
GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

Canada Pension Plan Investment Board Regulations require disclosure in the annual report of the governance practices of the Board of Directors. More extensive governance information is posted at www.cppib.ca.

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management.

As fiduciaries, directors are required to act honestly and in good faith in the best interests of CPP contributors and beneficiaries. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must use their specialist knowledge in carrying out their duties and are subject to higher standards of care in areas that relate to their expertise.

Among other duties, the directors review and approve investment policies, standards and procedures; appoint the Chief Executive Officer and annually review his performance; determine with management the organization's strategic direction; review and approve the annual business plan and budget; appoint independent internal and external auditors; establish procedures to identify and resolve conflicts of interest; establish codes of conduct for directors and employees; assess the performance of the board itself; and review and approve the stakeholder communications strategy including material disclosure such as quarterly and annual financial statements and the annual report.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees. The Investment Committee consists of the full board. The membership of other committees is shown on the inside back cover.

The Investment Committee reviews and recommends our Investment Statement to the board for approval, and reviews, approves and monitors the CPP Investment Board's investment program. It also reviews portfolio risk tolerance and approves the engagement of external investment managers and new or large mandates and custodians.

The Audit Committee oversees financial reporting, the external and internal audit, information systems and internal control policies and practices. It also oversees aspects of the employee pension plans and advises the board in connection with any statutorily mandated special examinations. Responsibility for enterprise-wide risk management is shared with the board and other committees. It regularly meets with both external and internal auditors without management present.

The Human Resources and Compensation Committee administers a performance evaluation process for the Chief Executive Officer, reviews and recommends the compensation philosophy, reviews organizational structure and ensures succession planning. It also oversees employee benefits and human resource policies, aspects of the employee pension plans and directors' compensation.

The Governance Committee monitors application of the code of conduct and conflict of interest guidelines; recommends governance initiatives; makes recommendations to the board to improve the board's effectiveness; reviews criteria for new directors; establishes and recommends a performance evaluation process for the Chief Executive Officer; and assumes other duties at the board's request.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is established in board-approved policies. The board is required to consider and approve the majority of the recommendations made by management to board

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committees. In particular, board approval is required for the strategic direction for the organization, and the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the board established an annual process for evaluating its own performance and that of its committees. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and help to focus the directors on their fiduciary duties in representing the best interests of CPP contributors and beneficiaries. The board also conducts a confidential annual peer review to assist each director in identifying self-development initiatives and to provide the external nominating committee with guidance when it considers individual re-appointments.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and the *Canada Pension Plan Investment Board Regulations* as well as all policies approved by the board. Management develops, with involvement from the board, the strategic direction of the organization in response to its growing asset management responsibilities and the changing dynamics and expectations of capital markets. The strategic response incorporates risk management policies and controls as well as monitoring and reporting mechanisms.

Management is charged with developing benchmarks that objectively measure the performance of markets and asset classes in which CPP assets are invested. Benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

Management is expected to make full and timely disclosure to the board and the public of all material activities, including new investments, the retention of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPP Investment Board's reputation.

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors is summarized in Note 7(a) to the financial statements. Board compensation is based on the 1999 median compensation for directors of the 300 companies that formed the previous TSE 300 Composite Index on the Toronto Stock Exchange.

The total compensation of the five mostly highly paid officers of the corporation is detailed in Note 7(b) to the financial statements. Officer compensation is partially incentive-based and is reviewed annually by the board.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

Under the *Canada Pension Plan Investment Board Act*, the Minister of Finance can order a special audit at any time, and must initiate a special examination of the CPP Investment Board's systems and practices at least once every six years. The first special examination began in February 2004 and the results will be presented in next year's annual report.

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the federal and provincial governments' desire to recruit directors with financial and investment expertise and to engage employees with financial expertise. Codes of conduct have been established to manage and where possible eliminate such conflicts. The procedures under the legislation and these codes of conduct are designed to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal

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or business interest that might lead to a real, potential or perceived conflict is required. The process for identifying, reporting and discussing such conflicts culminates with the board's Governance Committee recommending a resolution to the full board.

CODES OF CONDUCT

Codes of conduct for directors and employees are designed to create a corporate culture of trust, honesty and integrity. Conflict of interest procedures deal with such matters as relations with suppliers, personal investments, and confidentiality of proprietary information. For example, the codes establish strict pre-clearance procedures for personal trading in securities issued by companies. They also deal with the acceptance by directors and employees of entertainment, gifts or favours that could create or appear to create a favoured position for contractors or suppliers.

BOARD ATTENDANCE: FISCAL 2004

The board held nine meetings in fiscal 2004. The Investment Committee is a committee of the full board. The table below reflects the number of meetings attended by each director relative to the total meetings that director could have attended.

	Board & Investment Committee	Audit Committee	Governance Committee	HR & Compensation Committee
Mary Arnold	8/9	6/6		
Gail Cook-Bennett*	9/9	6/6	7/7	5/5
Germaine Gibara	8/9		7/7	
Gilbert Gill	9/9	6/6		
Jacob Levi	9/9	6/6		5/5
Helen Meyer	9/9	6/6		5/5
Dale Parker	9/9		7/7	
Joe Regan	9/9			5/5
Helen Sinclair	9/9		7/7	5/5
Ronald Smith	8/9	5/6		
David Walker	9/9		6/7	5/5

* The Chair is not a member of the Audit Committee or HR & Compensation Committee, but attends their meetings.

VISION, MISSION, VALUES

VISION

To be respected by Canadians for delivering superior investment performance and effective stakeholder communications through an organization built on shared values, sound governance and management excellence.

MISSION

To manage the assets entrusted to the CPP Investment Board in the best interests of Canada Pension Plan contributors and beneficiaries.

To invest in ways that over the long term will maximize returns without undue risk while having regard to factors that may affect the Canada Pension Plan's funding and its ability to meet its obligations.

To help Canadians understand what we are doing with their money through communications and stakeholder relations that exceed statutory reporting obligations.

VALUES

Ethical Conduct We will exemplify the highest standards of ethical conduct in all that we do. We will comply with all applicable laws and the CPP Investment Board's policies, guidelines and procedures. We will behave in accordance with the codes of conduct and standards of our professions and industry associations.

Excellence We will strive for excellence in all of our endeavours. This will include both our performance outcomes and the processes that we use to achieve them.

Accountability Accountability is critical to achieving our mission. We will delegate clear and appropriate accountability and authority to

VISION, MISSION, VALUES

individuals throughout the organization and ensure that it is coupled with commensurate authority. We will provide the appropriate resources and ensure the necessary support, feedback and reward in support of that delegation.

Teamwork Within the context of clear individual accountability and authority, we value effective teamwork. Optimal solutions to complex issues often require the blending of individuals and groups with different skills and capabilities who can work effectively across the organization as well as within their area of accountability and authority. We are focused on optimization of the whole as well as its constituent parts.

Alignment of Interests We believe that optimal outcomes are achieved when interests are aligned. Specifically, interests are aligned when there is agreement on values, objectives, performance measurements and the basis of sharing risks and rewards. The result of alignment is that checks and balances are strengthened and the prospect of synergy and win-win outcomes are increased.

Innovation We will not be satisfied with the status quo or even current “best” practices, but will continually seek to find new and innovative ways to strengthen our competitive position and improve our performance. While we will not seek innovation for its own sake, we do expect to be on the leading edge of developing and introducing new ways of adapting to an ever-changing environment.

Respect We will treat people inside and outside our organization with the consideration and courtesy that we would expect to receive. This includes providing accurate, timely and comprehensible information to our stakeholders so that they can know what we are doing.

CHAIR, BOARD OF DIRECTORS

Gail Cook-Bennett

BOARD OF DIRECTORS AND
INVESTMENT COMMITTEE

Gail Cook-Bennett (*Chair*)

Mary C. Arnold

Germaine Gibara

Gilbert Gill

Jacob Levi

Helen M. Meyer

Dale G. Parker

M. Joseph Regan

Helen Sinclair

Ronald Smith

David Walker

AUDIT COMMITTEE

Mary C. Arnold (*Chair*)

Gilbert Gill

Jacob Levi

Helen M. Meyer

Ronald Smith

HUMAN RESOURCES AND
COMPENSATION COMMITTEE

M. Joseph Regan (*Chair*)

Jacob Levi

Helen M. Meyer

Helen Sinclair

David Walker

GOVERNANCE COMMITTEE

Dale G. Parker (*Chair*)

Gail Cook-Bennett

Germaine Gibara

Helen Sinclair

David Walker

OFFICERS

John A. MacNaughton

President and

Chief Executive Officer

John Butler

Vice President -

General Counsel and

Corporate Secretary

Ian M.C. Dale

Vice President -

Communications

and Stakeholder Relations

Jane Nyman

Vice President -

Finance and Operations

Donald M. Raymond

Vice President -

Public Market Investments

Valter Viola

Vice President - Research

and Risk Management

Thomas A. Tutsch

Interim Head -

Private Market Investments

OUR ADDRESS

One Queen Street East

Suite 2700,

P.O. Box 101

Toronto, Ontario,

M5C 2W5

Tel: 416-868-4075

Fax: 416-868-4083

Toll Free: 1-866-557-9510

WEBSITE: WWW.CPPIB.CA

*Ce rapport annuel est aussi
disponible en français*

