



BOARD EFFECTIVENESS

Why We Engage

Board effectiveness is one of the most important topics in corporate governance. Having the right board in place to guide strategy and oversee risk is critical to long-term value at our investee companies.

What We Seek

- > Boards with the independence, skills, expertise, experience and diversity to ensure effective oversight of management and the business
- > Robust and transparent processes for evaluating and improving effectiveness of the board, its committees and each director individually
- > Transparent and formal director nomination processes that seek a diverse pool of qualified candidates

We believe board effectiveness is essential to long-term value creation. Our *Proxy Voting Principles and Guidelines* (see www.cppib.com/PVPG) provide explicit guidance on our expectations. As a long-term investor, we consider it part of our stewardship responsibilities to take steps that ensure boards of our investee companies have and maintain appropriate independence, skills, expertise, experience and diversity to effectively carry out their duties.

Board diversity is a critical component of board effectiveness. We expect boards to be diverse, including with respect to gender. We believe companies with diverse boards are more likely to achieve superior financial performance. Having directors with a range of experiences, views and backgrounds helps ensure the board has the right mindset to properly evaluate management and company performance.



WHAT DO WE MEAN BY BOARD EFFECTIVENESS?

Board effectiveness refers to a board’s overall makeup and functioning. We evaluate effectiveness by looking at whether the board as a whole has the independence, skills, expertise, experience and diversity required for proper oversight of the company’s business. These case-by-case judgments are based on several considerations, including the nature of the business, the skills needed to oversee existing and emerging challenges (e.g., climate change and cyber risk) and diversity.

We look at whether a company has robust processes in place to select directors and ensure it maintains an appropriate board composition over time. Specifically, we look at whether there are strong processes for regularly (i) identifying evolving needs and weaknesses of the board through a well-designed board skills matrix; (ii) evaluating individual directors and the board as a whole, and taking steps to address the results of evaluations; (iii) refreshing the board; and (iv) nominating new directors with skills, expertise, experience and attributes relevant to evolving needs.

Engagement

DIRECT ENGAGEMENT

During the reporting period, we directly engaged with approximately 30 companies on board effectiveness issues, such as how they select their directors and gender diversity of the board. These engagements gave CPPIB an opportunity to share views on board effectiveness and focus on ways companies can make improvements. We meet with an increasing number of board chairs or directors, which gives us a better understanding of the rationale for key decisions and an opportunity to provide direct feedback.

HERMES EOS ENGAGEMENTS

CPPIB also works with companies on board effectiveness through our global collaborative engagement platform Hermes EOS. It seeks assurance that companies have an appropriate board structure, and that board members have the right skills, diverse backgrounds and sufficient independence.

PROXY VOTING

CPPIB is committed to advancing gender representation on boards. In 2018, we launched our Global Board Gender Diversity Voting Practice to take a stand for increased representation of women on corporate boards around the world. Our goal is to improve the gender balance and, hence, the overall effectiveness of public company boards worldwide.

Research on Board Gender Diversity

CPPIB believes there is a clear business case for diversity. Our long-standing position is that diversity directly links to positive long-term value creation. Furthermore, we view lack of diversity as a business and financial risk. This year, we began a major research effort to empirically analyze the relationship between gender diversity on boards and value creation. Our Sustainable Investing team conducted a meta-study of existing research on board gender diversity, which they supplemented with proprietary big-data analysis. They found a robust association between gender diversity and financial performance across various countries and sectors.

OUR NEW GLOBAL BOARD GENDER DIVERSITY PRACTICE

Starting in the 2019 proxy season, CPPIB votes against the director who chairs the nominating committee at our investee public companies if the board has no women directors and there are no extenuating circumstances. This international program builds on our Canadian initiative that has shown encouraging results.

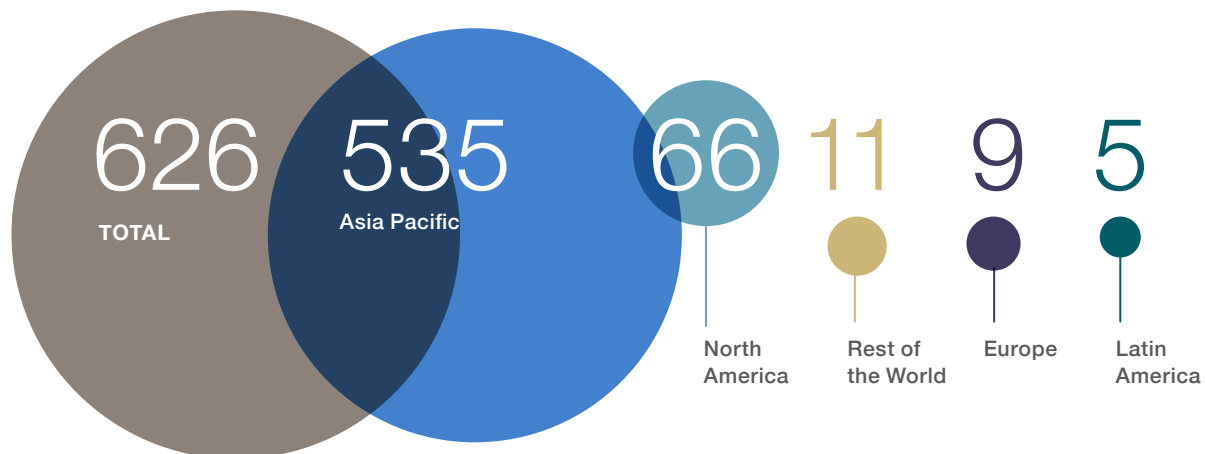
Global Results

Our new Global Board Gender Diversity Voting Practice resulted in CPPIB voting against the election of 626 directors globally during the 2019 proxy season (see chart below). We evaluated whether it was warranted to vote against 687 directors responsible for nominations at companies with no female directors. We found extenuating circumstances in 61 of those cases (9%).

In each case, we reviewed the company's proxy disclosures to understand any efforts by the board to address its lack of gender diversity, including whether a diversity policy or target had been adopted. In some cases, we engaged with the company to determine whether the board was taking any active steps to address the lack of gender diversity.

GLOBAL BOARD GENDER DIVERSITY VOTING PRACTICE, RESULTS FOR 2019 PROXY SEASON

Number of directors, by region, that we voted against¹



¹ Corrected from number of companies in an earlier version

ESCALATING OUR CANADIAN EFFORTS

CPPIB's early efforts to improve board diversity began in Canada. Since 2017, for all our Canadian public holdings, we have been voting against the election of the nominating committee chair if the board has no female directors and there were no extenuating circumstances. In 2017, CPPIB cast votes at shareholder meetings of 45 Canadian companies with no women directors and undertook efforts to engage with these companies. A year later, nearly half of those companies had appointed a woman director.

In 2018, we escalated this practice to vote against all nominating committee members at companies where we voted against the committee chair in 2017 if the company had since made no progress at improving its lack of board gender diversity.

In 2019, we further escalated our Canadian approach to vote against nominating committee chairs of S&P/TSX composite boards with only 1 female director. This escalation is to encourage progress on board diversity consistent with our 30% target for women on boards and executive teams of composite companies by 2022 (see pag 66 for more on this initiative).

2019 RESULTS OF OUR VOTING EFFORTS IN CANADA

13

TOTAL NUMBER OF CANADIAN PUBLIC COMPANIES WHERE WE VOTED AGAINST DIRECTORS FOR HAVING ZERO WOMEN ON THE BOARD¹

26

TOTAL NUMBER OF CANADIAN PUBLIC COMPANIES ON THE S&P/TSX COMPOSITE WHERE WE VOTED AGAINST DIRECTORS FOR HAVING ONLY ONE WOMAN ON THE BOARD²

1 Corrected from 14 in an earlier version

2 Corrected from 21 in an earlier version



Dr. Heather Munroe-Blum,
Chairperson

CHAIR OF CPPIB'S BOARD HONOURED AS A FELLOW OF THE INSTITUTE OF CORPORATE DIRECTORS

On June 6, 2019, Dr. Heather Munroe-Blum, CPPIB's Chairperson, was honoured as a Fellow of the Institute of Corporate Directors (ICD) at its annual Fellowship Awards Gala. The award was established in 1997 to honour those making outstanding contributions to Canadian enterprises and not-for-profit organizations through their governance leadership in boardrooms. The award is the highest distinction for Canadian corporate directors and, to date, 88 directors across Canada have received this award. These include former CPPIB CEOs David Denison and John MacNaughton, as well as other current and former CPPIB directors, including founding Chair Gail Cook-Bennett.

Heather Munroe-Blum has been a CPPIB director since 2010 and CPPIB's Chairperson since 2014, and also chairs our Board's Investment Committee. She is Emerita Principal and Vice-Chancellor, McGill University (where she served as Principal for over a decade and was the first woman in this role). She has extensive board experience as a director on executive, human resources and compensation, governance, investment, finance and risk committees in the corporate and not-for-profit sectors. Dr. Munroe-Blum currently holds board seats at the Royal Bank of Canada, the Gairdner Foundation (Chair), McGill's Tanenbaum Open Science Institute (TOSI), McGill's Bensadoun

School of Retail Management and Stanford University's Center for Advanced Study in the Behavioral Sciences (CASBS). She is also a Member of the Trilateral Commission and the Lui Che Woo Prize Recommendation Committee. A strong advocate for gender diversity in the boardroom, Dr. Munroe-Blum is a founding member of the 30% Club (Canada) (see page 8).

She has received numerous domestic and international honorary degrees and awards of distinction, including Officer of the Order of Canada, Officer of the Order of Quebec, and Specially Elected Fellow of the Royal Society of Canada.

PROXY VOTING OVERVIEW

2019 proxy voting season facts

We conveyed our views at

7,437

MEETINGS IN TOTAL

Meetings voted in:

1,935

North America

570

Latin America

758

Europe

4,431

Asia Pacific

250

Rest of the World

We voted on:

71,198

AGENDA ITEMS

We voted in:

61

COUNTRIES

We voted against management in:

9.81%

OF CASES

2019 proxy season themes

The following tables present key themes in the 2019 proxy season and our voting decisions. Our *Proxy Voting Principles and Guidelines* can be found at www.cppib.com/PVPG. We do not support shareholder proposals if they are overly prescriptive or duplicative of initiatives already in place or underway or if they are likely to detract from long-term company performance.

PROPOSAL	VOTE	GENERAL RATIONALE FOR VOTE
VOTES ON COMPENSATION		
Approve Executive Compensation	<p>18% AGAINST 1,834 VOTES</p>	Voted against where the company was deficient in linking executive pay with long-term company performance.
Approve Share Plan Grants	<p>54% AGAINST 442 VOTES</p>	Voted against where the plan cost was excessive and did not contain challenging performance criteria.
Say on Pay Frequency	<p>100% FOR 70 VOTES</p>	Annual Say on Pay votes promote effective oversight of executive compensation and allow shareholders to provide timely feedback to the company.
Compensation-related Shareholder Proposals	<p>44% FOR 159 VOTES</p>	Supported shareholder proposals that strengthen pay and performance alignment and help mitigate compensation-related risk.
VOTES TO ENHANCE SHAREHOLDER DEMOCRACY		
Reduce Supermajority Vote Requirements	<p>100% FOR 52 VOTES</p>	Supported shareholder proposals that remove undue barriers on the ability of shareholders to effect change.
Proxy Access	<p>96% FOR 27 VOTES</p>	The ability to nominate board candidates enhances shareholder rights and increases board accountability.
Right to Call Special Meetings	<p>96% FOR 25 VOTES</p>	Granting shareholders the right to call special meetings with a reasonable ownership threshold enhances shareholder democracy.
VOTES TO ENCOURAGE ENHANCED DISCLOSURE AND PRACTICES ON ENVIRONMENTAL AND SOCIAL MATTERS		
Enhance Disclosure on Environmental and Social Risks and Performance	<p>76% FOR 76 VOTES</p>	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors.
Adopt/Disclose Corporate Responsibility Standards	<p>44% FOR 55 VOTES</p>	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance.
Report on Political Contributions/Lobbying	<p>98% FOR 64 VOTES</p>	Greater disclosure of political spending helps shareholders assess associated costs, risks and benefits.



ADVOCATING FOR GENDER DIVERSITY IN CORPORATE LEADERSHIP

The 30% Club is a group of business leaders committed to achieving better gender balance on corporate boards and at the executive management level. It works to bring about change through several targeted initiatives that include encouraging and supporting boards to appoint more women, providing information and help for businesses trying to improve their diversity, and keeping the spotlight on the issue through media channels and educational programs.

The driving premise of the 30% Club is that gender diversity is about business performance, addressing gender diversity from the perspective of building long-term value in companies. The 30% Club aims for meaningful, sustainable change in the representation of women. Launched in the U.K. in 2010,

it has since become an international business initiative with chapters in Australia, Canada, Hong Kong, Ireland, South Africa and the United States, among other countries.

CPPIB's Chair, Heather Munroe-Blum, is a founding member of the 30% Club (Canada) and Mark Machin joined upon becoming President & CEO in 2016. In addition, CPPIB is a member of the 30% Club's Canadian Investor Group, which works to coordinate the investment community's approach to gender diversity. We have hosted a number of Investor Group meetings on our offices. This year, in our Toronto offices, we hosted a meeting with the Global Chair of the 30% Club, Brenda Trenowden, at which we discussed developments related to the 30% Club's work globally.

G7 WOMEN IN BUSINESS SUMMIT



In March 2019, our CEO discussed gender balance in business during a fireside chat at the G7 Women in Business Return on Investment Summit. He highlighted CPPIB's work in improving gender balance on boards, including our involvement in the 30% Club Canadian Investor Group and the launch of our Global Board Gender Diversity Voting Practice. He also reinforced the business case for gender diversity and CPPIB's own commitment to a diverse and inclusive workplace.

30% TARGET FOR WOMEN ON BOARDS AND EXECUTIVE TEAMS IN CANADA BY 2022

In September 2017, CPPIB released a public statement alongside peers on the 30% Club's Canadian Investor Group calling on companies listed in the S&P/TSX composite index to take prompt and considered action to achieve a minimum of 30% women on boards and in executive management by 2022 (see 30percentclub.org/assets/uploads/30_percent_Club_Canadian_Investor_Statement_Updated_May_2019.pdf).

We called on companies to (i) adopt a professional and structured approach to director nominations that ensures directors are appointed based on merit, with due regard for the benefits of gender diversity; and (ii) commit to rigorous assessment of director and executive performance, as well as regular board refreshment.

Since then, we have worked with our peer signatories to collaboratively engage companies that have not yet met the 30% by 2022 target. We aim to encourage and assist these companies to intensify their efforts to enhance female representation at both the board- and executive management levels.

While the trend toward more women on boards and executive teams is positive, progress remains slow. To signal our expectation that S&P/TSX composite index companies accelerate progress toward the 30% by 2022 target, the 30% Club's Canadian Investor Group released a follow-up statement in September 2018 reiterating our call to action (see 30percentclub.org/assets/uploads/30_Percent_Club_Investor_Statement_-_One_Year.pdf).

PROMOTING GOVERNANCE BEST PRACTICES IN ASIA

GOVERNANCE ROUNDTABLE IN KOREA

On January 23, 2019, Suyi Kim, CPPIB's Senior Managing Director and Head of Asia Pacific, hosted a roundtable discussion in Seoul, South Korea, on "Corporate Governance in Korea – Overcoming New Challenges." Roundtable participants discussed progress made since the recent corporate governance-related policy developments in South Korea and the challenges that lie ahead. These recent developments include the adoption of a South Korean Stewardship Code and increased awareness of corporate governance in South Korea.

More than 20 senior representatives – from asset managers, corporates, academia and government entities – participated in the roundtable. Key discussion topics included: (i) the role of the board in South Korea; (ii) changes to corporate governance in South Korea following adoption of the Stewardship Code; (iii) investors' perspective on how board effectiveness, including diversity, independence and strategic engagement contribute to long-term value creation in South Korea; and (iv) the impact of regulatory changes and activist investors to board composition and corporate behaviour.

A member of our Sustainable Investing team shared our approach on board effectiveness and active engagement.

This roundtable was organized with support from external partners Kim & Chang, South Korea's largest law firm, and McKinsey Korea.

ASIAN CORPORATE GOVERNANCE ASSOCIATION

Since 2013, CPPIB has been a member of the Asian Corporate Governance Association (ACGA), an independent organization dedicated to implementing effective corporate governance practices throughout Asia. ACGA membership gives us access to expertise on local governance matters, which leads to better-informed proxy voting decisions and an established platform for the region.



CPPIB's Senior Managing Director and Head of Asia Pacific, Suyi Kim, hosted a roundtable discussion on "Corporate Governance in Korea – Overcoming New Challenges" in Seoul, South Korea in January 2019.

CPPIB participates in bi-monthly ACGA Investor Discussion Group calls, which let global investors raise emerging governance matters and solicit support for collaborative initiatives. The calls also create opportunities for members to provide input on ACGA's advocacy work.

Advocacy with financial regulators, stock exchanges and other standard-setting bodies is a key element of the ACGA's scope of work. During the year ended June 30, 2019, the ACGA submitted a number of comment letters on behalf of members, including CPPIB, to promote best practices in corporate governance and shareholder stewardship.

This year, we hosted an ACGA Member Briefing in our Toronto offices on "Awakening Governance: The evolution of Asia's corporate governance ecosystem." The briefing covered current trends and new developments in Asia Pacific's corporate governance and ESG ecosystem.

Commonsense Principles for Corporate Governance

In July 2016, CPPIB joined a coalition of executives from leading public companies and institutional investors to seek common ground on key corporate governance issues in the U.S. The group includes major U.S. asset managers, as well as some of the largest public companies, shareholder activists, public pension funds and mutual fund companies.

This led to the development of the Commonsense Principles of Corporate Governance (Commonsense Principles), which establish a basic framework for long-term oriented governance practices and foster dialogue on the topic. We drew on CPPIB's own comprehensive and robust set of *Proxy Voting Principles and Guidelines* (www.cppib.com/PVPG) to provide input into the framework.

Last year, the group reconvened with a few additional members, to continue discussions on strengthening corporate governance and consider the work of other groups that has emerged since the Commonsense Principles' release (see below list of group members). This resulted in the release of an update, Commonsense Principles 2.0, in October 2018.

The new volume combines insights from the many existing corporate governance principles to create a single, unified set of corporate governance principles to guide the engagement of companies, boards and institutional investors. The Commonsense Principles 2.0 are intended to be a guide and, as such, allow for flexibility in their adoption given the significant variation among public companies.

LIST OF PARTICIPANTS

Tim Armour	Capital Group
Mary Barra	General Motors
Edward Breen	DowDuPont
Warren Buffett	Berkshire Hathaway
Jamie Dimon	JPMorgan Chase
Mary Erdoes	J.P. Morgan Asset Management
Larry Fink	BlackRock
Alex Gorsky	Johnson & Johnson
Marillyn Hewson	Lockheed Martin
Mark Machin	Canada Pension Plan Investment Board
Lowell McAdam	Verizon Communications
Bill McNabb	Vanguard
Brian Moynihan	Bank of America
Ronald O'Hanley	State Street Global Advisors
James Quincey	Coca-Cola
Brian Rogers	T. Rowe Price
Ginni Rometty	IBM
Charlie Scharf	BNY Mellon
Randall Stephenson	AT&T
David Taylor	Procter & Gamble
Jeff Ubben	ValueAct Capital
Dion Weisler	HP
Theresa Whitmarsh	Washington State Investment Board

Canadian Coalition for Good Governance

The Canadian Coalition for Good Governance (CCGG) promotes good governance practices in Canadian public companies, and the improvement of the regulatory environment, to best align the interests of boards and management with those of their shareholders. This promotes the efficiency and effectiveness of Canadian capital markets. CPPIB is a long-standing member of the CCGG and, over the years, has been actively involved in both its board of directors and Public Policy Committee.

ADVOCACY AND POLICY HIGHLIGHTS FOR 2018/2019

- CCGG's efforts over the past decade have contributed to the introduction by the Federal government, in 2019, of Bill C-97, which requires federally incorporated companies to disclose their approach to executive compensation and to hold a non-binding Say on Pay shareholder vote.
- In 2018, CCGG published The Directors' E&S Guidebook, a practical guide to assist public company directors in assessing

and overseeing Environmental and Social (E&S) factors and to assist issuers in their disclosure of E&S matters.

- CCGG updated its *Gender Diversity Policy* in 2018 to reflect CCGG and its members' evolving views on best practices for enhancing gender diversity. The updated policy states that companies should adopt a written diversity policy and self-imposed targets for the number of female directors and the number of women in senior management.

ENGAGEMENT HIGHLIGHTS

The CCGG conducted 37 board engagement meetings with Canadian issuers during their review period, representing 17% of the total market capitalization of the S&P/TSX composite index. The scope of engagement dialogue covers governance policies and executive compensation practices, broader discussions of board composition, and the board's approach to providing effective oversight and input in critical areas such as risk management, including environmental and social risks, strategy setting, and board and management succession.