

GOVERNANCE

Governance practices by corporations and institutions continue to gain public prominence. Recent concerns include trading practices to influence the market price of securities, conflicts between the private interests of executives and their fiduciary obligations to others, selective disclosure of material information, executive compensation relative to corporate performance, and the effective management of financial, business and organizational risks.

To be effective, governance policies, procedures and practices must be part of a dynamic process involving regular review, clarification and enforcement.

OUR DISTINGUISHING FEATURES

Our governance is shaped by four features:

- we operate at arm's length from governments;
- we are solely an investment organization with no responsibility for administering the Canada Pension Plan;
- we focus on maximizing investment returns on the cash received from the Canada Pension Plan without undue risk of loss; and
- we report publicly through quarterly financial statements, an annual report, and public meetings in every participating province at least once every two years.

OUR RELATIONSHIP TO GOVERNMENTS

Independence from governments in making investment decisions is critical to our success and public confidence. We are a crown corporation created by federal legislation in 1997, and our investment and governance mandates are set out in the Canada Pension Plan Investment Board Act and related regulations.

The Canada Pension Plan is administered by the federal government. As joint stewards of the plan, the federal and provincial governments together set contribution rates, benefit levels and funding policy.

With respect to the CPP Investment Board, the federal and provincial finance ministers discuss changes to our legislation and regulations as part of their triennial review of the Canada Pension Plan. At their review in December 1999, they relaxed a restriction on our ability to invest in Canadian equities.

The federal finance minister, in consultation with the participating provinces, appoints our directors and is required to initiate a special examination of our financial and management control and information systems, and management practices, at least once every six years.

ARM'S LENGTH PROCESS FOR APPOINTING DIRECTORS

Good governance requires knowledgeable directors who understand their fiduciary duties, are not afraid to ask difficult questions, and are not beholden to those who nominate and appoint them.

Each government has one representative on a nominating committee of public officials and business leaders, with a private sector executive in the chair. The committee recommends candidates for appointment and re-appointment by the federal finance minister in consultation with provincial finance ministers. The founding directors were appointed in October 1998 and at that time our Chair was selected in consultation with the provinces and the directors.

Our legislation states that it is desirable to have sufficient directors with proven financial ability or work experience relevant to the goal of optimizing investment returns. As a result, the nominating committee recommended directors who predominantly have expertise in investment, business, economics and financial management.

EXPECTATIONS OF DIRECTORS

The directors are responsible for investment policies, standards and procedures, appointing an independent auditor, approving procedures to identify and resolve conflicts of interest, approving codes of conduct for directors, officers and employees, and monitoring and assessing management's performance. The board has a process for evaluating itself and is exploring the benefits and effectiveness of a peer-review process.

FOCUSING BOARD ACTIVITIES

Board work is assigned to committees, with recommendations referred to the full board for approval.

The Investment Committee consists of the full board because investing is the organization's *raison d'être*. In fiscal 2001, the committee reviewed and approved management's strategy to diversify risk and enhance returns by moving from passive to active investing. The committee duties include approving total portfolio investment policies and approving the engagement of external fund managers and asset custodians.

In fiscal 2001, the Audit Committee reviewed with management an enterprise-wide risk management framework that identified risks, established policies and procedures to mitigate them, and clarified the responsibilities of board committees and management for risk management. The Audit Committee also reviewed financial reporting and internal control policies and practices.

As we continue to hire senior staff, we will be recruiting successful individuals who may also have an important part of their net worth invested in capital markets. This raises challenges for our Human Resources and Compensation Committee in devising a competitive compensation policy to attract the best talents. It also raises challenges for our Governance Committee in dealing with real and potential conflicts between the personal investments of employees and their fiduciary duty to the CPP Investment Board. We believe the policies we have in place will serve us for the foreseeable future.

The Human Resources and Compensation Committee also completed an evaluation of the President and Chief Executive Officer's performance, and continues to monitor succession planning and organizational structure.

The Governance Committee's additional duties include recommending changes in our governance policy, guidelines, procedures and practices; making recommendations on the board's effectiveness; and monitoring the application of the code of conduct and conflict of interest guidelines for directors.

STRIVING FOR BEST GOVERNANCE PRACTICES

We measure our policies and procedures against our legislation and regulations and external guidelines.

Legislative and regulatory requirements are included in a system of internal controls that is reviewed annually by the external auditors.

We comply with the governance guidelines of the Toronto Stock Exchange for public companies, with the exception of the requirement for a board nominating committee as this is the responsibility of the committee appointed by the finance ministers.

We also comply with the governance principles developed by a task force of the Association of Canadian Pension Management, the Pension Investment Association of Canada, and Office of the Superintendent of Financial Institutions, with the exception of the qualifications for plan administrators as we have no plan administration duties.

SETTING HIGH STANDARDS OF CONDUCT

Directors, officers and employees acknowledge annually in writing our codes of conduct that are designed to create a corporate culture of trust, honesty and integrity. The codes deal with such matters as relations with suppliers, personal investments, the acceptance of gifts, the use and disclosure of information, representation on organizations and associations and confidentiality of third-party proprietary information.

MANAGING CONFLICTS OF INTEREST

We maintain strict conflict of interest procedures for directors, officers and employees to resolve potential conflicts between their private and business interests and the interests of the CPP Investment Board.

Officers and employees file quarterly with our external auditor a statement of the investments they hold and a report on transactions. During restricted trading periods, before making a trade, they notify our compliance officer to determine whether the securities in question are on our restricted list of securities. The pre-clearance requirement applies to securities in which officers and employees have a beneficial interest or over which they exercise direction or control. In certain cases they are not allowed to buy or sell securities on the restricted list.

Officers and employees disclose the identity of their investment agents, companies of which they are a director or employee, and trusts of which they are a trustee.

Directors complete and submit an annual disclosure of interest report for review by the Governance Committee and must notify the Chair before accepting a directorship or any position of authority in an entity that might benefit from, or be in conflict with, the CPP Investment Board.

BOARD OF DIRECTORS

CHAIRPERSON

GAIL COOK-BENNETT

Ontario
Economist; Former university professor and business executive.



MARY C. ARNOLD

Alberta
Chartered accountant; Senior member of Arnold Consulting Group Ltd.



DALE G. PARKER

British Columbia
Corporate director; Former president and CEO of Workers' Compensation Board of British Columbia.

GILBERT GILL

Newfoundland
Chartered Accountant; Former Deputy Minister of Finance for the Government of Newfoundland and Labrador.



M. JOSEPH REGAN

Ontario
Retired; Former Senior Executive Vice-President of the Royal Bank of Canada.

MONIQUE LEROUX

Quebec
Financial executive; Senior Executive Vice-President and Chief Operating Officer of Quebecor Inc.



HELEN SINCLAIR

Ontario
Financial executive; Founder and Chief Executive Officer of BankWorks Trading Inc.

JACOB LEVI

British Columbia
Actuary; Partner in Eckler Partners, actuarial consultants.



RICHARD M. THOMSON

Ontario
Retired; Former Chairman and CEO of the Toronto Dominion Bank.

HELEN M. MEYER

Ontario
Financial executive; President of Meyer Corporate Valuation Limited.



DAVID WALKER

Manitoba
President of West-Can Consultants Ltd.; Former Member of Parliament.