

# Investing for Long-Term Value



CPP  
INVESTMENT  
BOARD

# Profile

Canada Pension Plan Investment Board (CPPIB) is a professional investment management organization with a critical purpose – to help provide a foundation on which Canadians build financial security in their retirement. We invest the assets of the Canada Pension Plan (CPP) not currently needed to pay pension, disability and survivor benefits. Adhering to the principles of Integrity, Partnership and High Performance, we have become one of the world's leading institutional investors.

## TABLE OF CONTENTS

Investing for Long-Term Value	1
President's Message	2
Guided by the Principles for Responsible Investment	5
Integrating ESG into Investment Decisions	6
Actively Engaging as Owners	9
Making an Impact Through Collaboration	15

# Investing for Long-Term Value

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

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 investment-only mandate, we integrate ESG factors into our investment analysis, rather than eliminating investments based on those factors alone. As an owner, we monitor ESG and actively engage with companies to promote improved management of ESG factors, ultimately leading to enhanced long-term outcomes in the companies and assets in which 18 million CPP Fund contributors and beneficiaries have a stake.

## ESG FACTORS

While the specific factors vary by company, industry and geography, there are several key issues we consider when evaluating opportunities, making decisions, managing our investments, and that we engage on, to seek improvements in business practices and disclosure.



This yearly report forms part of our transparency commitment to Canadians and profiles investments, initiatives and actions CPPIB pursued from July 1, 2012, to June 30, 2013, to enhance the long-term value of the CPP Fund. This reporting period allows us to summarize our voting activity at completion of each proxy season.

For further information on how we integrate ESG factors into our investment decisions and ongoing engagement activities, please see *Our Approach to Responsible Investing*, available at [www.cppib.com](http://www.cppib.com).

# President's Message



**Mark D. Wiseman**

President &  
Chief Executive Officer

Canada Pension Plan Investment Board (CPPIB) has a critical purpose to help provide a foundation upon which Canadians build lifetime financial security in retirement. In fulfilling this responsibility, we believe that transparency is the foundation of trust with our stakeholders. This means reporting not only on our financial performance, but also on how we act as an engaged investor to enhance the long-term value of the Canada Pension Plan (CPP) for the benefit of 18 million CPP contributors and beneficiaries.

This year we are introducing a new format for CPPIB's annual *Report on Responsible Investing*. On the following pages, you will find an in-depth report on the actions we undertook over the previous year to manage environmental, social and governance (ESG) factors to enhance long-term value. As a supplement to this report, you will also now find on our website, a publication called *Our Approach to Responsible Investing*. This publication presents a comprehensive look at the policies, resources and strategies CPPIB uses to integrate ESG into our investment decisions and actions as an engaged asset owner.

It is our hope this approach will more clearly present the tangible steps CPPIB is taking to manage ESG factors and provide a deeper understanding of how we do so.

## LONG-TERM INVESTING

Given our multi-generational horizon, responsible investing is simply part of intelligent long-term investing. Over the exceptionally long horizon over which we invest, ESG factors have the potential to be significant drivers or barriers to profitability and shareholder value. While our investment-only mandate means we do not pursue or eliminate investments based on any objective beyond earning a maximum long-run rate of return without undue risk of loss, we also consider factors that have the potential to impact returns over a much longer horizon than many other investors.

We like to say that CPPIB invests for the next quarter century, not the next quarter. Consideration and management of long-term ESG factors in our investments is crucial to fulfilling our mandate. Unfortunately, in many of the markets we operate in, the spotlight is too often on daily volatility or just 90 days worth of performance. Such short-term perspectives mean that companies are not making decisions today that are necessary to enhance value years or decades from now.

CPPIB believes investors like us must look at the bigger, long-term picture. For our part, CPPIB is committed to using our position as one of the world's largest institutional investors to be a vocal advocate in encouraging business leaders to adopt long-term mindsets and steward their companies towards long-term value, not just better results the next quarter.

This year, I had the pleasure to launch a unique multi-year initiative alongside Dominic Barton, the Global Managing Director of McKinsey & Company, called *Focusing Capital on the Long Term*. Through this project CPPIB and McKinsey will seek to create tools, metrics and approaches that will better enable institutional investors and corporate directors to shift their focus from short-sighted objectives to long-term value creation. We believe such an outcome will ultimately lead to enhanced long-term performance for the companies in which we invest, maximizing the long-term returns available to CPPIB and our beneficiaries – and, at the same time, benefitting the environment and society as a whole.

## INTEGRATING ESG FACTORS

As best practices and approaches to managing ESG factors evolve, CPPIB continues to review and enhance how we integrate such factors into our day-to-day investment decisions and asset management. Since our last report, and with the aid of our Responsible Investing group, we have built on our existing processes to develop an enhanced approach to systematically consider ESG factors in due diligence and monitoring of investments. We developed a structured ESG due diligence process for our direct private investments, fund investments and real estate investments and also put in place enhanced monitoring tools for these investments.

As an example of how we think about creating long-term value, with our 25% ownership interest in Canada's tallest office tower, First Canadian Place in Toronto, we contributed to a rejuvenation project to enhance the building's environmental profile. Compared to 2008, the property now saves approximately 23 M kWh of electricity and 30,000 cubic metres of natural gas per year – enough to power 800 homes for one year. Similarly, as engaged owners of public equities, we supported

32 shareholder proposals this year requesting enhanced disclosure on environment and social risks and performance. We also continued to actively engage on ESG across our public markets portfolio, including directly engaging with large greenhouse gas emitters to improve reporting on climate change and sustainability. We believe that better corporate disclosure will allow us and other investors to make better investment decisions. The following pages provide more detail on these actions, among other steps we took this year to manage ESG factors to enhance long-term value.

## USING OUR INFLUENCE

Collectively and individually major institutional investors like CPPIB have the power to influence the companies in which we invest. This year we took action with a group of investors, including six of the largest institutional investors in Canada, to make a clear public statement about an egregious example of poor governance at Barrick Gold, resulting in only the second instance of a Say on Pay resolution being voted down in Canada. We believe that, if we act together, we can positively impact the market. Indeed, often the mere expectation of how such large investors will act is enough to change behaviour.

Acting collaboratively or individually to engage with companies to address ESG factors is not a simple or quick process. Yet, instead of simply 'voting with our feet' and selling our shares when issues arise, long-term institutional investors have the ability to act as patient providers of capital and to work with companies to bring about change. Through such actions, we can make significant, market-wide improvements on ESG factors to the ultimate benefit of all market participants.

In the coming year, CPPIB will remain committed to active involvement in a variety of collaborative initiatives to advance market-wide improvements on ESG factors. Through representation on the Advisory Council of the United Nations-supported Principles for Responsible Investment, membership on the board of the Canadian Coalition for Good Governance and support of other important collaborative initiatives, we are committed to being an engaged asset owner.

## CONCLUSION

This report details the variety of actions related to ESG factors that CPPIB undertook this year with the sole objective of enhancing the long-term value of the CPP Fund. While the impact of many of these steps will not be clear in the short term, or the financial benefits immediately realized, we will maintain our steadfast focus on a long horizon. The actions and decisions we take as an investor today will continue to be ones that will provide the foundation for enhanced long-term financial performance to the benefit of 18 million CPP Fund contributors and beneficiaries for decades to come.



**Mark D. Wiseman**  
President & Chief Executive Officer

## OUR PRIORITIES

As we fulfill our mandate to Canadians, CPPIB is committed to acting as a responsible and engaged provider of capital. Over the upcoming year, we have five key priorities in continuing to strengthen our approach to investing for long-term value.

### Engage on our focus areas

Continue ongoing engagement (individually and collaboratively) as an active asset owner on issues related to our focus areas and consider adding additional focus areas, such as supply-chain management.

### Deepen ESG integration

Continue to strengthen our ESG integration approaches by building our internal ESG capabilities and reconstituting our Responsible Investing Committee to include representatives from across our investment departments.

### Evolve with best practices

Continue to monitor evolving best practices in disclosure and management of ESG, encouraging companies to adopt them.

### Leverage our experience

Leverage the successes and experience we have gained to continue to tailor our approach and expand our engagement activities globally.

### Promote long-term thinking

Continue to be a vocal advocate for long-term investing, promoting the adoption of long-term mindsets and behaviours.

## Defining Responsible Investing at CPPIB

At CPPIB we consider responsible investing simply as intelligent long-term investing. We believe organizations that take the opportunity to manage ESG factors effectively are more likely to endure, and create more value over the long term than those that do not. With our singular mandate to achieve a maximum rate of return without undue risk of loss, and our responsibility to help support the sustainability of the Canada Pension Plan for generations to come, we consider and integrate both ESG risks and opportunities into our investment decisions to enhance the long-term value of the CPP Fund.





# Guided by the Principles for Responsible Investment

CPPIB is a founding signatory to the United Nations-supported Principles for Responsible Investment (PRI).

PRI provides a practical framework for investors to incorporate ESG factors into investment decision making and asset ownership. The PRI initiative now includes over 1,200 signatories representing in excess of US\$30 trillion in assets under management. Today, the PRI is the leading global network for investors such as CPPIB to collaborate and consider ESG factors in order to better incorporate these into our investment decisions and asset management, so as to improve investment performance.

## CPPIB IS GUIDED BY THE PRI'S SIX PRINCIPLES FOR RESPONSIBLE INVESTMENT



Through the PRI, CPPIB actively contributes to the improvement in corporate ESG practices globally, for the long-term financial benefit of the companies in which we invest:

### Resources and best practices

Our in-house Responsible Investing group uses PRI tools made available to signatories, including the Implementation Support program, which publishes best practice guidance and hosts webinars on ESG topics.

### Collaborative engagement

Over the past five years, we have participated in a collaborative engagement related to the UN Global Compact, coordinated through the PRI Engagement Clearinghouse, to encourage disclosure by companies that have committed to the Compact's principles related to human rights, labour, environment and anti-corruption.

### PRI reporting

We submit annual reports on our activities to the PRI under its Reporting Framework requirement.

### PRI Advisory Council

Eric Wetlaufer, Senior Vice-President, Public Market Investments, is currently serving a three-year term as a member of the PRI Advisory Council, allowing us to contribute to the PRI's ongoing strategic direction.



# Integrating ESG into Investment Decisions

As a global investment organization, we invest in public markets, private investments and real estate around the world. As a long-term investor, ESG factors are of greater importance to CPPIB than to investors with short-term perspectives. We consider ESG factors in our due diligence, investment decisions and how we engage as owners, to enhance long-term outcomes in the companies and assets in which we invest.



**HALCÓN RESOURCES CORPORATION**  
11% Ownership Interest  
United States  
Public Market Investments



**ANGLIAN WATER GROUP PLC**  
33% Ownership Interest  
United Kingdom  
Private Investments



**ISTA INTERNATIONAL GmbH**  
€175 million Investment  
Germany  
Private Investments

## Integrating ESG factors from due diligence to ownership

Given our view that a company's governance structure and its approach to ESG is a clear indicator of its commitment to sustainable growth and value creation, the assessment of Halcón's ESG practices helped inform our conviction on the company's potential as a long-term investment opportunity.

Assessment of ESG factors was incorporated into our due diligence process, including Halcón's governance structure, environmental matters and health and safety practices.

We evaluated Halcón's practices by interviewing board members, reviewing board minutes, assessing environmental and safety reports and holding a number of discussions with the management team.

Our assessment of ESG factors did not end once the investment was made. A CPPIB representative has been appointed to the board and continues to work with the company to promote sound ESG practices.

## Realizing the benefits of good governance

Once CPPIB has acquired a major stake in a private company we become an active and constructive long-term partner with the aim of enhancing the company's ongoing operations and financial performance.

As a significant owner, CPPIB holds two board seats and is actively engaged in the governance of Anglian Water, a regulated water treatment distribution and water recycling company. During 2013, Anglian Water was awarded a Platinum Big Tick (the highest level of achievement) in the Business in the Community Corporate Responsibility Index, achieving a score of 97%. Anglian Water was also short listed for the prestigious Responsible Business of the Year 2013 and received a Highly Commended at the Finance for the Future Awards, for its approach to financial sustainability.

## Aligning ESG opportunities and investment fundamentals

In June 2013, CPPIB made a €175 million investment in ista International GmbH. ista is the world leader in sub-metering, the measurement of energy and water consumption and related cost allocation for multi-occupant properties.

Sub-metering has a proven ability to reduce energy consumption (by up to 20%) as it provides an incentive for tenants to reduce their energy use.

Several countries are adopting laws promoting the implementation of sub-metering in multi-tenant buildings, in conjunction with the European Commission's issue of the Energy Efficiency Directive to reduce energy consumption in the European Union by 20% by 2020. This presents ista with a unique growth opportunity and demonstrates how identifying the opportunities associated with ESG factors can lead to enhanced earnings potential and business development.



## EVOLVING OUR INTEGRATION PROCESSES

As the management of ESG by investors and companies continues to evolve, CPPIB is committed to continually reviewing current and emerging best practices, so as to better integrate ESG factors into our investment decisions and asset management.

This year our Real Estate Investments (REI) department actively engaged with existing and new investment partners and participated in conferences to enhance its understanding of emerging best practices in sustainability in the real estate sector. REI introduced a more formal ESG due diligence procedure into its investment approval process and further developed its annual ESG monitoring tools to enhance its evaluation and monitoring of prospective and existing partners.

Private Investments expanded its fund partner ESG evaluation process to enhance the team's understanding of a prospective fund manager's ESG practice; including their ESG policies, processes and approach; ESG resourcing; due diligence; and ongoing monitoring and reporting.

CPPIB's approach to ESG diligence of direct private investments is well-established across all large infrastructure and direct private equity diligence projects. This has led to improved rigour in the monitoring of ESG factors, which is being included in the regular semi-annual monitoring process supported by the Portfolio Value Creation group.



### FIRST CANADIAN PLACE

25% Ownership Interest  
Canada  
Real Estate Investments

### AMP CAPITAL RETAIL TRUST

37% Ownership Interest  
Australia  
Real Estate Investments

### NOVA, VICTORIA

50% Ownership Interest  
United Kingdom  
Real Estate Investments

### Continuing to improve environmental standards

After undergoing a multi-phase rejuvenation project to enhance its environmental profile, office property First Canadian Place achieved a prestigious Gold Level Certification from Leadership in Energy and Environmental Design for Existing Building Operations and Maintenance.

Compared to 2008, the property now saves approximately 23 M kWh of electricity and 30,000 cubic metres of natural gas per year – enough to power 800 homes for one year. Water utilization has also been reduced by 31%, or 66 million litres per year – equivalent to 26 Olympic-sized swimming pools.

Leading tenants frequently seek out the most environmentally advanced buildings for offices as a matter of corporate responsibility as well as to demonstrate sustainable practices to their own stakeholders, establishing these assets as more competitive. The rejuvenation project is a clear demonstration of how investing in environmental gains can enhance long-term economic performance.

### Partnering with like-minded investors

CPPIB has partnered with AMP Capital through our investment in AMP Capital Retail Trust (ACRT). With over A\$130 billion in funds under management, AMP Capital is one of the top shopping centre managers in Australia and a signatory to the PRI.

ACRT holds interests in the Macquarie Centre and Pacific Fair Shopping Centre which are currently undergoing major redevelopment initiatives, enhancing their environmental ratings as they expand in size.

Pacific Fair will become Australia's second-largest shopping centre, with a targeted 4 or 5 Green Star rating (out of a possible 6 Stars) from the Green Building Council of Australia. Macquarie Centre is to become the sixth-largest shopping centre in Australia, with a targeted 4 Green Star or 'Best Practice' rating. We believe that these initiatives will enhance the long-term value of these assets.

### Investing in environmental factors to enhance long-term value

We have partnered with Land Securities Group PLC, the largest commercial property company in the U.K., to own and develop Nova, Victoria, one of the largest developments in London's West End.

The mixed-use development is targeted to achieve a Building Research Establishment Environmental Assessment Method 'Excellent' certification (the second-highest rating). Sustainability features of the development include a number of low-carbon energy initiatives such as installing gas-fired combined-heat-and-power units, absorption chillers, high-efficiency boilers and thermal-heat storage and several water-reduction initiatives such as rainwater harvesting and grey-water recycling.

We believe incorporating environmental factors from the beginning of the development of Nova, Victoria will ultimately add value to the asset and favourably impact risk-adjusted returns.





# Actively Engaging as Owners

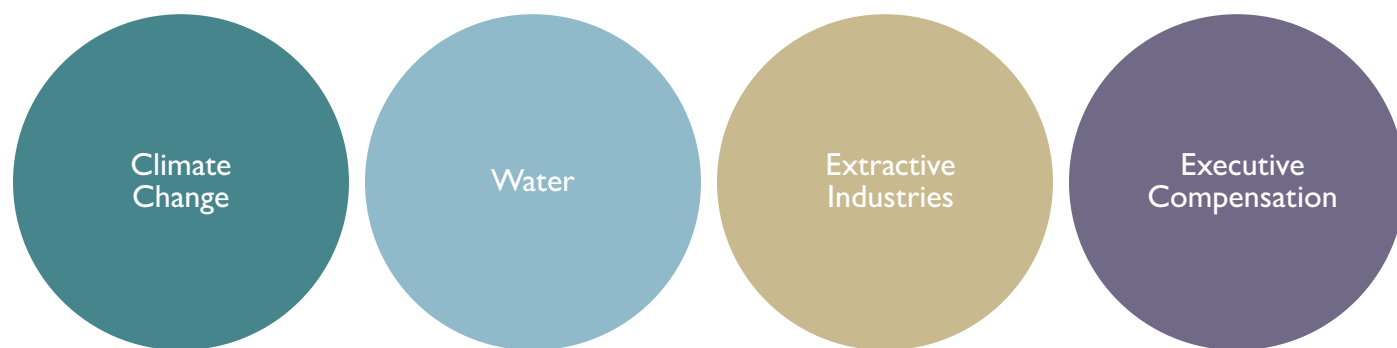
We believe that engaged investors with long-term orientations can meaningfully reduce investment risks and sustain better returns over time. Whether on our own or alongside other investors, we are committed to driving proactive dialogues with senior executives, board members, regulators, industry associations 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 active owners. Engaged investors can also significantly reduce investment risks and contribute to enhanced and sustained returns over time.

## Report on Our Engagement Focus Areas

As outlined in *Our Approach to Responsible Investing*, from the almost 3,000 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. 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.

### OUR FOUR FOCUS AREAS



The following pages outline our progress on these focus areas this year.

## CLIMATE CHANGE

Climate change has the far-reaching potential to result in both direct and indirect financial implications for companies and long-term shareholder value.

To manage these risks for long-term value creation, CPPIB encourages companies to provide more complete, standardized disclosure of emissions data, enhance reporting on risk management strategies and opportunities and improve estimates of the impact of future regulation and impacts on long-term profitability.

### Actions and Progress

Our actions resulted in companies in our public equity portfolio being encouraged to adopt a more long-term mindset as it relates to climate change.

#### Directly engaged with companies

Companies we engaged with included some of the largest GHG emitters in Canada. Several have now improved the quality of reporting on climate change and sustainability issues.

#### Supported related shareholder proposals

CPPIB supported shareholder proposals requesting improved disclosure of management of risks related to climate change, including long-term objectives, goals, risk management practices and mitigation strategies.

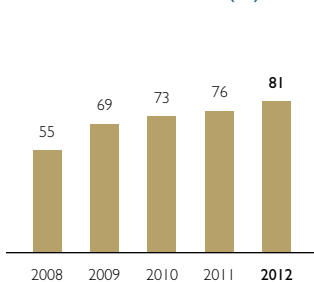
#### Signatory to the Carbon Disclosure Project (CDP)

The CDP annually requests disclosure of climate change management and GHG emissions from companies in developed countries and emerging markets.

In February, the 2013 CDP questionnaire was sent to over 5,000 companies, including 200 in Canada. The 2013 CDP climate change information request is backed by 722 institutional investor signatories, including CPPIB, representing over US\$87 trillion in assets.

Representatives from CPPIB attended the 2013 CDP Canada Spring Workshop, which included presentations from companies about their views on the CDP climate change information request.

### CDP Global 500 Disclosure of GHG Emissions\* (%)



\* Percentage of companies providing disclosure

Among Canada's largest 200 companies by market capitalization, 107 responded to the 2012 CDP climate change information request. Globally, the CDP climate change initiative is achieving significant success (405 companies out of the Global 500 responded to the 2012 request), with notable progress since 2008 in the disclosure of GHG emissions by the largest 500 companies surveyed.

## WATER

Water is one of the world's most critical resources. Effective risk management of water supply and quality is fundamental to the long-term sustainability of a company's performance and especially relevant to investors with a long horizon.

We actively encourage companies to increase corporate reporting standards on water-related strategies and performance and to provide more comparable disclosure of water-related data.

### Actions and Progress

Our activities encouraged companies globally to enhance their approach to managing long-term water risks.

#### Directly engaged with companies

We continued to directly engage with select companies to encourage better disclosure practices. Companies we engaged with are now improving disclosure of water performance metrics and longer-term goals, including usage-reduction targets.

#### Supported related shareholder proposals

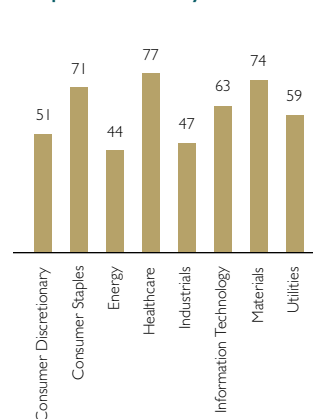
We supported shareholder proposals requesting the improved management and disclosure of water-related risks, including risks related to water availability and quality.

#### Supported the CDP Water Disclosure

In 2013, CPPIB and more than 500 other institutional investors that represent US\$57 trillion in assets under management supported the fourth request by CDP Water Disclosure to disclose information, sent to over 600 of the largest global companies, in order to create and sustain long-term shareholder value through ultimately better management of water issues.

CPPIB was among the initial signatories that supported the launch of the CDP Water Disclosure initiative in 2010.

### CDP Water Disclosure Response Rate by Sector



The participation rate of global companies in the CDP Water Disclosure initiative was 60% in 2012, compared to 50% in 2010. Oversight of water-related issues at global companies increased, with 58% of responding companies having board-level oversight. In Canada, eight of the 11 companies requested responded to the CDP Water Disclosure information request. Companies noted in their responses that water is an operational risk, and most have a water policy, strategy or plan in place.



## EXTRACTIVE INDUSTRIES

Oil and gas and mining companies have significant impacts on both the physical environment and the local communities where they operate.

CPPIB believes that to be successful, companies in these sectors must earn and maintain a 'social licence to operate' by proactively identifying, managing and mitigating key environmental and social issues to create greater and more sustainable value for all stakeholders.

CPPIB actively encourages improved disclosure of environmental performance and management strategies across the industry to allow investors to better assess long-term performance. Companies are encouraged to develop standards for operations, including human rights practices, local community relations and anti-corruption initiatives.

### Actions and Progress

We took a number of actions to advance the consideration of ESG factors within the operations of extractive industries companies.

#### Directly engaged with companies

We engaged with Canadian companies that have operations or investments in high-risk countries, and encouraged enhanced disclosure of their management of environmental and social risks.

Mining companies we engaged with continue to be committed to mine certification under the International Cyanide Management Code. Companies that adopt this Code have their use of cyanide audited by independent third parties. Thirty-eight gold mining companies are now signatories, of which 13 are Canadian.

Canadian and global companies with whom we engaged increased their corporate commitment to the Voluntary Principles on Security and Human Rights, which serve as a guide for companies in the implementation of security and safety practices to protect human rights.

#### Supported related shareholder proposals

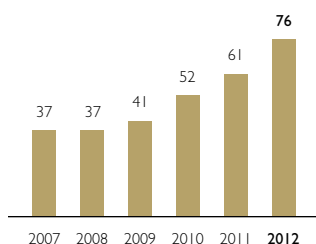
We supported shareholder proposals requesting improved disclosure of operations in high-risk countries and the consideration of environmental expertise in director skill sets.

#### Supported the Extractive Industries Transparency Initiative (EITI)

Through the EITI, CPPIB seeks transparency in reporting of tax and royalty payments. We continued to engage with Canadian and global companies to encourage their participation.

In 2013, we attended an EITI Outreach and Information session held in Toronto, which included a panel on the relevance of the EITI to Canadian companies.

### Number of companies supporting EITI



The EITI continues to gain support from governments, companies and investors – over 80 global investment institutions representing in excess of US\$19 trillion in assets under management now support the initiative. New countries continue to commit, such as Colombia, Myanmar and Papua New Guinea. There are 23 compliant countries, 16 candidate countries and 33 countries producing EITI reports. Eight Canadian companies are among the 76 oil and gas and mining companies that currently participate.

## EXECUTIVE COMPENSATION

CPPIB believes that a clear and appropriate link between pay and performance is critical to aligning the interests of management with those of long-term investors.

When these interests are aligned, long-term shareholder value is more likely to be created. When they are not, the result is often ineffective and short-term corporate management.

### Actions and Progress

We continued to encourage and advocate for companies to adopt good governance practices in executive compensation.

#### Promoted improved compensation practices

Pressure from CPPIB and other investors prompted a number of companies to significantly revise their compensation plans and adopt good governance practices through advisory votes on executive compensation, commonly referred to as 'Say on Pay', and direct engagement.

Say on Pay encouraged companies to bolster their efforts to engage with shareholders to understand and anticipate their concerns. The increased dialogue between companies and shareholders and the subsequent improvement in compensation practices led to a general improvement in Say on Pay results in U.S. companies in 2013, with slightly higher average support levels and a lower incidence of failed votes.

The majority of companies that failed their Say on Pay vote in 2012 received strong support in 2013. For example, a major U.S. financial company took steps to improve its compensation policy after failing to obtain majority support for its Say on Pay vote in 2012, including adding objective performance targets to its incentive plans, implementing post-termination holding requirements and adopting a claw-back policy to recoup stock if executives were found to have committed serious errors.

#### Established compensation best practices

CPPIB contributed to the development of the Canadian Coalition for Good Governance (CCGG) 2013 Executive Compensation Principles, which provide boards with enhanced guidance on incorporating the principles of pay for performance and the integration of risk management when designing an effective executive compensation plan.

### Companies offering a Say on Pay vote rose by

# 22%

According to the Shareholder Association for Research and Education (SHARE), the number of Canadian companies that have adopted the practice of a Say on Pay vote rose by 22% in the past year. Over 80% of the S&P/TSX 60 now offer a Say on Pay.

## Exercising Our Rights as Owners in Public Markets

### 2013 Review of Proxy Voting Principles and Guidelines

CPPIB conducts an annual review of our Proxy Voting Principles and Guidelines. The process involves input from the Responsible Investing group, our investment teams and external advisors. Updates to the guidelines are reviewed and approved annually by CPPIB's Board of Directors.

As a result of this year's annual review, we revised our Proxy Voting Principles and Guidelines to incorporate a stronger stance on detailed disclosure of voting results and more clarity on director qualifications, proxy access, succession planning and director share ownership.

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 fiduciary responsibility as a shareholder and an important means for us to convey our views to boards of directors and management. CPPIB'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 to act in the best interests of the corporation, that enhance management accountability and that support shareholder democracy.

CPPIB makes all of our proxy voting decisions independently. We engage a service provider (the ISS Governance Services division of MSCI Inc.) to make initial, customized recommendations based on our voting guidelines. Our Responsible 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 and rationale to the companies concerned and to other interested parties.

### ANNUAL VOTING RECORD

The following tables provide highlights of our proxy voting activities for the 2013 proxy season, with examples of our votes on a range of management and shareholder proposals.

#### Management Proposals

We continued to vote against proposals that do not empower boards of directors to steward companies to create long-term value, do not enhance management accountability or fail to support shareholder democracy.

Subject	Voted AGAINST	Rationale
Issuance of equity or equity-linked securities without preemptive rights	180 out of 466 (39%)	The authority to issue new shares provides excessive discretion, allowing directors to renew the issuance amount without shareholder approval and/or to issue shares at major discounts to related parties.
Equity compensation plan introduction or amendment	448 out of 1,003 (45%)	Plan did not meet CPPIB guidelines, for example, because of high cost, excessive dilution of common stock, inclusion of non-employee directors, or overly broad amending powers granted to the board.
Approve remuneration report	133 out of 1,091 (12%)	The company's compensation plans did not provide an appropriate alignment between pay and performance.
Shareholder rights plan adoption or amendment	56 out of 101 (55%)	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	20 out of 32 (63%)	Possible dilutive share issuance without demonstration of a specific business need that would enhance shareholder value.
Adopt new articles of association	24 out of 57 (42%)	The articles contained unfriendly shareholder provisions with respect to the election of directors.
Related party transaction approvals	53 out of 447 (12%)	The transactions exposed the company to unreasonable levels of risk, among other concerns.

## Shareholder Proposals

We continued to support proposals that seek to improve corporate governance and disclosure on ESG risks or to reduce risks that could negatively impact long-term value.

Subject	Voted FOR	General rationale for support	Noteworthy proposals
Proxy access	7 out of 12 (58%)	The ability to nominate board candidates enhances shareholder rights and increases board accountability.	Nabors Industries Ltd. Verizon Communications Inc. The Walt Disney Company
Majority vote for the election of directors	15 out of 15 (100%)	Majority vote provides shareholders with the opportunity to vote against a director. If he/she does not receive a majority of the votes cast, the nominee should not be appointed.	Alimentation Couche-Tard Inc. Exxon Mobil Corporation Quebecor Inc.
Move to annual elections of directors	24 out of 24 (100%)	The annual election of all directors increases board accountability to shareholders.	Airgas, Inc. Kellogg Company Costco Wholesale Corporation
Require an independent board chairman	53 out of 54 (98%)	Given the board's key responsibility to provide management oversight on behalf of shareholders, the board chair should be an independent, non-executive director.	Cisco Systems, Inc. DIRECTV Johnson & Johnson
Enhance disclosure on environmental and social risks and performance	32 out of 47 (68%)	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.	Chevron Corporation Procter & Gamble Range Resources Pioneer Natural Resources CF Industries
Adopt/disclose corporate responsibility standards	15 out of 23 (65%)	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.	Exxon Mobil Corporation The Kroger Co. General Dynamics Halliburton
Report on political contributions/lobbying	54 out of 78 (69%)	Greater disclosure into political spending helps shareholders assess associated costs, risks and benefits.	Altria AT&T Citigroup eBay

## 2013 PROXY SEASON FACTS

Conveyed our views at:

**583**

Meetings in Canada

**640**

Meetings in the United States

**2,529**

Meetings outside North America

**3,752**

Meetings in 2013 proxy season

We voted on:

**37,814**

agenda items and voted against management in

**8.5%**

of cases

# 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. This year we continued to actively encourage the adoption of good governance practices in Canada and globally, through direct company engagement and collective action.

---

## We continued to collaborate with other large institutional investors to advocate for reforms to improve the accountability, transparency and efficiency of the proxy voting system in Canada

---

- Following the urging of CPPIB and a group of its peers, the Ontario Securities Commission committed to reviewing reforms of the proxy voting system in its Statement of Priorities for 2013-2014.
- We met with the Toronto Stock Exchange (TSX) and industry groups representing members of the voting chain to discuss solutions to key problems within the system.

---

## We took action to promote advancements in shareholder democracy

---

- As part of the Canadian Coalition for Good Governance's (CCGG) majority voting initiative, we helped to promote adoption of this best practice. Following a submission of a shareholder proposal by CPPIB, a major Canadian resource company agreed to adopt majority voting for the election of its directors.
- In response to submissions made by CPPIB and others, the TSX agreed to make individual director elections and the disclosure of voting results mandatory.
- Aided by CPPIB's support, a significant number of shareholder proposals aimed at empowering investors with respect to director elections and in other voting matters were successfully passed at large U.S. companies in 2013. These proposals included calls for declassifying the board, majority voting for director elections and the elimination of supermajority vote requirements.

---

## We continued to play an active role in institutional investor organizations to advocate for the adoption of governance best practices in Canada

---

- CPPIB's President & CEO Mark Wiseman joined the board of CCGG and is the Vice Chair of its Public Policy Committee, which plays a key role in developing policies and submissions to regulators and other lawmakers.
- CCGG completed 39 engagements with Canadian boards during the year to discuss and promote best practices with respect to executive compensation and board issues such as the board's risk oversight process.
- CPPIB worked closely with CCGG to develop comments on several regulatory proposals.
- A CPPIB representative served on the Corporate Governance Committee of the Pension Investment Association of Canada, contributing to submissions on securities law and corporate governance matters.

---

## We provided submissions in response to requests for comments on important regulatory matters impacting Canadian capital markets

---

- We submitted comments to the TSX and TSX Venture Exchange recommending the adoption of minimum corporate governance measures for emerging market issuers to mitigate risks associated with investing in companies based in these regions.
- We submitted a comment letter to the Canadian Securities Administrators discouraging the regulation of proxy advisors.

---

## We continued to influence governance change at investee companies by weighing in on significant contested meetings

---

- After meeting with and carefully considering the positions of both management and the dissidents on a contested proxy matter at Agrium Inc., we concluded that the dissident did not make a compelling case for change to Agrium's board of directors. This view was supported by the board's track record in overseeing significant value creation and responsiveness to shareholders. While we agreed that opportunities for improvement existed, we were of the view that the dissident's nominees did not represent the best alternative for optimizing long-term value creation particularly in light of the dissident's proposed director compensation structure. CPPIB supported the management nominees, all of whom were elected at the contested meeting.



# Making an Impact Through Collaboration

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

Alongside like-minded organizations, we can collectively wield our power to seek improvements in transparency and standards on ESG and conduct research, education, advocacy and input to legislation. We join and actively contribute to initiatives that focus on specific subject matters, such as governance, and broader considerations, such as fostering more long-term thinking in the investment and corporate worlds. The case studies below present a further look at how CPPIB acted alongside like-minded organizations to tackle both specific company matters, and larger system-wide challenges.

## FOCUSING CAPITAL ON THE LONG TERM

### Focusing Capital on the Long Term

In May 2013, CPPIB and McKinsey & Company announced a joint initiative, called *Focusing Capital on the Long Term*, to develop tools, metrics and approaches to enable institutional investors and corporate directors to think beyond short-term mindsets and focus on long-term value creation.

Short-term attitudes and behaviours have become deeply ingrained in business, investment and society. Companies forgo profitable investments for fear of missing quarterly earnings guidance. Savers switch their retirement funds based on just one or two years of underperformance. Executives are under increasing pressure from shareholders, analysts, the media and boards to deliver short-term gains and explain short-term losses. The aggregate effect is that companies and investors fail to capitalize on long-term growth and innovation. When short-termism dominates the markets, all participants, including employees, the environment and society face the consequences.

Business leaders know what is at stake. In a global survey conducted by McKinsey and CPPIB this year, business leaders told us that innovation and strong financial returns were the top two benefits that companies would realize if their senior executives took a longer-term view when making business decisions. They also told us that the board of directors and institutional investors were key sources of pressure to demonstrate short-term financial performance.

Yet, institutional investors like CPPIB have a vested interest in generating higher economic value for beneficiaries. Corporate directors have a fiduciary duty to represent the best interests of the company – which should mean a focus on long-term sustainable growth. Both of these groups have long-term interests that are not served by short-term mindsets. At CPPIB, we want to maximize returns not over the next quarter, but over the next quarter century.

Over the coming years, we will seek to engage additional organizations in *Focusing Capital on the Long Term* and work collaboratively to pursue actionable ideas to tackle the issue of short-termism. By presenting recommendations, approaches and tools to enable institutional investors and corporate directors to play a pivotal role in fostering long-term thinking and action across our investment and business worlds, we can benefit all stakeholders.

#### Business Leaders Feel Short-Term Pressures

As part of *Focusing Capital on the Long Term*, McKinsey and CPPIB conducted an international survey of corporate directors and senior executives to understand their views on the need for long-term value creation and to identify the causes and risks of short-termism in the markets and in business.

**63%** of business leaders indicated the pressure on their senior executives to demonstrate strong short-term financial performance has increased in the past five years

**79%** of directors and senior executives said they felt the most pressure to demonstrate strong financial performance over a time period of less than two years

**44%** said that their company's management team currently uses a primary time horizon of less than three years when they conduct a formal review of corporate strategy

## TAKING ACTION TO ENCOURAGE PAY FOR PERFORMANCE

In April 2013, we participated in an initiative that included seven of the largest institutional investors in Canada to oppose Barrick Gold Corporation's unprecedented \$17 million compensation package to its co-Chairman. On the basis that the level and structure of compensation was not consistent with the principle of pay for performance, together we took action to issue a joint public statement highlighting our concerns and intention to vote against the company's Say on Pay proposal and against the election of members of the Compensation Committee at Barrick Gold's 2013 Annual General Meeting (AGM). The company's Say on Pay vote was defeated with an unprecedented 85% of votes against. Prior to and following the AGM, we engaged in a constructive dialogue with the company's directors to further encourage improved governance practices.

## ADVOCATING FOR CONDITIONS TO SUPPORT LONG-TERM INVESTING

By providing patient, engaged and productive capital, long-term investors such as CPPIB have significant positive impacts on societies and economies globally. CPPIB works to promote favourable environments for long-term investing through partnerships with organizations including the Organisation for Economic Co-operation and Development and the World Economic Forum.

### Organisation for Economic Co-operation and Development (OECD)

This year, CPPIB led a consortium of Canadian pension organizations to provide comprehensive feedback to the OECD on its Principles of Long-Term Investment Financing by Institutional Investors to help ensure the OECD arrived at effective guidelines for institutional investors worldwide. The signatories to CPPIB's written submission have over \$700 billion in assets under management and represent 24 million members.

### World Economic Forum (WEF)

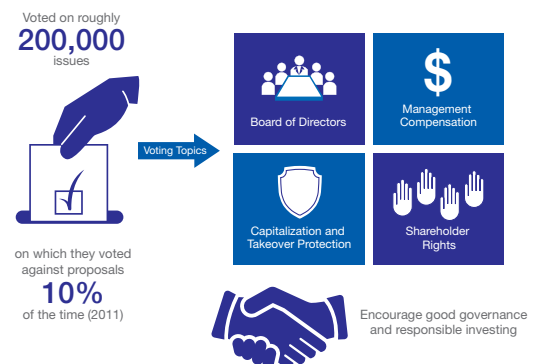
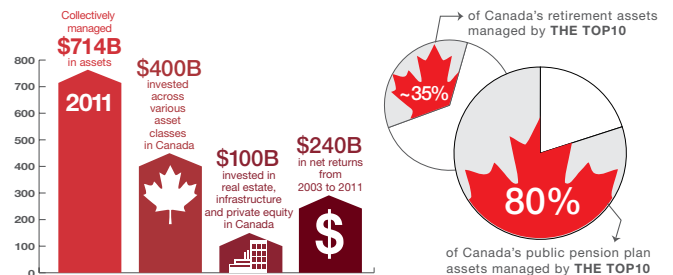
CPPIB President & CEO Mark Wiseman is a member of the WEF's Global Agenda Council on Long-Term Investing for 2012-2013 and participated in several panel discussions at the WEF's annual meeting in Davos, Switzerland, in January 2013. During these discussions, he advocated that investors must adopt longer-term mindsets and invest for the "next quarter century, not the next quarter:"

## THE COLLECTIVE IMPACT OF CANADIAN PENSION PLANS

Whether during ESG-related engagements with companies or partnering together on new investments, CPPIB often works alongside our large Canadian pension plan peers. In 2012, CPPIB and several of our peers commissioned a study to provide data for the first time on the aggregate impact of our global organizations. The study looked at Canada's ten largest public pension funds, dubbed "the top ten" and reinforced our position as strong proponents of good corporate governance practices, significant contributions to national prosperity and our role in ultimately improving the efficiency and effectiveness of capital markets. As significant owners in both Canadian and international markets, we will continue to work alongside our peers to encourage better management of ESG factors by companies and to advance better ESG standards and practices in Canada and globally to the long-term benefit of our Canadian stakeholders.

## THE TOP 10

Investing for Canada on the World Stage



Data from study commissioned by several members of THE TOP10 and conducted by The Boston Consulting Group (BCG). BCG has no liability whatsoever to any third party with regard to these materials or the Study, including the accuracy or completeness thereof. The ten largest public sector pension plans examined include: CPP Investment Board, The Caisse de dépôt et placement du Québec, The Ontario Teachers' Pension Plan Board, The British Columbia Investment Management Corporation, The Public Sector Pension Investment Board, The Ontario Municipal Employees Retirement System, The Healthcare of Ontario Pension Plan, The Alberta Investment Management Corp., The Ontario Pension Board, and The OPSEU Pension Trust.





**CPP  
INVESTMENT  
BOARD**

## **HEAD OFFICE**

### **Toronto**

One Queen Street East  
Suite 2500  
Toronto, Ontario  
Canada M5C 2W5  
T: +1 (416) 868-4075  
F: +1 (416) 868-8689  
Toll Free: 1-866-557-9510

## **INTERNATIONAL OFFICES**

### **Hong Kong**

11/F York House, The Landmark  
15 Queen's Road Central  
Central, Hong Kong  
T: +852-3973-8788  
F: +852-3973-8710

### **London**

40 Portman Square  
2nd Floor  
London W1H 6LT  
United Kingdom  
T: +44 (0) 203 205 3500  
F: +44 (0) 203 205 3420

[www.cppib.com](http://www.cppib.com)