Foreign Affairs and International Development Committee

Appearance regarding Bill C-300, November 17, 2009

Opening Statement

My name is Donald Raymond and I am Senior Vice President of Public Market Investments at the Canada Pension Plan Investment Board. With me today is Ian Dale, Senior Vice President of Communications and Stakeholder Relations. Thank you for the opportunity to speak to your committee about Bill C-300.

The CPP Investment Board was created by the federal and provincial governments in 1997, the result of comprehensive reforms to the CPP in the mid-1990s. These reforms were implemented following extensive public consultations with business, labour, seniors' organizations and Canadians across the country.

Federal and provincial policymakers established the CPP Investment Board as an independent professional investment management organization, accountable yet arm's length from governments, responsible for investing the CPP contributions not needed to pay current benefits. One of the main concerns expressed by Canadians in 1997, which persists today, is that governments would interfere with the investment decisions of the CPP Fund. Our independence, established in the CPPIB Act, addressed these concerns and has contributed to our success.

Our long-term goal is to contribute to the financial strength of the CPP – arguably one of Canada's most important social programs - to help sustain the future pensions of 17 million Canadian contributors and beneficiaries.

We have a high degree of accountability to federal and provincial finance ministers, but the CPP Reformers of 1996-97 built important protections around the CPP Fund and the CPP Investment Board. For example, the assets in the CPP Fund are segregated from government assets, and are not tax payer dollars as they are contributed directly by employers and employees.

The mandate of the CPP Investment Board, as set out in the Act, is simple and fundamental to all of its activities: To maximize the investment rate of return for the CPP Fund without undue risk of loss. Under the terms of the Act, we may engage in no other enterprise.

In the pursuit of that very focused mandate, we have taken a leadership role in the development and implementation of a *Policy on Responsible Investing*. This policy articulates how we integrate environmental, social and governance factors – also known as ESG factors - in how we invest, including Canadian companies in the extractive industries. As you will hear, the proactive efforts of the CPP Investment Board parallel the intent of Bill C-300 and make its inclusion in the terms of the Bill unnecessary.

In addition, the bill provides for government ministers to direct investment decisions at the CPPIB. This runs totally counter to the public policy intent of the federal/provincial reforms of the CPP in 1996-97. Also, because of the provisions of the CPP Act the Bill would be legally ineffective without the required consent of the provincial governments.

Accordingly, we respectfully request that Bill C-300 be amended by this committee in order to remove reference to and more specifically, direction to the CPP Investment Board.

In considering our approach to responsible investing, it is important to understand the unusually long investment horizon of the CPP Fund, which is being invested for decades and generations. While other investors measure their progress by the quarter, we look at decades and quarter centuries. Being a patient, long-term investor is relevant to our *Policy on Responsible Investing* because ESG factors play out over longer periods of time.

Second, to effectively deliver on our promise to help sustain the CPP, we invest in more than 2,900 public companies around the globe, including more than 600 in Canada. Of that number, approximately 400 are in extractive industries.

As a long-term investor and owner, we believe that responsible behaviour regarding environmental, social and governance factors by these companies can have a positive influence on their long-term financial performance and therefore, to *our* investment return.

In keeping with our mandate, we view ESG factors *only* in terms of investment risk and return. Simply stated, it is in the best interest of the CPP Fund when the companies in which we invest meet high standards of disclosure and performance on ESG issues.

Our approach to ESG issues is guided by two important documents that have become powerful agents for change – not only for us but for institutional investors around the world.

The first is the United Nations *Principles for Responsible Investment* – the UN PRI. We contributed to the development of the UN PRI and were among the first signatories to this ground-breaking accord.

I was privileged to represent the CPP Investment Board and was the only Canadian investor on the committee drafting this far-reaching initiative. I can report to you today there are more than 500 signatories to the UN principles, representing more than US$18 trillion in assets under management.

Like our own *Policy on Responsible Investing*, the UN PRI reflects the view that effective disclosure and management of ESG factors can positively affect the long-term financial performance of investments.

The UN Principles are implemented through a collaborative approach coordinated by the UN PRI Engagement Clearinghouse, where we work with other global funds to engage companies on ESG issues. In January, 2009, this group wrote to 130 companies that had voluntarily committed to standards of disclosure on human rights, labour, environment and anti-corruption practices – part of the UN Global Compact.

The CPP Investment Board's own comprehensive *Policy on Responsible Investing* actually pre-dates the UN PRI. Framed by our mandate, this policy articulates how we address these important environmental, social and governance issues in our investments. A copy of the policy has been provided to this committee.

The implementation of our *Policy on Responsible Investing* takes a number of forms, including activities that proactively address issues identified by Bill C-300.

The first activity is Engagement. Engagement involves communicating with the senior executives and board members of companies in which we invest, as well as with regulators, industry associations and other stakeholders.

Our direct engagement activities are highly focused. Most of the companies we select are Canadian. We concentrate on three areas: climate change, executive compensation and extractive industries – oil & gas and mining. What we *seek* is enhanced disclosure and transparency from these companies. Disclosure allows *all* investors to see and understand the potential risk posed by ESG issues. Disclosure of these risks is the first step to addressing them and we encourage companies to adopt best practices in the management of ESG issues so as to improve financial performance.

In the past year, we have engaged with Canadian and international companies operating in high-risk countries, including Burma, the Democratic Republic of Congo and Guatemala, to encourage improved transparency and risk management strategies.

It is important to note that this is *our* initiative, undertaken proactively, in the best interests of the CPP Fund. It is *not* in response to any government requirement or specific complaint from a third party.

Influencing change, as you know, takes time. Engagement is a long-term strategy, but one ideally suited to our long-term approach to investing.

Parallel to our engagement processes, we encourage the investment industry to produce enhanced research and analysis of environmental, social and governance issues. This research, from investment dealers and other research sources, helps *all* investors integrate relevant ESG factors into their investment decisions.

Our *Policy on Responsible Investing* also informs our voting on shareholder issues, via our published *Proxy Voting Principles and Guidelines*. Proxy voting by large investors is highly effective in enhancing disclosure, transparency and improved behaviour on environmental, social and governance issues.

As owners, we vote on proposals at public companies' annual and special meetings. Proxy voting allows us to engage with *all* public companies in our portfolio. In the course of the 2009 proxy voting season, we participated in more than 3,000 shareholder meetings, including 555 here in Canada. That count includes companies in the mining and oil & gas industry, both Canadian and international.

We voted on nearly 18,000 agenda items. In 15% of those items, we voted *against* management. And we make these results public: A summary of our proxy voting activity is included in our 2009 *Report on Responsible Investing,* and the results of all proxy votes appears on our website.

As a respected global investor, our actions are closely watched and our voice is heard – not only by the companies in which we invest, but by the broader investment community.

We also work with other investors and a relevant, collaborative approach is our participation in the Extractive Industries Transparency Initiative.

EITI brings together companies, investors, non-governmental organizations and governments, *including* the Government of Canada. Its focus is oil & gas and mining companies precisely because they deal with a range of ESG issues that must be managed effectively for long-term financial performance.

Let me explain how this initiative works.

Through the collaborative efforts of EITI signatories, more than 40 of the world's largest oil & gas and mining companies are now actively supporting better transparency in 29 candidate countries. Disclosure of company tax and royalty payments, and government revenues from oil & gas and mining, are key to illuminating sources of corruption in those countries.

Our proactive approach and industry leadership has been recognized internationally. The Social Investment Organization of Canada, acknowledged our *Policy on Responsible Investing* and related engagement approach as positive examples of responsible investing strategies. We have been cited by the UN PRI for our disclosure of proxy votes. And our *Policy on Responsible Investing* and *Proxy Voting Principles & Guidelines* have been named as global best practices.

In summary Mr. Chairman:

- The CPP Investment Board was created by the federal and provincial governments to invest at arm's length from governments;
- Our mandate is to generate investment returns to help sustain the future pensions of 17 million Canadian contributors and beneficiaries;
- The terms of our legislation state that the act may not be amended without the consent of both federal and provincial governments;
- Through our Policy on Responsible Investing, we have been recognized as a global leader for proactively addressing environmental, social and governance issues and for these reasons,
- We respectfully submit that Bill C-300 be amended to remove both reference and direction to the CPP Investment Board.

We appreciate the opportunity to appear before this committee today, and we look forward to answering your questions.

Thank you.