

Report on Sustainable Investing 2020

CPP Investments

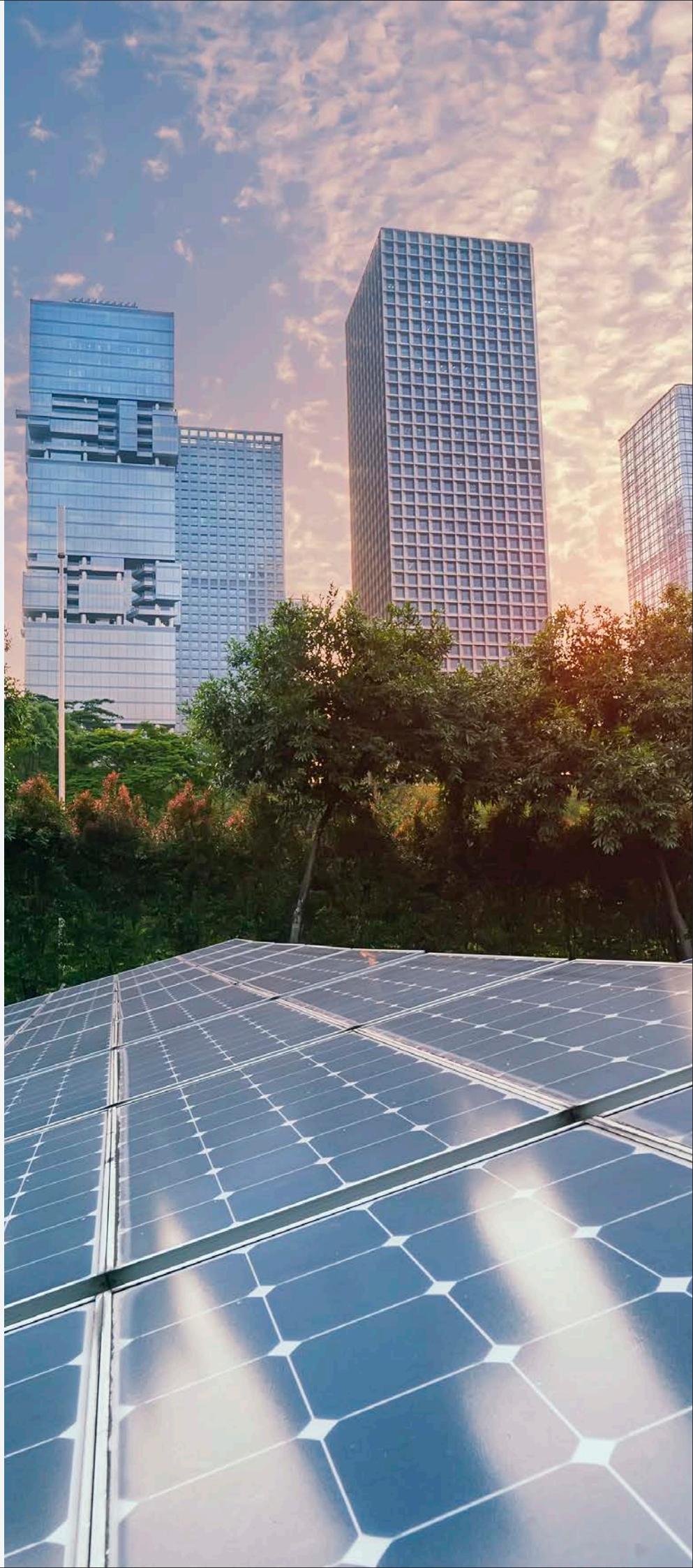
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Introduction to CPP Investments

We are an investment management organization that invests Canada Pension Plan (CPP) funds not currently needed to pay pension, disability and survivor benefits.

Our purpose is to help provide a foundation upon which more than 20 million Canadians can build their financial security in retirement, and to ensure the Fund remains sustainable for generations.

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What Differentiates Us

Clear Objectives

We invest CPP assets to achieve a maximum rate of return without undue risk of loss, while accounting for the factors that might affect the funding of the Canada Pension Plan. These assets are managed in the best interests of CPP contributors and beneficiaries.

Segregated Assets

The assets we manage, in the best interests of the Fund's more than 20 million Canadian contributors and beneficiaries, are entirely separate from any government's assets.

Sound Governance

CPP Investments' governance structure is globally recognized as a best practice for national pension plans. We operate separately from federal and provincial governments, and our management team reports to an independent, professional Board of Directors.

Transparency

We publish quarterly financial statements and hold public meetings every second year in each province that participates in the CPP. We also provide timely and continuous disclosure of our investments.

Professional Management

Our purpose and high-performance culture drive our brand and reputation as a leading pension investment management organization. This allows us to attract, motivate and retain professional talent globally.



Operational Highlights

**Fund Size as at
March 31, 2020**

**\$409.6
billion**

**10-Year Annualized
Rate of Return
(Net Nominal) as at
March 31, 2020**

9.9%

**Compounded Dollar
Value-Added**

**\$52.6
billion**

We calculate compounded dollar value-added as the total net dollar value that CPP Investments has added to the Fund since the inception of our active management strategy. This figure is above the value that the Fund would have generated had it earned Reference Portfolio returns alone.

Details on our operational highlights can be found in our Annual Report (<https://www.cppinvestments.com/AR2020>)

President's Message



Mark Machin, President & CEO

“This new century has fundamentally changed the nature of business, with the heightened expectations of stakeholders helping to bring ESG issues to the fore. We believe that, by fully considering ESG risks and opportunities, we become better investors, able to both enhance returns and reduce risk for our more than 20 million contributors and beneficiaries.”

I write this message having spent much of 2020 working from home. As is the case for many of our beneficiaries and stakeholders, the COVID-19 pandemic has transformed how we live and work.

The pandemic has resulted in a loss of life and livelihoods, creating both a global healthcare tragedy and an economic crisis. It has shown us many examples of the best of humanity, but also the systemic fragility we create when we fail to adequately consider long-term sustainability in our decision-making.

I am optimistic that we will draw upon the experience of this past year to move forward-to-better. In doing so, we hope that decision-makers at every level will integrate a more expansive lens on both opportunities and risks into their planning. They can do this by taking full account of environmental, social and governance (ESG) factors.

Why ESG matters now – more than ever

We last updated our *Policy on Responsible Investing* in 2010. That policy served us well over the past decade, ensuring we integrated ESG factors into our investment process. This was, and is, clearly aligned with our legislative objective to achieve a maximum rate of return, without undue risk. During this time, too many companies either destroyed or missed their chance to increase shareholder value because they failed to fully appreciate the evolving financial landscape. This compelled us to more clearly articulate the business case for ESG integration in our new *Policy on Sustainable Investing*, as well as our expectations of the businesses in our portfolio.

This new century has fundamentally changed the nature of business, with the heightened expectations of stakeholders helping to bring ESG issues to the fore. We believe that, by fully considering ESG risks and opportunities, we become better investors, able to both enhance returns and reduce risk for our more than 20 million contributors and beneficiaries. But to do so, it is critical that businesses report the relevant data in a standardized way that clearly spells out the risks and opportunities they face, and the progress they are making in mitigating those risks.

In our view, boards and management teams have a clear responsibility to identify, manage and communicate the relevant impacts from the full range of ESG issues. While our investment horizon permits patience and allows us to work with businesses to better understand their approach to integrating material ESG factors into their strategy, inaction with respect to these factors is no longer a viable long-term strategy.

Diversity

Canada was able to celebrate 100% of S&P/TSX Composite Index companies having a woman on their board this year. Despite that milestone, we are still too far away from an acceptable level of diversity in boardrooms. The evidence continues to build that companies with increased diversity deliver superior risk-adjusted returns.

We must aim higher and realize our ambitions on diversity and inclusion – boards can no longer be excused for an inability to source diverse candidates. To action this, we have escalated our voting policy where we see complacency from boards in embracing the benefits of increased diversity.

Climate change

While much of the world's attention has understandably been focused on coping with the pandemic, CPP Investments has also maintained its sights on climate change and the fact that it remains one of the largest investment factors of our time.

We have made considerable progress during the last 12 months in further integrating the assessment of climate-related risks and opportunities into our investment process. This included top-down work like economic modelling and scenario analysis, which help us understand how different potential climate change paths will impact our portfolio. It also included bottom-up assessments of our major investments, with more than 100 transactions reviewed. In the year ahead, we will refine and expand the tools and competencies that allow us to assess the financial impacts of climate change.

This year's report also outlines our thinking about the energy industry's evolution in the context of climate change. We are regularly asked about the place of conventional energy assets in our portfolio. We know a successful evolution to a lower-carbon world is absolutely contingent on a shift in the global energy mix. At the same time, oil and gas will play a significant role for many more years and the potential for human ingenuity in the industry's evolution should not be underestimated.

While the energy industry has been in a state of innovation for over a century, it is only now beginning to be incentivized to invest in the abatement or avoidance of carbon emissions. We are confident that major investments supporting the shift over time to lower-carbon energy sources will come from companies that currently derive most of their revenue from hydrocarbons. We are already supporting and directly partnering with companies in the development of solutions and strategies that meet our investment thresholds. This includes our work with Enbridge Inc. in the European offshore wind sector, and the launch by Wolf Midstream, a portfolio company of ours, of the Alberta Carbon Trunk Line which is capable of transporting up to 14.6 million tonnes of CO₂ per year for use or sequestration.

Our partnership with Enbridge, and deals like our acquisition of Pattern Energy, helped our renewable energy holdings reach a new high of around \$6.6 billion as of June 30, reflecting our confidence in the increasing role this sector will play in meeting global energy demand (see page 26).

ESG reporting

There has been a proliferation of approaches to ESG disclosure and we respect that other stakeholders may desire supplemental lenses on corporate performance. However, as an investor to whom boards are accountable, we ask that companies report material ESG risks and opportunities relevant to their industry and business models.

We have a clear preference for this disclosure to focus on performance and targets, rather than just policies. A demonstrable improvement in performance or strong performance relative to peers on health and safety, resource efficiency, emissions intensity or employee turnover carries far greater weight in our view than a desire to improve them.

When issuers seek our input, we now indicate a preference for companies to align their reporting with the standards of the Sustainability Accounting Standards Board (SASB) and the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

Conclusion

There remains much work to be done to ensure our economies and societies successfully emerge from the crisis caused by this historic pandemic. As this happens, CPP Investments will be a leader in understanding what makes companies and industries sustainable over the long term. As a growing number of enterprises incorporate ESG criteria into their decision-making, we know the benefits will become more apparent. Addressing sustainability is not just good for society and the planet – it is a business imperative.

Sincerely,



Mark Machin
President & CEO

A professional photograph of a woman with dark hair, smiling warmly at the camera. She is wearing a black ribbed sweater and is holding a white presentation slide in her hands. The background shows a modern office environment with large windows and a wooden desk.

Our Sustainable Investing Approach

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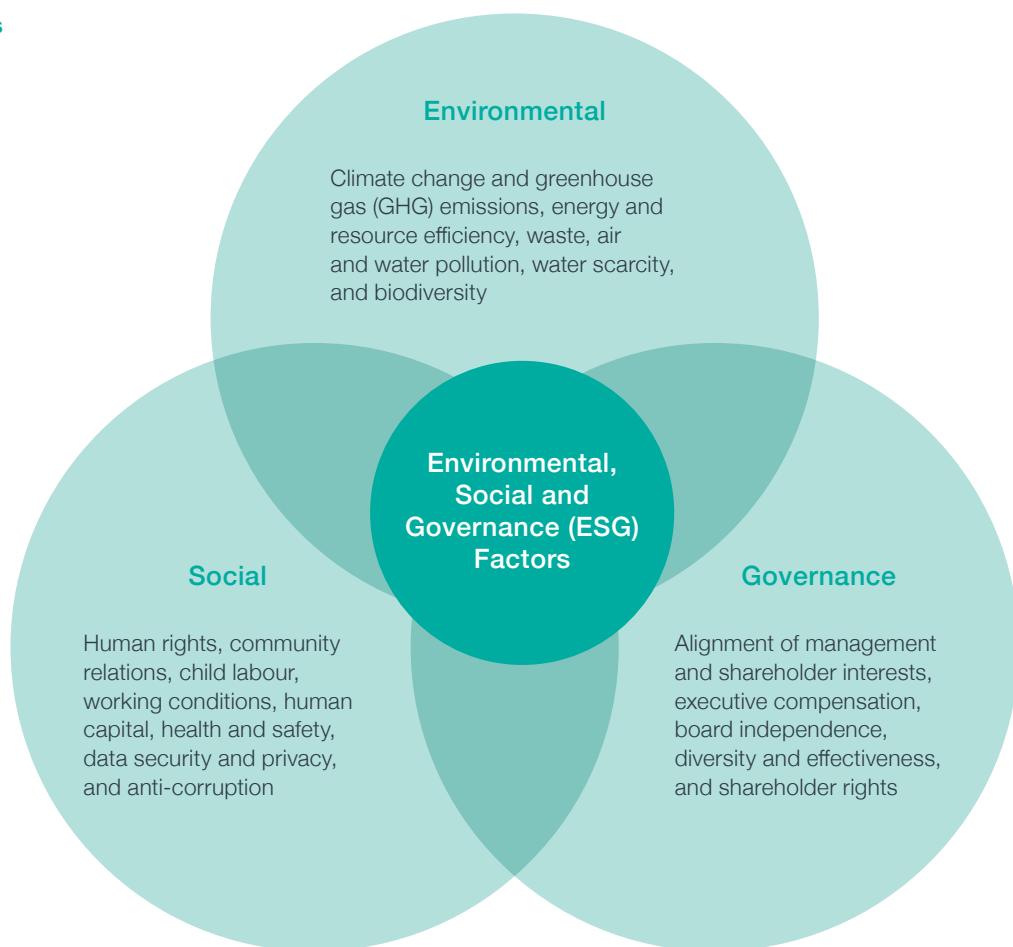
Our Mandate and the Consideration of Environmental, Social and Governance Factors

The legislation that created CPP Investments gave us clear investment objectives: to maximize returns without undue risk of loss, considering factors that may affect the financial obligations of the CPP. This legislation requires we manage the Fund in the best interests of contributors and beneficiaries. This guides us as we face the critical challenge of generating the investment returns needed to sustain the Fund for generations.

We believe companies that effectively manage environmental, social and governance (ESG) factors are more likely to create financial value over the long term, improving investment

performance by the Fund. While there are many ways to temporarily boost corporate performance in the short term, as some firms do, we look for companies with practices that will drive enduring outperformance. We consider relevant ESG matters when evaluating opportunities, making investment decisions, managing our investments and engaging with companies to seek improvements in business practices and disclosure.

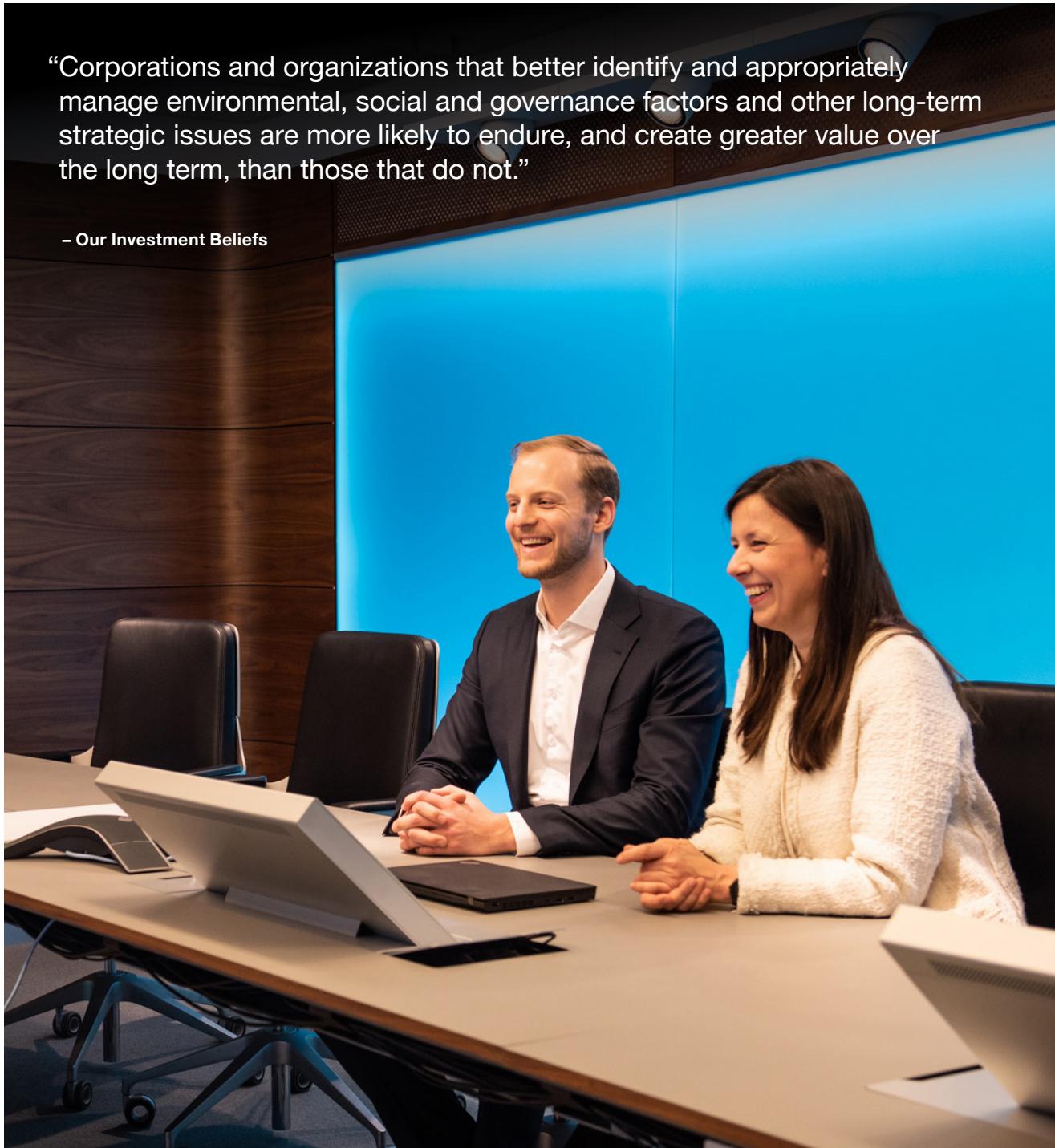
Environmental, Social and Governance (ESG) Factors



Sustainable Investing for Long-Term Value

“Corporations and organizations that better identify and appropriately manage environmental, social and governance factors and other long-term strategic issues are more likely to endure, and create greater value over the long term, than those that do not.”

– Our Investment Beliefs



The impacts of ESG-related risks and opportunities on long-term value creation are ever more apparent as the nature of business fundamentally changes, driven by technological advances and an increasingly competitive corporate landscape. Businesses must also take into account rapidly evolving stakeholder expectations. The increase in resource consumption stemming in turn from the four-fold growth of the world's population over the past century has implications for both the planet and companies seeking to meet consumer demand.

Companies and investors that anticipate and manage this new century's risks and opportunities are in the best positions to drive enduring financial performance.

This requires recognition that ESG factors can directly impact a company's profitability. For example, maintaining questionable sourcing or labour practices, underinvesting in critical environmental protections, failing to address hostile work environments and inadequate cybersecurity can all destroy a company's value. This can manifest as decreased customer trust and loyalty, a loss of brand equity or an inability to attract talent. In the worst cases, a company could lose its licence to operate, literally or effectively.

By contrast, companies that deliver solutions to meet their customers' needs while limiting or eliminating adverse environmental and social impacts will endure and create sustained long-term value. We are confident new opportunities and profit pools will emerge as businesses adopt services and solutions to mitigate these negative impacts.

Companies with appropriate cultures – represented by boards and management teams with sufficient diversity, in all its forms, that question the status quo and challenge whether the business is equipped to address these issues – will be most able to navigate risks and capture new opportunities.

Long-term investors, such as CPP Investments, play a critical role in encouraging companies to identify and manage environmental, social and governance factors, as they are fundamental to enhancing long-term returns. This is why we have a robust sustainable investing strategy supported by a formal governance structure and a dedicated Sustainable Investing team. This strategy – aligned with our Integrated Risk Framework (see page 52) – includes the integration of ESG considerations through the life cycle of an investment (from due diligence through the ownership phase and when our investee companies prepare for listing). It also includes active ownership through direct or collaborative engagement with companies.

While specific integration and asset management strategies vary by company, industry and geography, we consider relevant ESG factors across asset classes. Members of our Sustainable Investing team – positioned within our Active Equities department – work with colleagues organization-wide. ESG considerations are integrated into investment decision-making and incorporated into employee objectives and compensation structures where relevant.

Our investment decision-making process also considers issues or events that can create outsized reputation concerns. In assessing risk-adjusted returns, we evaluate ways unique or cumulative reputation harm may impact CPP Investments' brand. The organization's Reputation Management Framework seeks to identify and mitigate risks that may negatively impact our corporate reputation.

To do this, CPP Investments conducts reputation assessments across all asset classes we invest in. ESG considerations are an integral part of these assessments given their potential to generate reputational harm to the organization. This helps ensure that potential reputation and ESG impacts are more fully factored into investment decision-making that is focused on risk-adjusted returns.

While we focus most of our sustainable investing-related engagements on five issues, namely climate change, water, human rights, executive compensation and board effectiveness (see pages 37–42), we also engage on other issues we view as relevant to improving business practices and enhancing disclosure. This report details our approach and activities from July 1, 2019 to June 30, 2020.

Integrated Sustainable Investing Framework

Our approach to sustainable investing aligns fully within our organization's broader strategy and our mandate to maximize the value added to the Fund. This approach and our belief that consideration of ESG factors leads to greater value creation and preservation over the long term are reflected in our Sustainable Investing Framework (see below).

Our **Board of Directors** approves our overall risk framework, including the integration of ESG factors. Our **President & CEO** oversees this approach's successful execution.

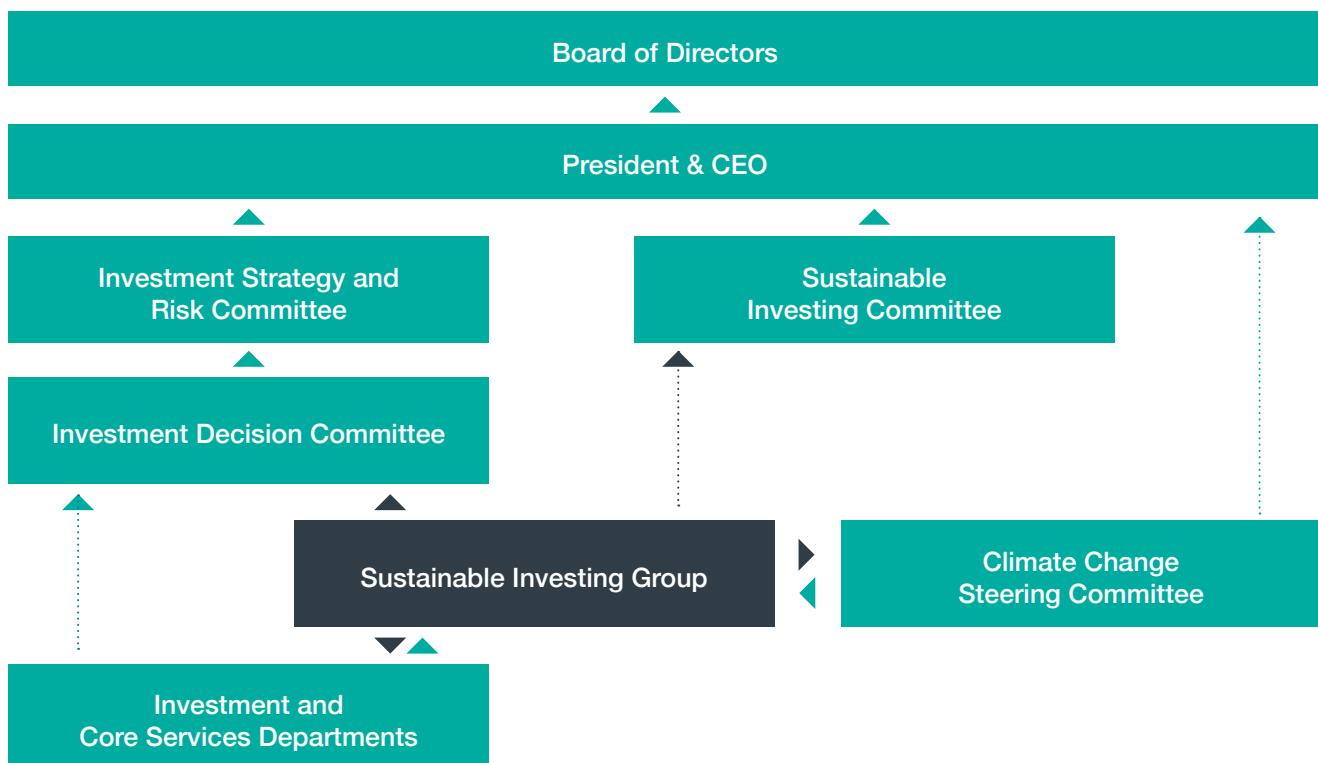
Our **investment departments** work closely with the **Sustainable Investing (SI) group** to integrate relevant ESG considerations into investment decision-making and asset management, and inform our proxy voting decisions and engagement with both public and private companies in our portfolio. Senior management from **core services departments** (including **Legal, Public Affairs & Communications**, and **Finance, Analytics and Risk**) are also involved in ensuring operational, regulatory and legal, and strategic risks and reputational factors are considered as the SI group supports our role as an active and engaged owner.

Our cross-departmental **Climate Change Steering Committee**, chaired by the Global Head of Active Equities, approves the overall execution strategy of our **Climate**

Change Program, and sponsors implementation and change management across the organization on all issues related to climate change.

The **Sustainable Investing Committee (SIC)** is comprised of senior representatives from teams across the organization. The SIC discusses and approves topics including engagement focus areas and our *Policy on Sustainable Investing and Proxy Voting Principles and Guidelines*, ahead of these policies being recommended to the Board.

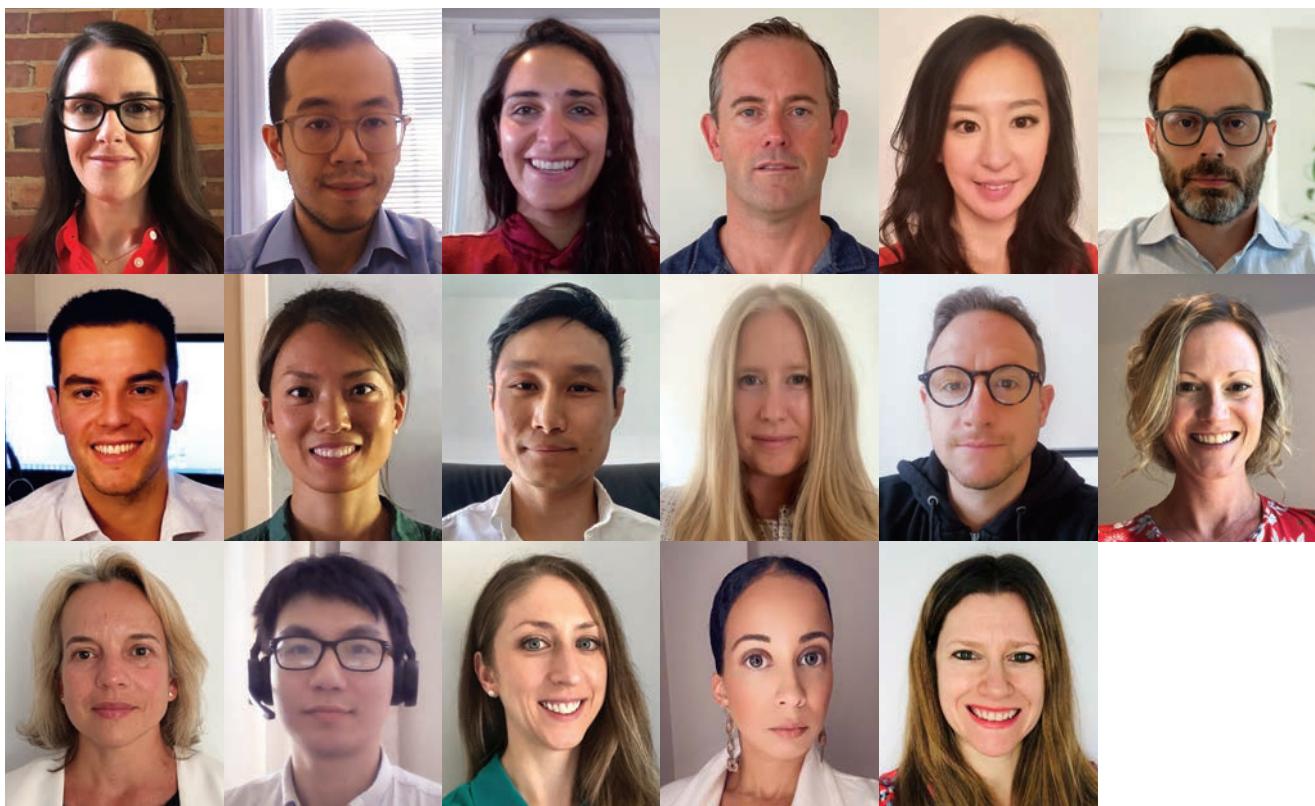
Our **Investment Strategy and Risk Committee (ISRC)** is the management-level committee that is accountable for oversight of our portfolio design and alignment with our Investment Risk Framework. The ISRC oversees the **Investment Decision Committee (IDC)**, our investment oversight and approval committee. The IDC reviews major transactions recommended by investment departments and weighs transaction-specific underwriting and risk/return considerations against strategic enterprise matters and risks, such as significant ESG risks including climate change, and reputational impacts. CPP Investments' Board approves our *Policy on Sustainable Investing, Proxy Voting Principles and Guidelines* and Integrated Risk Framework upon the recommendation of our President & CEO, the ISRC and the SIC.



In addition to these formal structures, we also have an informal **Sustainability Virtual Team** to share insights and foster discussion on ESG topics – including best practices, market

updates and lessons learned – to accelerate our firm-wide understanding of key ESG issues.

Sustainable Investing Group



Top row (from left to right): Samantha Hill, Alvin Ho, Danielle Pal, Richard Manley, Katie Wu, Jason MacNeill;
Middle row (from left to right): Redon Gallani, Flora Liu, Alexandre Lim, Clare Devlin, Ben Lambert, Tammy Bodnar;
Bottom row (from left to right): Maria Montero, James Guo, Adriana Morrison, Fallon Maclean, Samantha Hadfield.

Our Sustainable Investing (SI) group assesses ESG risks and opportunities and works closely with our investment departments, providing input on financial impacts, evolving trends and industry best practices. It also conducts in-depth research on companies, industries and assets in which ESG factors, including climate change-related considerations, are material to an investment's value. The SI group, which sits within our Active Equities investment department, is comprised of professionals with diverse experience and expertise, and partners with our investment teams in due diligence and monitoring across investment departments. The group continuously explores ways to innovate and be at the forefront of the sustainable investing space and has created fit-for-purpose tools, such as a proprietary industry-level materiality framework and public company ESG database (see page 20) to embed ESG considerations into our investment decision-making process. Additionally, the SI group develops ESG reports about publicly traded companies and conducts ESG evaluations on private companies for our investment teams to consider

when making active investment decisions, enabling them to identify material ESG-related risks and opportunities early in the investment life cycle.

The SI group supports our role as an active, engaged owner (see pages 34–55) by carrying out all proxy voting activities. It leads engagements with our portfolio companies to address ESG risks and opportunities to enhance the long-term sustainability of the Fund. The team also helps foster our relationships with like-minded industry peers to maximize the impact of our collaborative engagements on ESG.

The past year also saw the commencement of the beta test of a Sustainable Equities investment portfolio. This pilot program has already helped us better quantify the investment impact of incorporating specific ESG factors. It has also exceeded the return targets we set on initiation of the beta test.

Interview with Our Head of Sustainable Investing

ESG integration emphasis helps investors navigate twenty-first-century business risks and opportunities



In many ways, COVID-19 is giving the world a preview of climate change's potential to disrupt delivery of goods, services and other things we are accustomed to having at our fingertips. It illustrates how risks posed by a combination of globalized labour markets and tight delivery timelines can be amplified by disruption.

"Businesses are being optimized like Formula 1 cars; they are being driven really, really fast towards a nearby finish line. When companies miscalculate, the risk of driving that hard can be catastrophic," said Richard Manley, Managing Director, Head of Sustainable Investing. We spoke with him about how ESG issues, which he refers to as 21st century business risks, need to be addressed by both companies and investors.

Why has the case for integrating ESG into investment decisions entered the mainstream?

Over the past century, billions of people have migrated from rural subsistence lifestyles to urban consumer lifestyles. Consumption has gone up and, with the advent of the smartphone, we've seen a huge convergence in the aspirations, knowledge and expectations of consumers around the world. This is creating very real tipping points around water, local and atmospheric air pollution, and equality and human rights; and this convergence is compelling consumers and regulators to try and resolve these issues.

Companies, too, are coming to terms with things like the need to navigate the scarcity of water resources, or the fact that having a high labour attrition rate harms productivity. It's become a business imperative because it is starting to drive value creation and value destruction outcomes for corporations. Today, to be a great company means proactively identifying the less conventional risks and opportunities. These are now integral to sound financial and operating performance.

Which ESG element is particularly important for corporations to get right?

An important starting point is to have an effective board, with appropriate independence, skills and diversity. Leadership needs to appreciate that the competitive landscape has changed, and that business risk moves substantially higher if companies get it wrong. Boards that are enlightened to today's operating environment and proactively identify the risks and opportunities their competitors are not thinking about – cybersecurity, supply chain integration and stakeholder relations – will provide better oversight and counsel to management. We expect boards to integrate these considerations into the company's strategy and practices – and its communications with stakeholders.

What are the preconditions for doing this?

Ensuring executive accountability for the ESG strategy. A board must be able to articulate the most material ESG risks to stakeholders. It must have confidence in and line of sight to the strategies that management puts in place to insulate companies from those risks, or capture the opportunities associated with navigating them. Another key element is integrating ESG into executive compensation. There is still a relatively small percentage of companies in world equity markets that do this. Where ESG accountability and performance targets impact executive compensation, evidence suggests that you are more likely to create the desired alignment of interests.

What are the challenges to successfully integrating climate change impacts into investing?

We don't have reliable inputs on many of the metrics to determine risk, even something as simple as where companies derive revenues – there is no common reporting framework for sales and assets by any industry globally. They all report their home markets and then carve up the rest of the world at different levels. It's a lot of work just getting data to help determine where risk exists, let alone accurately forecasting what the impacts from climate change will do to today's business models. This

is made more difficult due to the behavioural challenge. We're asking people to consider outcomes that are far outside the experience of any human being's life on this planet. It's difficult for people to contemplate what it would be like to go from seeing flooding every twenty years to flooding every three months. The integration of climate science into finance is still in its early stages, particularly when it comes to understanding and then incorporating how human behaviour will change and adapt as climate change impacts intensify.

What's our approach to collecting, using and scoring ESG data?

We have a proprietary ESG scoring framework for all the public companies in our investment universe – that's about 400 million data points. We apply an investor-centric lens to our ESG scoring and focus on issues that are material to the industry.

And we emphasize numeric data relative to policies. While policies are important, we need to see diversity statistics in addition to the existence of a diversity policy. I would prefer to see no fatalities, or no lost-time incidents, at a company rather than a comprehensive health and safety policy. If the diversity policy is being actioned, companies will have a diverse workforce. We place greater weight on best-in-class resource efficiency or strong year-over-year improvements than the articulation of resource efficiency policies.

Around the world, we are seeing both the breadth of data disclosed across the market and the consistency and the quality of data get better. Companies have now woken up to the fact that the inability to articulate performance on key areas of ESG is going to result in difficult conversations with key stakeholders, as well as shareholders.

What are your ambitions for the SI team and CPP Investments more broadly?

I want CPP Investments to be widely recognized as the partner and capital provider of choice for companies that are, or aspire to be, leaders in incorporating ESG considerations to support long-term value creation. I also want us to be the employer of choice for professionals who share this goal. A highlight for me since joining the organization was a conversation with the head of a portfolio company to whom we provided guidance. He said he had expected that having us on the company's shareholder register would offer more than capital, and that he was proven right. We can give specific, expert advice on how to address ESG issues in a way that will create value. And we do it through the lens of an investor that is focused on delivering that value over the very long term. This is positive for the company, its stakeholders, investors – including us – and, ultimately, the Canadians who count on us to help support them in retirement.

Assessing the Risks and Opportunities of Climate Change

CPP Investments seeks to be a leader among asset owners and managers in understanding investment risks and opportunities presented by climate change. This aligns with our legislative objectives.

Specifically addressing climate change in our investment activities better positions us to make more informed long-term decisions. Major portions of our portfolio – including assets in transportation and logistics, energy and utilities, and financial services – are particularly exposed to climate-related transition risks. These risks include government policy, legal, technology and market risks as the world shifts to a lower-carbon economy. Hard assets across sectors, such as real estate and infrastructure, may also be vulnerable to physical risks related to climate change, including the increased severity of extreme weather events and rising sea levels.

Simultaneously, investment opportunities in sectors such as renewable power and resource efficiency will continue to emerge. In response, we have dedicated resources across CPP Investments to understand, top-down and bottom-up, the financial risks and opportunities created by climate change.

Launched in 2018, CPP Investments' Climate Change Program is a cross-departmental, multi-year initiative incorporating elements of change management and knowledge sharing. In the last 12 months, the Program's various work streams have continued to enhance our capital allocation, deepen our investment acumen related to climate change and strengthen our external communications and transparency – which are critical to fostering stakeholder confidence. To facilitate this work, CPP Investments leverages vendors to obtain best-in-class data and expertise. Beyond March 2021, the Program will evolve to a steady state with its work embedded in our investment processes and operations. (Please refer to page 50 for more details on both the Climate Change Program and our broader climate change approach.)

Some key achievements in the year to June 30, 2020 include the following:

- The Total Portfolio Management (TPM) department advanced CPP Investments' efforts to directly factor climate-related risks and opportunities into the organization's investment strategy and total portfolio design. Energy transition and climate change (ETCC) scenarios were further developed. The team quantified climate-related physical and transition risk impacts on the economies of the countries we invest in, and the resulting impacts across different potential ETCC scenarios on our portfolio. This included the creation of a "damage function," which specifies how physical risks affect economic activity at various levels of global warming. TPM also started tracking an initial set of key indicators, or "signposts," to better understand the evolution of the ETCC and monitor which scenarios are most likely (see page 55).
- Our Risk Group continued to refine our in-house carbon footprint tool to more accurately measure greenhouse gas (GHG) emissions associated with CPP Investments' holdings. It also introduced carbon emission metrics for government issued securities (refer to page 53) and researched and applied various climate change benchmarks and stress-

testing methodologies, including the Bank of England's climate change stress test (see pages 50–51).

- Our bottom-up Security Selection Framework was used to screen over 100 transactions for climate-related risks and opportunities. The framework allows investment teams and approval committees to assess material impacts from climate change against the value of these investments (see page 51).
- Climate change investment opportunities were researched and pursued through a variety of strategies including:
 - the Thematic Investing group's Climate Change Opportunities (CCO) strategy (see pages 22–23);
 - the Energy & Resources team's Innovation, Technology & Services (ITS) strategy and work on carbon capture, utilization and storage (CCUS) (see page 24); and
 - the Power & Renewables (P&R) group's expansion of our renewable energy portfolio through additional acquisitions (see page 26).
- Expanded climate-related financial disclosures in our annual and sustainable investing reports in line with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) (see pages 50–55).

Climate Change and the Energy Industry's Evolution

We view climate change as among the major challenges of our time. Our approach is grounded in consensus scientific views and we closely follow research showing the pace at which rising levels of greenhouse gases are raising the Earth's temperature. A mandate to invest on behalf of future generations places climate risks at the forefront of our thinking.

In adopting an investment strategy to address climate change, CPP Investments' role is clear and defined. We must invest in the best financial interests of contributors and beneficiaries. This means we have an ongoing responsibility to be a leader in understanding the risks posed, and opportunities presented, by climate change. By extension, it also means understanding the long-term global shift to lower-carbon energy sources.

The combined forces of technological advances, changing policy, and shifts in consumer and business spending are accelerating the global shift to lower-carbon energy sources – all while worldwide energy demand is projected to grow.

While CPP Investments' singular focus is helping to sustain a national retirement fund – distinct from other public policy goals – our interests are in many ways aligned with efforts to slow the pace of global warming. This is evident in the way we incorporate climate change risks and opportunities into our investment strategy and deploy capital into areas like renewable energy. Additionally, we use our influence to support better climate change practices and disclosure at portfolio companies.

The projected scale of the investment needed to shift to a lower-carbon global economy means many ventures require backing from strong, knowledgeable, long-term partners. This fits with CPP Investments' desire to be a world-class global investor, and we have actively pursued investments that can be shown to provide attractive risk-adjusted returns for our contributors and beneficiaries.

CPP Investments created a standalone Power & Renewables group (P&R) in late 2017. Since then, we have invested billions in renewable energy projects on four continents (see page 26), helping diversify our portfolio's energy mix. The Innovation, Technology & Services (ITS) strategy of our Energy & Resources (E&R) group also pursues early stage investments aligned with the energy transition (see page 24). Its investment includes electric vehicle charging network operator ChargePoint Inc.

Successfully navigating this global transition to greater use of renewables and a more efficient conventional energy sector will make the Fund more resilient due to its diverse scope, global exposure, size and investment horizon. For this reason, CPP Investments' approach to climate change is focused on understanding and acting on the energy industry's dynamic evolution, rather than a static set of targets, and allows us to capitalize on a multitude of opportunities.

We serve Canadians by delivering returns needed to help sustain their retirements. To do this, we must be cautious about selling holdings too quickly or overpaying for investments as the global energy mix changes. This is why arbitrary targets are not as favourable as data-driven actionable insights.

Instead, we must grow our portfolio of energy assets by seeking quality opportunities and carefully considering their value as long-term investment prospects. We recognize that, while world demand for renewable energy and the infrastructure to support it is growing, efficient conventional energy sources will remain a significant part of the global energy mix for many more years. Such investments, therefore, remain an important part of the CPP Investments' portfolio.

Throughout this process, we will closely watch and anticipate the impact of technological advances. Our investments in sectors like renewable power, battery technology and charging networks for electric cars have already deepened our understanding.



We have seen increased efficiency and falling costs make wind and solar producers competitive, without subsidies, in a growing number of markets. Energy storage improvements will also support growth in this sector. Carbon capture and storage technologies are advancing and, depending partly on policy decisions, could also play a significant role in reducing

emissions from carbon-based energy sources. All of this creates investment opportunities.

While the energy industry is evolving dynamically, CPP Investments' influential, engaged and productive capital will help accelerate adoption of cleaner and renewable sources of energy in the years and decades to come.

Policy on Sustainable Investing

Our *Policy on Sustainable Investing* <https://www.cppinvestments.com/PolicyOnSustainableInvesting> is approved by our Board of Directors and defines how CPP Investments approaches ESG factors within the context of our legislative objectives. This document was updated in 2020 to reflect the realities of today's sustainable investing landscape.

Since our former *Policy* was published a decade ago, the size of the Fund and the number of investment programs, employees and offices have all increased, shaping how and where we integrate ESG factors. Additionally, the business case for ESG integration has shifted from the periphery to the mainstream.

A clear consensus has emerged globally among institutional investors that ESG integration is a financial necessity and an integral part of their fiduciary responsibilities, not a distraction from them. This change is backed by a growing body of evidence showing companies that a failure to integrate

consideration of the business risks and opportunities tied to ESG can severely undermine value.

The revised *Policy on Sustainable Investing* achieves the following:

- updates and aligns the language with our legislative objectives;
- conveys that the integration of ESG factors is inextricably linked to CPP Investments' ability to successfully achieve our objectives, and portfolio companies' abilities to create and sustain shareholder value;
- is more specific about our approach to engagement;
- signals our expectations of material ESG disclosure by companies, including our support aligning reporting with the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD); and
- describes our approach to investment exclusions and exits.

Exclusions and Exits

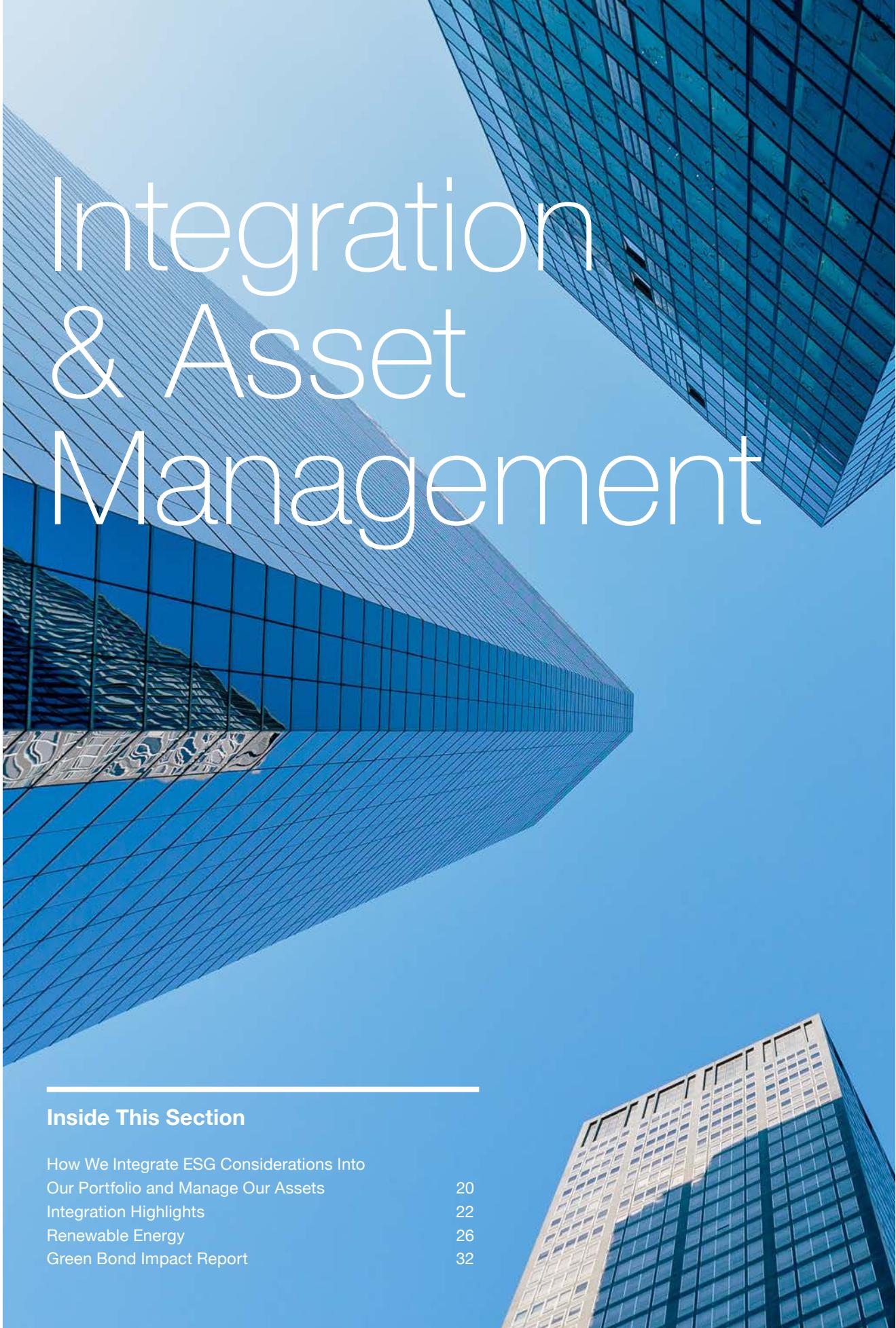
As a long-term investor, we prefer to actively engage with, and attempt to influence, companies when we disagree with a position taken by management or a board of directors of our active holdings. Selling our shares and walking away is easy, yet achieves very little. We can be a patient provider of capital and work with companies to bring about change. However, we may conclude not to pursue or maintain investments in companies for reasons such as the following:

- we conclude management's strategy or lack of engagement with ESG issues undermines long-term sustainability of the business;
- where brand and reputation considerations from ESG factors may generate risk impacts beyond any expected risk-adjusted returns; or
- legal considerations.

These factors are not applied to our exposure to companies through broad-based indexes. Such exposures are indirect and result from CPP Investments' use of market-traded index future contracts. No actual securities are held by the organization in those companies. Further, composition of these indexes is beyond the control of CPP Investments. Our exposures do not assist or affect the capital formation of these companies.

Exclusions include companies affected by the following legislation:

- **Anti-personnel landmines:** we will not invest in companies not in compliance with Canada's *Anti-Personnel Mines Convention Implementation Act*, or that would not comply if they operated in Canada.
- **Cluster munitions:** we will not invest in companies not in compliance with Canada's *Prohibiting Cluster Munitions Act*, or that would not comply if they operated in Canada.



Integration & Asset Management

Inside This Section

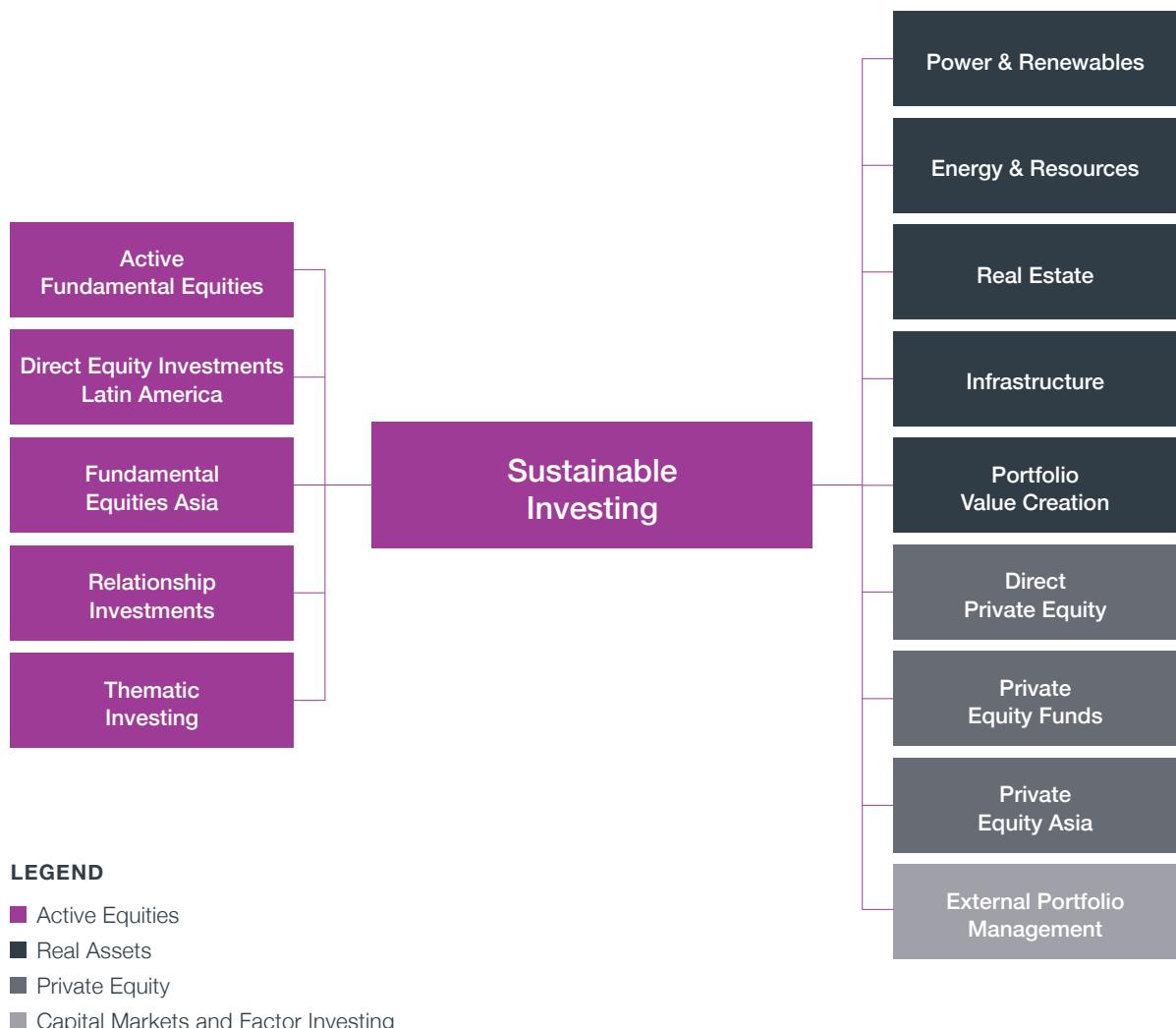
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We evaluate and incorporate risks and opportunities that arise from potentially material ESG factors into both investment decision-making processes and asset management activities. We believe that the result is a more holistic approach to traditional due diligence. This more complete assessment of value and risk helps generate better returns across the portfolio and adds greater financial value to the Fund.

Embedding ESG considerations into our investment and asset management processes is critical, as these can be important in determining whether a potential investment is attractive and how best to manage it once it is acquired. If such considerations are material, they can significantly affect our assessment of a company's risk profile and value.

Our SI team works closely with investment and asset management teams on all major transactions across the organization to ensure we have an integrated approach to incorporating ESG considerations into our decision-making processes. In addition, our Head of Sustainable Investing is a member of our Active Equities investment committee. Below are some examples of the teams the SI group works with to integrate ESG considerations into our investment and asset management processes.

Select Relationships with Investment and Asset Management Teams



Select Investment and Asset Management Teams



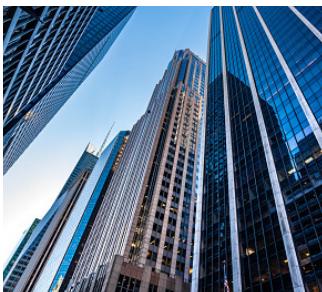
Power & Renewables

invests globally in companies, joint ventures or platforms that own, operate and manage portfolios of conventional power, wind, solar, hydro and other assets.



Energy & Resources

makes diversified investments in oil and gas, energy midstream, merchant power, liquefied natural gas, refining and petrochemicals, mining and energy-related technology.



Real Estate

invests globally in high-quality commercial properties through both the private and public markets. The group takes a targeted approach by focusing on investing with experienced, well-capitalized real estate companies.



Infrastructure

invests globally in large-scale infrastructure companies. These companies provide essential services within the utilities, transport, telecommunications and energy sectors. The group focuses on investing in lower-risk, asset-intensive businesses with stable and predictable long-term returns.



Direct Private Equity

focuses on making sizable direct investments in private companies, in all sectors except real assets, across North America and Europe alongside aligned partners. The team considers investments across the full spectrum of ownership structures, from passive, minority positions to 100% control.



Private Equity Funds

focuses on making commitments to buyout, growth equity and venture capital funds in North America and Europe. The team also pursues minority direct investments, up to \$100 million, alongside our private equity fund partners.



Relationship Investments

makes significant, direct minority ownership investments in public or soon-to-be-public companies by focusing on investments where CPP Investments can make a meaningful difference to the success of a company, and thereby generate long-term outperformance relative to peers.



Active Fundamental Equities

invests in public equities and soon-to-be-listed companies, primarily in North America and Europe. It uses long-term fundamental analysis to select high-conviction, single-company investments.



Direct Equity Investments Latin America

is a Latin America-focused regional program with a broad, flexible mandate that incorporates private equity (directly and through funds) and public equity investments.



Fundamental Equities Asia

performs fundamental research on public equities, or soon-to-be-public equities, throughout Asia. The group manages a portfolio of high-conviction, single-company investments as part of a fundamental long/short investment strategy.



Private Equity Asia

focuses on private equity investments in the Asia-Pacific region through commitments to private equity funds, secondary markets and direct investments in private companies, alongside private equity fund partners and other aligned partners.



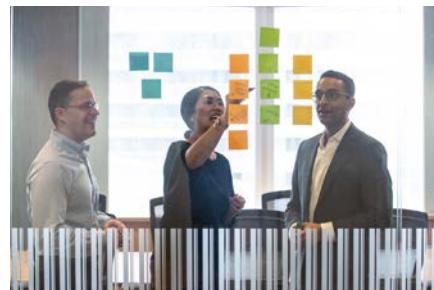
Thematic Investing

researches and invests in companies exposed to long-horizon structural changes. The group's investment process comprises in-depth research beginning with a global, top-down approach to identify the most compelling long-horizon themes. This top-down research is complemented by bottom-up fundamental research to identify investments in both public and private markets.



External Portfolio Management

oversees a portfolio of externally managed funds and separate accounts that complement CPP Investments' internal investment programs.



Portfolio Value Creation

works closely with teams across CPP Investments' material direct equity investments, portfolio company management and deal partners to create value within portfolio companies. The group works across all sectors and geographies and is involved in every phase of the deal life cycle.

How We Integrate ESG Considerations Into Our Portfolio and Manage Our Assets

Our Sustainable Investing (SI) and investment teams have frequent conversations with companies, both in our public and private portfolios, and our General Partners (GPs) and external portfolio managers. We discuss our investment approach and share best practices to help them enhance their management of these 21st century business risks. We integrate these ESG factors both before and after making investments and

when our portfolio companies prepare for listing. Below are examples of how we do this during the diligence and monitoring processes for our public assets, private assets, General Partners and external portfolio managers. Diligence is an aspect of our integration process that is done prior to investment. Monitoring is part of the process by which we manage our assets post-investment.

Public Assets Diligence and Monitoring

ESG research reports: The SI team produces detailed research reports on publicly traded companies by analyzing their performance, practices, policies, oversight mechanisms and disclosure. The team has built internal data analytics capability and tools to provide tailored reports to our investment teams. By helping identify material ESG risks and opportunities early on, these reports let teams allocate more time to research specific factors that are relevant to the investment. This enables CPP Investments to further enhance our knowledge and systematically engage with investee companies to promote best practices in the management of material ESG issues.

ESG materiality framework: SI has a proprietary materiality framework to codify the most material ESG information for any given industry. The team applies expertise from across the organization to draw from existing standards and frameworks (including those of the Sustainability Accounting Standards Board (see page 49), Task Force on Climate-related Financial Disclosures (see pages 49–55), and others) for our own purposes. Within each industry, this framework gives us granular insights into which ESG factors most significantly impact a company's financial and operational performance.

ESG database: SI recently built a bespoke database to systematically and comprehensively measure and monitor ESG information, enabling a more data-centric and dynamic approach to our integration efforts. This proprietary database includes information obtained from the annual and sustainability reports of companies, and machine reading of other online information sourced from financial data vendors. SI leverages this database and works with investment teams across the organization to create differentiated insights for the diligence and monitoring of potential and existing assets.

Proxy voting: The SI group votes CPP Investments' shares at shareholder meetings for all publicly traded companies in which we invest. The group leverages our investment teams' global expertise and relationships by integrating their in-depth knowledge of specific companies, industries and geographic markets into proxy voting decisions (see pages 43–44).

Private Assets Diligence and Monitoring

ESG evaluations: During the due diligence process, the SI team conducts detailed evaluations of the ESG practices of potential direct equity investments (with the exception of our Real Estate team, which conducts its own process (see page 21)). SI uses a forward-looking approach oriented toward value creation and protection. This process includes 45 areas of review that focus on the following key topics: environment, health and safety, labour and human rights, community relations, cybersecurity and data privacy, business integrity, and corporate governance. SI works alongside investment teams to tailor its approach for each transaction, considering the most relevant topics and questions with respect to deal structure, company, industry and geography.

These questions are part of a structured, intensive review of a target company's business model and key ESG risk factors. SI accesses relevant information from several sources, including senior management and corporate information, in-house specialists, and environmental, technical, engineering, legal, information security and accounting experts, as necessary. Our investment teams also work closely with the Public Affairs & Communications (PAC) team during the due diligence process to assess the potential reputational impact of our investing in a company or asset, which can include ESG-related risks.

Our Real Estate (RE) team follows its own formal ESG due diligence procedure. This includes reviewing operating efficiencies, such as energy consumption, greenhouse gas emissions, water use and waste generation. While the factors it examines are tailored to the specific opportunity, RE focuses on five broad categories:

- **Sustainability Features:** Assess the quality and level of green building design and incorporate these into our assessment of an asset's attractiveness
- **Partner's Approach:** Determine a prospective partner's approach to sustainable investing principles and practices
- **Regulatory Compliance:** Ensure environmental regulatory compliance and, where necessary, quantify remediation costs into capital requirements
- **Operational Efficiencies:** Identify and factor in operational efficiencies, which often have environmental implications, and incorporate them into our valuation where applicable
- **Social Impacts:** When applicable, assess social impacts and issues to ensure they are part of the decision process

Onboarding and monitoring practices: Once CPP Investments makes a direct investment in a private asset, we actively monitor ESG risks and opportunities over the life cycle of the investment, particularly focusing on any factors identified during the diligence process. Our Portfolio Value Creation team supports investment teams through semi-annual monitoring processes that include ESG factors for assets where CPP Investments has significant governance rights or controls. As our portfolio companies continue to develop their ESG strategies, our SI and investment teams work with them to provide advice based on best practices and our expertise. As owners, we work to put appropriate controls and processes into each of our portfolio assets and encourage best practices for board governance.

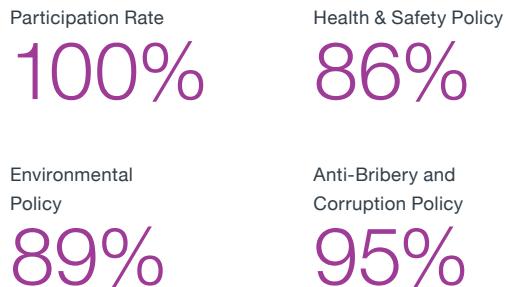
Working with CPP Investments' real estate partners, our Real Estate team assesses ESG factors and operating efficiencies on an ongoing basis to maintain and enhance the competitive position, value and marketability of property investments. Once we acquire a real estate asset, annual ESG monitoring tools are put in place. This includes asking operating partners to disclose significant ESG issues or events, to provide updates on the latest regulatory changes and corporate initiatives with respect to ESG matters, and to report on new environmental certification and performance against operating efficiency targets over the past year.

Monitoring Questions

To deepen our understanding of our partners' sustainability operations and near-term objectives, we track our existing partners' participation in the Global Real Estate Sustainability Benchmark (GRESB) and the CDP (formerly known as the Carbon Disclosure Project). Our total Real Estate portfolio has a GRESB participation rate of 86% by equity carrying value.

CPP Investments also conducts our own real estate survey. Most respondents to this survey indicate they have environmental sustainability policies or initiatives in place at their companies. Almost all respondents say they have anti-bribery and corruption policies, and frameworks to monitor worker health and safety requirements.

CPP Investments' Annual Real Estate Survey Results



General Partner and External Manager Diligence and Monitoring

ESG due diligence questionnaire: CPP Investments requires General Partners (GPs) and external managers to complete an ESG questionnaire at the start of a new relationship. GPs are evaluated on how they integrate ESG considerations into policies and processes, due diligence, monitoring and reporting, and their commitment to providing resources for those activities. The due diligence questionnaire includes questions about GPs' approaches to considering climate change and diversity factors, both internally and at the portfolio company level. Diligence for external managers focuses on understanding their ESG-related diligence, monitoring and engagement practices, as well as proxy voting activities.

Monitoring questions: GPs and external managers respond annually to monitoring questions that capture updates or changes to existing ESG processes. If a material ESG matter impacts our investment thesis in a fund, the Private Equity or External Portfolio Management team will engage with the fund.

Reporting: GPs provide updates and reports on their ESG practices to Limited Partner (LP) Advisory Committees on a semi-annual basis. GPs also report and present their ESG policies and practices, both in financial reports and at annual investor meetings.

Integration Highlights

Active Equities

Relationship Investments

Engaging on Governance Best Practices in Our Relationship Investments Portfolio

In partnership with the Relationship Investments (RI) group, SI has managed an ongoing engagement over a number of years with a company in RI's portfolio to provide perspective on corporate governance practices based on CPP Investments' standards. The company has a significant focus on governance practices and has been open to feedback from CPP Investments and other investors. Over time, it has made a number of notable changes that have improved both governance and disclosure, including:

1. **Board matrix implementation:** Board skills matrixes are considered best practice for demonstrating proper composition of board skills and experience to best respond to a company's needs. The company incorporated a board skills matrix into this year's proxy statement and continues to develop the matrix to enhance the transparency provided to shareholders.
2. **Disclosure around incentive targets:** The company began retroactively disclosing incentive targets and ranges in this year's proxy statement, which meaningfully improved transparency of management's long-term incentive plans. CPP Investments continues to support changes in disclosure that contribute to enhanced transparency and understanding of compensation.
3. **Board declassification and transparency:** Last year, CPP Investments supported management's proposal to declassify the company's board, which means board members are up for election by shareholders on an annual basis. The company subsequently began a transition to that goal. The company also developed an improved disclosure of board evaluations.
4. **Shareholder rights:** CPP Investments has supported management's adoption of majority voting for director elections, which was enacted this past year, and implementation of proxy access. Over the course of our engagement, CPP Investments has discussed best practices and market norms on a number of shareholder rights topics, including the aforementioned changes.

Improving Board Diversity and Expertise in Our Portfolio

CPP Investments used our influence to drive enhanced ESG expertise and diversity on the board of a Canadian oil and gas company in our portfolio. A new board member was selected with consideration to CPP Investments' advice that the company seek a nominee with deep expertise in ESG-related matters. The chosen nominee brings both ESG expertise and diverse professional experience in energy, chemicals, metals and aerospace sectors, making them an excellent candidate to enhance the company's diversity in board composition and skills.

We believe this enhanced board diversity has better positioned our portfolio company to push the envelope and represent progress within their industry, which we consider advantageous for creating long-term value.

Thematic Investing

The Thematic Investing (TI) team has identified high-growth investment opportunities in electric vehicles (EVs).

Global consumers buy and operate vehicles across a wide range of local fuel prices, driving patterns and vehicle sizes. As the costs of EVs decline, they will become affordable for a growing fraction of global consumers. Bloomberg NEF has forecasted that, by 2040, over half of all passenger vehicles sold will be electric.

TI has grown a portfolio of private and public companies that will benefit from battery technology improvements and demand growth. Production of lithium batteries, an essential component of EVs, is predicted to surge in response to increased EV demand. We consider the ESG implications associated with the production of lithium and cobalt, key ingredients in lithium-based batteries, when assessing companies in this portfolio. TI has made portfolio investments that are well-positioned to benefit from research advancements that have the potential to increase the capacity of lithium batteries and lower their costs. Using an active management approach, including consulting with external advisors, TI has also managed risks by diversifying across battery components and supply chain positions.

Thematic Investing's Climate Change Opportunities Strategy

In 2019, TI launched its Climate Change Opportunities (CCO) strategy to address evolving consumer preferences, industrial practices and regulations emerging from climate change.

CCO looks to invest in companies that are well-positioned to respond to the physical, social and economic risks and opportunities resulting from climate change. The strategy is fundamentally driven and will, at scale, contain a global and diverse set of public and private companies with innovative climate change strategies. To build this portfolio, TI is working collaboratively across the organization to leverage CPP Investments' institutional expertise in areas such as renewable energy, retail and industrials. TI's ability to invest in both public and private assets and across industries allows them to be agile in recognizing emerging, disruptive technologies and business models.

This year, TI completed its first private investment into the strategy. Perfect Day produces dairy proteins using microflora and fermentation techniques. The company is an emerging leader in the alternative proteins space. It received regulatory approvals in the spring of 2020 before launching its first commercial product through a partnership with a California-based ice-cream brand. This investment will drive further insights into changing consumer behaviours and overall trends.

In 2021, TI aims to deepen its research and diversify its portfolio across its CCO strategy. It also will collaborate on new research with other groups at CPP Investments, including the Sustainable Investing (SI) and Innovation, Technology & Services (ITS) teams.

Interview with Thematic Investing

Caroline Lester is a Senior Associate with our Thematic Investing (TI) group. Her work on Perfect Day, the first investment into TI's Climate Change Opportunities strategy, deepened our institutional knowledge of the alternative proteins market and its implications for the climate.



What made Perfect Day an attractive investment for CPP Investments?

The fact that Perfect Day was first to market with its novel product – which is nutritionally identical to traditional dairy, but with a lower climate impact and no lactose allergens – demonstrated to us that the company had a really strong competitive advantage and would be able to deliver long-term value to the portfolio.

The co-founders are highly knowledgeable about proteins and their expertise is supported by a management team with diverse experience in relevant industries, such as traditional dairy and fermentation.

How does TI view the relationship between alternative proteins and climate change?

As alternative proteins do not use animal products in their production, their impact on the environment and in climate change mitigation is significant. Alternative proteins have been estimated to reduce emissions by up to 90%, with over 95% less land use and at least 80% less water consumed on a per-unit basis. The growing consumer demand for this type of product is generating investment opportunities.

What makes the alternative proteins space itself an appealing opportunity for long-term investment?

The long-horizon appeal comes from the factors driving demand for these products – such as increased demographic pressure on the global food supply and climate change considerations, which will only become more challenging in the long term. Companies, like Perfect Day, that utilize the fermentation of microflora are able to adjust production of alternative proteins to meet market demand and create a steady supply. Further, there are many people choosing plant-based diets for a variety of reasons. And the quality of the products we see coming to market is in many cases excellent.

Do you think the COVID-19 pandemic has significantly altered the trajectory of consumer behaviours that TI has observed with regards to climate change?

Yes. First, we're observing accelerated adoption in food tech and alternative proteins, due to pandemic-related disruption of our fragile food supply chains, causing rising meat prices. Second, the lockdowns imposed by the pandemic response may contribute to greater awareness of food waste, which could influence purchasing decisions going forward. The third shift is a general trend back to single-use plastics to alleviate fears of contagion. It is unclear whether this trend will be sustained after the crisis, but TI expects to see more innovation in this space.

Our Investments in Health Care Innovations

This past year, the Thematic Investing (TI) group introduced the Innovations in Health Care (IHC) strategy to build out a diversified portfolio with exposure to this sector and its adjacent industries. This is particularly timely, as there have been monumental innovations in the efficiency and effectiveness of genome sequencing, analytical methods and gene editing technologies in the past two decades. Many of these advances are beginning to enter commercialization. The IHC portfolio currently comprises over 10 companies representing various sectors, including cell therapies, antibody treatment, health care equipment, clinical decision support, and drug discovery via artificial intelligence and machine learning. Holdings include Canadian oncology company Fusion Pharmaceuticals.

One company in our IHC portfolio, Moderna Therapeutics, innovates its approach to gene therapy using a proprietary messenger RNA (mRNA) encoding platform. When administered, the mRNA therapies produced on this platform provide the human body with the capabilities to produce new proteins and antibodies to combat a wide range of infections and illnesses. Moderna was able to leverage this platform to quickly redirect resources to the production of a potential COVID-19 vaccine.

As the investee companies in our IHC portfolio enter the commercialization phase of their products, our TI and Sustainable Investing (SI) teams work closely to help them determine the best market entry strategies. Below are examples from our IHC portfolio of how this differentiated approach allows us to support companies in adopting best practices:

- Ahead of its successful IPO, a company in which CPP Investments had made a private investment was determining where to best domicile. A company's choice of domicile has implications for governance and reporting requirements. We engaged directly with the company's CEO to discuss the merits and drawbacks of each option from a stakeholder management perspective, helping inform the company's final decision.
- For another investee company about to go public, in line with our *Proxy Voting Principles and Guidelines* <https://www.cppinvestments.com/PVPG>, SI recommended the inclusion of a sunset clause for supermajority voting. The portfolio company subsequently included the clause, which has a provision to automatically convert the dual-class structure to one share, one vote where the founder steps back from active day-to-day management or equity ownership falls below a predetermined level.

Real Assets

Energy & Resources

The Energy & Resources (E&R) group has further developed its Innovation, Technology & Services (ITS) strategy – launched in expectation of the massive changes that will result from increasing global demand for lower-carbon energy and the role that new technologies will play.

One focus area is carbon capture, utilization and storage (CCUS). Wolf Midstream, a portfolio company, recently completed construction of the Alberta Carbon Trunk Line. This large-scale CCUS project can transport up to 14.6 million tonnes of CO₂ per year: equal to the impact of capturing the CO₂ from more than 2.6 million cars.

The E&R group reviewed the broader CCUS industry in depth, including an overview of technologies and companies across the value chain, and reviewed voluntary and compliance-based carbon trading markets globally.

While CCUS is at an early stage, it has potential to play a significant role in reducing global carbon emissions, particularly as technologies improve. The E&R group will continue to seek out quality investment opportunities in CCUS infrastructure, as well as meaningful early-stage innovation, technologies and services.

ESG Focus Yields Seven Generations Supply Deal

In February 2020, Seven Generations Energy Ltd. – a company in our portfolio – entered a responsible natural gas supply agreement with Énergir, s.e.c. The deal will see gas from Alberta delivered to Québec's largest natural gas distribution system.

The supply agreement was the first transaction globally to be recognized by Equitable Origin's EO100™ Standard for Responsible Energy Development (EO100™). Equitable Origin is an independent non-profit that supports communities and Indigenous groups in ensuring responsible resource development. EO100™ is a stakeholder-led standard that verifies adherence to ESG best practices against five principles:

1. Corporate governance, transparency and ethics
2. Human rights, social impacts and community development
3. Indigenous peoples' rights
4. Fair labour and working conditions
5. Climate change, biodiversity and environment considerations

This agreement increases transparency through public disclosure of relevant operational information and demonstrates leadership in implementing ESG best practices, which will help reduce the environmental impacts of natural gas development. The Pembina Institute, a clean energy think tank, served as an advisor on more responsible production and procurement practices.

Seven Generations said the agreement will contribute to its Sustainability Fund, which supports projects aimed at reducing its environmental footprint and broadening partnerships with Indigenous communities.

CPP Investments is invested in Seven Generations both through our Relationship Investments and our Energy & Resources strategies. Avik Dey, CPP Investments' Head of Energy & Resources, sits on the Seven Generations board.



Portfolio Value Creation

The Portfolio Value Creation (PVC) group engages with holdings for which CPP Investments has material governance rights. It works closely with investment teams to infuse industry best practices into value creation planning, management and director evaluation and selection, and investment monitoring across the portfolio.

To establish robust value-creation plans for long-term governance and controls, PVC provides onboarding support and 100-day planning for newly acquired companies. PVC collaborates with investment teams and our Legal team to ensure the process for selecting portfolio company directors is rigorous and considers diversity and skills. In partnership with Legal, PVC also supported the design and rollout of an online platform for the director appointment process. The group continues to help monitor portfolio companies and offer targeted support for commercial and operational due diligence.

Evaluating Cybersecurity

Responding to the growing importance of cybersecurity across all industries, this year the PVC group rolled out a program for evaluating portfolio company cyber maturity in CPP Investments' portfolio of direct investments. This initiative syncs with the team's broader ongoing investment monitoring.

The program leverages industry standard frameworks for assessing cyber maturity, customized for CPP Investments' range of holdings and requirements as a shareholder in these businesses. It is supported by an external advisor with leading expertise on cyber maturity and industry best standards. As of June 30, 2020, PVC evaluated 28 companies in the portfolio and shared key findings and recommendations with management teams and relevant board members of the businesses evaluated.

PVC will continue to apply this evaluation process to additional companies across our portfolio. CPP Investments has also incorporated this cyber maturity assessment framework as a standard component of the onboarding process for new companies in our portfolio. And we continue to collaborate with deal teams across the organization to evolve and augment CPP Investments' approach to cyber due diligence.

Top-down Inclusion and Diversity

Over the past year, the PVC team has supported CPP Investments' ongoing efforts to improve diversity on the boards of our private investments through actions such as:

- Ensuring portfolio companies follow a structured and transparent director search process:** This may include use of board skills matrixes that also consider diversity and third-party search advisors that ensure the candidate search process follows best practices.

- Ongoing monitoring and measurement of progress:**

This includes regular monitoring of director appointments and governance health checks. This also involves considering gender composition of the board, partner and executive seats. Where we do not have appointment rights, we actively advocate for partners to increase board diversity with their own appointments.

Company boards are well-positioned to influence an organization's Inclusion and Diversity (I&D) culture through leadership and accountability. As such, PVC continues to support steps that drive I&D initiatives within our portfolio companies, including through the I&D module in the ongoing director training program. This module covers: expectations of leadership teams; understanding organizations' starting points, barriers to change and existing I&D gaps; launching formal programs to drive organizational change with specific initiatives to promote retention and advancement; and tracking meaningful diversity metrics and driving accountability.

Adapting Non-Executive Director Engagement to the Pandemic

In 2020, the impact of the global pandemic on portfolio companies – including shifts to working from home – created an imperative and an opportunity for CPP Investments to establish a more regular forum for our non-executive directors (NEDs) to share insights around best practices in asset management. In response, PVC supported the virtual launch of an ongoing NED engagement series in partnership with the CPP Investments' Legal team and other investment departments, with senior investment professionals across the organization participating and presenting in the sessions.

This set of virtual meetings encourages dialogue between CPP Investments and our NEDs on key issues and insights arising from current socioeconomic conditions. These virtual forums take place six to eight times per year, with timing and frequency determined by current business environments. The inaugural session, held in June 2020, addressed how CPP Investments and our portfolio companies have navigated the COVID-19 crisis, and our outlook for the recovery.

Monitoring and Engaging with Our Appointees on Governance Best Practices

CPP Investments monitors the performance of directors we appoint and their application of governance best practices. We share insights and industry standards through director training on relevant issues. Over the last fiscal year, over 80% of our board appointees completed these director training courses and we launched new modules on topics such as best practices for building high-performing management teams. In partnership with Human Resources and various investment teams, PVC continues work on developing new modules for director training and is virtualizing director training sessions for online accessibility and to accommodate evolving work environments.

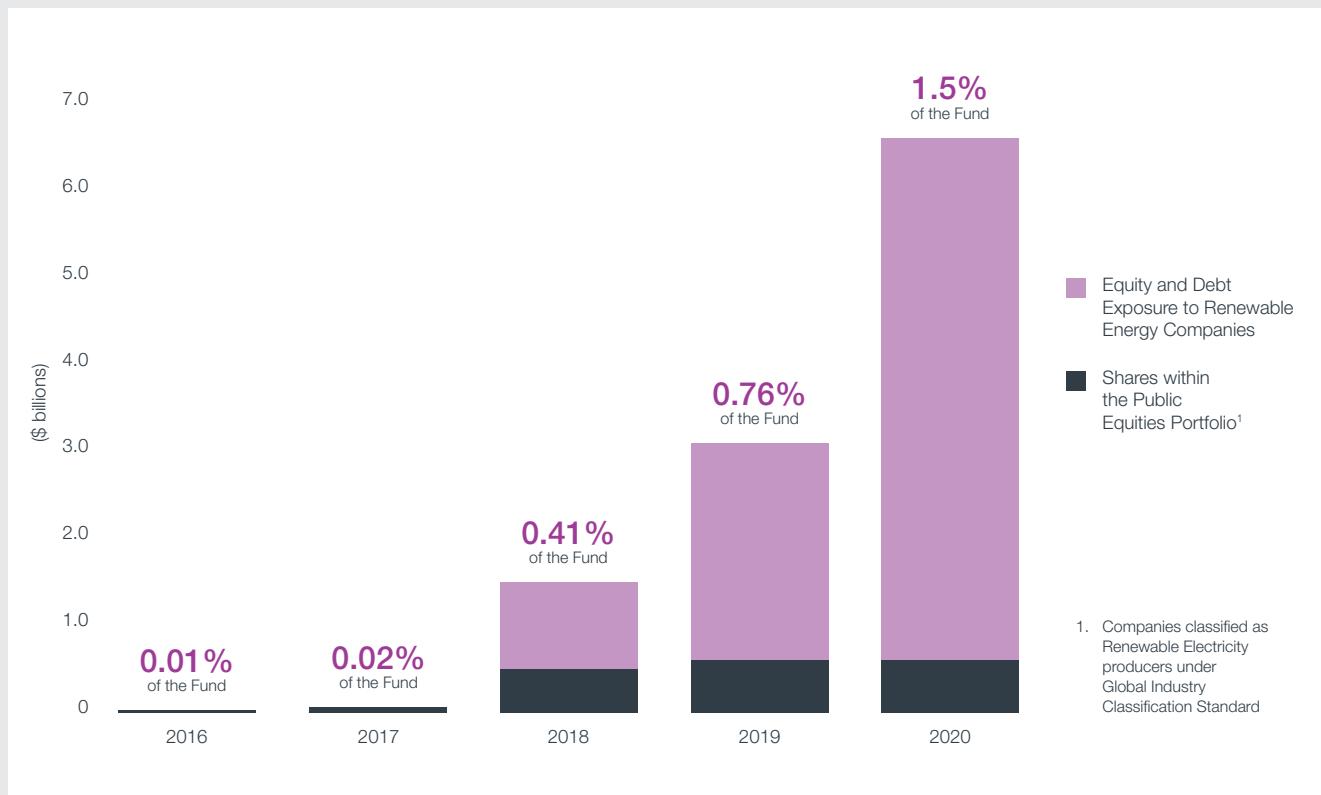
Renewable Energy

CPP Investments' exposure to renewables is aligned with our belief that the energy evolution provides opportunities for attractive long-term, risk-adjusted returns. Investments in this space include the following:

- **December 2017:** Signed agreements with Brazil's Votorantim Energia to form a joint venture, acquiring two operational wind parks located in northeastern Brazil
- **January 2018 to June 2019:** Committed a total investment of US\$491 million in ReNew Power, a leading Indian renewable energy developer and operator with clean-energy capacity diversified across wind, utility-scale solar and rooftop solar assets
- **April 2018:** Signed an agreement to acquire a portfolio of six Canadian operating wind and solar power projects from NextEra Energy Partners; the business now operates as Cordelio Power
- **May 2018:** Acquired 49% of Enbridge Inc.'s interests in select North American onshore renewable power assets and two German offshore wind projects; the investment included 14 wind and solar assets in four Canadian markets and two assets in the U.S.
- **October 2018:** Expanded an existing joint venture with Votorantim Energia through acquisition of the State of São Paulo's stake in the Brazilian hydro generation company Companhia Energética de São Paulo

Over the past 12 months, CPP Investments has continued to identify and execute attractive opportunities aligned with its Power & Renewables strategy:

- **March 2020:** Acquired Pattern Energy Group Inc., a renewable energy company with a portfolio of 28 renewable energy projects in Canada, the U.S. and Japan. The transaction has an enterprise value of approximately US\$6.1 billion, including net debt.
- **May 2020:** Signed an agreement with Enbridge Inc. to acquire 49% of the entity holding Enbridge's stake in Éolien Maritime France SAS, Enbridge's partnership with EDF Renewables, for approximately €80 million. The partnership is developing three offshore wind farms in France, which are expected to become operational in phases between 2022 and 2024. A follow-on investment of €120 million is committed to the first project as it progresses through construction. Further investments of more than €150 million may be made in the remaining two offshore wind farms. Through our Maple Power joint venture with Enbridge Inc., CPP Investments expects to continue identifying similar opportunities in the European offshore wind sector.



Power & Renewables

The Power & Renewables (P&R) group pursues opportunities created by the global energy industry's evolution, which includes growing demand for low-carbon energy sources. Renewables have become a larger share of the global energy market as deployment costs fall, technology improves and global demand for energy continually increases.

CPP Investments' long-term investment horizon provides competitive advantages in this sector. The Fund's scale means we can access the largest opportunities. Patient capital makes us an attractive equity partner and a preferred source of capital for management teams looking to create long-term value. Our total portfolio approach lets us access a range of investment-risk profiles, including higher-growth emerging markets and disruptive technologies.

During the year, P&R completed its acquisition of Pattern Energy, one of its largest transactions. Pattern Energy is supported by a strong management team and offers both a large existing portfolio and potential for growth, with several ongoing projects in development. Pattern Energy is also well-positioned to capitalize on opportunities supporting electrical grids in both North America and Japan as they transition from fossil fuels to green energy sources.

Real Estate

Buildings are among the biggest sources of carbon emissions. Compliance with environmental regulations is a basic requirement for any CPP Investments real estate investment. Making a building more environmentally sustainable can increase revenue and occupancy, reduce operating costs and increase a property's value and return on investment. The Real Estate group seeks to enhance the value of our real estate holdings through prudent management of ESG factors in partnership with our operating partners.

Leadership in Energy and Environmental Design (LEED) Standard and COVID-19

Many companies transitioned to a work-from-home model in response to the COVID-19 pandemic, leading to extended closures of office spaces.

While return-to-work schedules vary, LEED-certified buildings are well-equipped to help employers adjust to post-COVID-19 realities. According to the U.S. Green Business Council, LEED-certified buildings have enhanced indoor air circulation and use low-emitting materials that help minimize the risk of virus transmission compared to their peers. The U.S. Green Business Council also temporarily introduced new LEED credits to promote social distancing, non-toxic surface cleaning, air quality, and infection monitoring. Any building receiving all COVID-19-related credits is positioned to be upgraded from Silver to Gold, or from Gold to Platinum LEED certification.

Growing Our Portfolio of Green Buildings

CPP Investments' Real Estate (RE) team focuses on acquiring assets with high sustainability metrics that align with our long-term investment goals. The level of green certification is one of the most important ways we assess asset quality. The LEED certification program and Green Building Councils across the globe encourage sustainable building and development practices through standards and performance criteria.

Like CPP Investments, our real estate acquisition and management partners take LEED or equivalent ratings into account when building and operating their property portfolios. CPP Investments also looks for opportunities to enhance the performance of existing buildings through upgrades and redevelopment.

Today, our 25-country portfolio has a total of 309 green-certified buildings. This includes 112 LEED-certified buildings, with 15 earning the LEED Platinum (highest level) certification and 61 earning LEED Gold certification.

COVID-19-related Health and Safety Measures in Our Real Estate Portfolio

Below are examples of some of the health and safety measures undertaken by various Real Estate partners in the retail, office and logistics spaces during the COVID-19 pandemic.



Retail

- Tenants can choose their opening hours.
- Contact tracking is in place for retail shoppers via a QR code.
- Free masks and sanitizing wipe packets are made available to shoppers at designated entrances or at the mall office.
- Air quality testing has been completed for HVAC systems, showing the indoor air quality at our properties is better than outside air quality. Filters will be cleaned and replaced regularly.
- Implemented a coloured rag system to ensure no cross-contamination of surfaces (i.e., blue for table tops, yellow for table bases, green for restrooms).

Office

- A one-way system operates to separate incoming from outgoing traffic: front doors serve as the only entrances and side doors are the only exits.
- Protective film is placed over elevator buttons and replaced hourly.
- Infrared temperature screener is installed to check tenants and visitors.
- Maximum two people per elevator in most locations, and floor graphics identify a safe standing distance. To decrease wait times, tenants are encouraged to work with their property management team to coordinate staggered arrivals and departures.
- To eliminate the need to retrieve ID badges, tenants are encouraged to enrol in Mobile Access, which allows turnstile entry with the use of a mobile phone. Tenants may also choose to enrol in facial recognition.

Logistics

- Infrared temperature scanning systems are in place to measure temperatures of visitors and staff.
- Digital paperless visitor registration implemented by scanning QR code to complete the registration via mobile applications.
- Protection supplies provided to customers.



Lendlease International Towers Sydney Trust

Barangaroo South Precinct, Sydney, Australia

Barangaroo South was recognized as Australia's first carbon-neutral precinct.

Lendlease is a leading international property and infrastructure group with operations in Australia, Asia, Europe and the Americas. Founded in 1958 and headquartered in Sydney, Australia, Lendlease is currently listed on the Australian Stock Exchange and recognized as an international leader by the Global Real Estate Sustainability Benchmark (GRESB). The company has been a signatory to the United Nations Principles for Responsible Investment since 2008 and has had an A+ rating for four consecutive years and is a signatory to the United Nations Global Compact.

CPP Investments and Lendlease first established a partnership via the Lendlease International Towers Sydney Trust to purchase before construction International Towers Sydney – Tower 2 and Tower 3, located in the Barangaroo South regeneration site in Sydney. The towers were completed in December 2015 and May 2016, respectively. The Trust also holds a 100% interest in Australia's first engineered timber office, International House Sydney at Barangaroo South and the Towns Place Car Park.

In December 2019, Barangaroo South was named Australia's first carbon-neutral precinct. The certification reinforces Barangaroo's status as a world-class example of sustainable and climate-positive design. The process undertaken by Barangaroo South to achieve carbon neutrality has spanned 10 years. Barangaroo South features buildings designed to be energy efficient and has onsite renewable energy and sustainable water management to reduce carbon emissions.

LEED Platinum Buildings in the Real Estate Portfolio



Eleven Greenway Plaza

Partner: Parkway | Location: Houston, United States
Sector: Office | CPP Investments Interest: 75%



EY Tower

Partner: Oxford Properties | Location: Toronto, Canada
Sector: Office | CPP Investments Interest: 50%



GLP Yachiyo

Partner: GLP | Location: Yachiyo, Japan
Sector: Logistics | CPP Investments Interest: 50%



Eau Claire Tower

Partner: Oxford Properties | Location: Calgary, Canada
Sector: Office | CPP Investments Interest: 50%



Goodman Pudong Airport Logistics Park

Partner: Goodman | Location: Shanghai, China
Sector: Logistics | CPP Investments Interest: 80%



Lark Baton Rouge

Partner: Scion Group | Location: Baton Rouge, United States
Sector: Student Housing | CPP Investments Interest: 47.50%

Private Equity

Assessing the ESG Practices of Our Global General Partners

Based on responses to our ESG due diligence questionnaire, SI assessed the ESG practices of 70 of our global General Partners (GPs). This exercise resulted in the development of a proprietary benchmarking tool to help drive investment value and reduce risk. The findings and learnings of this evaluation will be used to enhance the ESG process with respect to GPs, to elevate its impact and strategic focus.

Capital Markets & Factor Investing

Green Bonds

Since their introduction in 2007, green bonds have become a mainstream way for companies, governments and other organizations to raise funds for projects that have environmental benefits. In 2018, CPP Investments became the first pension fund manager to issue a green bond. It achieved another first in January 2019 with the first sale of a euro-denominated green bond issued by a pension fund manager, a €1-billion, 10-year fixed-rate note. We currently have four green bond issues outstanding and in December 2019 we issued our first USD-denominated green bond transaction. This one-year deal involved a US\$500 million green bond floating rate security linked to the Secured Overnight Financing Rate (SOFR). This was part of the industry's move away from the legacy London Interbank Offered Rate (LIBOR) as the principal reference rate for short-term interbank financing. The landmark deal was among the largest green SOFR offerings and one of the first socially responsible investment private placements referencing a risk-free rate.

Green bonds provide CPP Investments with additional funding as we pursue acquisitions of attractive long-term investments eligible under our Green Bond Framework. The framework has been evaluated by the Center for International Climate Research (CICERO), a leader in providing second opinions on the qualification of debt for green bond status.

CPP Investments' cross-departmental Green Bond Committee includes representatives from SI, Capital Markets & Factor Investing, Power & Renewables, Legal, and Public Affairs & Communications. The committee, which met in October 2019 and June 2020, determines which projects are eligible for green bond proceeds in the following categories.

Renewable energy (wind and solar)

- Acquisition, operation, maintenance and upgrades of wind- and solar-energy projects
- Efficiency improvements to wind- and solar-energy projects

Sustainable water and wastewater management

- Acquisition, operation and upgrades of projects that improve efficiency of water distribution and water recycling services
- Investments in tail water recovery systems, which collect run-off water from fields that is then recycled for agricultural production

Green Buildings (LEED Platinum certified)

- Direct investments in buildings certified as LEED Platinum over the 24-month lookback period and during the life of the bond

Green Bond Impact Report

Green Bond Register

The Green Bond Committee also oversees the Green Bond Register. It documents the value of green bond issuance and which assets proceeds have been allocated to. Below is the register as of June 2020 (for further details on CPP Investments renewable energy assets, see page 26). All figures are in Canadian dollars unless otherwise noted.

Register for FY2020 Green Bond Issuance:

As of June 30, 2020		
Bonds		
USD	US\$500,000,000	\$681,000,000
EUR	€1,000,000,000	\$1,529,750,000
Total		\$2,210,750,000
Exchange Rates – June 30		
USD/CAD		1.36200
EUR/CAD		1.52975
Investment Currency		
Renewable Energy		
Pattern Energy	USD	
Total		\$3,813,600,000

Register for FY2019 Green Bond Issuance¹:

As of June 28, 2019		
Bonds		
CAD	\$1,500,000,000	\$1,500,000,000
EUR	€1,000,000,000	\$1,488,100,000
Total		\$2,988,100,000
Investment Currency		
Renewable Energy		
Cordelio Power	CAD	
Votorantim Energia's Piaul I & Ventos III	BRL	
Enbridge	CAD	
Enbridge	EUR	
Enbridge	USD	
ReNew Power	USD	
Green Buildings		
Centennial Place (Alberta)	CAD	
Eau Claire Tower (Alberta)	CAD	
Richmond Adelaide Centre – 111 Richmond (Ontario)	CAD	
Total		\$3,033,821,458

1. The value of the assets against which FY2019 green bond proceeds were allocated and the exchange rates used for these assets have not been changed in this register from 12 months earlier.

Highlights FY2020

2 Green Bonds (USD and EUR)

\$2.2 Billion Raised

1 New Renewable Energy Project

9.29 Million Metric Tons of CO₂

avoided GHG emissions per year

Equivalent to GHG emissions from
2,007,545
passenger cars

driven in one year*

14.04 Million Megawatt Hours (MWh)

of renewable energy generation contributed annually

Equivalent CO₂ emissions from electricity used by
1,573,245 homes
for one year*

* Data is derived using the following website: <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator> based on CPP Investments' pro rata investment in renewable energy only.

Estimated Impact of Operational Renewable Energy Projects

Investment	Location	Date of Initial Investment	Description	Technology	CPP Investments Ownership ²	Gross Capacity (GW) ¹	CPP Investments' Pro rata Capacity (GW)
Pattern Energy	Canada/United States/Japan	March 2020	A company with a portfolio of 28 renewable energy projects in the United States, Canada and Japan	Wind	72%	3.38	2.42
Cordelio Power	Canada	April 2018	Portfolio of six Canadian operating wind- and solar-power projects	Solar Wind	100%	0.40	0.40
Enbridge	Canada/United States	May 2018	North American onshore renewable power assets	Solar	49%	1.30	0.64
	Germany		Two German offshore wind projects	Wind		0.31	0.15
Votorantim Energia	Brazil	December 2017	Two operational wind parks located in northeastern Brazil	Wind	50%	0.57	0.29
ReNew Power	India	January 2018	Leading Indian renewable energy developer and operator with clean energy capacity diversified across wind, utility-scale solar and rooftop solar	Wind	18%	3.25	0.59
				Solar	18%	2.18	0.39
Total						11.39	4.88

1. Gross capacity represents the capacity held by CPP Investments' investment, after deducting any minority interests.

2. Figures are rounded up.

Estimated Green Building Impact¹

Qualitative Summary²

Investment	Location	Description	CPP Investments Ownership	Certification
Richmond Adelaide Centre – 111 Richmond	Canada	255,313 sqft Multipurpose Commercial Space	50%	LEED EB Platinum
Eau Claire Tower	Canada	659,839 sqft Multipurpose Commercial Space	50%	LEED CS Platinum
Centennial Place	Canada	1,458,600 sqft Multipurpose Commercial Space	50%	LEED EB Platinum

Quantitative Summary – Energy Use Intensity (EUI) and Carbon Emission Intensity (CEI)³

Investment	EUI (MJ/sqft)	Industry Standard EUI (MJ/sqft)	EUI Variation ⁵	CEI (kg CO ₂ e/sqft)	Industry Standard CEI (kg CO ₂ e/sqft)	CEI Variation ⁵
Richmond Adelaide Centre – 111 Richmond⁴	112.88	143.99	-22%	3.42	5.23	-35%
Eau Claire Tower	79.55	143.99	-45%	8.79	16.16	-46%
Centennial Place	87.15	143.99	-39%	9.66	16.16	-40%

1. The change in reporting format from the previous year is to increase reliability and reduce subjective variability in reference rates.

2. The methodology to measure square footage of the assets has changed from the previous year. The numbers included in this year's report are based on Gross Floor Area.

3. Industry standard EUI and CEI rates are calculated from data provided in the 'Energy Star – Canadian Energy Use Intensity by Property Type Technical Reference' <https://portfoliomanager.energystar.gov/pdf/reference/Canadian%20National%20Median%20Table.pdf>. Source EUI is used for this calculation.

4. 111 Richmond's lower EUI and CEI variation from the standard in comparison to other buildings is due to its older age. Eau Claire Tower utilizes Smart controls while Centennial Place has a Co-gen system in place to produce incremental efficiencies.

5. EUI and CEI Variation metrics are for the entire asset and not the pro rata percentage of CPP Investments.



Active Ownership

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As outlined in “Sustainable investing for long-term value” (pages 8–9), we believe the nature of business risk and opportunities has fundamentally changed. Our active ownership activities encompass engagements with our portfolio companies through proxy voting, in-person meetings, and formal correspondence and collaboration with like-minded organizations. We do this where we believe it will create better long-term outcomes on ESG matters and generate more sustainable value for the Fund. We believe active ownership through constructive engagement mechanisms can significantly reduce investment risks and enhance and sustain returns over time. In choosing areas of focus, we closely analyze ESG risks in our portfolio companies using internal and third-party research.

To determine our objectives, we consider the materiality, time horizon, resource implications and likelihood of success. We determine which approaches to use through in-depth research, consideration of the industry and region, and examination of industry standards and global best practices. To achieve the most productive dialogue and outcomes, we do not typically disclose the company’s name publicly or to third parties.

Engagement on ESG-related risks and opportunities can be an ongoing, resource-intensive effort, with results usually becoming apparent over the longer term. This means we must strategically and selectively focus our efforts where we can deliver the most value for the Fund. Fortunately, our long investment horizon puts us in a better position than many to bring about positive changes in the business practices and disclosures of these companies. We supplement our own direct engagement efforts through collaboration with like-minded peers and our relationship with EOS at Federated Hermes (EOS). CPP Investments is a client of EOS, a global stewardship provider that offers an effective means to expand our interactions across many of our international public equity portfolio companies. During the reporting period, EOS engaged with 576 companies globally – 235 of which were through formal objectives with multiple engagements – on behalf of CPP Investments.

Voting during COVID-19

In addition to executive compensation (see page 40 for details) other governance areas impacted by COVID-19 included the ability to hold in-person annual general meetings, dividend payments and shareholder rights plans or “poison pills.”

Virtual meetings

We expected companies that held virtual meetings in response to COVID-19 to be mindful of shareholders’ abilities to participate meaningfully at meetings in the absence of a physical gathering.

Dividend payments

Boards needed to consider the appropriateness of dividend payments in the current environment. Companies that elected to accept subsidies would have to contend with government-imposed limits as well as restrictions, such as those imposed by the European Central Bank on buy-backs and dividends for certain banks. We generally did not take issue with a reduced dividend payment with a supporting

rationale provided. However, where a company pulled or deferred a dividend payment without a rationale, sufficient disclosure or reference to regulatory guidance, we were more likely to vote against that item.

Shareholder rights plans or “poison pills”

Some companies considered adopting poison pills (often referred to as “shareholder rights plans”) to protect against bidders looking to capitalize on stock-price drops. We evaluated these shareholder rights plans on a case-by-case basis, considering time limits placed on the plan (we prefer a duration of less than a year) the board’s explanation for its adoption and whether the plan would be put to a shareholder vote for renewal.

What Does CPP Investments Expect of Portfolio Companies?

To build trust with portfolio companies, we find it helpful to share our expectation of them with respect to considering ESG factors, as they exercise their fiduciary responsibilities to both preserve and grow shareholder value.

It has become increasingly difficult for companies to maximize shareholder value without considering ESG impacts, changing expectations of customers and regulators, and the effect these have on future value creation. As a result, we expect boards to integrate consideration of each of these factors into the company's strategy and practices, and its communication with stakeholders.

CPP Investments is an active and engaged owner, but not an adversarial activist. We respect the triad of owners, boards and executives. While we view the corporate board as being accountable to shareholders, we respect that it is responsible for the appointment of executives and the approval of strategy. Where boards support actions that appear inconsistent with long-term value creation, we expect them to communicate the rationale supporting their recommendation.

We expect our portfolio companies to:

- **Have effective boards:** While we do not prescribe a view on board structure, we believe that to deliver the best outcome for the company a board should have independent leadership, be majority independent itself, and have sufficient diversity of skills and experience to be able to challenge, counsel and support management in developing and executing a strategy that incorporates a thorough review of all material business risks and opportunities.
- **Align incentives:** We believe executive compensation should be tied to pre-determined performance criteria, be largely paid in deferred equity, be subject to clawback, and incentivize outcomes consistent with long-term shareholder value creation.
- **Adhere to our *Proxy Voting Principles and Guidelines*** (see <https://www.cppinvestments.com/PVPG>): We are pragmatic and willing to support companies if they provide a compelling explanation to support proposals that diverge from these principles and guidelines. Companies that fail to create a high-performing culture for governance and leadership will typically struggle to realize their full potential. We believe two things are key to success in this area and our broader ESG integration activities:
 - **Preserve shareholder rights:** We vote against actions to limit shareholder rights unless the board can provide sufficient justification for conceding these rights, and that any concession be temporary and subject to periodic shareholder vote.
- **Disclose ESG risks and opportunities:** We ask that companies also explain why they have identified these risks, how they manage them, and their performance and targets to improve them. We look for companies to report on ESG factors that are relevant to their industries and investment decision-making, so we support companies aligning their reporting with the Sustainability Accounting Standards Board (SASB) (see page 49).
- **Disclose material climate change impacts:** Climate change-related risks and opportunities exist across industries and geographies. Wherever transition or physical risks are material to the company, we expect boards to ensure they are considered and integrated into the company's strategy. Where they are material, companies should disclose the magnitude of these risks and opportunities, their potential impact on business outcomes and how the company plans to mitigate or capitalize on them over time to shareholders. Though we do not prescribe specific approaches or goals related to climate change, we believe access to capital will decrease over time for companies that do not formulate transition strategies, and we are actively assessing companies' risk and opportunity profiles against specific scenarios. We support companies aligning their climate change reporting with the Task Force on Climate-related Financial Disclosures (TCFD) framework (see pages 49–55).
- **Clearly articulate how integration of ESG factors has informed strategy and enhanced returns or reduced risk in the business:** We believe successful ESG integration will support long-term value creation. Rather than solely relying on ESG ratings that may not capture the nuance of integration, we expect companies that are proactively integrating ESG factors into their businesses to be able to articulate how they do so and how it affects outcomes.
- **Have a culture that proactively identifies emerging risks and opportunities, and seeks solutions to reduce or capture their potential:** Culture is often the differentiator between good and great companies. Successful businesses will identify and integrate ESG factors into their decision-making because maximizing long-term shareholder returns depend on it. We welcome dialogue with issuers to understand how their cultures differentiate their businesses to drive sustainable value creation.

Engagement Focus

Our five key engagement focus areas – **climate change, water, human rights, executive compensation and board effectiveness** – have significant and meaningful impacts on the long-term financial sustainability of our public equities portfolio. Because the topics we engage on are often interconnected, engagements may cover more than one focus area. While we choose to focus our efforts on these five areas, we also discuss other relevant topics.

Climate Change

Why We Engage

Climate change can present material financial risks and opportunities for companies and impact long-term investment values. The global transition to lower-carbon energy sources has far-reaching implications for investors and companies across sectors and geographies. We believe companies should have a transparent and robust approach to assessing challenges and opportunities posed by climate change, so investors can make informed decisions.

What We Expect

- Enhanced practices related to governance, strategy, risk management, performance metrics, and targets and opportunities
- Improved disclosure on potential exposure to near-term and long-term climate change-related risks and subsequent impact on company strategy and profitability

Highlights

For more than a decade, we have worked with our portfolio companies on climate change-related issues, including understanding their levels of greenhouse gas (GHG) emissions, improving their climate change-related disclosure and advancing best practices related to climate change.

CPP Investments has taken a leading role in encouraging companies to improve climate change disclosure and practices. This includes our work with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (see pages 49–55). Companies have a responsibility to their stakeholders to be transparent about the challenges posed by climate change. As an active investor, we consider it part of our stewardship responsibilities to ensure the businesses we invest in are sustainable and successful over the long term.

We believe engagement gives us a powerful influence on the Canadian and global companies in which we invest that are high greenhouse gas (GHG) emitters or that otherwise may face significant risks from climate change.

Voting on Climate Change-Related Shareholder Resolutions

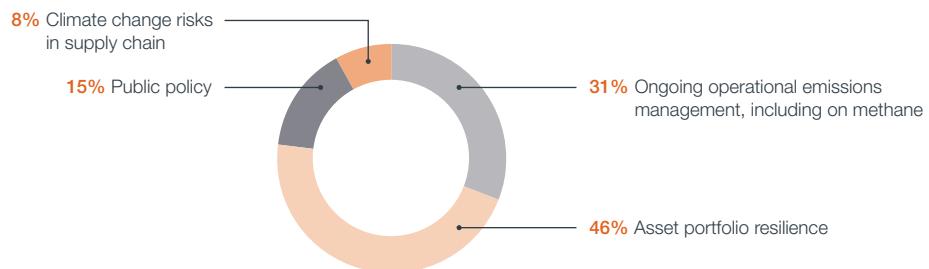
Over the reporting period, CPP Investments supported 26 climate change-related shareholder resolutions. Several of these sought deeper disclosure on four areas related to climate change risk and opportunity management:

- (i) Ongoing operational emissions management, including on methane
- (ii) Asset portfolio resilience
- (iii) Public policy
- (iv) Climate change risks in supply chain (see the pie chart on page 38).

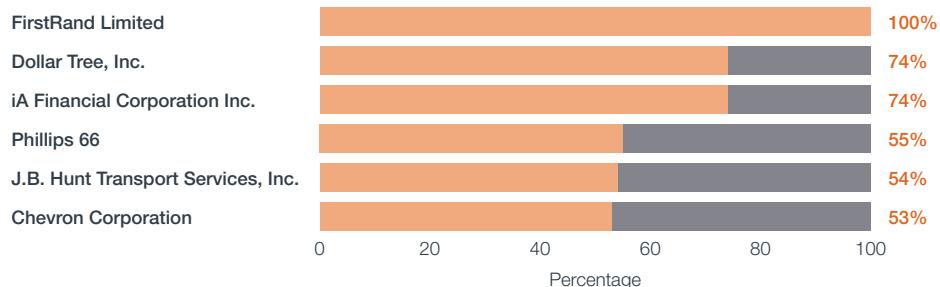
CPP Investments has been supporting shareholder proposals that encourage companies to improve disclosure of climate change-related risks and opportunities for over a decade. CPP Investments supports proposals that enable stakeholders to better understand a company's exposure to and management of climate change-related risks and opportunities.

Shareholder support for these climate change-related resolutions can be seen in the bar chart (on page 38) for a select number of companies. We continue to see strong and increasing levels of support for climate change-related shareholder resolutions across industries reflective of the wide range of companies exposed to climate-related risks. This strong and continued level of shareholder support is positive, and we encourage companies to improve disclosures and management of material climate change-related risks and opportunities and expect disclosure in alignment with the Task Force on Climate-related Financial Disclosures (TCFD).

Climate Change-Related Shareholder Proposals that CPP Investments Supported in 2020
Shareholder proposals by type



Select Climate Change-Related Shareholder Proposals that CPP Investments Supported in 2020



Working with Companies to Reduce Methane Emissions

Methane is a colourless, odourless, flammable greenhouse gas that enters the atmosphere through many channels, such as decomposing biological material or leaks in natural gas pipelines. It is the main component of natural gas and, while in the atmosphere, traps much more heat than the equivalent amount of CO₂, although it also dissipates more quickly. Data from the Intergovernmental Panel on Climate Change shows that methane in our atmosphere accounts for a quarter of the global warming we are experiencing today – it is 84 times more potent than CO₂ over a 20-year time frame.

CPP Investments was active on the Advisory Committee of the United Nations-supported Principles for Responsible Investment (PRI) collaborative engagement on methane risks in the oil and gas and utilities sectors from 2017 until its culmination in 2019. Managing methane is particularly important for these sectors due to the role played by natural gas in global energy production. The collaborative engagement, which targeted over 30 companies and included 35 other global institutional investors, was focused on understanding, managing and mitigating the risks associated with methane emissions. During the engagement, over 80% of the companies increased their overall reporting on methane emissions and 50% either set or disclosed their reduction targets. We will continue encouraging companies to provide enhanced disclosures in this area.

Water

Why We Engage

Effective management of water supply, use and quality is fundamental to the long-term sustainability of companies in multiple industries. Not acting on these potentially material factors can impact companies' performance now and over the long term.

What We Expect

- Increased oversight and management of material water risks and opportunities
- Better reporting of investment-decision information on water-related strategies and performance
- Accurate and more consistent industry-specific disclosure of water-related data
- Increased oversight and management of material water risks and opportunities

Highlights

Collaborative Engagement on Water Risks in Agricultural Supply Chains

The agricultural sector is the heaviest user of freshwater resources, accounting for about 70% of global annual

withdrawals. In early 2018, CPP Investments joined the United Nations-supported Principles for Responsible Investment collaborative engagement on water risks in agricultural supply chains. The initiative, which culminated in 2020, targeted companies with operations and supply chains largely dependent on agriculture and subject to significant water risks, including water shortages and flooding. These include companies in the agricultural products, apparel and luxury goods, food and beverage, and retail sectors.

CPP Investments was active in this collaborative effort, alongside over 35 global investors representing close to US\$6 trillion in assets, and led an engagement with one of the 17 targeted companies. The goal of this effort was to ensure companies implemented appropriate processes to identify and mitigate the impacts of water risks in their agricultural supply chains. Companies were also expected to disclose their progress in addressing water risks within their agricultural supply chains. For many, the initiative yielded better disclosures on water-related risks and enhanced analyses of the potential long-term impacts to their businesses. CPP Investments continues to press for enhanced disclosures on relevant water risks, particularly as physical climate-related risks become more prominent.

Human Rights

Why We Engage

CPP Investments believes no company that fails to respect human rights can endure. As an investor, we carefully consider a company's historical and current performance in terms of its respect for the fundamental dignity of each person in its workforce. Firms that do not respect human rights face above-average operational turmoil, higher legal risk, lack of community support and impaired brand value resulting from reputational damage.

We believe strong human rights practices contribute to sustaining long-term value. Companies with strong human rights policies and practices are less likely to face protests, workforce action and other damaging activities.

What We Expect

- Enhanced reporting on identifying, managing and mitigating human rights-related risks
- Improved human rights practices, including those specific to company supply chains, such as in the information technology sector. These practices include those related to working conditions and labour issues (such as child labour)

Highlights

Engaging with Portfolio Companies on Forced Uyghur Labour

A 2020 report¹ by the Australian Strategic Policy Institute (ASPI) estimates approximately 80,000 Uyghurs and people from other minorities have been relocated from Xinjiang, China, to factories across the country under conditions that suggest forced labour, restricted movement and heightened surveillance. The report identifies 82 global brands that directly or indirectly benefit from Uyghur workers.

CPP Investments directly responded by requesting dialogue with our largest holdings that were implicated in the report. As human rights is a focus area for CPP Investments, we believe it is important to understand how our largest portfolio companies are addressing the accusations and managing the potential risk. Our global stewardship provider, EOS at Federated Hermes, has also responded to the ASPI report's findings by requesting engagement with the companies noted in the report.

1. <https://www.aspi.org.au/report/uyghurs-sale>

Executive Compensation

Why We Engage

Long-term shareholder value is more likely to be created when management and investor interests are aligned. Clear and appropriate links between executive pay and company performance help align those interests.

What We Expect

- A clear link between executive pay and company performance that appropriately aligns management and investors
- Appropriately structured executive compensation programs emphasizing long-term and sustainable growth of shareholder value
- Full disclosure in corporate reporting of compensation information and clear rationales for compensation decisions
- An annual “say on pay,” which refers to a yearly advisory vote by shareholders on executive compensation

Highlights

When evaluating executive compensation plans during the 2020 voting season, we followed the principles set out in our *Proxy Voting Principles and Guidelines* (<https://www.cppinvestments.com/PVPG>), including pay for performance alignment, assessed against meaningful performance targets that create incentives for executives to focus on serving the company’s long-term interests.

We recognize there is no one-size-fits-all approach to decisions companies have made and are making with respect to executive compensation in light of COVID-19. For example, a food industry company that has been deemed an essential service will face a very different landscape from a capital-intensive business,

such as the auto manufacturing industry, that is experiencing a dramatic downturn in demand. In addition, depending on their fiscal year ends, companies may not have the luxury of taking a wait-and-see approach and must make decisions on compensation in real time.

We expect companies to take a long-term and holistic perspective. To the extent changes are made to executive compensation plans, we look for thoughtful decisions based on rigorous and documented analysis and disclosure. We generally do not take a positive view of drastic changes to in-flight awards covering multi-year periods without an adequate and clear rationale.

Some of the key compensation issues presented by the impact of COVID-19 include:

- change in quantum, timing or payment method (equity versus cash) for bonuses granted;
- adjustment to or justification for executive compensation in situations where employees, suppliers and customers are feeling negative impacts;
- addressing business strategies that are proving not to be resilient in the face of crisis;
- setting meaningful performance targets if it is not possible to determine a typical EBITDA (earnings before interest, taxes, depreciation and amortization) or cash flow target;
- where equity awards have not yet been made, determining ways to monitor the number of units granted in order to mitigate the potential risk of windfall gains;
- challenges in setting performance conditions, such as a three-year earnings goal, for a performance share unit; and
- retention of key executives needed to guide the company through a downturn.

Board Effectiveness

Why We Engage

Board effectiveness is one of the most important topics in corporate governance. Having the right board in place to guide strategy and oversee the management of risk is critical to long-term value at our investee companies.

What We Expect

- Boards with the independence, skills, expertise, experience and diversity to ensure effective oversight of management and the business
- Robust and transparent processes for evaluating and improving effectiveness of the board, its committees and each director individually
- Transparent and formal director nomination processes that seek a diverse pool of qualified candidates

We believe board effectiveness is essential to long-term value creation. Our *Proxy Voting Principles and Guidelines* (see <https://www.cppinvestments.com/PVPG>) provide explicit guidance on our expectations. As a long-term investor, we consider it part of our stewardship responsibilities to take steps to ensure boards of our investee companies have and maintain appropriate independence, skills, expertise, experience and diversity to effectively carry out their duties.

Board diversity is a critical component of board effectiveness. We expect boards to be diverse, including with respect to gender. We believe companies with diverse boards are more likely to achieve superior financial performance. Having directors with a range of experiences, views and backgrounds helps ensure the board has more effective debate to properly evaluate management and corporate strategy.

Highlights

Our Gender Diversity Voting Practices

CPP Investments is committed to advancing gender representation on boards. We first introduced our board gender diversity voting practice in Canada in 2017, and have continued to evolve our practices each year, including our global voting practice introduced in the 2019 voting season. Our goal is to improve the gender balance and, hence, the overall effectiveness of public company boards worldwide.

Our Canadian efforts

In 2017, CPP Investments cast votes at shareholder meetings of 45 Canadian companies with no women directors and undertook efforts to engage with these companies. A year later, nearly half of those companies had appointed a woman director. In 2018, we escalated this practice to vote against all nominating committee members at companies where we voted against the committee chair in 2017 if the company had since made no progress at improving its lack of board gender diversity. In 2019, we further escalated our Canadian approach to vote against nominating committee chairs of S&P/TSX composite boards with fewer than two female directors. During the 2020 season, we considered voting against the entire committee responsible for director nominations if sufficient progress on gender diversity was not made at companies that we voted against in 2019. This escalation is consistent with the Call to Action set out by the 30% Club Canadian Investor Group: Statement of Intent (see [https://30percentclub.org/assets/uploads/Canada/PDFs/30_Club_Canadian_Investor_Statement_May_2019_\(English_Version\).pdf](https://30percentclub.org/assets/uploads/Canada/PDFs/30_Club_Canadian_Investor_Statement_May_2019_(English_Version).pdf)).

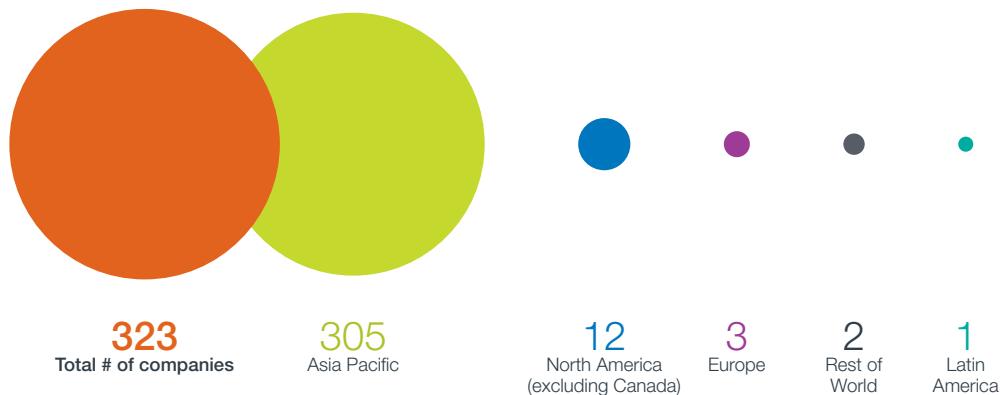
We are encouraged that during the 2020 proxy voting season we voted against directors at only 10 Canadian public companies due to gender diversity concerns. Nine of these were S&P/TSX composite companies with only one woman on the board, while one was a non-S&P/TSX composite company with no women on the board. In the 2019 season, we had voted against directors at 26 S&P/TSX composite companies for having only one woman on the board and 13 Canadian public companies with no women on the board.

Our global efforts

During the 2019 proxy season, we expanded our board gender diversity voting practice outside of Canada. We vote against the director who chairs the nominating committee at our investee public companies if the board has no female directors and there were no extenuating circumstances. During the 2020 season, we considered voting against the entire committee responsible for director nominations if sufficient progress on gender diversity was not made at companies that we voted against in 2019. Per this global gender diversity practice, in 2020, we voted against 323 of our public portfolio companies for failing to have any women on their boards (see chart below).

Global Board Gender Diversity Voting Practice, Results for 2020 Proxy Season

Number of companies, by region,
that we voted against





Heather Munroe-Blum (seated right) speaking at the Women in Governance Annual Recognition event

“Much evidence has shown already that when you bring women into the board room ... the executive suite ... when you have measures to bring them through the pipeline, the profitability of an enterprise rises and the value-added rises.”

**– Heather Munroe-Blum, Chairperson,
CPP Investments**

Making the business case for gender diversity

In March 2020, Heather Munroe-Blum, Chairperson of CPP Investments, co-chaired the Women in Governance Annual Recognition event in Toronto that honours organizations for outstanding actions in favour of gender equality. She participated on a panel where she spoke about her professional experiences as the first female Principal of McGill University and the business case for improved gender diversity in the corporate world. She also shared CPP Investments’ role in promoting diversity within our board effectiveness framework – for example, we oppose the election of the chair of the board committee responsible for director nominations if the board has no female directors, provided there are no extenuating circumstances. CPP Investments is an active member of the 30% Club and proudly supports gender diversity initiatives, both in our own organization and in our asset management activities.

Exercising Our Rights as Owners in Public Markets through Proxy Voting

Voting our proxies at annual general and special meetings of shareholders is among the most effective ways we can convey our views to boards of directors and management and meet our stewardship responsibility to be an active owner.

CPP Investments makes proxy voting decisions independently. We engage Institutional Shareholder Services Inc. to make initial, customized recommendations based on our voting guidelines (see <https://www.cppinvestments.com/PVPG>). Our SI group considers these recommendations and conducts additional research, consults with our investment teams and communicates with companies and stakeholders, if necessary, to reach CPP Investments’ own voting decisions. When appropriate, we supplement voting activities with high-touch, concentrated interactions with investee companies.

We ensure full prior disclosure of our voting intentions, both to the companies concerned and to other interested parties, by being transparent in our voting activities and implementing the leading practice of posting individual proxy vote decisions in advance of meetings. Our website provides a searchable database, by company name, of our votes at each shareholder meeting (see <https://www.cppinvestments.com/ProxyVoting>).

CPP Investments also conducts an annual review of our *Proxy Voting Principles and Guidelines* to ensure they reflect evolving global governance best practices. The process takes input from our SI group, SI Committee and external advisors. Revised *Guidelines* are reviewed and approved annually by CPP Investments’ Board of Directors.

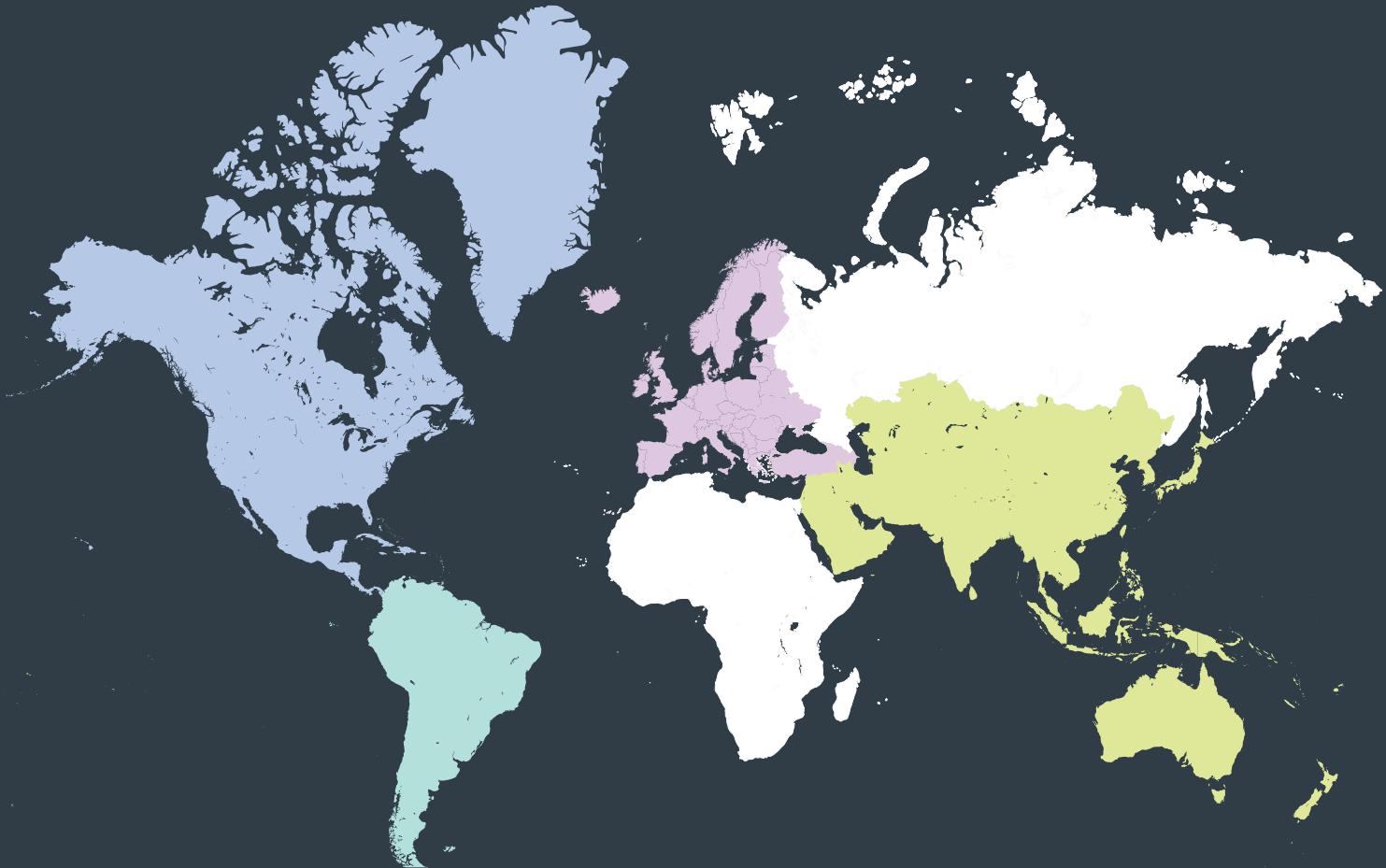
What Type of Proposals do We Support in Our Proxy Votes?

CPP Investments’ published *Proxy Voting Principles and Guidelines* provide insights on how we will likely vote on a range of issues put to shareholders (see <https://www.cppinvestments.com/PVPG>). We normally support resolutions empowering boards of directors to act in the best interests of the corporation, enhance management accountability and support shareholder democracy. We also normally support resolutions that request enhanced practices, policies and/or disclosure related to material environmental and social matters. For example, since 2004, CPP Investments has backed more than 50 shareholder proposals requesting tobacco companies improve disclosure and standards on a range of ESG factors, including health impacts and human rights-related matters.

Proxy Voting Overview

2020 proxy voting season facts

We conveyed
our views at
4,238
meetings



Meetings voted in

1,548
North America

33
Latin America

529
Europe

1,988
Asia Pacific

140
Rest of world

We voted on

44,186
agenda items

We voted in

56
countries

We voted against
management in

10.71%
of cases

2020 Proxy Season Themes

The following tables present key themes in the 2020 proxy season and our voting decisions. Our *Proxy Voting Principles and Guidelines* can be found at <https://www.cppinvestments.com/PVPG>. We do not support shareholder proposals if they are overly prescriptive or duplicative of initiatives already in place or underway, or if they are likely to detract from long-term company performance.

Proposal	Vote	General Rationale for Vote
Votes on Compensation		
Approve Executive Compensation	 18% AGAINST 1,627 VOTES	Voted against where the company was deficient in linking executive pay with long-term company performance
Say on Pay Frequency	 100% FOR 61 VOTES	Annual Say on Pay votes promote effective oversight of executive compensation and allow shareholders to provide timely feedback to the company
Approve Share Plan Grants	 42% AGAINST 134 VOTES	Voted against where the plan cost was excessive and did not contain challenging performance criteria
Compensation-Related Shareholder Proposals	 39% FOR 80 VOTES	Supported shareholder proposals that strengthen pay and performance alignment and help mitigate compensation-related risk
Votes to Enhance Shareholder Democracy		
Reduce Supermajority Vote Requirements	 100% FOR 43 VOTES	Supported proposals that remove undue barriers to shareholders' ability to effect change
Require Independent Board Chair	 94% FOR 50 VOTES	An independent board chair is better able to represent shareholder interests and oversee management with fewer conflicts
Right to Call Special Meetings	 95% FOR 39 VOTES	Granting the right to call special meetings with a reasonable ownership threshold enhances shareholder democracy
Votes to Encourage Enhanced Disclosure and Practices on Environmental and Social Matters		
Enhance Disclosure on Environmental and Social Risks and Performance	 75% FOR 96 VOTES	Improved disclosure allows investors to assess the operational risk profile of companies with respect to financially relevant, long-term environmental and social factors
Adopt/Disclose Corporate Responsibility Standards	 41% FOR 34 VOTES	Companies that adopt and enforce high standards of business conduct are likely to achieve better long-term financial performance
Report on Political Contributions/Lobbying	 97% FOR 59 VOTES	Greater disclosure of political spending helps shareholders assess associated costs, risks and benefits

2020 Collaboration Partners and Highlights

Leveraging partnerships and collaborations significantly increases CPP Investments' impact on matters that improve ESG-related practices. Our collaborative efforts include but are not limited to: seeking to improve transparency and standards on ESG, conducting research, participating in ESG-related regulation consultations, promoting governance practices and advocating for long-term thinking in the investment and corporate worlds. Highlights of our collaboration efforts from this year can be found on pages 46–49.



Founding Member



Member



Signatory



Member



Member



Investor Signatory



Associate Member



Co-Founder



Partner



Member



Supporting Partner



Pension Investment Association of Canada
Association canadienne des gestionnaires de caisses de retraite

Member



Principles for Responsible Investment

Founding Signatory



Investor Advisory Group Member



Member



Industry Partner

BlackNorth Initiative

The BlackNorth Initiative was created in June 2020 by The Canadian Council of Business Leaders Against Anti-Black Systemic Racism to address this issue in corporate Canada.

In July 2020, our President & CEO Mark Machin signed BlackNorth's CEO Pledge on behalf of CPP Investments. As a signatory of the pledge, CPP Investments is among over 200 organizations who have committed to specific actions and targets designed to remove barriers and dismantle systemic anti-Black racism in the workplace. Our participation in the pledge is consistent with CPP Investments' belief that diversity in all its forms contributes to enhanced long-term outcomes, including value creation.



“CPP Investments manages the pension assets of millions of Canadians from a broad spectrum of communities and backgrounds. A diverse, inclusive workforce enables better business decisions, and in knowledge-based sectors, such as investing, diversity is a competitive advantage and especially so in a global arena. We wholeheartedly support the BlackNorth Initiative and I am signing the CEO pledge as an ally in the fight against systemic racism.”

– Mark Machin, President & CEO, CPP Investments

Catalyst

Catalyst is a global non-profit that partners with over 800 global companies, including CPP Investments, to build workplaces that work for women. Catalyst helps do this with pioneering research and practical tools to remove barriers and drive change.

In July 2020, CPP Investments' President & CEO Mark Machin was named a 2020 Catalyst Honours Champion for leading a workplace that advances women into leadership positions and champions gender equity. CPP Investments is committed to change that will lead to sustained, significant presence of women at all levels of the organization. As of our fiscal 2020 year end, we achieved our business goal of equal representation of women in hiring and today women represent 46% of our global workforce. Women now represent 36% of the Senior Management Team, 37% of our investment professionals and more than half our Board members are female.



“Attracting, developing and retaining talented women is particularly important to CPP Investments’ success as a high-performing global organization. I’m honoured to receive this award from Catalyst, which is great recognition of the entire organization’s commitment to diversity. It also acknowledges the outcomes we are delivering not only within CPP Investments but also in the organizations in which we invest.”

– Mark Machin, President & CEO, CPP Investments

CDP

CDP (formerly known as the Carbon Disclosure Project) is a non-profit organization that acts on behalf of investors globally to encourage companies to measure, disclose, manage and share information on the risks and impacts of climate change. CPP Investments is a signatory to CDP's Climate Change, Water and Forests programs.



In November 2019, a member of our Sustainable Investing team participated in CDP's third annual energy sector roundtable for companies and investors. Discussions were focused on the evolution of ESG disclosures, the Financial Stability Board's Task Force on Climate-related Financial Disclosures recommendations (see page 49) and climate-related scenario analysis. They also explored how investors integrate material ESG factors – including climate change – into investment decision-making.



FCLTGlobal

FCLTGlobal, the non-profit CPP Investments co-founded in 2016, develops research and tools that encourage long-term investing. FCLTGlobal's membership is comprised of over 50 global asset owners, asset managers and companies that demonstrate a clear priority on long-term investment strategies in their own work. FCLTGlobal conducts research through a collaborative process that brings the entire global investment value chain together around initiatives focused on governance, incentives, engagement, strategy, public policy and metrics.

Mark Machin, our President & CEO, was named chair of FCLTGlobal's board of directors in January 2020. In March 2020, he joined more than 130 global executives from leading corporations, asset managers and institutional investors at FCLTSummit 2020, FCLTGlobal's third biennial gathering. He gave the keynote address and participated on the 'Leading Organizations Toward Sustainable Capitalism' panel.





Steve McCool accepts the award on behalf of CPP Investments. Photo courtesy of ICGN.



ICGN
International Corporate Governance Network
Inspiring good governance & stewardship

International Corporate Governance Network

The International Corporate Governance Network (ICGN) is an investor-led organization whose members represent more than US\$34 trillion in assets under management. It aims to promote high global standards of corporate governance and investment stewardship in pursuit of long-term value creation.

CPP Investments is a member of ICGN and was awarded the Global Stewardship Disclosure Award for Asset Owners by the International Corporate Governance Network in November 2019. ICGN's annual awards profile the work of investors in developing and implementing stewardship policies with a best-in-class approach to disclosure.

G7 Investor Leadership Network

The Investor Leadership Network (ILN) was created in 2018 during Canada's G7 presidency to promote collaboration between large investors on sustainability and long-term growth. CPP Investments is active in ILN initiatives, which include encouraging rapid adoption of the recommendations of the Task Force on Climate-related Disclosures (TCFD) and promoting gender diversity in the financial industry.

The ILN shares our belief that stronger disclosures help investors make more effective decisions, allowing them to fully integrate climate change-related risks and opportunities. In September 2019, the ILN released *TCFD Implementation: Practical Insights and Perspectives from Behind the Scenes for Institutional Investors*. This report showed how ILN members had incorporated the TCFD framework into their investment processes. By sharing best practices, the report is designed to help asset managers and owners around the world to more easily incorporate TCFD recommendations. Specific examples from CPP Investments' own experience in governance and risk management were highlighted.



We also promoted ILN initiatives to support gender diversity in investment. Our CEO Mark Machin attended meetings of the CEO Council in August 2019 and June 2020. At these meetings, the Council agreed to set measurable goals to increase the number of women in senior leadership roles, to advocate for diverse representation within portfolio companies, and to partner with the CFA Institute and Women in Capital Markets to create a pipeline for talented women in the investment industry.

PRI's Private Equity Advisory Committee

In January 2018, a member of our SI group joined the Principles for Responsible Investment's (PRI's) Private Equity Advisory Committee (PEAC) for a three-year term.

PEAC focuses on ESG-related objectives and projects in private equity funds for PRI signatories. These projects primarily focus on aligning reporting practices, leveraging strategic partnerships and promoting integration practices. The Committee fosters dialogue among Limited Partners, General Partners (GPs) and Funds of Funds by having a balanced mix of representatives from each. Recent and current PEAC projects include publishing the third edition of the *Limited Partner's Guide*, a Directors' Duties report and a Technical Guide for GPs to help them align with the recommendations of the Task Force on Climate-related Financial Disclosures.

Being part of PEAC keeps us at the forefront of activities and best practices in the private equity space, which we can leverage to enhance our internal processes and advocate for industry improvements.



Sustainability Accounting Standards Board

The Sustainability Accounting Standards Board (SASB), an independent standard-setting organization, facilitates dialogue between companies and investors to identify, manage and report on the financial impacts of ESG-related risks. Richard Manley, Managing Director and Head of Sustainable Investing, represents CPP Investments on SASB's Investor Advisory Group (IAG). The IAG includes senior investment professionals from over 50 leading global asset managers committed to improving ESG-related management and disclosure.

Our ability to consider and integrate material ESG factors into our investment analysis relies on ESG information that is consistent, comparable, accurate and ultimately useful for making investment decisions. SASB and the IAG encourage companies to disclose financially relevant, potentially material industry-specific ESG factors in alignment with SASB's standards. Our Head of SI is also a member of IAG's Corporate Engagement Working Group which hosted two virtual roundtables in June 2020, engaging with over 100 companies. The focus was to explain investor interest in and use of ESG data, share best practices from companies that have already adopted SASB's standards, and explore ways companies can effectively integrate SASB standards into their core communications with investors.



Task Force on Climate-related Financial Disclosures

The Financial Stability Board (FSB) is an international body created after the 2008 financial crisis to monitor financial system stability. FSB established the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to develop recommendations for more efficient and effective climate-related voluntary financial disclosures to promote more informed investment, credit and insurance underwriting decisions.

TCFD includes capital providers, insurers, large global companies from a range of financial and non-financial sectors, accounting and consulting firms, and credit rating agencies. CPP Investments is one of only two global pension fund managers represented on the TCFD.

The TCFD recommendations provide a framework intended to help investors and others in the financial community better understand and assess climate-related risks and opportunities. They are structured around four pillars: governance, strategy, risk management, and metrics and targets. CPP Investments has been a strong supporter of the TCFD and is committed to full adoption of these recommendations by the end of fiscal 2021.

We believe our support of the TCFD recommendations will contribute to improved global disclosure of climate-related risks. This, in turn, will help asset owners, including CPP Investments, better assess these risks and make sounder investment decisions.



Reporting in Accordance with the TCFD Recommendations

Governance

CPP Investments' Board of Directors oversees enterprise-wide efforts to understand and manage climate-related risks and opportunities. At least once a year, Management provides a comprehensive report to the Board about our activities related to climate change, including the most material investment risks and opportunities. Our Chief Financial and Risk Officer (CFRO) and our Risk Group report regularly to the Risk Committee of the Board on climate-related risks, with updates that include carbon footprint metrics and scenario analysis results. The Investment Committee of the Board also reviews and approves our most significant investments, which, where material, include an assessment of climate-related risks and opportunities.

Our President & CEO sets Management's overall approach for governance and risk management. Our CFRO is accountable to recommend to the Board the risk appetite and limits of the Fund across all dimensions of risk, consistent with the Integrated Risk Framework having specific regard for CPP Investments' unique objectives.

In 2018, we launched the Climate Change Program, a cross-departmental, multi-year initiative designed to position us as a leader in understanding the investment risks and opportunities presented by climate change.

The Program is overseen by the Climate Change Steering Committee (CCSC), made up mostly of Senior Managing Directors who lead our various investment and operations departments. We deliberately set up the CCSC this way to reflect the cross-disciplinary and inter-related nature of the impacts of climate change, and to support our firmwide effort to be coordinated and informed. The CCSC oversees our Climate Change Management Committee (CCMC), which in turn guides and supports the Program's work streams. The CCMC is comprised of managers from across investment and operations departments.

CPP Investments' Climate Change Steering Committee comprises our CFRO and Chief Investment Strategist, along with senior representatives from Active Equities, Real Assets,

Public Affairs & Communications and the Office of the CEO. Our Global Head of Active Equities is Chair of this committee and sponsors the Program.

Some members of and senior leaders involved with the Program, as well as employees elsewhere in the organization, have part of their variable pay tied to progress on climate change-related objectives.

Strategy

CPP Investments has dedicated resources to understand, top-down and bottom-up, the risks and opportunities brought on by climate change from a financial point of view. Our enterprise-wide approach integrates climate change considerations across relevant investment activities and into our risk framework to build and protect long-term investment values.

Portfolio Design

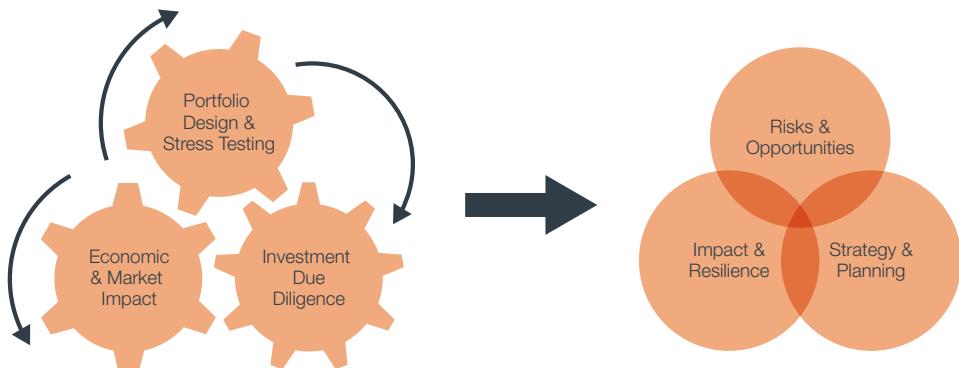
Total Portfolio Management (TPM) takes a top-down approach and seeks to directly factor a full range of climate-related risks and opportunities into CPP Investments' investment strategy and total portfolio design. TPM works to understand potential climate change and energy transition pathways for various countries, along with the resulting economic and financial market impacts.

Scenario Analysis

Scenario analysis is used to make forward-looking assessment of risks and opportunities.

In the last 12 months, CPP Investments continued to refine a climate-related scenario analysis framework to identify climate-related risks and opportunities, assess the impact and resilience of our investments, and inform strategy and business planning. Scenario analysis is carried out across investment and non-investment departments as an integral part of portfolio design, investment due diligence and stress-testing processes.

Scenario Analysis Framework



Total Portfolio Management – Physical risks are captured using CPP Investments' internally estimated damage function. Transition risks arise from the potential shift to a low-carbon economy, which is dependent on factors including extensive changes in policy, technology and the development of carbon markets. This year, we quantified the range of potential transition risk impacts using models and scenarios from the UN Intergovernmental Panel on Climate Change.

TPM is also assessing risks and opportunities related to climate change and the energy transition using ETCC scenarios and signposts, focusing on the impact on long-term returns and asset allocation. These scenarios will also help investment departments determine the materiality of energy transition and climate change for potential investments. In addition, we started tracking an initial set of key indicators, or “signposts,” to better understand which energy transition and climate change scenarios are most likely. These indicators include energy demand, technology, policy and physical effects (see page 55).

Our **Risk Group** uses stress testing to independently assess the impact and resilience of the investments under a range of plausible scenarios including extreme and tail events. Stress-testing results and attribution allow us to quantify the potential financial impact and assess compliance with CPP Investments' risk appetite statements.

Risk Group explores different pathways resulting in a range of temperature outcomes (e.g., scenarios of 1.5° C, 2° C, 3° C and 4° C futures), as well as different emissions pathways (e.g., a pathway where there are different changes in emission trajectories). The Group also uses stress-testing guidelines from regulators and other authoritative agencies such as the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and the Prudential Regulation Authority (PRA).

Risk Group has used both top-down and bottom-up approaches to assess the financial impact to a diversified global equity portfolio as well as our holdings.

The top-down approach estimates the systemic impact of climate change risk to the GDP and broad market at the country and sector level. Those impact estimates are further translated into potential shocks to financial variables consistent with our investment risk stress-testing methodologies.

The bottom-up approach estimates the valuation impact at the portfolio company level due to its exposure to carbon pricing and extreme weather events. The company-level results are then aggregated to the portfolio level. The two approaches are complementary, and both provide important insights for decision-making.

The results of our assessment suggest that a business-as-usual scenario, in which carbon prices do not increase markedly from their current levels because no further meaningful action is taken to limit global warming, could have a significant financial impact (up to 4% of the market value for a 1 in 20 year event or 10% for a 1 in 100 year event) to the Fund, primarily due to the physical risk.

On the other end of the spectrum, should policy actions be more heavily concentrated in later years by adopting stricter mitigation efforts in order to still limit warming to no more than 2° C, there would be a meaningful financial impact (up to 3% of the market value for a 1 in 20 year event or 5% for a 1 in 100 year event) to the Fund.

These estimates are highly sensitive to the assumptions we make and the range of possible outcomes can be very wide with an average impact that is significantly lower than the tail end of the distribution. We will continue to refine the views and assumptions underlying the assessment. We will also continue to evolve our climate change stress-testing capabilities by working collaboratively with other organizations and regulators. The stress testing results are reviewed and discussed in both the Climate Change Steering Committee and the Investment Risk Committee periodically to ensure the potential risk impact is within our risk appetite statements.

Security Selection Framework and Opportunities

From a bottom-up perspective, our Security Selection Framework considers climate change-related risks and opportunities into our most material individual investments. The framework allows investment teams and approval committees to assess material impacts from climate change against the value of these investments over time.

The framework is informed by the TCFD recommendations and requires investment teams to include assessments of material climate change-related risks and opportunities impacting investment decisions, at both the initial screening and final investment approval stages. This framework will be extended into the review of existing investments in the year ahead.

The first phase of this work informed transaction assessments and has enhanced our diligence efforts. We have furthered this work through a focused, cross-departmental strategic initiative to strengthen our consideration of financial impacts from climate change on a go-forward basis in due diligence and asset management.

For CPP Investments, climate change is not only about addressing risks – it is also about identifying opportunities. In 2017, CPP Investments created the Power & Renewables (P&R) group to better position the Fund to invest in energy transition-related opportunities. Since then, the P&R group has made significant investments in renewable energy projects globally. The combined value of these assets in the group's portfolio is now about \$6.6 billion, or 1.5% of the Fund (for details, see page 26).

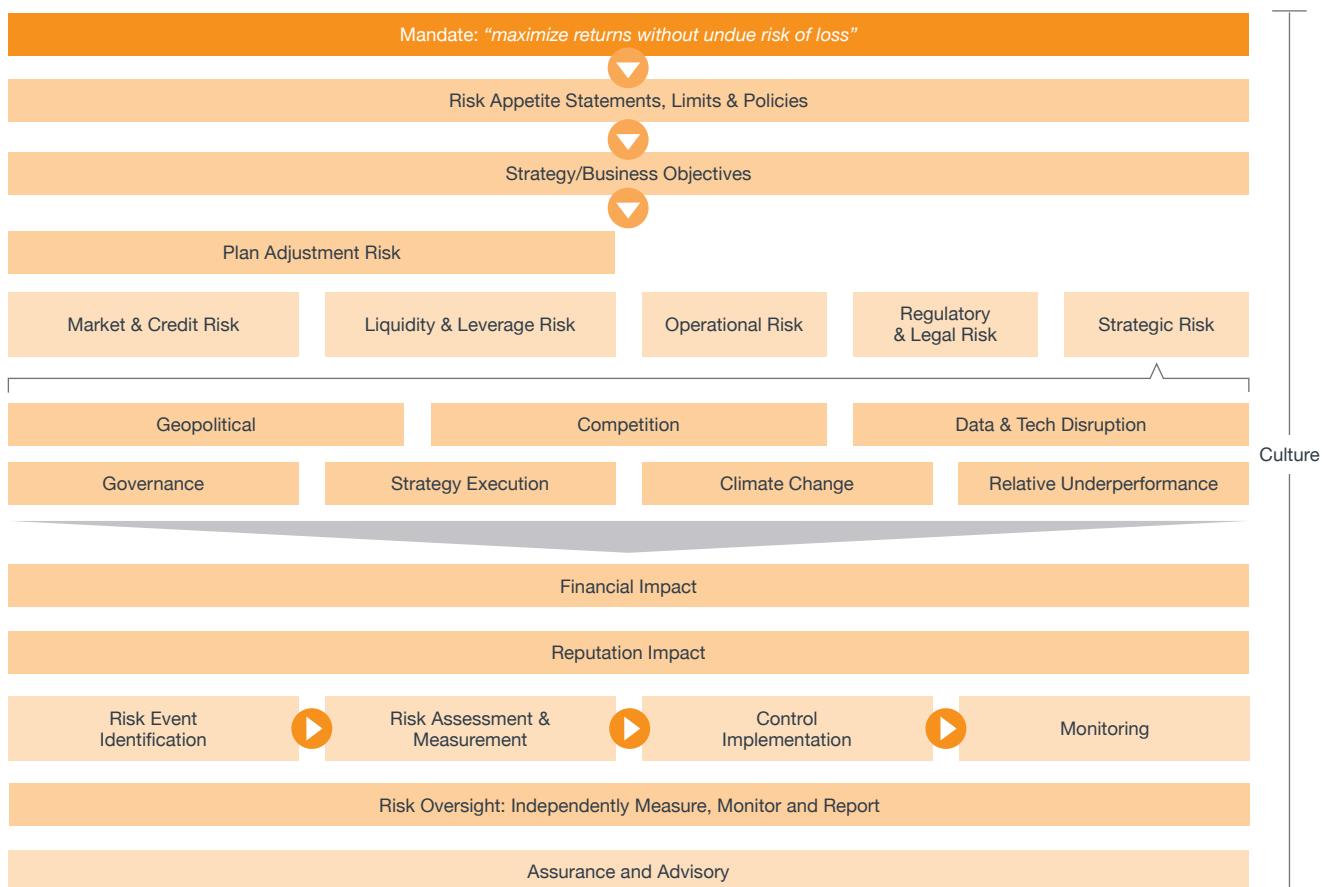
CPP Investments was the world's first pension fund manager to issue a green bond to help support our investments in opportunities as pursued by Power & Renewables and other groups. Green bonds provide CPP Investments with additional funding as we pursue acquisitions, including renewable energy producers and LEED Platinum certified buildings. Green bond financing expands our investor base as we invest in assets that are resilient to the energy transition (for details, see pages 31–33).

In 2019, CPP Investments launched an Innovation, Technology & Services strategy, with a mandate to seek early stage investments aligned with the energy transition within traditional energy production, transport and storage (for details, see page 24). Our Thematic Investing team has launched a new Climate Change Opportunities investment strategy (for details, see pages 22–23).

Risk Management

Given our legislative objectives, managing risk is central to our work at CPP Investments. Climate change has been identified as a key risk in CPP Investments' Integrated Risk Framework. Climate change investment risks relate to a broad array of complex interrelated risks, including physical and transition risks. There is no established historical fact set.

CPP Investments is in the process of identifying and monitoring climate-related factors that may have an impact on our investment portfolio. We seek to implement controls to reduce their risks. Our assessments consider various time horizons to allow us to assess the potential financial and reputation impacts.



Climate change is a key risk in CPP Investments' Integrated Risk Framework (see Risk taxonomy figure above). The Framework promotes clear lines of accountability across three complementary levels.

- **Front-line investment and operations management:** These professionals own the risks and are accountable for identifying, assessing and managing risks through appropriate controls. As it relates to climate change, our Security Selection Framework (see page 51) requires investment teams to include descriptions of relevant climate change-related risks and opportunities at the initial screening and final investment approval stages for our most material individual investments.
- **Oversight functions, including Risk:** Accountable for setting risk policies, standards and guidelines; independently assessing risks; and challenging the first line's management of risks. Our Risk Group is using various approaches to assess climate change risk, including scenario analysis, and "bow-tie" risk & control assessments.

- **Assurance and Advisory:** Accountable for providing independent assurance over adequacy of risk governance and internal controls. Our Assurance and Advisory Group has assessed our internally developed carbon footprint tool.

Disclosure by our portfolio companies is critical to helping us assess climate change-related risks, so we work actively with companies to improve climate change-related disclosures. Over time, we have pressed large greenhouse gas emitters in utilities, energy, and other sectors for improved disclosure. CPP Investments also uses its voting power to support shareholder proposals that encourage companies to improve disclosure of climate change-related risks.

Since July 2015, CPP Investments has supported more than 130 climate change-related shareholder resolutions. These resolutions sought deeper disclosure on climate-related risk and opportunity management, including ongoing operational emissions management, asset portfolio resilience, public policy, and climate change risks in supply chains. For a breakdown of shareholder proposals from fiscal year 2020 (see page 38).

Metrics and Targets

We consider key performance indicators for GHG emissions, water consumption and energy efficiency in our individual investments. We also produce a carbon footprint for our portfolio, and track signposts that help us better understand the potential pathways of the energy transition and climate change.

Carbon Footprint

The recommendations of the Task Force are widely recognized as the global standard for climate change disclosure. CPP Investments developed an in-house methodology to estimate the metrics and published the first carbon footprint of our public equities portfolio in the 2018 *Report on Sustainable Investing*, including metrics on total carbon emissions and carbon

intensity. In 2019, we provided a more comprehensive metric that included both our public and private investments. This year, we further enhanced the metrics by estimating government issued securities, cash and all derivatives. As such, the carbon footprint metrics now cover all CPP Investments' holdings.

CPP Investments Carbon Footprint Metrics¹

Metrics	Non-Government Holdings ²			Description
	Long-term Capital Ownership	Equity Ownership	Government-issued securities ³	
Total Carbon Emissions (million tonnes of CO ₂ e)	20.9	39.8	37.7	The absolute GHG emissions associated with a portfolio. This figure would typically rise as assets under management grow.
Carbon Footprint (tonnes of CO ₂ e/\$ million invested)	60	115	432	Total carbon emissions for a portfolio normalized by the market value of the portfolio.
Carbon Intensity (tonnes of CO ₂ e/\$ million revenue)	185	218	341	Volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio).
Weighted Average Carbon Intensity (tonnes of CO ₂ e/\$ million revenue)	149	149	319	Portfolio's exposure to carbon-intensive companies.

Year-Over-Year Comparison for Non-Government Assets

Metrics ⁴	2019	2020			Total Non-Governmental Assets
	Public and Private Assets	Public and Private Assets	Incremental from Cash & Non-Equity Derivatives		
Total Carbon Emissions (million tonnes of CO ₂ e)	43.1	42.2	-2.4	39.8	
Carbon Footprint (tonnes of CO ₂ e/\$ million invested)	107	104	10	115	
Carbon Intensity (tonnes of CO ₂ e/\$ million revenue)	267	212	6	218	
Weighted Average Carbon Intensity (tonnes of CO ₂ e/\$ million revenue)	195	150	-2	149	

- Based on the most recent annual emission information available at June 30, 2020 and allocated based on CPP Investments' June 30, 2020 holdings. Exchange rates applied are those as at the year-ends of the reported emissions and revenue data (GDP data for government-issued securities), and as at June 30, 2020 for market capitalizations and long-term debt of holdings.
- Issuers' Scope 1 and 2 GHG emissions are allocated to our portfolio based on both equity ownership approach and long-term capital ownership approach, and the data is normalized based on the total in-scope portfolio value. Under the equity ownership approach, if an investor for example owns 5% of a company's total market capitalization, they own the same percentage of the company's emissions. Under the long-term capital ownership approach, if an investor for example owns 5% of the sum of a company's total market capitalization and its long-term debt, they own the same percentage of the company's emissions.
- Country-wide emissions are used to estimate the government-issued securities. The emissions reflect the territorial emissions from all domestic production of goods and services within a national boundary, regardless of whether those goods and services are consumed domestically or exported. The country-wide emissions will include certain emissions from portfolio companies that are reported under the public and private assets. In addition, financial variables used to estimate the carbon footprint metrics such as GDP are not directly comparable to those used for the portfolio companies. Therefore, we don't aggregate the carbon footprint metrics of government-issued securities with other assets but report them separately.
- Metrics are estimated using the equity-ownership approach.

For public and private assets, excluding cash and non-equity derivatives as they were not reported in 2019, our year-over-year portfolio weighted average carbon intensity was reduced by approximately 23%. The reduction is primarily attributed to reduced carbon emissions and/or improved carbon efficiencies in the portfolio companies we invest.

TCFD has said there are challenges and limitations with carbon footprinting metrics and noted these should not necessarily be interpreted as risk metrics. At the same time, TCFD said it expects the release of this data to prompt important advancements. We agree.

Our Methodology

For our carbon disclosure, we use Scope 1 and 2 GHG emissions for non-government holdings, and country-wide emissions for government-issued securities. Scope 1 refers to direct GHG emissions from an organization's owned and controlled sources. Scope 2 refers to indirect emissions from the generation of purchased energy. We use these types of emissions because the data set for Scope 1 and 2 emissions is currently the most complete and robust available.

We have used emissions data provided by S&P Trucost Ltd. (Trucost¹), a division of S&P Global that provides investment-grade carbon and environmental data to investors, companies and governments. While this data is the best currently available, it has limitations due to the different methodologies companies use to calculate GHG, incomplete reporting by some companies and the resulting use of partial company data to extrapolate or estimate historic emissions based on sector emissions performance.

The carbon footprint metrics estimation follows a waterfall methodology using different estimation sources in order of priority based on data availability. The priority setting is based on the principle of using as much directly disclosed data as possible, prioritizing more sophisticated estimation methods and balancing cost against benefit:

1. GHG emissions data that is disclosed by the public portfolio company and provided to CPP Investments either by a credible source such as Trucost or by the portfolio company;
2. GHG emissions data that is estimated by a credible source such as Trucost or by CPP Investments using specific comparable operating facilities similar to those of the issuers;
3. GHG emissions data that is estimated by CPP Investments using a public proxy. The public proxy is established based on the average emission of the sector and country.

The data we have presented, while the best available, is subject to inherent uncertainties and these uncertainties may be material.

We also recognize the assumptions made in applying the methodologies noted had a material impact on the resulting metrics. These include the use of a point-in-time approach to reporting on our portfolio, which may not fully reflect our holdings throughout the year, and the selection of the exchange rate when making calculations. So far, there is no authoritative guidance or emerging standard of disclosure in relation to these assumptions. As a result, the comparability of the data presented here for our portfolio to the carbon data disclosed for other portfolios is significantly reduced.

The chart below shows the different types of data available for our calculations (percentages based on value of holdings).

Types of Data Available for Calculations

Source % of holdings



1. Trucost, its affiliates, and their third-party data providers and licensors (Trucost Parties) do not guarantee the accuracy or completeness of the Information. Trucost Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Information. The Trucost Parties make no warranties or representations, and, to the maximum extent permitted by law, each Trucost Party hereby expressly disclaims all implied warranties, including warranties of merchantability and fitness for a particular purpose. Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall any of the Trucost Parties have any liability regarding any of the information for direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.

Signposts

Signposts are indicators that represent key drivers of the energy transition and climate change (ETCC) scenarios.

These can give us a data-driven signal as to where the ETCC is currently trending, help us develop and refine our own scenarios, and highlight potential areas of risk and opportunity. In the absence of specific, arbitrary targets these signposts also help us to optimize the risk/return dimension of climate change.

TPM's signposts have evolved since the last report. This includes an update to the methodology and the underlying data. The improved methodology simulates recent trends to estimate where key ETCC indicators are pointing across five categories and on aggregate. This methodology also links directly with the scenarios being used within CPP Investments by comparing these trends with what we might expect to see under different potential warming scenarios.

Taken together, recent trends suggest that the ETCC's current trajectory is most consistent with a mid-high warming outcome, although this trajectory can be changed with sufficient global effort. Notably, temperature continues to trend upwards, and we have not yet seen a meaningful reduction in global emissions. Policy action also remains modest at the global level. As such, significant changes will likely be required in terms of policy, technology and consumer behaviour in the coming years to achieve a low-carbon transition.

Though more progress is needed, there is evidence of progress on the ETCC in some areas. We have seen continued growth in renewable energy penetration and the adoption of clean technologies. Renewable energy costs continue to decline, and in many cases have become competitive with fossil fuels for power generation. Meanwhile, EV sales continue to grow rapidly at the global level, although their share of the total vehicle fleet remains small. Nevertheless, despite this progress, clean energy adoption will likely need to accelerate substantially to effectively drive a low-warming path.

Our signposts will serve as an important tool to monitor the impacts of developing events such as COVID-19 on the ETCC. The COVID-19 pandemic drove a significant reduction in energy demand and emissions, and there has been conjecture that it could result in prolonged changes in behaviour or that recovery efforts could focus on investment in green technologies. Our signposts will help track how the energy system evolves in a post-COVID world and beyond.

TPM plans to continue refining our signpost framework.

This will help us dig deeper into the evolution of key indicators at the global or country level and look more comprehensively at the risks and opportunities surrounding the ETCC. TPM has also conducted preliminary analysis of the evolution of potential tipping points in major earth systems, and further development of this work may give us an even better sense of climate change risks going forward.

Climate Change Signposts

Demand is an important predictor of energy consumption and is driven by both overall growth and changes in energy intensity. Global energy intensity has declined persistently in recent years; nevertheless, accelerating improvements in energy efficiency will be needed to achieve a lower warming outcome.

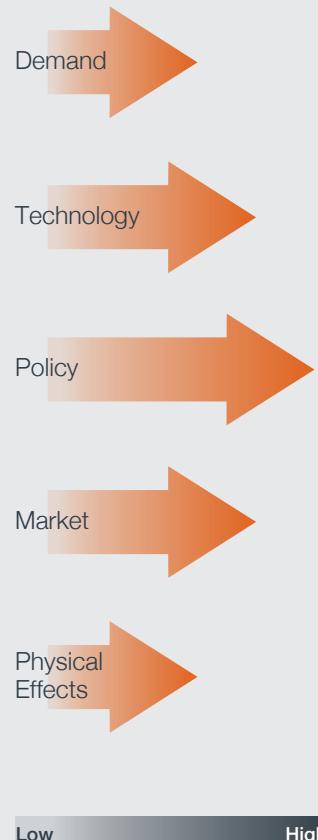
Technology is an important driver of the energy transition and helps govern the adoption of clean energy sources. Encouragingly, renewables are becoming more cost competitive compared to fossil fuels. However, we would need broader and more rapid adoption of renewables or alternative clean technologies, like carbon capture and storage, to drive a significant reduction in emissions.

Policy is interrelated with all other categories and plays a crucial role in accelerating developments in other areas. Despite a greater public focus on climate change, the use and intensity of climate policies remain relatively modest. For example, though we see an increase in the application of carbon pricing globally, effective values would likely need to increase significantly to drive a low-warming outcome.

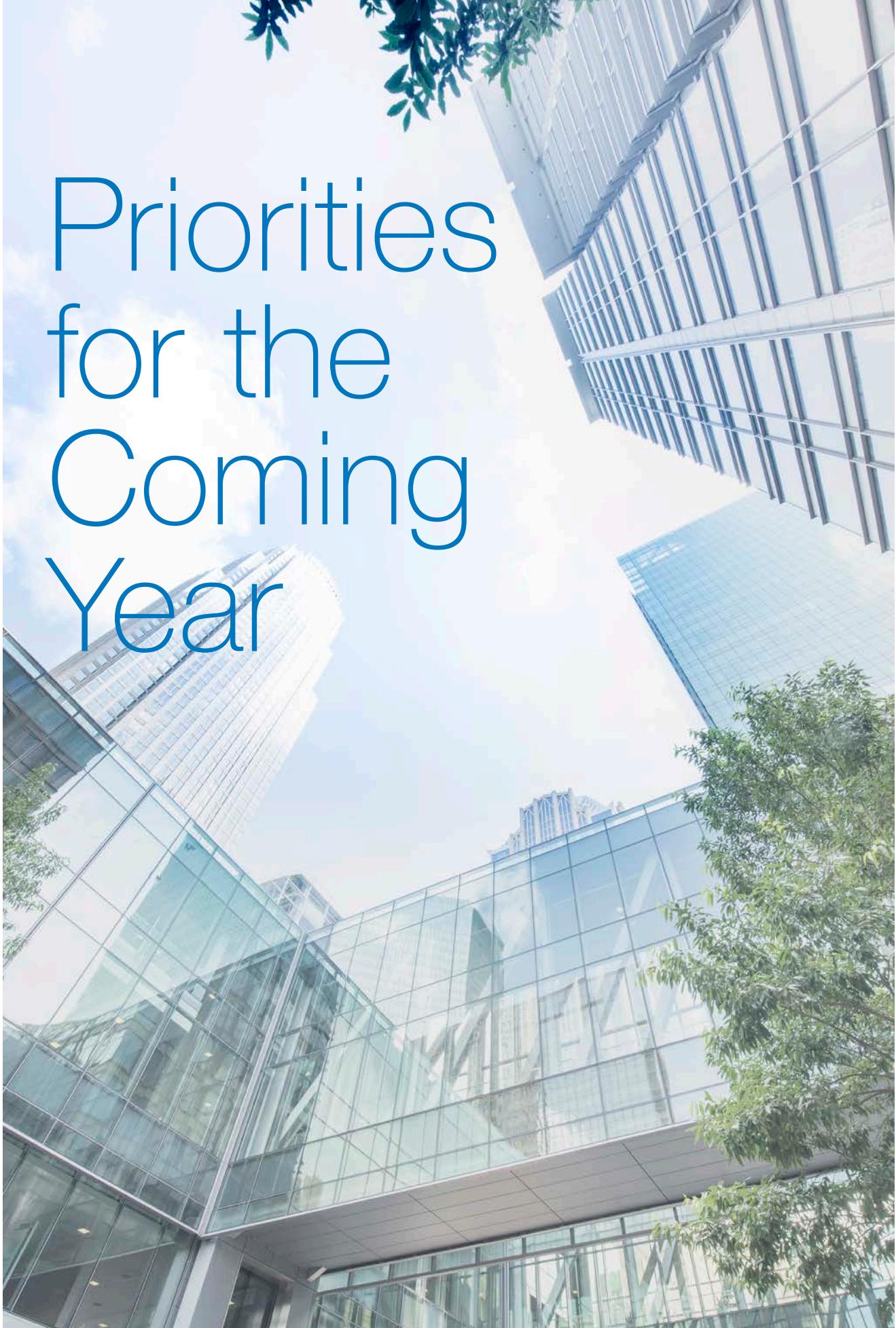
Market indicators track how energy is being produced and consumed in global markets. Power generation has seen more investment flow towards renewables than fossil fuels, helping support the energy transition. Nevertheless, total consumption of fossil fuels continues to rise despite relatively flat coal demand.

Physical effects are the reflection of climate change in the earth systems. Longer-term trends point to a steady rise in global temperatures, increases in which have picked up again after slowing through the 2000s. Global emissions have also continued to trend upwards, which suggests that temperatures will continue to increase for at least the near future.

On aggregate, our signpost signals point towards a mid-high warming outcome. This means that, absent a meaningful change in the direction of the ETCC (e.g., via meaningful tightening of policy or technological breakthroughs), physical risks remain an important consideration for our portfolio. Going forward, TPM will continue to use our signposts to remain abreast of developments in the ETCC space and monitor key risks.



Priorities for the Coming Year



Priorities for the Coming Year

The Sustainable Investing group will continue to contribute both directly and indirectly to the Fund's performance through ESG integration in the coming year. As part of this, it will:

1. continue the development of the sustainable equities pilot program (see page 11) to deploy capital across more positions as part of our global long/short ESG integration strategy;
2. further develop our ESG due diligence and climate change Security Selection Framework to go beyond the provision of insights on risk and opportunity to deliver solutions that directly impact the modelling, implementation or asset management strategy for new investments;
3. proactively provide insights and counsel to investment teams and portfolio companies so they can identify and address material ESG risks and opportunities inherent in their portfolio companies and operations; and
4. engage with companies where we have large active holdings to address key ESG concerns and enhance disclosure.

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