

CPPIB and Sustainable Investing

January 2019

Presentation at:

Institute for the Study of Corporate Social Responsibility at Ryerson University

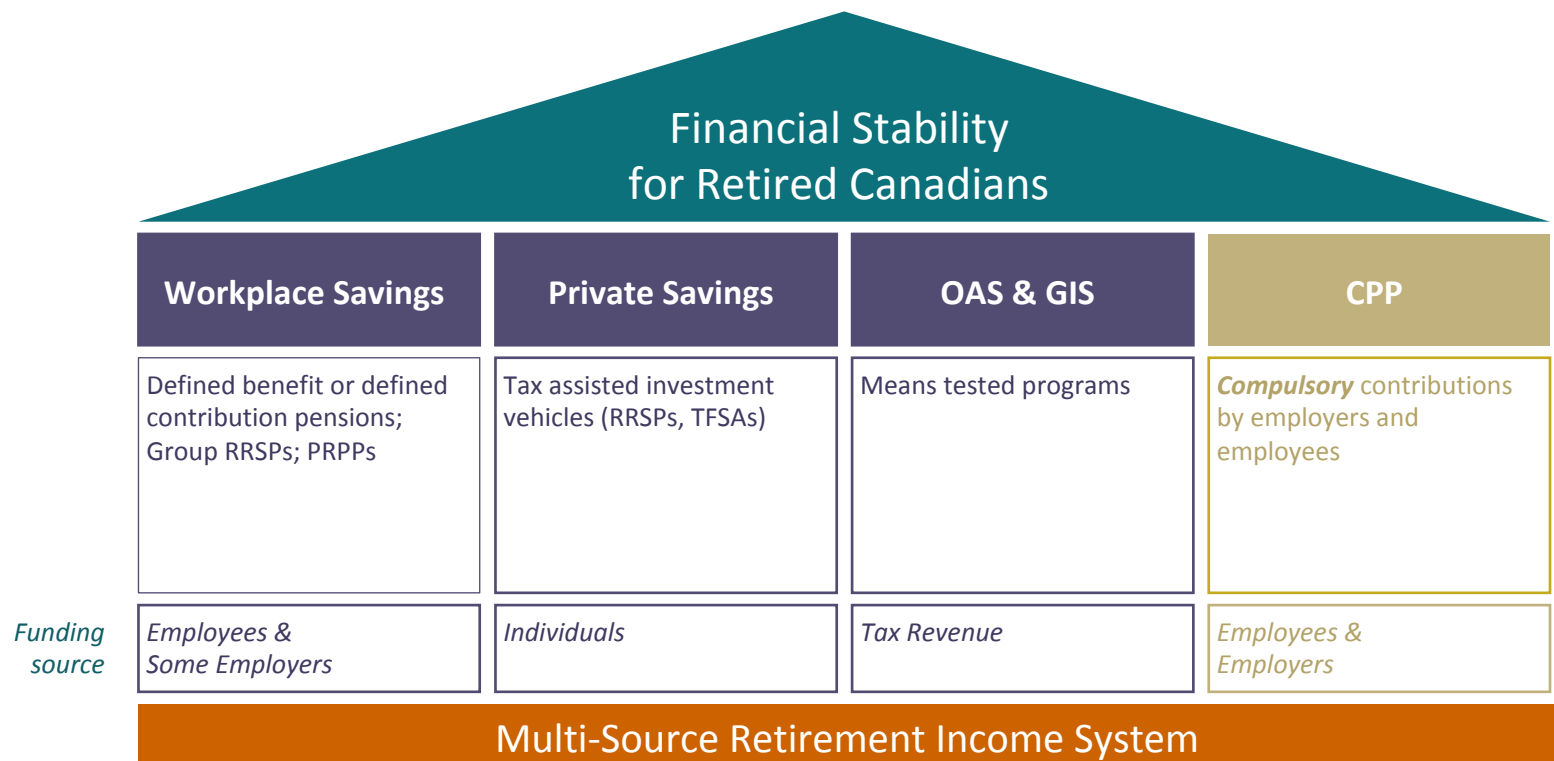


**CPP
INVESTMENT
BOARD**

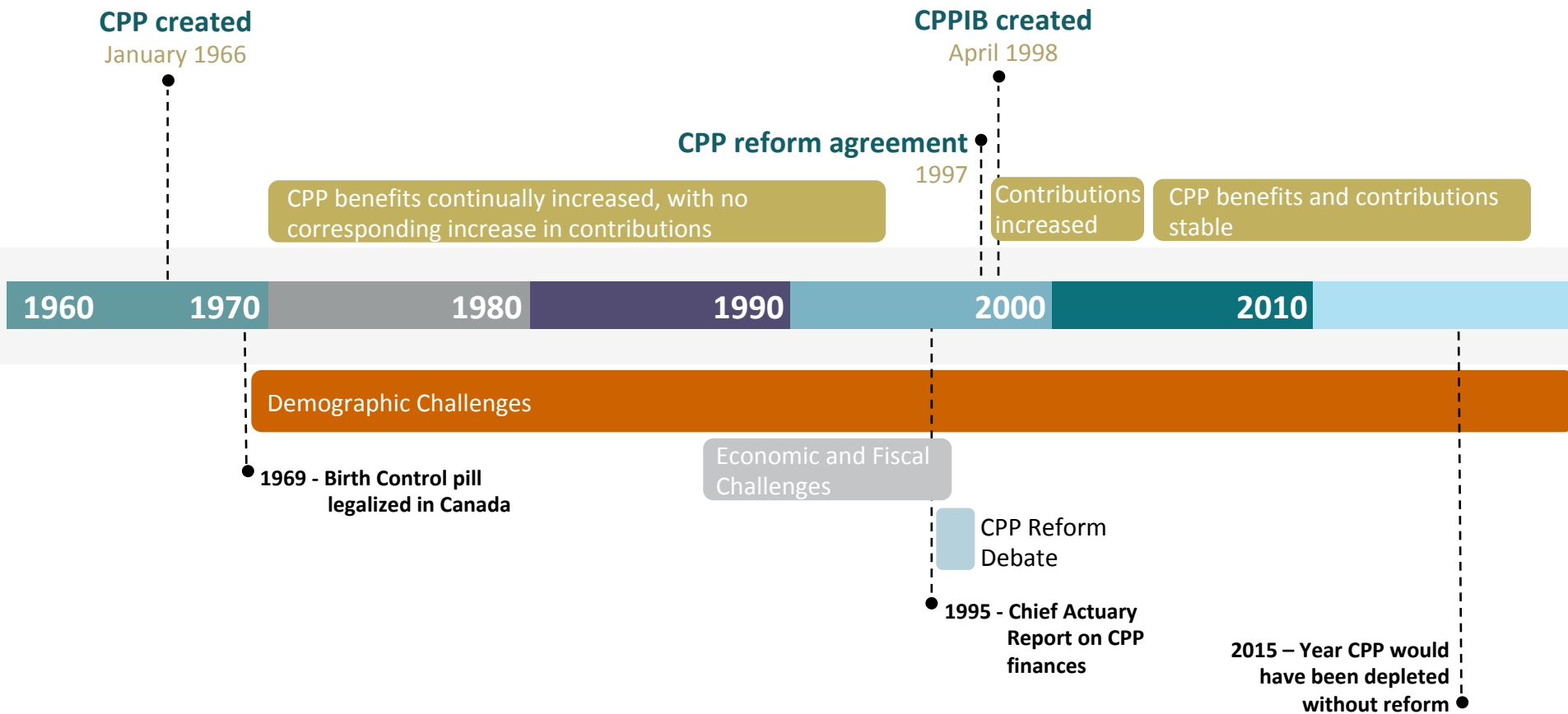
OVERVIEW

1. Origin of CPPIB
2. Evolution of CPPIB's Sustainable Investing approach
3. Report on Sustainable Investing

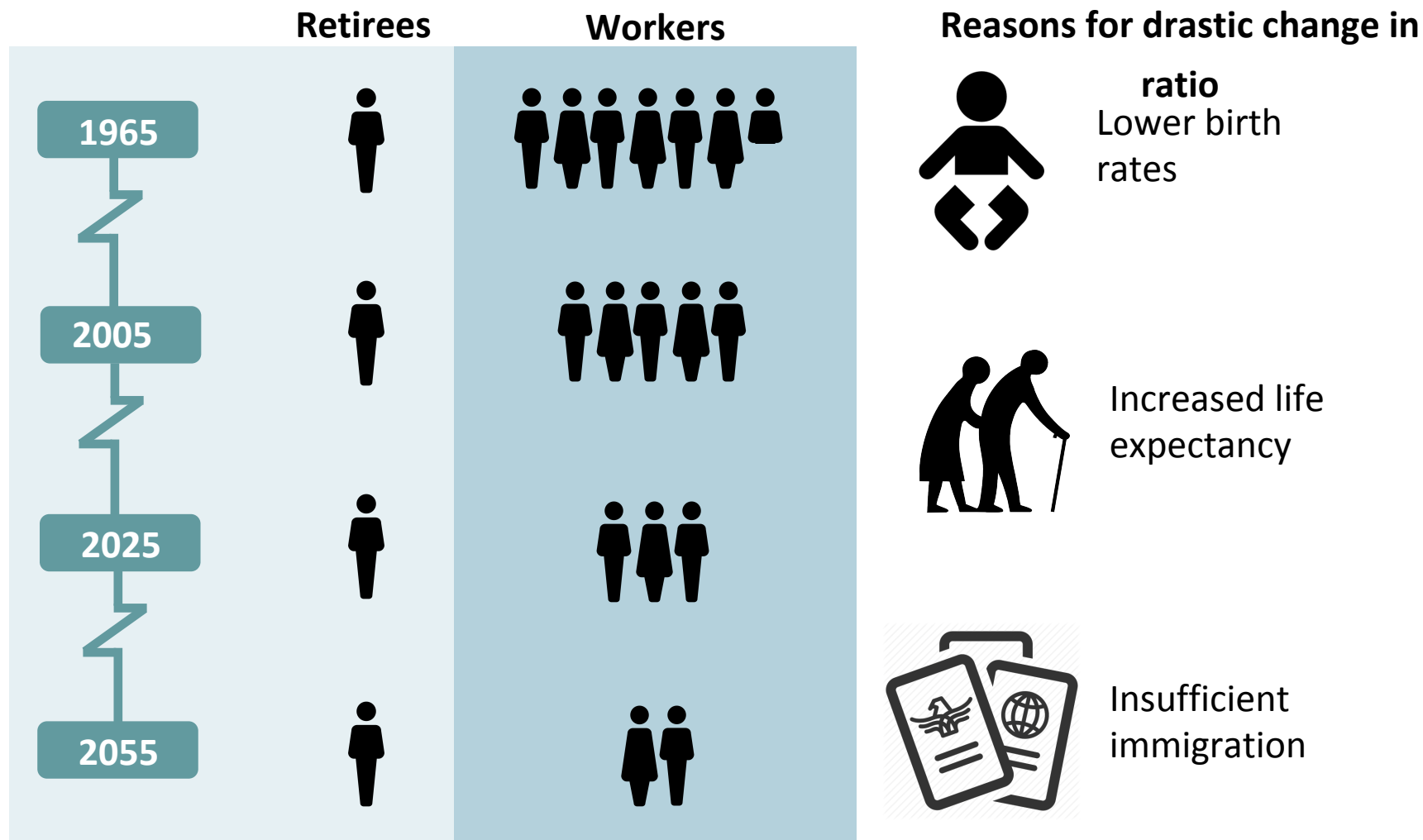
CPP - A key pillar of the Canadian retirement system



A brief history of the CPP



Demographic challenges facing CPP



Catalyst: 1995 Chief Actuary Report



Chief Actuary reported that if the Fund continued to function at same level, it would be depleted by 2015. Contributions would automatically increase to 13.9% by 2030.

Response: CPP Reform debate



Politicians of all political stripes and levels of government **came together to reach an agreement and overcome these challenges**, averting the CPP Fund from inevitable disaster.

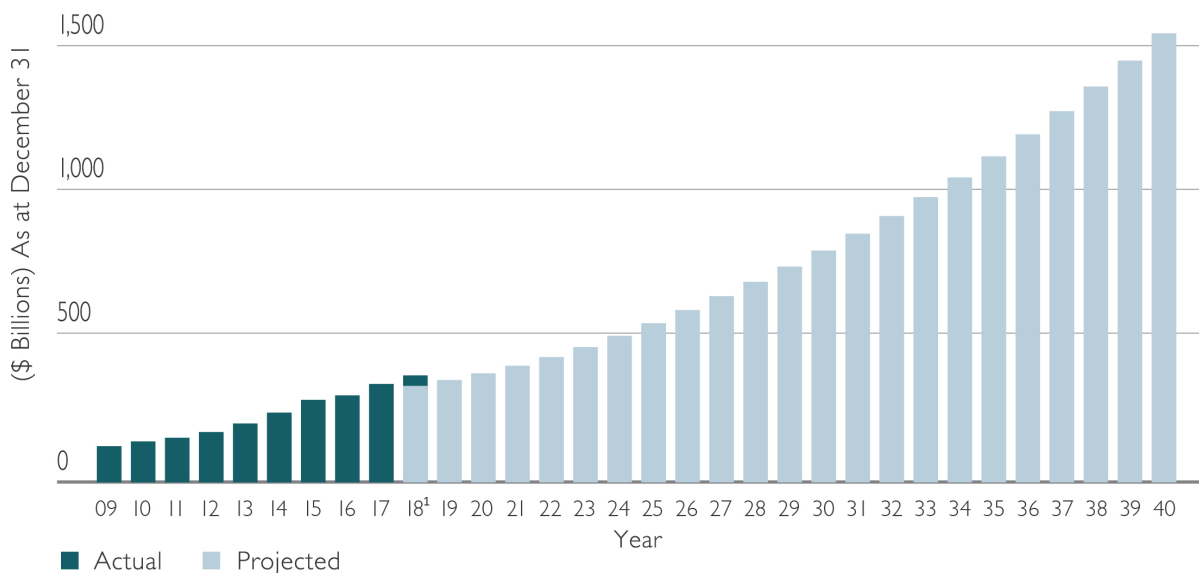


CPP INVESTMENT BOARD

- Today CPPIB manages more than \$368 billion
- More than 1,400 employees
- Offices include Toronto, London, Hong Kong, New York and Mumbai
- Assets range from stocks and bonds to real estate and infrastructure
- Ranked as world's 8th largest pension fund
- 11.6% Net Annual Return in Fiscal 2018

Scale and Certainty of Assets

CPP Fund Asset Projections – Growing and Sustainable



- Our scale allows us to shape investments, not just respond to them
- The certainty of our assets and cash inflows means that we can be patient and flexible investors

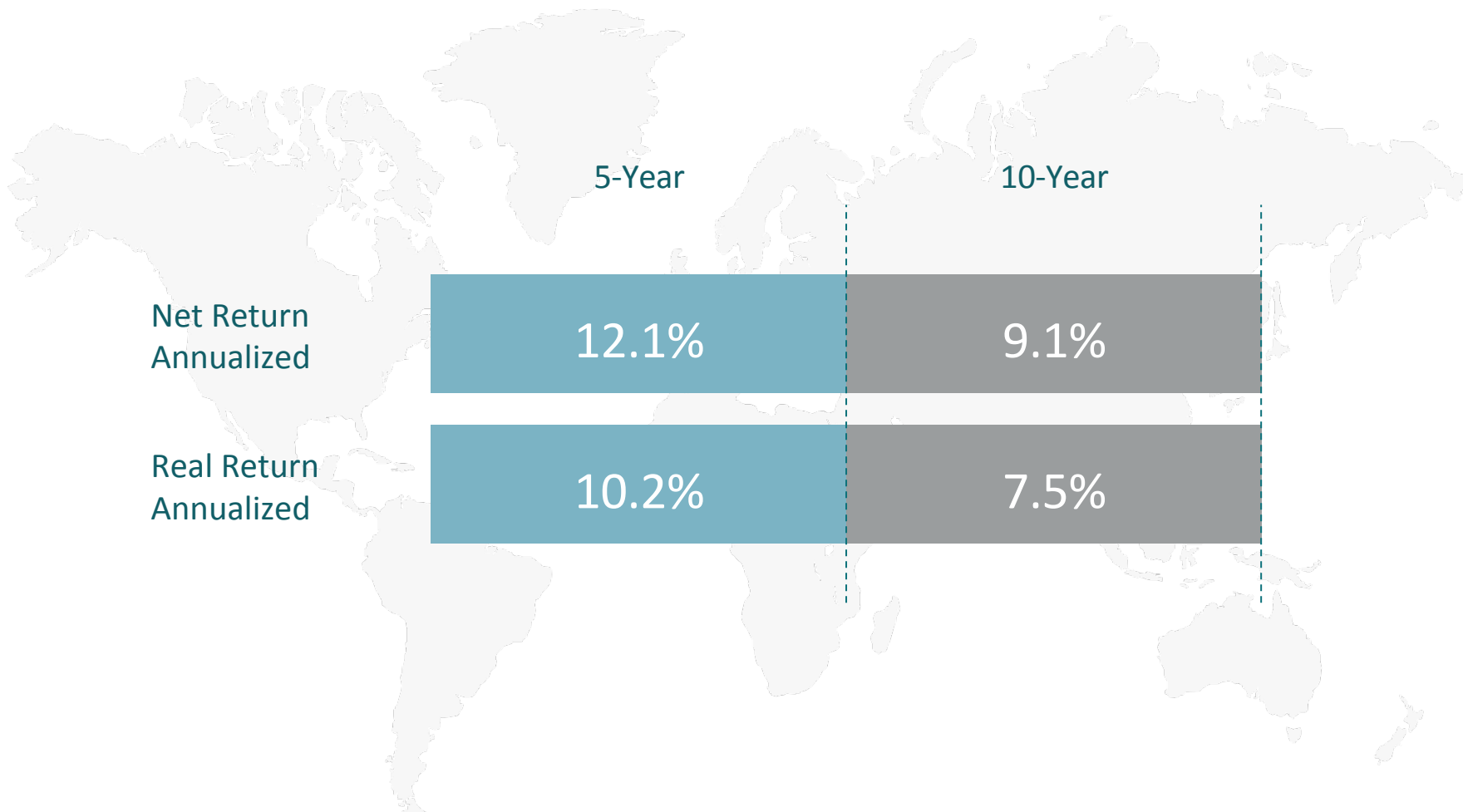
C\$368.3
BILLION
TOTAL CPP FUND

9.1%
10-year annualized
return
Net nominal

¹ Table modified by CPPIB to show actual assets under management, as at June 30, 2018.

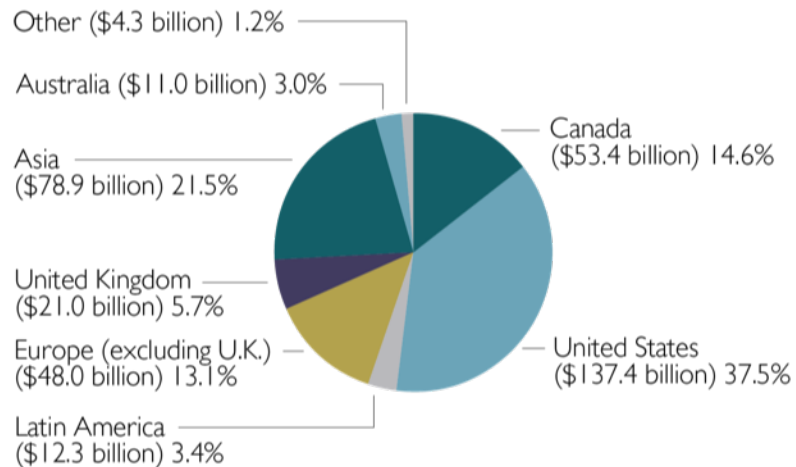
Projections of the CPP Fund, being the combined assets of the base and additional CPP accounts, are based on the nominal projections from the 29th Actuarial Report on the Canada Pension Plan as at December 31, 2015.

Longer-term returns

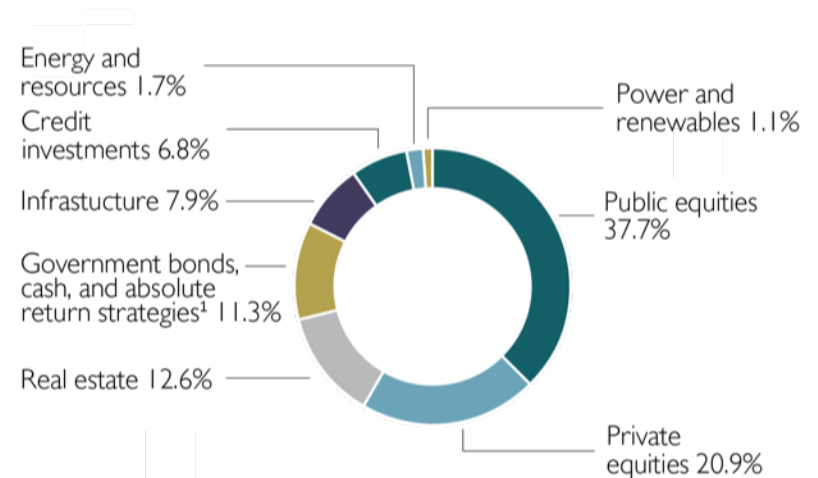


Global Orientation and Asset Distribution

Global Diversification by Region



Asset Mix



Financial Sustainability

- Every three years, the Office of the Chief Actuary independently reviews the financial state of the CPP
- Life expectancy, rising number of pensioners and the investment returns of the CPP Fund are all taken into account
- The Chief Actuary's latest report confirms the CPP is financially sustainable for the next 75 years

75+ YEARS
**DURATION OF
CPP SUSTAINABILITY**

A professional investment management organization



Governance

CPPIB's governance structure is globally recognized as a best practice for national pension plans. We operate at arm's length from government and our management team reports to an independent, professional board of directors. Our mandate is to invest the assets of the CPP Fund to achieve a maximum rate of return without undue risk of loss. In achieving this, CPPIB is required to take into account the factors that might affect the funding of the Canada Pension Plan, and to manage the Fund in the best interests of contributors and beneficiaries.

International Recognition for Governance



"Maple Revolutionaries"
(March 3, 2012)

AAA Rating

"... Well developed corporate governance and risk management frameworks; and an experienced management team."

- Standard & Poor's

Sustainable Investing at CPPIB: Select Milestones

2006 CPPIB decides to adopt an active management approach to improve returns

2008 1st Responsible Investing Report: highlights Climate Change, Executive Compensation and Extractive Industries focus areas

2012 CPPIB appoints Head of Responsible Investing to help expand ESG activities

2014 Responsible Investing group renamed Sustainable Investing, **reflecting view ESG factors fundamental to enhance long-term returns**

“We believe that properly considering ESG factors in investment decisions can lead to better long-term performance across the Fund.”



Sustainable Investing Group

Sustainable Investing Group Overview

- 9 investment professionals based in Toronto and 3 in London
- Works closely with teams in both public and private markets to improve long term risk-adjusted returns
- Team composed of environmental, social and governance specialists, and professionals with extensive experience in mainstream investing

Core functions: Engagement and Integration

- *Integration:* Provide ESG guidance and domain expertise within the investment process across all departments focused on single-name investing: Active Equities, Private Equity, Real Assets and Credit Investments (combined AUM ~\$238B)
- *Engagement:* Interact extensively with senior management and directors of companies within CPPIB's portfolio to promote improved disclosure and management of ESG factors

Selected memberships

- UN PRI - Founding signatory
- SASB - Alliance member
- FCLT Global – Founding member



Approach to Sustainable Investing

CPPIB's Approach

- Investment belief that organizations that manage environmental, social and governance (ESG) factors effectively are more likely to create value over the long term
- Consider ESG factors as they affect the risk and return of investments, and within our mandate to maximize returns without undue risk of loss



Board Effectiveness

- Board diversity is a critical component of board effectiveness
- Our expectation is that boards should be diverse, including with respect to gender.
- We believe companies with diverse boards are more likely to achieve superior financial performance.



Board Effectiveness

- In 2017, we voted at shareholder meetings for 45 Canadian companies with no female directors
- We were pleased to see that 47%, that is, 21 of those 45 companies, have added a female director
- In December, CPPIB announced this practice will be extended to all global companies (2,851 companies)

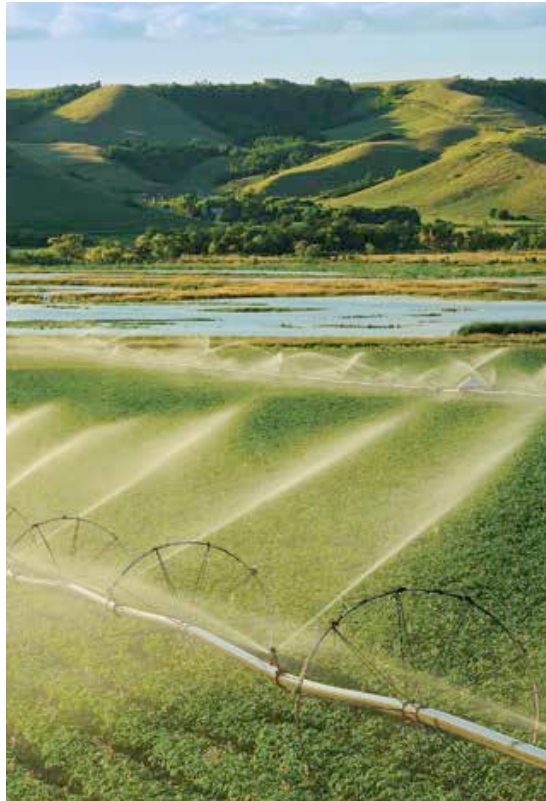
'A high priority for us': CPPIB using its shareholder votes to push for more women on corporate boards

Canada's largest retirement fund manager is pushing to have more women on corporate boards because diversity makes for better business decisions, CPPIB CEO said



Water

- In 2018, CPPIB joined the United Nations supported Principles for Responsible Investments collaborative engagement on water risks in agricultural supply chains
- Active role in this effort, alongside over 35 global investors, leading an engagement with one of the more than 15 targeted companies



Human Rights

- Since 2016, we have participated in a collaborative engagement with over 20 global investors related to child labour and other human rights concerns in the cobalt mining industry in DRC
- Positive developments include mapping of supply chains down to the mine level and partnerships with relevant NGOs



Executive Compensation

- We focus not only on how much executives are paid, but, more importantly, on how a compensation plan aligns the interests of management with those of long-term investors
- CPPIB engaged with more than 35 companies on executive compensation issues during the reporting period
- We continued our collaboration with other Canadian institutional investors to advocate for mandatory annual Say on Pay votes in Canada.



Climate Change: Risk Management

- Top Down Assessment – assess climate risk exposure at the total portfolio level; scenario analysis
- Energy Outlook - dynamic global energy outlook to serve as a reference point for investment reviews and portfolio
- Carbon Footprinting Tool - in-house technology tool to measure greenhouse gas emissions from our public equities
- Climate Change Toolkit - help investment teams better assess and understand impact of climate change on existing portfolio and potential investments



Climate Change: Investment in renewables

- Stand-alone Power & Renewables group created in late 2017
- Since then CPPIB has invested more than C\$3 billion in solar and wind companies
- Investments in Brazil, India, Canada, Germany and the United States



Climate Change: Green Bond

- In June 2018, CPPIB completed its inaugural issuance of \$1.5 bln of green bonds
- First pension fund in the world to issue green bonds
- Sale increases our capacity to invest in renewable energy assets



fastFT Canada Pension Plan Investment Board

CPPIB to become first pension fund to issue green bond

Climate Change: Engagement

- CPPIB has been supporting shareholder proposals that encourage companies to improve climate-change disclosure for over a decade
- In 2018 proxy season, CPPIB supported more than 20 climate change-related shareholder resolutions
- We've supported assessments of long-term impacts of climate change policies aimed at reaching two degrees Celsius target; improved reporting on methane emissions management
- CPPIB is on the Advisory Committee of the UN-supported Principles for Responsible Investments collaborative engagement on methane risks



Climate Change: Task Force on Climate-related Financial Disclosures

- Financial Stability Board (FSB) an international body created in the wake of the 2008 financial crisis
- FSB established TCFD in 2015 to develop recommendations for more efficient and effective disclosures
- CPPIB's head of Sustainable Investing is on the TCFD; CPPIB is working to encourage adoption





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Thank you for your time
Questions?