regular board reporting, we can then monitor and act on information on ESG performance indicators. We make our views known through positions on boards and committees, such as health and safety, environmental, compliance, audit and others. This close contact with other directors and senior management gives us valuable insights, provides for close oversight of management's compliance with standards, allows us to encourage responsible business practices from within the organization and, in the long run, is expected to improve the company's financial performance and CPPIB's return on investment.

For companies where we strongly influence or (less commonly) control their governance, we press for executive compensation arrangements that are not excessive and that are properly aligned with long-term shareholder interests. Further, the composition of boards and board committees must reflect required competencies and independence from company management. Compensation and board composition are high priorities for us; indeed, improvements in these areas may be part of our contractual agreement with a company in which CPPIB is a significant shareholder.

Enhancing Outcomes as an Engaged Owner

In CPPIB's experience, prudent or innovative forward-looking decisions on environmental, social and governance factors can maintain, and often enhance, financial outcomes. In particular, through the active governance model of private equity, CPPIB and

MONITORING ESG: ADDRESSING SOCIAL FACTORS IN DIRECT PRIVATE INVESTMENTS

Social factors cover a wide range of health and safety, labour and community topics, and each portfolio company has a distinct set of issues of greater or lesser materiality. CPPIB has proactively addressed a wide range of important social considerations in our private investments across different industries and asset classes. Examples include:

Health Care: Compliance with requirements of the U.S. Food and Drug Administration

Natural Resources: Standing Health & Safety Committee and annual confirmation of compliance with policy by all employees and directors

Toll Roads: Compliance with legislated noise emissions levels

Transportation Infrastructure: Community consultation on local area impact, particularly with respect to any planned expansions our partners are able to directly influence portfolio companies commensurate with our ownership stake. This influence can include encouraging stronger ESG and sustainability performance.

To ensure we realize the financial benefits that private ownership can provide, our Private Investments department has a Portfolio Value Creation group who are actively involved in the governance and management of CPPIB's direct investments in private equity and infrastructure assets. The group works closely with deal teams, management and partners to drive value within portfolio companies, through board oversight, performance monitoring and value creation from operations.

Portfolio Value Creation monitors developments and commitments by our portfolio companies and can help resolve governance and operational issues as they arise. This group carries out a semi annual monitoring process that includes ESG factors for major assets where CPPIB holds significant governance rights or control. In addition, the group ensures the implementation of CPPIB's ESG diligence and monitoring process for all investments in direct private equity and infrastructure.

With our exceptionally long investment perspective, as an owner in private markets we are able to address long-term ESG factors and enhance financial returns by doing so.

Agriculture

CPPIB has invested in both the U.S. and Canadian farmland markets and intends to build out a global farmland portfolio over time. Our management teams on the ground work closely with local farmers and communities to help ensure that the farmland we own, and the businesses and local communities that we invest in, are sustainable over the long term.

Farming has changed significantly over the past 50 years, with increased mechanization and efficiency. Productivity has continued to improve from an arable farmland base that has been slowly declining due to urbanization, soil degradation and erosion. As farming becomes more intensive it is critical that farming practices are sustainable. Across our agriculture investments, our teams partner with top quality farmers that are focused on promoting soil quality and the efficient use of water resources. One example is a move towards minimum-tillage farming, which saves energy, increases organic matter in the soil and traps soil moisture to increase water efficiency.

Farming is a local, community-based occupation that is undergoing a significant structural and demographic transition. As such, we want to make sure that we are promoting and supporting local communities beyond simply providing investment to a capital-constrained industry. Our investment strategies provide an entry point for young farmers, growth opportunities for expanding farmers and a variety of exit opportunities for those wishing to retire, thereby helping this transition and promoting the intergenerational sustainability of the communities that we invest in.

In the U.S., we have improved land quality and productivity potential by installing proper drainage in wet fields and levelling land in uneven fields. We have invested significant capital into developing tail water recovery systems, which collect run-off water from fields that is then recycled for agricultural production purposes.

In Canada, we have undertaken extensive onsite environmental remediation in our Saskatchewan land portfolio, including (1) the demolition and removal of abandoned buildings, some of which contained asbestos; (2) the removal of abandoned oil, diesel and gasoline storage tanks which had underground bases that had the potential to contaminate soil and local water sources; and (3) the removal and cleanup of scrap metal, waste and disused equipment sites.

As CPPIB continues to invest in the agriculture sector, we remain committed to promoting sustainable farming practices across our investments over the long term.

Natural Resources

The Natural Resources group makes significant investments in resource-focused opportunities in the energy, metals and mining, power generation and renewable energy sectors. Given the industry-specific risks, the Natural Resources group prioritizes the evaluation and monitoring of environmental, social and governance factors, working with portfolio companies to ensure best practices are implemented.

Take for example the resurgence of North American oil & gas production in recent years. Horizontal drilling and hydraulic fracturing technologies have made it possible to access reserves previously considered uneconomic. Due to concerns related to these technologies, environmental, health and safety practices relevant to companies' employees and the local communities in which they operate have evolved on an industry-wide basis and are a key focus area of our due diligence and monitoring efforts. Related to this is our focus on water management as a key consideration for these types of investments. This includes evaluating and monitoring whether portfolio companies are using water that cannot otherwise be consumed (i.e. non-potable), ensuring that water is properly contained and disposed of, and wherever possible, recycling of all water used in operations. We also consider a priority the work that management teams of our portfolio companies do to engage local communities, including through town hall meetings and community relations offices. This includes listening to concerns and addressing feedback on issues such as the review of drilling sites and designs in order to ensure that community concerns regarding land usage and operations are addressed.

The Natural Resources group is also actively evaluating opportunities in the renewable energy sector (see page 11 for further details). As a global focus on climate change issues continues, renewable energy sources such as wind and solar will play an increasingly prominent role in the global energy mix moving forward.

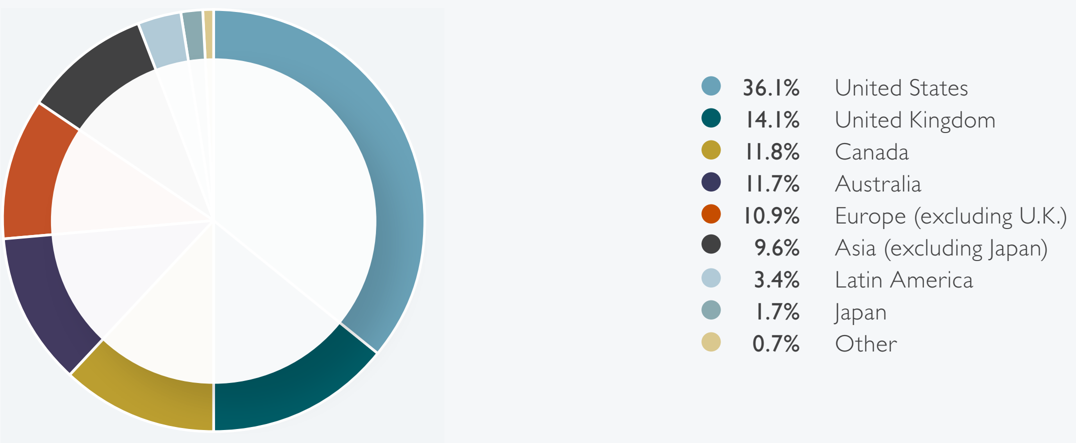
INTEGRATING ESG:

Real Estate Investments

CPPIB's Real Estate Investments department (REI) invests in and manages a diversified global portfolio of high quality properties. At the end of fiscal 2016, REI held $40.8 billion in net assets.

REAL ESTATE INVESTMENTS – GLOBAL DIVERSIFICATION

AS AT MARCH 31, 2016



Full compliance with local environmental regulation is a basic requirement for any real estate investment by CPPIB. Yet in pursuit of our mandate to maximize CPP Fund returns without undue risk of loss, we further seek to enhance the value of our real estate holdings through prudent management of ESG factors in partnership with our operating partners. In particular, improvement in sustainable performance can increase potential rents and occupancy, reduce operating costs and thus increase a property's value and return on investment.

The office sector is especially sensitive to environmental factors and operating efficiencies. Leading tenants frequently seek out the most environmentally advanced buildings for their corporate offices as a reflection of their company's own commitment to ESG standards and to control costs. For new office developments or major renovations, environmental quality is a major element in determining the attractiveness of the property to prospective tenants, the rents that can be charged and ultimately the economic value of the property and its sustainability. This is also becoming a trend in the industrial and logistics sectors as corporate users seek environmentally efficient facilities to control their operating costs.

Opportunity Screening and Due Diligence

During the assessment of potential investment opportunities, our Real Estate Investments department follows a formal ESG due diligence procedure that integrates consideration of ESG factors into the investment process. This process includes an assessment of the importance placed by the asset owner or manager on operating efficiencies – including energy consumption, greenhouse gas emissions, water use and waste generation. While the particular factors examined are tailored to the specific opportunity, we examine ESG factors across five broad categories.

Assessing ESG in Potential Real Estate Investments

1	PARTNER'S APPROACH	Determine our prospective partner's approach to sustainable investing principles and ESG practices.
2	REGULATORY COMPLIANCE	Ensure environmental regulatory compliance and, where necessary, quantify remediation costs into capital requirements.
3	SUSTAINABILITY FEATURES	Assess the quality and level of green building design, and incorporate these into our assessment of the attractiveness of the asset.
4	OPERATIONAL EFFICIENCIES	Identify and factor in operational efficiencies, often environment-related, and to the extent applicable, incorporate these aspects within our valuation.
5	SOCIAL IMPACTS	When applicable, assess social impacts and issues to ensure they are part of the decision-making process.

Monitoring

Working with CPPIB's real estate partners, Real Estate Investments assesses ESG factors and operating efficiencies on an ongoing basis to maintain and enhance the competitive position, value and marketability of our property investments. Once CPPIB acquires a real estate asset, REI puts in place annual ESG monitoring tools to enhance communications with our investment partners on ESG factors on an ongoing basis. The annual monitoring process involves requesting our operating partners disclose any significant ESG issues or events, to provide updates on the latest regulatory changes and corporate initiatives with respect to environmental and social matters, and to report on new environmental certification and operating efficiency targets achieved on our invested properties over the past year.

Enhancing Outcomes as an Engaged Owner

CPPIB is committed to ongoing ESG improvements in our real estate assets to enhance their long-term value. The investment professionals in REI continue to enhance their knowledge of current and emerging best practices in sustainability by actively engaging with our existing and new investment partners and participating in a variety of sustainability-focused events.

In North America, the Leadership in Energy and Environmental Design (LEED) certification program and Canada Green Building Council encourage sustainable building and development practices through standards and performance criteria. Similar ratings are 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. While with newer buildings adherence to high LEED or other standards is taken into account pre-construction, CPPIB also examines the ability to enhance the performance of existing buildings through upgrades, such as in the case of our co-ownership of Royal Bank Plaza in Toronto, the first major Canadian bank tower to receive LEED Platinum certification in 2015 as an existing building after renovation.

INTEGRATING ESG:

Investment Partnerships

At the end of fiscal 2016, CPPIB's Investment Partnerships department (IP) held $66.6 billion in net assets, through private and public market funds, related co-investments, direct investments in Asia and long-term thematic opportunities.

INVESTMENT PARTNERSHIPS – GLOBAL DIVERSIFICATION

AS AT MARCH 31, 2016

The evaluation of environmental, social and governance risks is an integrated part of Investment Partnerships' due diligence and investment monitoring processes. We tailor our approach to each investment as the circumstances and issues differ by investment structure, company, industry, geography and strategy.

Our approach to managing ESG factors with our external fund managers is firmly guided by CPPIB's mandate to maximize returns without undue risk of loss. We evaluate how fund managers both reduce risk and increase performance in the companies in which the fund invests, which includes evaluating fund managers' approaches to environmental, social and governance issues.

FUNDS, SECONDARIES & CO-INVESTMENTS

The Funds, Secondaries & Co-Investments (FSC) team commits capital to top-tier managers of private equity and hedge funds around the world who generally share our belief in the importance of good management of ESG factors to enhance long-term value.

One element of the FSC team's approach is a structured ESG questionnaire used with private fund managers (General Partners) to help us evaluate a General Partner's approach to ESG factors, how it integrates ESG factors in its due diligence, how it monitors and reports on ESG factors and the resources it commits to such activities.

Evaluating Potential General Partners

ALIGNED APPROACH	How do the General Partner's ESG policies, processes and approach compare to CPPIB's?
DUE DILIGENCE INTEGRATION	What ESG due diligence does the General Partner conduct during the investment review process for potential new investments?
RESOURCES	What resources does the General Partner commit to ESG considerations?
MONITORING AND REPORTING	What ongoing monitoring and reporting of ESG factors and risks does the General Partner implement throughout its ownership of portfolio companies in the Fund?

Opportunity Screening and Due Diligence

General Partners are required to complete FSC's ESG questionnaire as part of our due diligence process. FSC uses responses to inform and, in the case that there are any questions or concerns, drive an active dialogue between the FSC team and the General Partner. The FSC team incorporates findings from the questionnaire and due diligence meetings and discussions into the team's investment recommendation.

Monitoring and Enhancing Outcomes as an Engaged Investor

After CPPIB has made a commitment to a General Partner, we remain actively involved in the ongoing monitoring of the General Partner's ESG practices, including regular discussion with the General Partner to identify how its ESG practices may be evolving. This information is then incorporated into quarterly and annual fund monitoring processes as appropriate.

THEMATIC INVESTING

The Thematic Investing (TI) team focuses on investing in companies that are exposed to structural growth which typically occurs over a long time horizon, often exceeding 10 years. Given the period over which these changes occur, it is important that the companies that TI invests in are sustainable over the long term. An important part of TI's process is assessing ESG factors in consideration of a company's long-term sustainability which will ultimately contribute to its ability to provide exposure to structural growth.

Actively Engaging as Owners

We believe that engaged investors who focus on long-term value can meaningfully reduce investment risks and sustain better returns over time. Whether on our own or alongside other investors, we are committed to driving proactive dialogues with senior executives, board members, regulators, industry associations and other stakeholders.

CPPIB believes that our stewardship of CPP Fund assets must go beyond simply buying and selling investments. Our responsibility is also to conduct ourselves as principled, constructive and engaged owners. Acting as engaged investors can also significantly reduce investment risks and contribute to enhanced and sustained returns over time. Through engagement, we can use CPPIB's position as a major institutional investor to:

- Initiate contact with a company where we believe we can encourage more effective management of ESG factors
- Collaborate with other investors to seek improvements in transparency and ESG practices
- Engage in dialogue with senior management and the board of the company to make our views known and discuss avenues for improvement
- Seek increased 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
- Act as a long-term constructive partner to help companies meaningfully address ESG factors to the ultimate benefit of all stakeholders, instead of simply selling our shares

Based on our belief that the effective management of material ESG factors will improve long-term financial performance, CPPIB devotes considerable resources to engaging with corporations both directly and collaboratively with other investors. Collaborative engagement provides us the opportunity to substantially increase the influence, resources and expertise we can bring as part of a group of investors, with a resulting positive influence on corporate behaviour. When we engage with a company on our own or collaboratively, we typically do not disclose company names publicly or to third parties, although we will do so if we determine that circumstances warrant it.

We provide constructive input to regulatory initiatives on corporate governance and other investment-related matters. We also thoughtfully exercise our voting and shareholder rights, forming our views on shareholder and management proposals and making our decisions transparent on our website. Through engagement we seek to enhance critically important disclosures, foster positive corporate conduct and contribute to an effective regulatory environment.

The following pages describe how we approach engagement to enhance long-term value in the CPP Fund's investments.

DETERMINING WHEN AND WHERE TO ENGAGE

CPPIB has approaches and processes in place across our Private Investments, Real Estate Investments and Investment Partnerships departments to monitor and enhance outcomes as an engaged owner. Such approaches and processes are often unique to private ownership, which provides 'built-in' opportunities for owners to engage and share their views.

For example, CPPIB acts as an engaged owner of private assets by:

- Using our in-depth access to ESG performance metrics to form the basis for regular discussions with management;
- Establishing close relationships with senior management and the board of directors by which we can actively ensure compliance and encourage adoption of best practices;
- Holding board seats ourselves and taking an active role on board committees; and
- Implementing our own asset monitoring processes, including through our Portfolio Value Creation group, to focus the company on enhancing long-term value.

This kind of access is not typically available to owners in public markets. Thus, a primary goal of our engagement efforts with public companies is to achieve more complete and consistent disclosure. In public markets, adequacy and comparability of information ensures that all stakeholders understand relevant risks and how companies are managing them. Beyond disclosure, we encourage companies to improve specific ESG practices to enhance long-term financial outcomes and shareholder value.

The public equities portfolio of the CPP Fund spans across sectors and geographic regions. From the more than 2,700 public companies in which we own shares, we select companies for engagement based on the materiality of their ESG risks, the gap between current ESG practices and best practices and the size of our holdings. As a long-term investor and market participant, when issues arise we have the ability to act as a patient provider of capital and work with companies to bring about change, instead of simply 'voting with our feet' and selling our shares.

To determine where, when and how we should engage public companies, CPPIB follows the selection process outlined below.

DETERMINING WHEN TO ENGAGE: FROM APPROACH TO ACTION

ANALYZE
Analyze ESG risks of companies in our public equity portfolio using internal and third-party research

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

OPTIMIZE
Determine optimum method of engagement: direct, collaborative, proxy voting and/or input to regulators

ENGAGE
Develop a list of companies for direct engagement and set specific engagement objectives

CPPIB's Engagement Focus Areas

To further guide our engagement efforts, we choose focus areas with significant and meaningful impact on the long-term financial sustainability of the public equity portfolio. We report annually on the activities we undertake in each focus area.

	WHY WE ENGAGE	WHAT WE SEEK
CLIMATE CHANGE	Climate change can present material financial risks and opportunities for companies, and impact long-term investment values. Uncertainty remains regarding regulations and other company-specific impacts from a changing climate, which makes it a vital and yet complex area for investors to consider over the long term.	› Enhanced reporting on risk management strategies, performance data and opportunities › Improved disclosure on the potential impact of future regulations on long-term strategy and profitability
HUMAN RIGHTS	Human rights are relevant from an investment perspective because of the operational disruptions and reputational issues that can arise when human rights matters are not appropriately managed. Effective management of human rights risks is thus an important matter for companies to consider in relation to long term value.	› Enhanced reporting on identifying, managing and mitigating human rights-related risks › Improved human rights practices, including those specific to supply chain management
WATER	Effective management of water supply, use and quality is fundamental to the long-term sustainability of many companies. There can be direct operational impacts that have the potential to impact companies' performance. This makes understanding water-related risks especially relevant to investors both today and over the long term.	› Increased reporting on water-related strategies and performance › Improved and more comparable disclosure of water-related data
EXECUTIVE COMPENSATION	In order for the interests of management and long-term investors to be aligned, clear and appropriate links between pay and performance must be in place. When these interests are aligned, long-term shareholder value is more likely to be created.	› A clear link between pay and performance that appropriately aligns the board, management and investors and that emphasizes long-term and sustainable growth of shareholder value › Clear rationale and full disclosure in corporate reporting

EXERCISING OUR RIGHTS AS OWNERS IN PUBLIC MARKETS

One of the most effective ways to engage with public companies is by voting our proxies at annual and special meetings of shareholders. CPPIB is an engaged owner of public securities and fully exercises our voting rights.

Voting proxies is both CPPIB's responsibility as an active owner and an important means for us to convey our views to boards of directors and management. CPPIB's published *Proxy Voting Principles and Guidelines* provides guidance on how we are likely to vote on a range of issues put to shareholders. In general, we support resolutions that empower boards of directors to act in the best interests of the corporation, that enhance management accountability and that support shareholder democracy. We also generally support resolutions that request enhanced practices, policies and/or disclosure of information related to environmental and social factors. For example, since 2004, CPPIB has supported over 50 shareholder proposals at tobacco companies requesting improved disclosure and standards on a range of ESG factors, including health impacts and human rights-related matters.

CPPIB makes all of our proxy voting decisions independently. We engage a service provider (Institutional Shareholder Services Inc.) to make initial, customized recommendations based on our voting guidelines. Our in-house Sustainable Investing group considers these recommendations, conducts research, consults with our investment teams and engages with companies and stakeholders if necessary, to arrive at CPPIB's own voting decision.

As an active owner we believe it is important to be transparent in our voting activities. CPPIB implements the leading practice of posting our individual proxy vote decisions in advance of meetings, to ensure full prior disclosure of our voting intentions both to the companies concerned and to other interested parties.

CPPIB conducts an annual review of our *Proxy Voting Principles and Guidelines*. The process involves input from the Sustainable Investing group, our investment teams and external advisors.

Updates to the guidelines are reviewed and approved annually by CPPIB's Board of Directors.

ADVOCATING FOR GOOD GOVERNANCE

Corporate directors have a fiduciary duty to represent the best interests of the company. Well-structured and effectively functioning boards are able to focus on the company's long-term sustainable growth, acting as true stewards for the best interests of the company.

CPPIB believes that companies with robust governance practices can create greater long-term value and pose less risk for shareholders. We regularly engage with companies, academics, governments, regulators and other stakeholders to advocate for improved and enhanced governance standards and practices.

MANAGEMENT PROPOSALS

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

TYPES OF MANAGEMENT PROPOSALS WE GENERALLY SUPPORT:

- "Say on Pay" proposals when executive compensation plans properly align pay and performance
- Election of directors consistent with the range of factors set out in CPPIB's guidelines
- Approvals to issue equity that appropriately limit director discretion
- Equity compensation plans that are consistent with CPPIB's guidelines

SHAREHOLDER PROPOSALS

CPPIB reviews proposals put forward by shareholders. We generally support proposals that seek to improve disclosure or to reduce risks that could negatively impact long-term profitability.

TYPES OF SHAREHOLDER PROPOSALS WE GENERALLY SUPPORT:

- Enhancing disclosure on environmental and social risks and performance
- Separating the Chair and CEO roles
- Adopting and disclosing corporate responsibility standards
- Declassifying the board of directors

Did you know that our website provides a searchable database, by company name, of our votes at each shareholder meeting? You can access it at: **www.cppib.com/ProxyVoting**

Making an Impact through Collaboration

By working together with other investors, companies and stakeholders, CPPIB contributes our influence as one of the world's largest institutional investors to advocate for progress on management of ESG factors.

Alongside like-minded organizations, we can collectively use our influence to seek improvements in transparency and standards on ESG, conduct research and advocacy, and provide input to legislation. We join and actively contribute to initiatives that focus on specific subject matters, such as governance practices, and others that advocate for broader factors, such as fostering more long-term thinking in the investment and corporate worlds.

All of these efforts further our ability as an investor to enhance the long-term performance of CPP Fund investments.

Signatory of:

PRI Principles for Responsible Investment

Founding Signatory
International network of the world's largest institutional investors working together to put its six Principles for Responsible Investment into practice.

Eric Wetlaufer, CPPIB's Senior Managing Director and Global Head of Public Market Investments, served a three-year term as a member of the PRI Board.

Canadian Coalition for GOOD GOVERNANCE THE VOICE OF THE SHAREHOLDER

Committee Member
Organization promoting good governance in Canadian public companies.

Mark Wiseman, former President & CEO of CPPIB, was a board member and chair of the Public Policy Committee. Stephanie Leaist, Managing Director, Head of Sustainable Investing, is a member of the Public Policy Committee.

ICGN

Member
Global organization aiming to raise standards of corporate governance worldwide. Membership includes 600 leaders in corporate governance from 50 countries.

Member
Independent, non-profit membership organization dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.

Associate Member
Non-profit association of pension funds, other employee benefit funds, endowments and foundations promoting good corporate governance and shareowner rights.

Committee Member
Group of Canadian pension funds aiming to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

A member of CPPIB's Sustainable Investing group is a member of the Corporate Governance Committee.

Investor Signatory
Non-profit organization acting on behalf of over 825 institutional investors globally, encouraging companies to measure, disclose, manage and share climate change information. CPPIB also supports the CDP's Water Disclosure initiative.

Supporting Investor
Multi-stakeholder organization which includes more than 95 institutional investors, promoting revenue transparency and accountability in the oil & gas and mining sectors.

Co-Founder
Initiative co-founded by CPPIB and McKinsey & Company to develop tools and approaches to help institutional investors and corporate directors enhance long-term value creation.

World Economic Forum

Industry Partner
Independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas. Incorporated as a not-for-profit foundation, the Forum is tied to no political, partisan or national interest.

LTI Project Partner Member
International organization helping governments tackle the economic, social and governance challenges of a globalized economy.

CPPIB has been a Partner of the OECD's Institutional Investors and Long-Term Investment (LTI) Project (Phase 1) and is a Member of the Network on Institutional Investors and Long-Term Investment, which aim to facilitate long-term investment by institutional investors.

Founding Members
Group of business leaders committed to improving gender balance at all levels of organizations through voluntary actions.

CPPIB's Chair, Heather Munroe-Blum, and former President & CEO, Mark Wiseman, are founding members of the 30% Club (Canada) and Mark Machin joined upon becoming President & CEO in 2016.

Advisory Board Member
Organization providing collaborative engagement services on a global scale.

Stephanie Leaist, Managing Director, Head of Sustainable Investing, is a member of the Hermes EOS Advisory Board.

Member
Task Force established by the Financial Stability Board that is developing recommendations for voluntary climate-related financial disclosures by companies so as to inform investors, lenders, insurers, and other stakeholders.

Stephanie Leaist, Managing Director, Head of Sustainable Investing, is a member of the Task Force.

Policy on Responsible Investing

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1.0 OUR MANDATE

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

With a mandate from the federal and provincial governments, the CPP Investment Board is accountable to the federal and provincial finance ministers who serve as the stewards of the CPP. The CPP Investment Board is governed by an independent Board of qualified directors and managed independently of the Canada Pension Plan and at arm's length from governments. The assets of the CPP Investment Board are segregated entirely from government funds.

For more information on the CPP Investment Board, visit our website at www.cppib.com.

2.0 OUR PRINCIPLES

The CPP Investment Board is a long-term investor consistent with the long-term nature of the CPP. As an owner, we are committed to encouraging companies to adopt policies and practices that enhance long-term corporate financial performance.

We are guided by certain principles as they relate to responsible investing. These include, but are not limited to, the following:

- The overriding duty of the CPP Investment Board, consistent with its mandate, is to maximize investment returns without undue risk of loss;
- Portfolio diversification is an effective way to maximize long-term risk-adjusted returns;
- Portfolio constraints either increase risk or reduce returns over time;
- Responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long-term financial performance, recognizing that the importance of ESG factors varies across industries, geography and time;
- 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 risk and return;
- We accept the division of authority and responsibilities among the three parties that are core to corporate governance – shareholders, directors and managers;
- Employees, customers, suppliers, governments and the community at large have a vested interest in positive corporate conduct and long-term business performance.

Our *Policy on Responsible Investing* sets out how we apply these principles to the management of the CPP Fund. In doing so, 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 a fair and practical context.

3.0 INVESTMENT STRATEGY

In the context of our long-term investment horizon, the CPP Investment Board aspires to integrate ESG factors into investment management processes, where relevant, for all asset classes within the portfolio. As stated in our principles above, it is our belief that responsible corporate behaviour with respect to ESG factors can generally have a positive influence on long-term financial performance.

For public equities, the CPP Investment Board's responsible investing team works with internal portfolio managers to assess 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.

Consistent with the CPP Investment Board's belief that constraints decrease returns and/or increase risk over time, we do not screen stocks or eliminate investments based on ESG factors. The CPP Investment Board 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. We encourage responsible behaviour in our public equity holdings through engagement.

We believe that engagement is a more effective approach through which shareholders can best effect positive change and enhance long-term financial performance. Moreover, we believe engagement is consistent with our mandate to maximize investment returns without undue risk of loss.

4.0 ENGAGEMENT

All engagement activities are selected taking into consideration the cost versus the potential benefit of the engagement process.

Successful engagement is defined as improved transparency, lower risk profile and/or improved investment return.

4.1 Engagement Focus Areas

We identify engagement focus areas through a detailed review of our holdings in order to prioritize key ESG issues using a risk-based approach, including relative risk and size of holdings.

4.2 Direct Engagement

The CPP Investment Board contacts corporate Boards or management teams directly to discuss concerns with transparency and/or performance on ESG factors.

Direct engagement is conducted privately because we believe this is more effective. Accordingly, we do not typically disclose the names of companies with which we have engaged. However, we retain the right to do so if we do not see sufficient progress in any given engagement circumstance.

4.3 Collaborative Engagement

Engaging collaboratively with other institutional investors leverages internal resources and is an effective way to encourage improved transparency and performance on ESG factors across the CPP Investment Board's portfolio.

Examples of collaborative engagement initiatives include the following:

› Canadian Coalition for Good Governance

› Extractive Industries Transparency Initiative

› Carbon Disclosure Project

Collaborative engagement efforts are disclosed publicly where appropriate.

4.4 Industry Dialogue

The CPP Investment Board participates in broader domestic and international discussion about definitions, priorities, standards and best practices in responsible investing.

The CPP Investment Board participates in a number of organizations, including:

› UN Principles of Responsible Investment

› Canadian Coalition for Good Governance

› Pension Investment Association of Canada

› International Corporate Governance Network

› Council of Institutional Investors

4.5 Exercising Proxy Votes

Proxy voting is an important component of our engagement process. Our *Proxy Voting Principles and Guidelines* set out how the CPP Investment Board is likely to vote on a range of issues (available at www.cppib.com).

We generally support shareholder proposals that request the reasonable disclosure of information related to ESG factors. We also support, where relevant, proposals requesting the review or adoption of environmental or social policies.

Where appropriate, the CPP Investment Board will work with other investors to help draft shareholder proposals.

5.0 RESPONSIBILITIES AND REPORTING

We have formed a Responsible Investing Committee to approve and oversee responsible investing strategies and activities.

The CPP Investment Board is committed to public transparency of our responsible investing activities. We provide timely disclosure of all our proxy votes. We also produce an annual Report on Responsible Investing which provides a detailed review of our activities. Please refer to the Responsible Investing section of our website for a copy of this report and information on our responsible investing activities (www.cppib.com).

The CPP Investment Board welcomes public comment on this policy. Please e-mail your comments to csr@cppib.ca.

Proxy Voting Principles and Guidelines

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I. INTRODUCTION

Proxy Voting and Corporate Governance

We believe that good corporate governance enhances long-term shareholder value. Proxy voting is one component of the corporate governance process, enabling shareholders to express their views on a variety of issues. Shareholders can, of course, influence companies in other ways, such as direct engagement with boards and management. In addition, shareholders can work on governance matters in collaboration with other investors, as we do through the Canadian Coalition for Good Governance.[1]

Consistent with our mandate to maximize investment returns without undue risk of loss, CPP Investment Board includes governance factors as considerations in our investment decision making processes, and actively promotes the adoption of improved governance practices at companies in which we are invested.

These *Proxy Voting Principles and Guidelines* have two purposes: (i) to give the directors and officers of companies in which we own shares guidance on how the CPP Investment Board is likely to vote on matters put to the shareholders; and (ii) to communicate our views on other important matters that boards will deal with in the normal course of business. We note that this document is generally intended to apply to publicly listed companies. Privately held companies differ from public companies in terms of protective measures available to shareholders and other governance features.

We stress that these are guidelines, not rigid rules, and we will respond to specific matters on a company-by-company basis. Recognizing that governance matters may involve tradeoffs between potential benefits and adverse effects on a company, we consider our proxy voting decisions in the context of the company's governance practices as a whole rather than evaluating items in isolation.

We recognize that there are often circumstances that even the most well thought out guidelines cannot contemplate. In these situations, we would be pleased to hear from a company or director and have set up a special e-mail address, proxyvote@cppib.com, for that purpose.

While we will take into account local laws and prevailing governance practices when exercising our votes, these *Proxy Voting Principles and Guidelines* are intended to apply globally.

Board and Management Responsibilities

In exercising our votes, we do not seek to manage the companies in which we own an interest. We accept the division of authority and responsibilities among the triad of interests that is the core of good corporate governance – owners, directors and managers – based on the following premises:

i. the shareholders own the company and elect the directors to be stewards of the company;

ii. the board of directors is responsible for the overall governance of the company, which includes approving the company's strategy, monitoring its implementation and overseeing management;

iii. management is responsible for developing and implementing the company's strategy and for running its day-to-day operations; and

iv. management is accountable to the board and the board is in turn accountable to the shareholders.

Generally, we support resolutions that empower boards of directors to act in the best interests of the company and reaffirm management accountability.

Long-Term Perspective

The CPP Investment Board is a long-term investor with a multi-generational horizon. With billions of dollars committed to equity ownership, 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 have the ability to act as a patient provider of capital and to work with companies to bring about change.

Good boards and management teams understand that they can best serve the company by taking a long-term view of its best interests and those of the shareholders. As a long-term investor, we are committed to encouraging business leaders to adopt long-term mindsets and steward their companies towards long-term shareholder value creation, not just better results in the next quarter.

We oppose resolutions that are likely to diminish long-term shareholder value even though they may produce short-term gains.

Sustainable Investing

We believe that organizations that manage environmental, social and governance ("ESG") factors effectively are more likely to create sustainable value over the long term than those that do not. Given our legislated investment-only mandate, we integrate ESG into our investment analysis, rather than eliminating investments based on ESG factors alone. As an owner, we monitor ESG factors and actively engage with companies to promote improved management of ESG, ultimately leading to enhanced long-term outcomes in the companies and assets in which we have a stake.

Our *Policy on Sustainable Investing* sets out the principles of our approach to sustainable investing and is available on our website (www.cppib.com). Proxy voting is a key element in our approach to sustainable investing.

[1] Information on the Coalition's mandate, membership and governance can be found at **www.ccgg.ca**

How Shares are Voted

We make all of our proxy voting decisions independently based on these *Proxy Voting Principles and Guidelines*. We engage an independent service provider, Institutional Shareholder Services Inc., to make initial, customized recommendations based on these *Proxy Voting Principles and Guidelines*. Our in-house Sustainable Investing team considers these recommendations, conducts internal research, consults with our investment teams and engages with companies and stakeholders, if necessary, to arrive at our voting decisions. We post how we intend to vote and, where appropriate, the rationale for our vote on our website (www.cppib.com) prior to each shareholders' meeting.

We take our responsibility to exercise our votes very seriously and use our best efforts to exercise this right in all cases. However, in some circumstances it may be impractical or impossible for us to vote. For example, in international markets where share blocking[2] applies we typically will not vote due to liquidity constraints.

II. SHAREHOLDER VOTING

Disclosure of Shareholder Votes

We believe companies should be transparent with respect to proxy voting, while providing confidentiality to individual shareholders. We urge companies to retain an independent third party service to verify votes.

The disclosure of shareholder votes informs shareholders about the level of support and opposition for matters brought to the shareholders for their consideration. It also encourages boards to pay attention to issues that are supported by a substantial number of shareholders.

GUIDELINE: *The percentage of votes cast for, against or withheld as well as the percentage of eligible votes cast should be tabulated and the results should be announced at shareholders' meetings and published as soon as possible thereafter. Consider withholding votes from the chair of the nominating/governance committee (or chair of the board) if detailed voting results were not disclosed from the previous shareholders' meeting.*

Respect for Shareholder Views

Boards should encourage shareholder engagement and provide opportunities for shareholders to communicate directly with the board.

Although in most cases boards have no legal obligation to do so, they should consider implementing resolutions that receive majority shareholder support in the context of their overall fiduciary obligations to the company. There should be valid reasons for not implementing a majority-supported resolution.

GUIDELINE: *Where a resolution receives majority shareholder support, the board of directors should report back within a reasonable time, not later than the next shareholders' meeting, on the action taken or explain why no action was taken. Unless a satisfactory explanation has been provided, we will consider withholding votes from all board members for failing to implement a majority supported resolution.*

Super-majority

We oppose any attempt to create inequality among shareholders or to constrain minority shareholder rights.

Some companies require a vote of two thirds or more of the outstanding shares to approve a resolution instead of a simple majority. Generally, such super-majority voting requirements are favoured by dominant or controlling shareholders to strengthen their position at the expense of minority shareholders.

GUIDELINE: *Oppose super-majority voting requirements, except as required by law.*

Shareholder Proposals

We can and do support shareholder proposals. We will support proposals that are likely to enhance long-term company performance, reduce risk to long-term company performance or improve disclosure reasonably necessary to enable shareholders to assess their investment risk and opportunity. We weigh the benefits of a shareholder proposal against any potential adverse effects the proposal may have on a company. We do not support proposals that are designed to diminish the power of the board of directors of a company or place arbitrary or artificial constraints on a company.

GUIDELINE: *Review shareholder proposals on a case-by-case basis.*

Linked Proposals

Boards and shareholders sometimes link two or more unrelated proposals in one resolution in the hope that a proposal popular with shareholders will cause them to approve proposals that they would likely oppose if voted on separately.

GUIDELINE: *Support linked proposals only if supportive of all proposals individually and discourage boards of directors from linking proposals.*

[2] Share blocking is a mechanism used by certain European countries whereby shares are frozen and may not be traded for a specified period of time prior to a shareholders' meeting. Share blocking is intended to facilitate the voting process, however, it also imposes constraints as a pending trade may fail if it settles during the blocked period.

III. BOARD OF DIRECTORS

Independence

The cornerstone of effective corporate governance is that boards are required to act in the best interests of the company. This can best be achieved in part by ensuring that a substantial majority of directors are independent.

A director is independent if he or she has no direct or indirect material relationship with the company or the company's senior management or controlling shareholder. A material relationship is a relationship which could, in the view of the company's board of directors, reasonably be expected to interfere with the exercise of an individual's independent judgment.

Board independence may also be impeded through interlocking directorships, where CEOs sit on each other's boards. We do not believe such interlocking directorships are appropriate.

Having a majority of independent directors can be a challenge in a company that has a founder or significant shareholder that has a role in senior management. However, in our view, any company that is publicly traded should have a majority of independent directors.

GUIDELINE: *Support election of boards that contain at least a majority of independent directors.*

Director Qualifications

The experience, qualifications and character of directors is of utmost importance. The board as a whole must have general business acumen (including specific qualifications in finance, accounting and governance matters) and relevant industry expertise. Furthermore, each director is expected to act with high standards of integrity, demonstrated by a pattern of behaviour and decision making that is consistent with the long-term best interests of the company.

We believe boards should be diverse, including with respect to gender. Having directors with a range of experiences, views and backgrounds will help to ensure the board as a whole has the right mindset to properly evaluate management and company performance.

Considering the significant responsibilities and regulatory demands facing board members, it is important that directors are not overextended to the extent that they jeopardize their ability to serve as effective board members. While directors benefit from their exposure to other company (including not-for-profit) boards, the time demands limit the number of commitments they can manage without compromising their effectiveness.

GUIDELINES: *Support disclosure of the company's expectations for directors. Support disclosure of the business and professional experience and qualifications of each director as they relate to effective oversight of the company's business. Support disclosure of how the board as a whole has the necessary experience and qualifications to fulfill its duties.*

Support the election of directors with the experience and qualifications necessary to effectively oversee the company's business, taking into account the composition of the board as a whole. If we have concerns about whether a director has displayed character and integrity sufficient to engender confidence in his or her ability to act in the long-term best interests of the company, we will consider withholding votes from that director.

We will question companies that have directors sitting on an excessive number of other company boards, taking into account the complexity of those other companies' businesses and the time commitment required of the director. We will also question companies that have a director who is a CEO and has multiple directorships.

Separate Voting vs. "Slate" Voting

Shareholders should have the opportunity to vote for or withhold votes from (or vote against) each director separately, rather than voting on a slate of directors recommended by the company.

GUIDELINE: *Support process whereby directors are elected individually. We will consider withholding our votes from all board members if the nominees are presented as a slate and other governance, performance or compensation concerns exist.*

Annual Elections

Companies should hold annual elections for all directors. Staggered boards (where not all of the directors are up for election each year) reduce director accountability by making it more difficult to replace directors and by depriving shareholders of the opportunity to express any concerns by withholding votes from (or voting against) one or more directors.

GUIDELINE: *Support annual elections for all directors. Support proposals to institute annual elections for all directors.*

Majority Vote Standard

Companies should employ a majority vote standard for the election of directors. If a director nominee does not receive support of a majority of the votes cast, the nominee should not be elected. An exemption to the majority vote standard should apply in cases of contested elections, where there are more director nominees than board seats.

Many companies have adopted formal corporate governance policies requiring the resignation of a director who does not receive support of a majority of votes cast unless extraordinary circumstances exist. These policies present an acceptable alternative to a majority vote standard.

GUIDELINE: *Support proposals calling for directors to be elected by a majority of votes cast unless a satisfactory resignation policy already exists. The proposal should include an exemption for contested election situations. We will consider withholding our votes from members of the nominating/governance committee if there is no majority vote standard or satisfactory director resignation policy and other governance, performance or compensation concerns exist. Unless a satisfactory explanation has been provided, we will withhold votes from directors standing for re-election who failed to obtain majority support in the previous year. In this circumstance, we will also consider withholding votes from the members of the nominating committee.*

Cumulative Voting for Directors

Cumulative voting enables a shareholder to cast all votes for a board of directors in favour of one nominee. It is intended to give board representation to shareholders who have minority ownership.

GUIDELINE: *Despite the value we see in electing directors by majority vote, we will examine cumulative voting proposals on a case-by-case basis. We may support cumulative voting proposals where the board has been unresponsive to shareholder concerns.*

Director Nominations

Shareholders of companies in certain jurisdictions do not have the right to nominate candidates for election to the board of directors in the company's proxy materials and must instead incur the cost of a proxy contest to put forward their candidates. In order to improve board accountability to shareholders in these jurisdictions, we believe that shareholders should have access to a company's proxy materials for purposes of director nominations.

GUIDELINES: *Generally support proposals requesting that companies implement a procedure to allow shareholders to nominate candidates for election to the board of directors in the company's proxy materials, subject to reasonable and appropriate notice, share ownership and holding period requirements. Support nominating frameworks which ensure that shareholders have sufficient information and time to assess the suitability of potential nominees to the board.*

Proxy Contests

We review dissident shareholder proposals for director nominees on a case-by-case basis from our perspective as a long-term investor. We oppose proposals that are likely to diminish long-term shareholder value even though they may produce short-term gains.

In reviewing dissident shareholder proposals, we start from the premise that the interests of shareholders are best addressed by the board, which is responsible for providing management oversight and performance review. The onus is on the dissident shareholder to make a compelling case for why changes in the board and/or the company's strategy are necessary to enhance long-term shareholder value. In reviewing proposals, we consider factors such as:

- long-term company performance;
- board performance and responsiveness to shareholder concerns;
- the strategic plans of the dissident shareholder;
- the qualifications of the dissident director nominees and their alignment with the long-term best interests of the company; and
- the strength of the dissident shareholder's position and the board's response.

We encourage companies to offer universal proxies for all contested meetings. Universal proxies include the names of all known management and dissident nominees to the board and provide shareholders with the ability to select the optimal combination of candidates.

GUIDELINE: *Review proxy contests on a case-by-case basis with a view to enhancing long-term shareholder value.*

Maintaining Effective Boards

Boards should consider drafting and publishing a charter of expectations for directors. Boards should implement an annual process for evaluating the effectiveness of the board as a whole, its committees and each director individually. The process should focus on evaluating the need for any board membership change to ensure that the board as a whole has the necessary experience and qualifications to serve the interests of the company. In evaluating its own effectiveness, the board should also consider whether it is sufficiently focused on the long-term best interests of the company.

Directors who underperform should be asked to resign. Triggers, such as age or term limits, or poor meeting attendance, while potentially useful, are not sufficient to ensure the effectiveness of the board.

GUIDELINE: *Support the implementation of processes for evaluating and improving the effectiveness of the board as a whole, its committees and each director individually.*

Board Renewal

Boards must, on the one hand, be open to new ideas and willing to reconsider the status quo and, on the other hand, maintain some continuity and experience within their membership. In addition, boards must take a long-term view. In considering director succession planning and the appropriate tenure of directors, the board should balance the objectives of continuity and renewal, taking into account the need to maintain independence from management and to ensure new perspectives are being added to the board.

In our view, any decision to adopt age or term limits for directors should be made by the board itself. However, as noted under Director Qualifications, we believe the nominating process should primarily focus on the experience, qualifications and character of a director, and the director's contribution to the board, rather than imposing set limits on a director's age or tenure.

GUIDELINE: *Review on a case-by-case basis shareholder proposals that are aimed at facilitating board renewal.*

Attendance

Given the board's key role in corporate governance and its overall responsibility for the company's affairs, it is critical that directors attend virtually all board meetings and the meetings of committees of which they are a member in order to discharge their duty.

GUIDELINE: *Support disclosing each director's board and committee attendance record. Withhold votes from a director who attends less than 75 per cent of such meetings without a valid reason.*

In-Camera Meetings

A good governance practice is for the independent directors to meet separately at every board and board committee meeting without management and non-independent directors present. After each in-camera meeting, the chair of that meeting, or if appropriate, the chair of the board should meet with the CEO to advise him or her of any issues identified by the independent directors.

GUIDELINE: *Support in-camera meetings without management and non-independent directors present.*

Separation of Chair and CEO

A key duty of a board is to provide management oversight on behalf of the shareholders. For example, the board is responsible for recruiting, rewarding and, if necessary, terminating the CEO. The duty of management is to manage the business in the best interests of the company. For example, the CEO is responsible for recruiting, rewarding, promoting and terminating other members of management within policies and procedures approved by the board.

These different responsibilities warrant different leaders. Consequently, we believe that the board chair should be an independent, non-management director.

The board chair should lead the board and ensure that it acts in the long-term best interests of the company. In our view, an independent lead director is not a suitable alternative to an independent board chair.

GUIDELINE: *Support separation of the board chair and CEO.*

Board Committees

While we recognize that it is the experience, qualifications and character of directors, rather than mere independence, that is of greatest importance, we nonetheless encourage all companies to adopt the practice of having only independent directors oversee nomination and compensation matters.

GUIDELINES: *Support compensation and nominating/governance committees or those committees overseeing these matters being constituted solely by independent directors. Support formal terms of reference for these committees.*

Independent Advisors

Companies should have a process for the board, its committees and individual directors to retain independent outside legal and other advisors to assist them with their responsibilities. These costs should be paid by the company.

GUIDELINE: *Support boards, their committees and individual directors having the right to retain outside advisors.*

CEO Succession Planning

One of the most important decisions that a board must make is the selection of the CEO of the company. We believe boards should be actively engaged in CEO succession planning. Boards should collaborate with the current CEO and senior management to identify candidates who possess the necessary leadership capabilities and ensure that appropriate career development opportunities are in place for any candidates within the company.

GUIDELINE: *Support active engagement by the board in CEO succession planning.*

IV. DIRECTOR COMPENSATION

The compensation package for directors should align the interests of directors with the long-term interests of the company and should be transparent to and easily understood by shareholders.

Director Fees

We believe that fees for non-management directors should be commensurate with their responsibilities as directors, consistent with their focus on the long-term best interests of the company and at a level that makes serving as a director financially worthwhile for qualified individuals.

GUIDELINE: *Support non-management director fee levels that reflect the responsibilities, qualifications and time commitment expected.*

Director Share Ownership

Share ownership has the potential to align the long-term interests of directors with the long-term interests of the company. We support equity-based awards as a portion of director compensation. However, we do not believe that directors should be incentivized in the same manner as executives and, for that reason, such grants should not be performance-based.

GUIDELINES: *Support reasonable share ownership requirements for directors. Support share grants or deferred share units as a portion of director compensation. Support directors being required to hold such share grants or deferred share units for a mandatory period.*

Director Stock Options

We believe that stock options are less effective and efficient than direct share ownership in aligning the interests of directors with those of the company.

GUIDELINE: *Oppose stock options for directors.*

Other Director Compensation

Compensation for non-management directors should not include retirement benefits, severance payments, significant incentive payments or consulting fees or perquisites that are normally reserved for employees of the company. These forms of compensation increase directors' financial reliance on the company and could compromise their independence.

GUIDELINE: *Oppose retirement benefits, severance payments, significant incentive payments or consulting fees or perquisites for non-management directors.*

Disclosure of Director Compensation and Share Ownership

It is important that shareholders know how directors are compensated, including the commitment that individual directors have made to the company through share ownership.

GUIDELINE: *Support detailed disclosure of director compensation and share ownership.*

V. EXECUTIVE COMPENSATION

The board of directors and the compensation committee are responsible for, and must be actively engaged in, establishing and overseeing executive compensation policies. Executives should receive market competitive total compensation and incentives which are tied to individual and company performance and incentivize them to focus on serving the long-term interests of the company. Compensation plans should reward appropriate risk-taking consistent with the risk profile of the company but should discourage executives from taking excessive risks in order to achieve short-term, unsustainable performance. Peer group assessments should compare companies of similar size, geographic location, complexity and performance and they should reflect companies that are competing for executive talent. We caution companies against over-reliance on external peer benchmarking, as it can lead to a structural escalation in executive pay unsupported by company performance. If used, external peer benchmarking should be balanced against internal, company specific metrics.

Determining compensation and incentives that relate to the achievement of financial objectives and other less precisely measurable performance is one of a board's most important challenges. An independent compensation committee should review and make recommendations to the board with respect to executive compensation and should consult advisors who are independent of management.

Disclosure of Senior Executive Compensation and Share Ownership

To help shareholders understand whether senior executives are fairly compensated and how that compensation relates to corporate performance, companies should disclose the total compensation for each senior executive for whom such disclosure is required under the applicable securities legislation. The disclosure should be in plain language form and should include a detailed explanation of the rationale and structure of the company's executive compensation plan. There should be detailed disclosure of how and why specific compensation decisions were made, including: a discussion of the company's business strategy; disclosure of performance targets, and how they are tied to the compensation paid; and a discussion of advice provided by compensation consultants and other experts. A pay for performance analysis should be provided, including a comparison of performance and compensation to those in the peer industry group used as a reference for the company's compensation decisions. Peer groups used for benchmarking or other comparisons should be disclosed. To the extent the peer group used for compensation purposes differs from that used to compare company performance, the differences between the groups and the rationale for choosing them should be explained.

Every component of the total compensation package, including elements such as dollar amounts for signing bonuses, pension plans, supplemental executive retirement plans, perquisites and severance packages should be identified and discussed in detail so that it is clear how all elements fit together. The value of each pay element should be based on recognized actuarial standards and be the same numbers upon which the compensation committee bases its decisions.

Share ownership by senior executives is also important information which should be disclosed.

GUIDELINE: *Support full disclosure of total senior executive compensation packages and share ownership.*

Executive Compensation and Performance Review

The past performance and future performance expectations for executives, as well as related compensation plans, should be reviewed annually by the board and its compensation committee. Compensation packages should be aligned with the long-term best interests of the company and should encourage appropriate risk taking. It is important that there is a significant relationship between executive compensation and performance. In order to ensure this relationship, compensation should be linked to meaningful performance targets which are disclosed. Companies should not offer excessive severance or change of control packages, supplemental executive retirement plans or discretionary awards that reward executives when performance objectives have not been met during the term of their employment.

GUIDELINES: *Support a formal process to review the performance of, and compensation for, executives. Support compensation that is linked to performance (meeting targets set by the compensation committee and approved by the board). In situations where there is a significant disconnect between the compensation awarded to executives and company performance, we will consider a number of options, including engaging with the compensation committee and/or voting against an advisory vote on executive compensation as described under Advisory Vote on Executive Compensation. If there is no annual advisory vote on executive compensation and either concerns about compensation practices exist or the board has been unresponsive to shareholders' views on compensation, we will consider withholding votes from compensation committee members.*

Equity-Based Compensation Plans

We believe that the granting and vesting of equity-based compensation should be sufficiently performance-based, with clearly disclosed performance criteria and hurdles that are relevant to long-term value creation for shareholders.

Generally, we believe that properly structured stock-based compensation is superior to option-based compensation plans because it provides better alignment of interests of employees with those of shareholders and it is a more efficient and predictable form of compensation.

Shareholders should be allowed to vote on all equity-based compensation plans (including option plans) because of the potential dilutive effect on their existing ownership.

GUIDELINE: *We will evaluate equity-based compensation plans on a case-by-case basis. We will generally vote against a plan if any of the following factors apply:*

- *the total cost of the company's equity-based compensation plans is unreasonable;*
- *the plan contains provisions allowing for excessive payouts in the event of a change of control of the company;*
- *the plan expressly permits the repricing of stock options without prior shareholder approval; or*
- *the plan is a vehicle for poor pay practices and is not sufficiently performance based.*

Executive Share Ownership

Executives should be required to own a minimum amount of the company's shares and to own that minimum while employed by the company and for at least one year after their departure from the company. The minimum amount should be meaningful for the executive and increase with the executive's seniority. Executives should have flexibility in liquidating excess holdings for personal use while maintaining a strong long-term alignment with shareholders.

GUIDELINE: *Support minimum share ownership requirement for executives.*

Loans to Management and Directors

We do not support loans to directors or employees unless such lending is the company's normal business and only then if the loans are on normal commercial terms.

GUIDELINES: *Oppose preferential loans to employees or directors. Oppose loans secured by company shares or granted to purchase company shares.*

Employee Stock Purchase Plans

We support employees having the opportunity to acquire shares of the company in which they are employed on favourable terms. We will generally approve employee stock purchase plans where the purchase price is at least 85 per cent of fair market value and the potential dilution is less than 10 per cent. Where their share ownership is subsidized by the existing shareholders, employees should be required to hold shares purchased for an appropriate period.

GUIDELINE: *Support employee stock purchase plans, the terms of which align employee interests with creating long-term value for shareholders.*

Advisory Vote on Executive Compensation

We believe that engaging with companies is an effective way to encourage companies to improve their compensation practices and disclosure and that an advisory vote on executive compensation is an important part of the engagement process. We encourage companies to voluntarily adopt an annual advisory vote on executive compensation. We will generally not support other compensation-related shareholder proposals as they tend to be overly prescriptive or duplicative of what can be achieved through engagement and the advisory vote.

GUIDELINE: *Support shareholder proposals requesting an annual advisory vote on executive compensation. Generally oppose other compensation-related shareholder proposals. If there is no annual advisory vote on executive compensation and either concerns about compensation practices exist or the board has been unresponsive to shareholders' views on compensation, we will consider withholding votes from compensation committee members. When voting on an advisory vote on executive compensation, we will evaluate the compensation practices and disclosure on a case-by-case basis taking into consideration the compensation principles and practices outlined in these Proxy Voting Principles and Guidelines, including the following:*

- *pay-for-performance alignment, assessed against meaningful performance targets, which incentivize executives to focus on serving the long-term interests of the company;*
- *compensation packages which emphasize long-term company performance and discourage excessive risk taking;*
- *independent and effective compensation committee;*
- *clear, comprehensive compensation disclosure;*
- *avoidance of inappropriate pay, including significant incentive payments or consulting fees to non-management directors and discretionary awards granted to management outside of regular incentive plans; and*
- *reasonable severance, change of control entitlements and pension benefits.*

Recoupment (Claw-Back) Policies

In order to ensure that performance-based pay is only awarded in cases where performance targets are actually met, we encourage companies to consider requiring executives to repay or forfeit performance-based compensation based on misstated financial results or other performance metrics.

GUIDELINE: *Support shareholder proposals requesting that boards adopt a policy to recoup, for the benefit of the company, all performance-based compensation paid to executives who have engaged in fraud, negligence or willful misconduct that contributed to or resulted in a restatement of financial results. We will review, on a case-by-case basis, shareholder proposals requesting that boards adopt a policy to recoup, for the benefit of the company, all unearned performance-based compensation from executives to the extent that their corresponding performance targets were later determined not to have been achieved.*

VI. THE AUDIT FUNCTION

An important determinant of investor confidence is the integrity of a company's financial reporting. The board's audit committee has special oversight responsibilities relating to a company's financial affairs and financial disclosure. Among other duties, it must assess whether management has adequate internal controls and procedures for financial reporting.

We place great importance on the quality and independence of a company's external auditors.

GUIDELINES: *Generally support the appointment of the auditor recommended by the board. Vote against the reappointment of the company's auditor where it appears that its independence has been compromised or where the auditor's past performance is questionable.*

VII. CAPITAL STRUCTURE

Increase in Authorized Shares

We believe that shareholders should have the opportunity to approve the issuance of common shares which will have a dilutive effect on their holdings.

GUIDELINE: *Generally support fixed increases of up to 25 per cent in authorized common shares. Support larger increases on a case-by-case basis if a specific business need, which will enhance long-term shareholder value, is demonstrated. Oppose unlimited increases in authorized shares.*

Dual-Class Share Structures

In dual-class share structures, one class of shares has more votes per share than other shares. These structures give a group of shareholders, usually the founding investors, voting control for a relatively low level of equity ownership. One argument for dual-class share structures is that those with the superior voting rights can ensure stability, continuity in ownership and facilitate a long-term perspective. We disagree with this argument and consider dual-class share structures to be contrary to good governance. They can entrench management against shareholder pressure for change and undermine the basic principle linking voting to equity ownership on the basis of one-share-one-vote. In our view, enhanced shareholder engagement can foster a long-term shareholder base and serve to negate the perceived need for a controlling share structure.

GUIDELINE: *Oppose new dual-class share structures. Support the collapse of existing dual-class share structures on terms that are in the long-term best interests of the company. For companies with existing dual-class share structures, oppose any non-equal treatment of shareholders on a change of control transaction or any proposal intended to preserve the dual-class share structure or increase the voting power disparity between the company's share classes.*

Pre-emptive Rights, Private Placements, Dividend Policy and Share Buybacks

GUIDELINES: *Generally support pre-emptive shareholder rights, reasonable private placements and share buybacks. Support paying dividends for established companies with sustainable profitability.*

VIII. TAKEOVER PROTECTION

Because of the size and scope of the CPP Investment Board's equity portfolio, we often find ourselves on both sides of a takeover offer. Consequently, we must evaluate the offer not just in terms of its fairness from a financial point of view to the shareholders, but also on the basis of what is in the long-term best interests of the company.

In some cases, an offer might be in the best short-term interests of shareholders of the target company in releasing unrealized value, but not be in the best interests of long-term investors such as the CPP Investment Board for whom the company's continued independence may create more substantial value over the longer term.

GUIDELINE: *Support proposals, policies or plans that strengthen the capacity of a board and management to respond to takeover offers in a manner that enhances long-term shareholder value.*

IX. RELATED PARTY TRANSACTIONS

As related party transactions can give rise to conflicts of interest, they should receive enhanced scrutiny by the board to ensure that their terms are fair and reasonable. We believe that related party transactions should be (i) reviewed and approved by independent directors of the board with, where appropriate, the benefit of advice from independent and qualified experts, (ii) completed on arm's length terms, (iii) publicly disclosed, and (iv) where appropriate, submitted to shareholders for approval.

GUIDELINE: *Review related party transactions on a case-by-case basis.*

X. ENVIRONMENTAL AND SOCIAL FACTORS

Disclosure enables investors to better understand and evaluate potential risk and return, including the impact of environmental and social factors on a company's long-term performance. We believe companies that effectively manage risks associated with environmental and social factors are likely to achieve better long-term performance.

GUIDELINE: *We review environmental and social-related shareholder proposals on a case-by-case basis. We do not support shareholder proposals if they are overly prescriptive or duplicative of initiatives already in place or underway or if they are likely to detract from long-term company performance.*

Subject to the foregoing, we generally support:

- proposals that request the reasonable disclosure of information related to material environmental and social factors which assist shareholders in assessing potential investment risk and return (including specific environmental and social risks), the environmental and social impacts of a company's operations and products, initiatives to mitigate environmental and social risks, and/or corporate sustainability reports, unless sufficient information is already disclosed and/or available to shareholders.
- proposals that request the adoption or review of responsible policies and/or practices with regard to environmental and social factors that are likely to enhance long-term company performance and/or mitigate potential exposure to environmental and social risks.

XI. STANDARDS AND GUIDELINES OF BUSINESS CONDUCT

We believe companies that adopt and enforce high standards of business conduct are likely to achieve better long-term performance.

All companies should publicly disclose their corporate governance guidelines, codes of business conduct, and conflict of interest management procedures. The governance committee of the board should formally review such policies on at least an annual basis and require them to be published on the company's website.

GUIDELINE: *Support disclosure of corporate governance guidelines, codes of business conduct, and conflict of interest management procedures.*

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