CPP INVESTMENT BOARD

A Risk/Return Approach to Responsible Investing

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Check against delivery

Good morning, everyone. It's a great pleasure to be here today for the Canadian launch of the Carbon Disclosure Project, Canada 280 Report. This is the first time that the Carbon Disclosure Project has compiled a Canadian report, so I'm especially pleased to help kick-off the event here in Toronto.

I am also pleased that the CPP Investment Board is one of the sponsors of the CDP Canada report. This report provides valuable information which helps put into perspective the potential risks related to climate change for Canadian companies. I would like to commend the Conference Board for their efforts in collecting and analyzing the company responses. And I'd like to thank everyone that contributed to this report, including the Advisory Group, Innovest, and all of the companies that took the time to respond to the survey.

This is an important event for the CPP Investment Board because our participation as a signatory to the Carbon Disclosure Project is representative of our overall approach as a fiduciary investment organization to responsible investing issues, and I'll speak more about that approach in a few minutes. As a signatory to the CDP, we are part of a growing coalition now encompassing 225 investors from around the world managing over 31 trillion dollars of assets. This is an impressive and influential coalition, and reflects the increasing level of awareness among investors about the corporate risks associated with climate change.

But awareness is just one part of the equation. I also believe that more and more investors are understanding the <u>importance</u> of adopting responsible investing frameworks, and like the CPP Investment Board, they are implementing processes that take into account the risk/return implications of an increasingly broader array of factors.

So, over the next few minutes, I would like to describe our approach to responsible investing at the CPP Investment Board and how the Carbon Disclosure Project fits into this framework.

Who we are

First, let me briefly give you some background about who we are.

The CPP Investment Board is an investment management organization that manages the assets of the CPP reserve fund to help sustain the future pensions of 16 million Canadians.

In 2000, the reserve fund had assets of 44.5 billion dollars. At June 30, 2006, the CPP reserve fund had more than doubled to over 98 billion dollars.

And based on current contribution rates and expected investment returns, Canada's Chief Actuary projects the reserve fund will have approximately 250 billion dollars in assets under management by 2016, making it not only one of the fastest-growing, but also one of the **largest** single-purpose pools of investment capital anywhere in the world. And importantly, the Chief Actuary has also stated that the Canada Pension Plan is solvent and sustainable throughout the 75 years of his forecast period.

The stability of our national pension plan puts Canada in a very strong position relative to other countries around the world. Indeed, this past June rating agency Standard and Poor’s singled out Canada as being on track over the next few decades to have the strongest fiscal position amongst the 32 industrialized nations in its study, in large part because of the successful reforms to our national pension system.

The evolution of our stable national pension system is due to the thoughtful and far-sighted nature of the CPP reforms implemented in 1996/97 by the federal and provincial finance ministers who act as stewards of the plan. These reforms have become internationally recognized as a best practice model for national plans and I’ll briefly highlight a few key elements:

- The CPP assets are held in a segregated fund and can only be used to pay benefits, administer the plan and for investment activities.

- Contributions to the fund are solely from employees and employers and not co-mingled with any government revenues.

- The fund is managed at arm’s length from governments by the CPP Investment Board with a strong, private sector-based governance model.

- And we have been given a very clear, explicit investment-only mandate – maximize investment returns without undue risk of loss.

Policy on Responsible Investing

It is through the lens of this “investment only” mandate that we analyze responsible investing in order to frame related issues within a risk/return investment context.

Our approach to responsible investing has evolved considerably since we published our first policy on Social Investing in 2002. In 2004, we began an extensive policy review over a 12 to 14 month period, looking at the best practices of large institutional investors around the world and analyzing them in the context of our circumstances and mandate.

Our reformulated policy resulting from this process was designed entirely within an investment framework. At its core, it reflects our belief that responsible corporate behaviour with respect to environmental, social and governance factors – commonly referred to as ESG factors – can generally have a positive influence on long-term corporate financial performance.

Consequently, we approach ESG issues not with a social agenda, or an environmental agenda, or a governance agenda *per se*, but with a fiduciary investment agenda that analyzes and incorporates ESG factors to the extent that they affect risk and return. Indeed, we believe that the business risks associated with ESG factors will often play out over long periods of time, so we in turn factor them into our long-term horizon investment and risk analysis of companies and sectors.

For the CPP Investment Board, our goal is to encourage corporate conduct with respect to ESG matters that enhances long-term financial performance through an active engagement process. We believe that this engagement process can be a much more effective means to bring about positive change than an alternative such as screening out stocks, especially for a large institutional investor with a very long- term investment horizon such as the CPP Investment Board.

So over the last six months, we have been building our internal capability to engage with companies to encourage enhanced disclosure of and performance on ESG factors.

Now engagement for us entails a variety of activities such as:

- **Our Proxy voting** – As a shareholder in 2,600 public companies, we employ proxy voting to encourage the disclosure of material ESG factors. We review shareholder proposals on a case-by-case basis. In the past year, we have voted at over 2,000 company meetings on over 12,000 agenda items including shareholder proposals.

- **Research** – we support research into the long-term financial materiality of ESG factors. In January, we were the first Canadian investment organization to join the Enhanced Analytics Initiative – an international collaboration of investors representing over 1 trillion dollars in assets, aimed at encouraging better investment research into ESG factors.

- **Direct engagement** – where necessary, we communicate directly with management and corporate boards on specific issues to make our views known.

- **Dedicated resources** – we are building a dedicated responsible investing team and integrating it within our Public Markets investment processes. And finally,

- **Collaborative engagement** – this can be a very effective way to enhance disclosure. In April, we were one of the first signatories to the UN's "Principles on Responsible Investing" endorsed by institutional investors and pension funds around the world that collectively manage more than 4 trillion dollars. In fact, we were one of a small group of global institutional investors that helped formulate these principles.

  And we have joined a number of coalitions similar to the CDP, all of which share the common goal of improving disclosure of relevant information that will allow investors to make informed decisions.

Effective disclosure is critical to our ability to factor in risk/return criteria. All of the engagement capabilities I have just spoken about rely upon disclosure which is key for investors like us to better understand the potential impact of ESG factors on a company's performance and thereby incorporate them into our risk/return analysis. We also believe that increased disclosure of ESG issues often leads to improved performance by companies in these areas. As these risks become known and factored into the analysis of a company's competitiveness and reflected in its cost of capital, this in turn creates a strong incentive for companies to focus their attention on them.

There is also a significant benefit to structured disclosure of ESG issues such as the CDP Canada report that is being released today. Instead of companies disclosing this information based upon their own individual parameters, structured disclosure ensures that common information is disseminated which then allows for more effective analysis. This kind of structured disclosure benefits both investors and companies; it helps clarify for companies what type of information investors are looking for, and in turn, investors can then readily use this information as part of their investment decisions. Certainly companies are increasingly realizing that we as investors are indeed interested in this information.

So in summary, initiatives like the Carbon Disclosure Project and the Canada 280 Report are consistent with and support our overall approach to responsible investing within the CPP Investment Board.

Climate change is increasingly becoming an important issue for institutional investors like us that have a long-term investment focus.

Initiatives like the CDP are important catalysts to encourage companies to assess and disclose the potential impact of environmental factors such as climate change on their operations. We also believe that this assessment and disclosure by companies and the resulting risk/return analysis by investors can create a virtuous circle leading to improved performance on these issues. We are confident that the combined efforts of the many like-minded investors such as the CPP Investment Board who have signed on to the Carbon Disclosure Project will have a positive impact in influencing performance on climate change practices.

Thank you.