



CPP
INVESTMENT
BOARD

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David F. Denison
President and
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May 22, 2008

The Honourable Senator Percy E. Downe
Senate of Canada
140 Wellington Street, Room 702
Victoria Building
Ottawa, Ontario K1A 0A4

Dear Senator Downe:

In response to your letter of May 1, 2008, I would like to provide you with important background and context on the CPP Investment Board's Responsible Investing program, specifically our engagement activities, and address your specific questions.

I would like to restate that a key part of our strategy to broadly diversify the CPP Fund to help sustain the future pensions of 17 million Canadians is the CPP Investment Board's public equity program. Through this program, we have investments in more than 2,600 public companies that largely replicate major developed market indices such as the S&P 500 or the TSX Composite. As a result of these holdings, we own on average approximately two percent of 600 Canadian companies and approximately 0.1 percent of 2,000 international companies.

Consistent with our Policy on Responsible Investing, first implemented in 2005, the CPP Investment Board believes that responsible behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long-term corporate financial performance. We are pursuing our goal of encouraging corporate behaviour that enhances long-term financial performance through a policy of engagement. We believe that engagement is an effective strategy to encourage improved performance on and disclosure of ESG issues, particularly for large institutional investors with a long investment horizon like the CPP Investment Board. Given our belief that constraints decrease returns and/or increase risk over time, we do not screen stocks.

The CPP Investment Board has a rigorous process with respect to reviewing its public equity holdings for potential risks related to ESG factors, including using research provided by independent research firms. We also work with other institutional investors, and other groups such as NGOs to identify emerging global issues and areas of concern. It was through this process that in 2006 we began researching and engaging companies in our portfolio with links to Burma. In October 2007, we increased our activities in order to proactively identify public companies in our portfolio with potential exposure to Burma. We then undertook additional engagement activities such as phone conversations and letters requesting written confirmation from these companies with respect to the extent of their operations in Burma. As the new federal government SEMA regulations emerged in December 2007, we also requested that companies confirm their compliance with the new legislation.

The CPP Investment Board's investments in such companies as Power Corporation, Ivanhoe Mines Ltd, Total S.A., Chevron Corp and the remainder of the 2,600 companies in our portfolio is disclosed on our website. Some individuals have stated that the CPP Investment Board has \$1 billion worth of investments in companies linked to Burma. We are concerned with this statement because adding up CPP Investment Board's holdings in a number of companies, some of whom may have a very small percentage of their operations in Burma, and then concluding that the CPP Investment Board's investments with links to Burma are in the range of \$1 billion is misleading.

I would like to reiterate that the CPP Investment Board does not have direct investments in Burma and is in compliance with the federal government's SEMA regulations, including no controlling interest in any companies doing business in Burma.

With regard to our investment in companies with actual or potential links to Burma, we have estimated the CPP Investment Board's total indirect investment exposure to business operations in Burma to likely be less than \$20 million as of March 31, 2008. This indirect investment exposure is through our public equity holdings totaling \$63.7 billion in companies that operate around the globe some of which have a small portion of their operations in Burma or investments in a third party that has operations in Burma.

The CPP Investment Board has recently voted in favour of the following shareholder proposals relevant to Burma:

- At their most recent annual general meeting, we voted in favour of a shareholder proposal at Power Corporation requesting improved reporting regarding their investment in Total S.A. and how such investments are addressed in accordance with Power Corporation's Corporate Social Responsibility Statement.
- For the past two years, we have voted in favour of a shareholder proposal at Chevron Corp requesting a human rights policy.

Our approach to Responsible Investing is consistent with the United Nations Principles for Responsible Investment (UN PRI). The CPP Investment Board helped formulate and was one of the original signatories of the UN PRI in 2006. Today, the signatories to the UN PRI represent US\$11 trillion in institutional investor assets. The Social Investment Organization, in its March 2007 report, *Canadian Socially Responsible Investment Review 2006: A comprehensive survey of socially responsible investment in Canada*, acknowledged the CPP Investment Board's Policy on Responsible Investing and related engagement approach as positive examples of responsible investing strategies.

For example, CPP Investment Board is a signatory and active supporter of the Extractive Industries Transparency Initiative (EITI) and Carbon Disclosure Project (CDP). The EITI is a multi-stakeholder initiative including investors, companies, NGOs and governments aimed at addressing corruption in resource rich countries by encouraging transparency and accountability on taxes and royalty payments from oil and gas and mining companies to host governments. From an investment perspective, we believe this initiative helps encourage a less corrupt operating environment and this combined with the additional benefit of local community development lowers long-term investment risk of oil and gas and mining company operations.

The CDP initiative has grown to become one of the largest investor coalitions globally with 385 investors representing over \$57 trillion in assets seeking improved disclosure from more than 3,000 public companies around the world on climate change related risks and strategy required in a changing regulatory environment. The CPP Investment Board is a sponsor of the annual CDP Canada Report which highlights best practices of Canadian companies.

Consistent with the UN PRI, EITI, CDP and our Policy on Responsible Investing we engage with companies to encourage disclosure of relevant ESG risks and how they manage these issues in their businesses. As noted, we do this in three ways: through proxy voting for 2,600 companies; through coalitions with other likeminded institutional and pension investors and through direct engagement. Last year we voted on more than 15,000 proxy resolutions, and consistent with our disclosure practices publicly disclosed our vote on each the day after the vote.

We are pleased to see improving disclosure and management of long-term ESG factors because of investor efforts. Initiatives to increase disclosure and performance on ESG factors by companies ensure long-term shareholder value creation as boards enhance oversight and management improves long-term strategy and performance with regard to these factors.

With the above important context in mind, the remainder of this letter addresses your specific questions.

[With respect to companies operating in Burma,] what constitutes a material operation?

- We estimate that current revenue from operations in Burma represents less than one percent of total revenues for Total and Chevron. Nevertheless, we have encouraged both companies to operate with high standards of business practice with regard to environmental and social risks, especially human rights concerns such as those in Burma. For example, as noted above, for the past two years we have supported a shareholder proposal at Chevron requesting a human rights policy.

What about the Board's other investments, such as private equities?

- The CPP Investment Board's private equity area has no investments in companies doing business in Burma.

If the Board is committed to public transparency, why does it choose to primarily conduct its direct engagement activities privately?

- The CPP Investment Board is committed to transparency on our responsible investing activities, including disclosing our proxy voting record and work with investor coalitions. Enhanced annual reporting on our engagement activities is planned at the end of 2008.
- As outlined in our Policy on Responsible Investing, direct engagement with companies is conducted privately because we believe this is more effective in establishing a relationship of trust and in constructively influencing company behaviour, than publicly disclosing these activities. The names of companies with which we have engaged, therefore, are not typically disclosed publicly. However, we retain the right to do so if we believe we are not seeing sufficient progress in any given engagement situation.

What guidelines does the Board follow when choosing to publicly disclose the names of those companies it engages?

- We decide on a case by case basis whether to disclose the names of companies with which we have engaged. For example, in 2007, after discussing it with the company, we disclosed our engagement with Ivanhoe Mines regarding human rights concerns in Burma, and specifically that we have been in discussion with the company since 2006 regarding their previous operations in Burma.

In the past, has the Board ever released any names of those companies operating in Burma that resisted engagement activities? If so, please provide a list of these organizations.

- As mentioned above, in 2007, we publicly disclosed our engagement with Ivanhoe Mines. To be clear, we have had several conversations with the company since 2006 regarding their previous operations in Burma and they did not resist our approaches for engagement.
- We continue to engage with companies with links to Burma to ensure companies in our portfolio address the investment risks related to the ESG factors involved in their operations in the country. We encourage improved transparency and a corporate responsibility strategy that addresses risks with regard to operations in Burma.

The information in this letter is consistent with our high levels of transparency. In fact, we report on the same basis as most Canadian public companies, including the preparation and publication of quarterly financial statements and of annual financial statements that are audited by Deloitte & Touche and form part of our annual report. Our transparency is further evidenced by the more than 1,200 pages of disclosure on our website, which include the public disclosure of our portfolio holdings, our fund partners and other investment partners, as well as our proxy voting record.

Should you still have outstanding questions, I reiterate our offer to meet with you as a more productive way to address them, and will ask one of my colleagues, Babak Abbaszadeh, Director, Stakeholder Relations, who can be reached at 416-868-6612 or Babak@cpiib.ca, to make himself available at a time that is convenient for you.

Yours truly,



David F. Denison