

2010

REPORT ON RESPONSIBLE INVESTING
REPORTING PERIOD: JULY 1, 2009 – JUNE 30, 2010

CORPORATE PROFILE

The Canada Pension Plan Investment Board is a professional investment management organization that invests the assets of the Canada Pension Plan (CPP) not required to pay current benefits. Created in December 1997, as part of the successful CPP reforms, the organization's mandate is to help sustain the pensions of 17 million CPP contributors and beneficiaries by maximizing rate of return without undue risk of loss.

The \$129.7 billion¹ CPP Fund is the largest single-purpose pool of capital in Canada, one of the fastest-growing funds of its kind in the world, and a successful example of a national pension system that has received global recognition. The CPP Investment Board is a long-term investor focused on delivering superior risk-adjusted returns over the span of decades and generations. The CPP Fund is invested globally across a wide range of asset classes including public equities, private equities, real estate, inflation-linked bonds, infrastructure and fixed income instruments. Approximately \$59.6 billion is invested in Canada through a broadly diversified portfolio, while the rest is invested globally so that income from foreign investments flows back to Canada to help pay future pensions. The CPP Investment Board has also developed the internal capabilities to handle complex transactions in global markets.

According to the latest report by the Chief Actuary of Canada, released in October 2009, the CPP, as constituted, is sustainable throughout the report's 75-year projection period. The report indicates that CPP contributions are expected to exceed annual benefits paid until 2021, providing an 11-year period before a portion of the investment income from the CPP Investment Board is needed to help pay pensions.

As a result, the CPP Fund will grow significantly between now and 2021. Beyond 2021 it will continue to grow, but at a slower rate, as a small portion of the investment income will be needed to help pay pensions. By increasing the long-term value of funds available to the CPP, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

The CPP Investment Board is accountable to the federal and provincial finance ministers who serve as the stewards of the CPP. As an investment management organization operating in the private sector, investing non-government assets, the CPP Investment Board is not a sovereign wealth fund. Several key attributes, including an arm's length governance model, independent board and investment-only mandate, distinguish the CPP Investment Board from the large pools of government assets under government direction generally identified as "sovereign".

The CPP Investment Board's reputation as a leading global investor allows the organization to attract top professionals in their fields from Canada and around the world. There are currently 578 employees in Toronto, London and Hong Kong.

The *Report on Responsible Investing* is published annually. This document, our annual report and our quarterly financial result disclosures support our disclosure policy, which states: "Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing." The above-mentioned disclosures along with our website, help to make this information available to Canadians.

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

¹ As of June 30, 2010.

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A MESSAGE FROM THE PRESIDENT

Economic conditions have improved dramatically since CPP Investment Board's last *Report on Responsible Investing* was released during the global financial crisis. The financial markets remain volatile, however, and many investors continue to be forced to shift their focus to the short term.

While the CPP Investment Board has not suffered the same fate, these circumstances have reinforced for us the value of a long-term perspective in our mission and investment strategy. Important components of this long-term focus, aimed at helping sustain the CPP Fund on behalf of 17 million Canadians, are our policy and practices regarding responsible investing.

As a long-term investor, we believe responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can have a positive influence on financial performance over time. Our long investment horizon affords the CPP Investment Board the ability to work collaboratively with companies and other investors on ESG-related activities.

For example, we have a comprehensive engagement program with our portfolio companies and use our influence as a shareholder to encourage enhanced disclosure of and performance on investment risks related to ESG factors. The scope of this program will continue to grow in the years ahead. In 2009, we were recognized for our approach, including our commitment to the United Nations' *Principles for Responsible Investment* (UN PRI), in the Social Investing Organization's latest review of responsible investing in Canada.

Our efforts include engaging companies in a number of focus areas – extractive industries, climate change, executive compensation, and, going forward, water. We will continue to speak out on investment and governance-related policy issues that could affect the performance of our portfolio, such as our public opposition in summer 2010 to Magna International Inc.'s proposed transaction to eliminate its dual-class share structure.

We also continue to be a key participant in the ongoing discussions about ESG factors both in Canada and worldwide. Since our last *Report on Responsible Investing*, we participated in a number of Canadian Coalition for Good Governance (CCGG) executive compensation engagements, and also co-hosted the International Corporate Governance Network (ICGN) conference in Toronto in June 2010.

A powerful set of advantages, including a long investment horizon, the size of our portfolio and the relative certainty of our asset base and future cash inflows to the CPP Fund, have allowed us to continue to focus on the long term. Never was maintaining this perspective more important than during the market volatility that has occurred over the past few years. We firmly believe that our commitment to long-term strategies, including the CPP Investment Board's *Policy on Responsible Investing*, will serve the CPP Fund well for decades and generations to come.



DAVID F. DENISON

PRESIDENT AND CHIEF EXECUTIVE OFFICER
CPP INVESTMENT BOARD

17
MILLION CANADIANS

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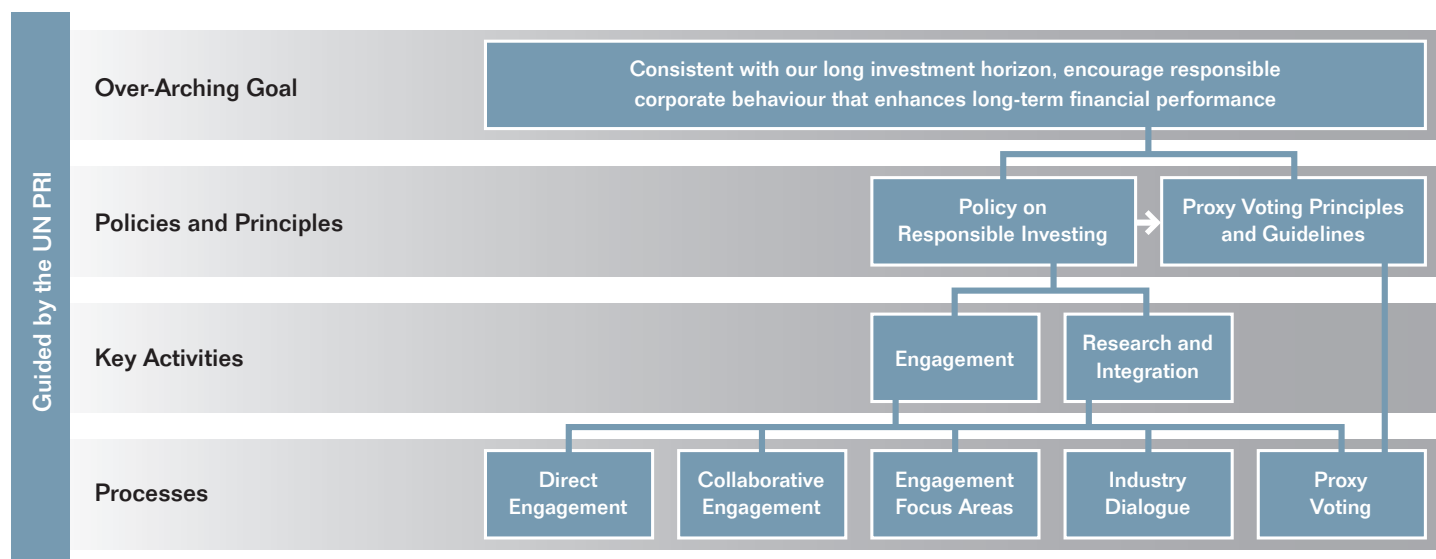
ESG
FACTORS

As a long-term investor, we believe responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can have a positive influence on financial performance over time.

APPROACH TO RESPONSIBLE INVESTING

The CPP Investment Board’s long-term perspective, within both our mission and investment strategy, supports our mandate to help sustain the pensions of 17 million Canadians. Encouraging responsible corporate behaviour fits into this mandate as an important means for enhancing the long-term financial performance of the companies in which we invest. The diagram below illustrates our approach to responsible investing – from the over-arching goal that underpins our activities, to the specific methods we use to engage companies and industry groups.

CPP INVESTMENT BOARD’S APPROACH TO RESPONSIBLE INVESTING



Policies and Principles

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

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

Engagement

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

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

We believe that engagement enables shareholders to effect positive change aimed at enhancing long-term financial performance. This helps us to fulfill our mandate of maximizing rate of return without undue risk of loss. We currently focus our engagement activities on three areas: climate change, extractive industries (oil & gas and mining) and executive compensation, and, going forward, water.

One of the main objectives of our engagement efforts is to encourage greater levels of disclosure and transparency by companies in which we invest. We believe disclosure is the key that allows investors to better understand, evaluate and assess potential risk and return, including the potential impact of environmental, social and governance (ESG) factors on a company's performance. Beyond disclosure, we also encourage companies to adopt best practices in the management of ESG issues that can affect long-term financial performance.

Proxy Voting

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

Research and Integration

Research is a critical component of our responsible investing strategy, combining both in-house and external expertise to assist the CPP Investment Board in the comprehensive analysis that goes into activities, including the selection of companies for engagement. We actively encourage investment dealers and other research providers to produce enhanced research and analysis on ESG factors. This information will assist us in integrating these factors, where relevant, into our investment decision-making process.

Management of Our Responsible Investing Activities

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

Reporting

In keeping with our commitment to transparency, the CPP Investment Board publishes this report annually, describing our responsible investing activities and the results we have achieved. The reporting period runs from July 1 to June 30, allowing us to report on our voting activity at the completion of each proxy season. Our *Policy on Responsible Investing* and other information related to our responsible investing activities, including all individual proxy votes, are posted on our website.

What Are ESG Factors?

Below is a list of some of the ESG issues we consider in our engagements with companies and when making investment decisions. The materiality of these and other ESG factors varies across companies and sectors.

ENVIRONMENTAL

Greenhouse gas emissions

Water

Energy efficiency

Biodiversity

Site reclamation

SOCIAL

Human rights

Transparency

Local community impact

Health and safety

Human capital management

GOVERNANCE

Executive compensation

Election of directors

Voting rights

Director qualifications

Board independence

In early 2005, then Secretary-General of the United Nations, Kofi Annan, invited the CPP Investment Board along with a small group of the world's largest institutional investors to address the issue of responsible investing from a global and fiduciary perspective. In collaboration with experts from the investment industry, intergovernmental and governmental organizations, civil society organizations and academia, we helped formulate the United Nations' *Principles for Responsible Investment* (UN PRI).

The UN PRI provides a best-practice framework for investors to integrate consideration of environmental, social and governance (ESG) factors into investment decision-making and ownership practices. Focusing not just on theory, but also on solutions, the UN PRI provides a practical framework for the adoption of good practices. It also measures how well investors implement these principles. The CPP Investment Board – a founding signatory of the UN PRI – has made good progress in incorporating these principles into our decision-making and ownership practices.

Adoption of the UN PRI has been steadily gaining momentum globally. Since its launch in April 2006, the number of signatories has increased to over 750 signatories representing US\$18 trillion in assets under management.

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

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

- The CPP Investment Board actively seeks enhanced research and analysis that integrate long-term, material ESG factors. We use research from Canadian and international independent ESG research providers. We also allocate trading commissions to investment dealers to encourage investment research that includes ESG factors.
- The Responsible Investing team provides input to 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.

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

- We implement our *Proxy Voting Principles and Guidelines* and vote our proxies for more than 2,900 public equity holdings. We update our guidelines annually to reflect current best practices.
- We analyze our public equity portfolio annually to identify engagement opportunities.
- We meet directly with companies regarding performance on ESG issues that are potentially material over the long term.

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

- We support a range of initiatives to encourage improved transparency from companies on ESG issues. For example, we have, for the past three years, participated in collaborative engagements related to companies' disclosures of their commitments to the UN Global Compact. The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
- We provide input to regulators and industry associations on desired disclosure with regard to ESG factors. For example, we provided input to the Canadian Institute of Chartered Accountants (CICA) and the Ontario Securities Commission (OSC) on guidance related to disclosure of environmental risks.

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

- We regularly communicate publicly about the CPP Investment Board's Responsible Investing program. For example, we participated in a workshop, organized by the UN PRI in November 2009 in Montreal, for Canadian institutional investors regarding responsible investing practices.
- We were an advisor to the Chartered Financial Analysts (CFA) Institute on the publication titled *Environmental, Social, and Governance Factors at Listed Companies: A Manual for Investors*.
- We co-hosted the International Corporate Governance Network's (ICGN) annual meeting in Toronto in June 2010.

5 WORK TOGETHER TO ENHANCE THE EFFECTIVENESS OF THE UN PRI PROCESS

- We participate in collaborative engagements with companies facilitated through the UN PRI Engagement Clearinghouse. The UN PRI Engagement Clearinghouse is a private online forum that enables UN PRI signatories to work together to seek changes in company behaviour, public policies or systemic conditions.
- We actively participate in a number of collaborative initiatives, including playing a leadership role in the Canadian Coalition for Good Governance (CCGG) and the Carbon Disclosure Project (CDP).

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

- We are committed to public transparency in regards to our responsible investing activities, including the production of this annual *Report on Responsible Investing*, which provides a detailed review of our activities.
- On our website, we disclose how we voted following every public company shareholders' meeting.

As a UN PRI signatory, the CPP Investment Board commits to its six principles, which serve as a guide for activities and reporting related to responsible investing.

ENGAGEMENT

Direct Engagement

As a large institutional investor with a long investment horizon, the CPP Investment Board uses engagement with public companies to encourage improved disclosure and management of material, long-term environmental, social and governance (ESG) issues.

Our holdings in public equities include shares in more than 2,900 companies, of which more than 500 are Canadian. The public equities component of the portfolio tends to replicate standard market indices, which means it is broadly diversified across different sectors and geographic regions.

Our considerations when selecting companies to engage include the relative size of our holdings and the specific ESG risks they face. Most of the companies we select are Canadian, but we are increasing our engagement with international companies in our public equity portfolio. Please see the chart below for more details.

Collaborative Engagement

We participate in a number of organizations and collaborative initiatives globally to strengthen our voice in regards to responsible investing issues. We have taken a leadership role in several of these organizations, including the Canadian Coalition for Good Governance (CCGG), which represents 41 institutional investors, managing assets totalling more than \$1.4 trillion. In June 2009, David F. Denison, President and Chief Executive Officer of the CPP Investment Board, became Chair of the Board of Directors of the CCGG. We have also taken a leadership role in the

Carbon Disclosure Project (CDP), which represents 534 institutional investors, managing US\$64 trillion. Other collaborative efforts in which we are active include the Council of Institutional Investors (CII), the Extractive Industries Transparency Initiative (EITI), the International Corporate Governance Network (ICGN) and the Pension Investment Association of Canada (PIAC).

These coalitions have various objectives, including improving transparency and ESG standards, as well as research, education and advocacy.

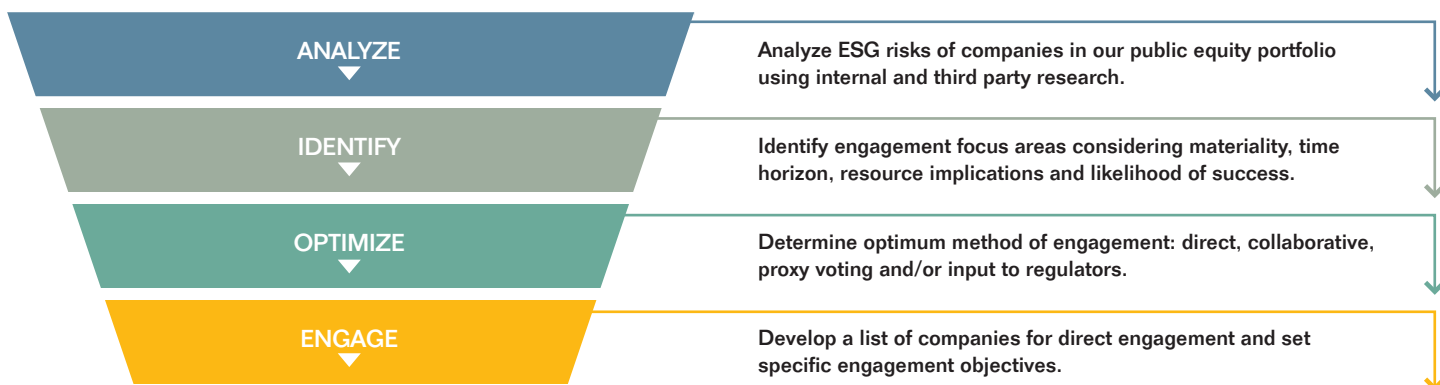
Engagement Focus Areas

We are currently concentrating our engagement efforts on: **climate change** and **executive compensation** – issues that affect multiple industries – and the **extractive industries** – which include sectors of particular importance to the Canadian economy and those in which companies typically face a range of ESG-related challenges. Going forward, we will be adding **water** as a focus area. These focus areas represent ESG risks for many companies in our public equity portfolio over the long term.

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

The following pages provide details on our engagement activities.

HOW WE SELECT COMPANIES FOR ENGAGEMENT



FOCUS AREA – CLIMATE CHANGE

Why climate change? Emerging risks related to climate change could have significant consequences for long-term shareholder value. Our engagement activities with respect to climate change are centred in the energy and utilities sectors, which face high potential costs from tightening regulation of greenhouse gas (GHG) emissions.

What Are Our Objectives?

- Improved disclosure of GHG emissions data.
- Reporting on strategies to manage climate change-related risks and opportunities.
- Improved research and analysis of the impact of tightening regulation of GHG emissions on long-term shareholder value.

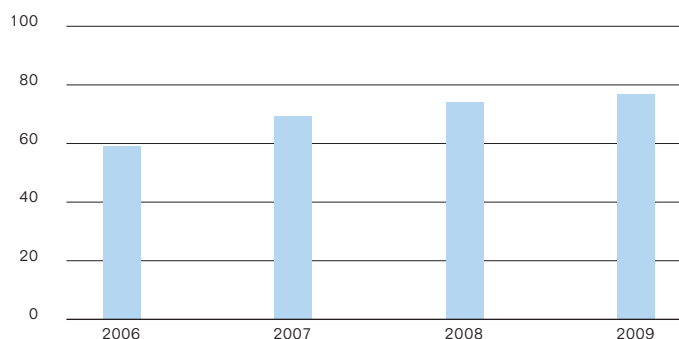
What Actions Did We Take?

- Continued to engage with several Canadian companies in the energy and utilities sectors, including some of the largest GHG emitters in Canada, encouraging improved disclosure of performance and management strategies.
- Continued to play a global leadership role in the Carbon Disclosure Project (CDP), which sends out a request for disclosure of climate change management and GHG emissions to companies around the world each year. The CDP continues to expand globally, including to companies in emerging markets. The 2010 questionnaire was sent in February to over 3,700 companies, including 200 in Canada. We are a member of the CDP Canada Advisory Group and helped sponsor the CDP Canada Report, which highlights best practices in disclosure by Canadian companies.
- Encouraged equity research analysts at investment dealers to improve analysis of corporate risks and opportunities related to climate change.
- Communicated our views to companies, regulators and industry associations regarding gaps in disclosure. For example, we provided our views regarding environmental disclosure requirements to the Ontario Securities Commission (OSC).
- Participated in the UN Investor Summit on Climate Risk in January 2010, along with policymakers, other investors and company representatives.
- Supported several shareholder proposals requesting improved disclosure of climate change-related risks.

What Did We Achieve?

- Several Canadian companies we engaged improved the quality of their reporting on climate change and sustainability issues, including providing enhanced disclosure in financial reporting, sustainability reporting and responses to the CDP questionnaire.
- Most large companies and GHG emitters in Canada are now responding to the CDP. The graph below demonstrates the significant progress companies have made since the CDP began requesting disclosure from Canada's largest companies in 2006. Companies representing more than 75% of the market capitalization of Canada's 200 largest companies responded to the 2009 CDP request.

CDP Canada 200 Response Rate by Market Capitalization
(%)



FOCUS AREA – EXTRACTIVE INDUSTRIES

Why extractive industries? We focus on extractive industries because oil & gas and mining companies deal with a range of environmental and social issues that need to be managed effectively to help protect long-term shareholder value.

What Are Our Objectives?

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

What Actions Did We Take?

- Continued to directly and collaboratively engage with Canadian and international oil & gas and mining companies operating in high-risk countries, including Burma, the Democratic Republic of Congo and Guatemala, to encourage improved transparency and risk management strategies.
- Discussed environmental and social risks with oil & gas and mining companies as part of regular meetings with company management.
- Supported shareholder proposals requesting improved disclosure of community engagement and environmental practices of Canadian and international oil & gas and mining companies.

What Did We Achieve?

- Several oil & gas and mining companies are enhancing reporting and management strategies regarding issues such as environmental risk management, local community engagement and human rights, especially in high-risk countries.
- Several mining companies are improving their practices by implementing standards that are consistent with the *Voluntary Principles on Security and Human Rights*, which guide companies on how to maintain the safety and security of their operations while ensuring respect for human rights.
- Gold mining companies we have engaged have continued to make progress towards certification of their adherence to the *International Cyanide Management Code for the Manufacture, Transport and Use of Cyanide in the Production of Gold*. The Code is intended to help companies improve their management of cyanide use in order to protect human health and reduce environmental impact. Companies that adopt the Code have their use of cyanide audited by independent third parties.
- Two additional Canadian mining companies committed to support and actively participate in the Extractive Industries Transparency Initiative (EITI).

The EITI is a multi-stakeholder initiative of governments, companies, investors and non-governmental organizations that supports improved governance in resource-rich countries. Means for doing so include verification and publication of company tax and royalty payments and government revenues from oil & gas and mining companies.

The CPP Investment Board became a supporting investor of the EITI in 2007. In 2008, through a collaborative engagement facilitated through the UN PRI Engagement Clearinghouse, we signed joint letters along with other global investors to over 100 oil & gas and mining companies with operations or exploration rights in EITI candidate countries. The letters recognized current signatory companies' progress to date and encouraged non-signatory companies to join the initiative. We had follow-up meetings with several companies along with other investors.

Fifty of the world's largest oil & gas and mining companies support and actively participate in the EITI process – through their operations in implementing countries and involvement with industry associations. Azerbaijan and Liberia are now compliant countries and 27 others are candidate countries. An international credit rating agency noted Azerbaijan's compliance status when upgrading the country's long-term foreign and local currency default ratings.

We continue to monitor the initiative's progress and play an active role by engaging directly with companies to encourage their participation in the EITI.



FOCUS AREA – EXECUTIVE COMPENSATION

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

What Are Our Objectives?

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

What Actions Did We Take?

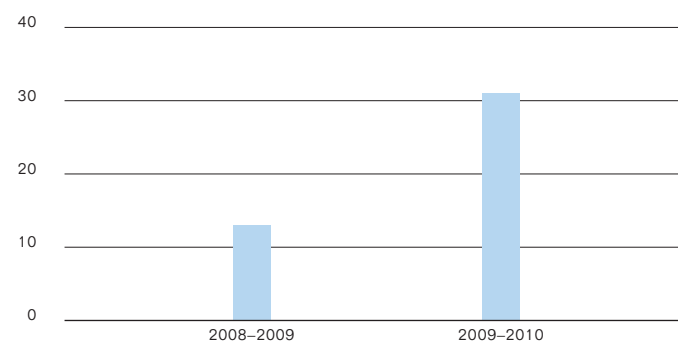
- Played a leadership role in Canadian Coalition for Good Governance (CCGG)-coordinated engagements on executive compensation with a number of large cap companies representing 56% of CPP Investment Board's Canadian equity portfolio.
- Participated in a meeting with a U.S.-based financial company, along with other members of the Council of Institutional Investors (CII), to discuss the compensation committee's process in setting pay levels and the integration of risk management in the compensation program.
- Met with Canadian companies in the financial and energy sectors to provide feedback on executive compensation-related issues, focusing on disclosure and the tie between corporate objectives, business achievements and payouts.
- Updated our *Proxy Voting Principles and Guidelines* on executive compensation to reflect the evolving best practices in Canada and support advisory votes on executive compensation.
- Played an active role in the development of the CCGG Model Shareholder Engagement and "Say on Pay" Policy for boards of directors, which provides guidance to boards on their engagement with shareholders, expected disclosure of their approach to executive compensation, and a recommended form of "Say on Pay" resolution.
- Supported shareholder proposals or voted against management proposals in cases of poor disclosure of executive compensation or a disconnect between compensation and company performance.

What Did We Achieve?

- The link between pay and performance among S&P/TSX Composite Index companies continues to improve, with a 15% increase in issuers who do not award extra compensation if targets are missed, and a 12% increase in issuers using relative performance metrics in their annual bonus programs.
- The quality of executive compensation disclosure of companies in Canada has improved, and the companies engaged by CCGG, in particular, have improved their disclosure with respect to the impact of risk on executive compensation plans.
- Measurement of performance relative to peers, executive share ownership requirements and clawback policies have become more prevalent in Canada.
- Several financial institutions substantially improved the quality of their compensation disclosure, enhanced clawback policies and introduced or lengthened holding periods for shares issued under equity compensation plans.
- Most Canadian banks we engaged introduced new bonus frameworks and adopted new compensation plans for their capital markets groups. Six out of eight Canadian banks improved their corporate governance scores according to the *Rotman Board Shareholder Confidence Index*.
- Thirty-seven Canadian companies have adopted or plan to adopt the form of "Say on Pay" resolution recommended by the CCGG, including 17 issuers engaged directly by the CCGG.

CCGG Engagements

(Number of Companies)



BROADER ENGAGEMENT AND A NEW FOCUS AREA

Governance

In all of CPP Investment Board's direct engagements, key governance issues that could be detrimental to long-term financial performance are raised and addressed. Companies are encouraged to review and implement, where appropriate, the guidelines set out in our Proxy Voting Principles and Guidelines. For example, at a minimum, we request that directors be elected individually and that a majority-voting standard be adopted for director elections.

The CPP Investment Board will speak out if we are concerned about governance-related policy issues. For example, we have recently publicly expressed our opposition to a proposed transaction by Magna International Inc. with the Stronach Trust. While the outcome of the proposal – to eliminate Magna's dual-class share structure – is desirable, the CPP Investment Board believes that the premium proposed to be paid to the Stronach Trust is unfair to shareholders and that the governance process that led to the proposed transaction was flawed. The transaction would therefore set a dangerous precedent for other companies with dual-class shares and encourage boards of directors to defer difficult decisions to the shareholders of their corporations.

Along with other institutional investors, the CPP Investment Board participated as an intervenor at an Ontario Securities Commission (OSC) hearing to review the proposed transaction. In response to submissions made by the CPP Investment Board and others, the OSC ordered Magna to amend its circular to provide additional disclosure before it could proceed with a shareholder vote. The CPP Investment Board also publicly called on the Magna Board of Directors to withdraw the proposed transaction and eliminate the consulting arrangements with Frank Stronach and associated entities, which we believe are a material component of Magna's flawed governance structure.

This past year, we also achieved other positive results in connection with our governance engagements which included a decision made by the Canadian Securities Administrators (CSA) not to move forward with proposed changes to governance guidelines and audit committee and disclosure requirements.

The CPP Investment Board and others submitted comments opposing these changes, which we believed would weaken governance practices. We were satisfied with the successful outcome of our engagement activities in this area.

Another successful initiative of the CPP Investment Board resulted in changes to the Toronto Stock Exchange (TSX) requirements for shareholder approval of dilutive share issuances in connection with an acquisition. This was a very positive outcome of long-term advocacy undertaken, both directly and collaboratively, with the Pension Investment Association of Canada (PIAC) and the Canadian Coalition for Good Governance (CCGG).

UN Global Compact

Since 2008, we have participated in the three phases of a collaborative initiative coordinated through the United Nations' *Principles for Responsible Investment* (UN PRI) Engagement Clearinghouse focused on companies' adherence to the disclosure requirements of the UN Global Compact. The Global Compact is a voluntary commitment made by companies with regard to the areas of human rights, labour, environment and anti-corruption.

The most recent phase of this initiative began in February 2010 and included sending letters to 130 Global Compact signatories – 44 companies were commended for their disclosure, while 86 were asked to improve disclosure regarding their commitment to the Global Compact. Companies that do not submit a Communication on Progress (COP) will be delisted from the UN Global Compact. As of May 2010, nine companies had submitted the COP reporting requirement.

Also, in June 2010, the UN Global Compact, in conjunction with the UN PRI, published *Guidance on Responsible Business in Conflict-Affected and High-Risk Areas: A Resource for Companies and Investors*. This guidance document will support engagement going forward.

Tobacco

We continue to monitor and contact companies within our portfolio that are involved with the production of tobacco products to request disclosure on how they are responding to *The World Health Organization Framework Convention on Tobacco Control* (WHO FCTC), particularly for operations in emerging markets. The objective of the WHO FCTC is to protect present and future generations from the consequences of tobacco consumption and exposure to tobacco smoke. This initiative is an important catalyst for increasing regulation in emerging markets.

Since 2004, we have supported 24 shareholder proposals at tobacco companies on various issues, including marketing practices, supply chain management and second-hand smoke. During the 2010 proxy season, the CPP Investment Board supported eight shareholder proposals at tobacco companies.

Burma

In keeping with the Government of Canada's sanctions on Burma through the *Special Economic Measures Act* (SEMA), we have reviewed our portfolio to ensure compliance with the regulations. Within our extractive industries focus area we also encourage companies with operations in Burma to address the investment risks related to the environmental and social issues associated with their operations.

Anti-Personnel Landmines and Cluster Munitions

Investment in companies that are not in compliance with the *Anti-Personnel Mines Convention Implementation Act* is prohibited by the CPP Investment Board's *Policy on Responsible Investing*. We engage directly with international aerospace and defence companies and use third party research to identify companies that are ineligible for investment.

We continue to monitor the *Convention on Cluster Munitions* (the Oslo Convention) and Canada's legislative response to ensure that companies with businesses not in compliance with forthcoming Canadian legislation regarding the Oslo Convention are excluded from our portfolio. On December 3, 2008, more than 100 countries, including Canada, signed the *Convention on Cluster Munitions* in Oslo, Norway.

The Oslo Convention prohibits the use, development, production, stockpiling and transfer of cluster munitions. We will continue to review our portfolio and contact companies seeking clarification on whether their businesses comply with the Oslo Convention.

Water – A New Focus Area

An increasingly important environmental, social and governance (ESG) concern is the usage of water by a wide variety of industries, and the effect this could have on the world's water supply. In recognition of this, the CPP Investment Board will be adding water as a focus area for engagement in the coming year.

Our initial efforts in this area include becoming a signatory to the Carbon Disclosure Project (CDP) Water Disclosure initiative in March 2010. The CDP Water Disclosure initiative is backed by 137 financial institutions globally with a combined US\$16 trillion in assets. The objective of this initiative is to collect water-related data from the world's largest corporations on behalf of investors. The CDP Water Disclosure initiative has asked 302 of the largest global companies, including those in the oil & gas, utilities and mining sectors, to report on water-related risks and opportunities.

Our upcoming activities and strategy will include targeting Canadian and international holdings in high-impact sectors through direct and collaborative engagement. We will seek disclosure on material risks related to water, and assurance that companies are managing longer-term risks.

The CDP Water Disclosure initiative has asked 302 of the largest global companies to report on water-related risks and opportunities.

PROXY VOTING

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

We review every item on the agendas of the public companies in which we invest. We escalate proposals to an expert within our Responsible Investing team, or more broadly within the Public Market Investments department as necessary. If novel or contentious environmental, social and governance (ESG) issues are identified, they are brought to senior management.

All individual proxy votes are posted on our website following company meetings (www.cppib.ca).

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

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

Voting Record

Below are highlights of our proxy voting record for the 2010 proxy season, with examples of our votes on a range of management and shareholder proposals.

2010 PROXY SEASON FACTS

3,245 meetings

Canada – 530

United States – 674

Non-North American – 2,041

30,475¹ agenda items

Voted against management 11%²

¹ This number is larger than in past reports because of a change in the approach to the counting of agenda items, not a material increase in actual items. If directors are elected individually, each director is counted as a separate agenda item; whereas, in the past, the election of directors was counted as one item regardless of whether they were elected individually or by slate. Using this approach, there would have been 29,238 agenda items in 2009.

² The decrease in the percentage of votes against management in 2010 versus 15% in 2009 is mostly attributable to the increase in agenda items in 2010 due to the new system for counting director elections.

We review every item on the agendas of the public companies in which we invest.

Management Proposals

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

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

Type of Management Proposal	Proposals We Voted Against	Rationale for Not Supporting Proposal
Equity compensation plan introduction or amendment	473 of 1,214 proposals (39%)	Plan did not fit within our guidelines, possibly because of high cost, excessive dilution of common stock, inclusion of non-employee directors, or overly broad amending powers granted to the board.
Shareholder rights plan adoption or amendment	48 of 105 proposals (46%)	Plan did not increase the board's ability to respond to a takeover bid in a manner that would enhance shareholder value.
Increases in authorized common stock	31 of 64 proposals (48%)	Dilutive share issuance without demonstration of a specific business need that would enhance shareholder value.
Election of director with poor attendance	131 withheld or against	Director attended fewer than 75% of board and committee meetings without a valid reason for the absences.

Shareholder Proposals

We review, and are pleased to discuss, proposals put forward by shareholders on a case-by-case basis.

During the 2010 proxy season, the CPP Investment Board voted on 788 shareholder proposals. Altogether, shareholder proposals comprised 3% of all resolutions that we voted on. The rest were proposals brought forward by management.

A number of shareholder proposals were withdrawn by their proponents following successful engagement, resulting in the companies involved agreeing to take responsive action. Several of these proposals were related to environmental and social issues.

We support proposals that seek to improve disclosure and reduce risks that could negatively impact long-term profitability.

The following tables highlight examples of shareholder proposals that we considered during the 2010 proxy season.

We review, and are pleased to discuss, proposals put forward by shareholders on a case-by-case basis.

TYPES OF SHAREHOLDER PROPOSALS WE GENERALLY SUPPORTED

Proposal Subject	Proposals We Voted For	General Reasons for Supporting Shareholder Proposal	Noteworthy Proposals	Reason Some Specific Proposals Not Supported
Enhance disclosure on environmental and social risks and performance	36 of 55 proposals (65%)	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.	ConocoPhillips Massey Energy Company The Southern Company Tyson Foods Inc.	We did not support proposals if the company already provides disclosure or if the proposal was overly prescriptive.
Adopt/disclose corporate responsibility standards (e.g., human rights, water management)	23 of 37 proposals (62%)	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.	Altria Group, Inc. Exxon Mobil Corporation Freeport-McMoRan Copper & Gold Inc. Halliburton Company	We did not support proposals if they were overly prescriptive or duplicative of initiatives already in place.
Advisory vote on executive compensation	52 of 59 proposals (88%)	An advisory vote on executive compensation is an important part of the engagement process to achieve improved disclosure and compensation practices.	The Dow Chemical Company EMC Corporation Sempra Energy Sprint Nextel Corporation The Walt Disney Company Wellpoint Inc.	Prior to updating our position to reflect evolving best practices, we generally opposed advisory votes on executive compensation in Canada.
Adopt policy on succession planning	3 of 3 proposals (100%)	Succession planning for CEOs and other senior officers is an important responsibility of the board; having a clear policy for this will assist the board in carrying out this duty.	Bank of America Corp. Verizon Communications Inc. Whole Foods Market, Inc.	Not applicable.
Majority vote for the election of directors	27 of 27 proposals (100%)	Majority voting provides shareholders with the opportunity to vote against a director. If a nominee does not receive a majority of the votes cast, the nominee should not be elected as a director.	Duke Energy Corporation Johnson Controls, Inc. PPL Corporation	Not applicable.
Separate Chair and CEO	21 of 37 proposals (59%)	Different responsibilities of the two positions warrant different leaders.	Deere & Co. Honeywell International Inc. Qwest Communications International Inc.	Company had appointed an independent lead director with clearly delineated duties.

TYPES OF SHAREHOLDER PROPOSALS WE GENERALLY SUPPORTED

Proposal Subject	Proposals We Voted For	General Reasons for Supporting Shareholder Proposal	Noteworthy Proposals	Reason Some Specific Proposals Not Supported
Amend articles, by-laws or charter to provide for shareholder rights to call special meetings	45 of 45 proposals (100%)	As in Canada, shareholders owning a specified percentage of shares should have the right to call special meetings of shareholders.	Colgate-Palmolive Corporation Exxon Mobil Corporation Occidental Petroleum Corporation	Not applicable.
Reduce super-majority voting requirements	20 of 20 proposals (100%)	Super-majority voting requirements create inequality among shareholders and constrain minority shareholder rights.	Alcoa Inc. Dell Inc. Time Warner Inc.	Not applicable.

TYPES OF SHAREHOLDER PROPOSALS WE GENERALLY DID NOT SUPPORT

Proposal Subject	Reason for Not Supporting Proposal
Report on pay disparity	Our focus regarding executive compensation is the link between pay and performance. The requested information would not improve shareholders' ability to evaluate the company's compensation policy from a pay-for-performance perspective.
Minimum executive stock retention and holding periods	While we typically support minimum share ownership requirements, these proposals were brought to companies that already had executive share ownership guidelines and they were overly prescriptive.
Deceptive proposals	These proposals appear to be progressive but actually deter company efforts to address climate change and other ESG risks and opportunities. These proposals are often overly prescriptive and could impose significant costs relative to potential benefits.

RESEARCH AND INTEGRATION

Research on long-term, material environmental, social and governance (ESG) factors plays an integral part in our engagement processes, including guiding engagement selection and supporting engagements, as well as informing our investment decision-making.

Supporting Research

We believe that investment analysis should incorporate ESG factors to the extent that they affect long-term risk and return. Better analysis also enables us to target engagement efforts towards issues and companies that are more likely to enhance the long-term performance of our portfolio. Across the industry, data on ESG factors is less available and less consistent than research on traditional financial metrics. There is a need for additional research on how ESG factors can affect corporate performance over time, and a need to explore the link between certain ESG factors and financial returns.

In addition to the detailed research that is conducted by our Responsible Investing team and portfolio managers, we, in collaboration with other investors as well as directly, actively seek and encourage third party research that incorporates long-term, material ESG factors. An example of this is our sponsorship and support of studies by the Clarkson Centre for Business Ethics & Board Effectiveness (CCBE), at the University of Toronto's Rotman School of Business, on executive compensation and the link between executive pay and performance. Also, the Canadian Coalition for Good Governance (CCGG), in which the CPP Investment Board has taken a leading role, conducts detailed research in respect of all of its engagements, including an evaluation of the companies' compensation practices relative to their executive compensation principles.

The CPP Investment Board also allocates trading commissions to investment dealers to encourage investment research that better integrates long-term, material ESG factors. From 2006 to 2008, the CPP Investment Board played an active role in the Enhanced

Analytics Initiative (EAI), an international collaboration between asset owners and asset managers that was successful in raising the level of ESG research produced by investment dealers. In late 2008, the EAI merged into the United Nations' *Principles for Responsible Investment* (UN PRI) to create the Enhanced Research Portal. The UN PRI Enhanced Research Portal aims to broaden the work of the EAI, making it easier for investors to identify available ESG research.

Integration

Where relevant, ESG factors are integrated into investment decisions across all asset classes in our portfolio. 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 in the due diligence process, where applicable, and monitored over the life of the investments.

We continue to enhance the integration of ESG factors into our investment processes. For example, a key area of expansion this year in Public Market Investments was the Fundamental Research team, which included the recruitment of senior portfolio managers in sectors such as consumer goods, energy, financials, industrials and materials. Certain members of the Responsible Investing team have also changed their reporting lines and now report through the head of the Fundamental Research team to facilitate analysis and incorporation of environmental and social factors into our public market investment process.

GOING FORWARD

Throughout the global financial crisis, the CPP Investment Board reaffirmed the value of its long-term perspective in helping sustain the pensions of 17 million Canadians. Responsible investing is an important facet of this strategy, and we will continue to expand our activities in the years ahead. In the coming year, this includes furthering both our direct and collaborative engagement with companies in the key areas of executive compensation, climate change and the extractive industries. We are also going to add a new focus area – water. We are continuing to enhance the integration of environmental, social and governance (ESG) factors into our investment decision-making process, and plan to become a more active voice as our efforts progress.

We recognize that implementing a responsible investing strategy is an evolutionary process and there is still a great deal more that can be accomplished.

The United Nations' *Principles for Responsible Investment* (UN PRI) will continue to guide our responsible investing activities and we will continue to strengthen our efforts with regards to its six principles.

We will also continue to dedicate resources to, and participate in, collaborative activities that support improved research into the materiality of ESG issues. As research improves, and as disclosure by companies improves, so too will our ability to focus our engagement efforts and integrate ESG considerations into our investment practices.

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

For More Information

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

- Canadian Coalition for Good Governance (CCGG)
www.ccg.ca
- Carbon Disclosure Project (CDP)
www.cdproject.net
- CDP Water Disclosure
www.cdproject.net/water-disclosure
- Council of Institutional Investors (CII)
www.cii.org
- Extractive Industries Transparency Initiative (EITI)
www.eitransparency.org
- International Corporate Governance Network (ICGN)
www.icgn.org
- Pension Investment Association of Canada (PIAC)
www.piacweb.org
- United Nations' *Principles for Responsible Investment* (UN PRI)
www.unpri.org

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

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