

Policy on Sustainable Investing

February 14, 2024



1.0 Background

Canada Pension Plan Investment Board (CPP Investments) is a professional investment management organization. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan (CPP) and help sustain the pensions of CPP participants by maximizing returns without undue risk of loss, taking into account the factors that may affect the funding of the CPP and its ability to meet its financial obligations.

CPP Investments operates at arm’s length from federal and provincial governments with the oversight of an independent, highly qualified professional [Board of Directors](#). CPP Investments’ management reports to the CPP Investments Board of Directors, not to governments.

2.0 Sustainable Investing Principles

Our approach to sustainable investing is based on our belief that organizations that effectively anticipate and manage material sustainability-related 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. We define sustainability-related factors as those including, but not limited to: effective board governance; climate change; environment; equity, diversity and inclusion; health and safety; community engagement; human rights; responsible sourcing and deployment of artificial intelligence; and data and cyber security.

The following principles guide our approach to sustainable investing:

- We consider sustainability-related factors to make more informed decisions to deliver superior long-term investment outcomes, in alignment with our legislative mandate.
- We integrate both sustainability-related risks and opportunities into our investment and asset management activities, rather than eliminating investments based on sustainability-related factors alone.
- The depth of our analysis is commensurate with the materiality of the potential financial impacts of sustainability-related factors on the applicable investment.
- As an active owner, we can choose to engage with our portfolio companies to promote improved management of sustainability-related factors to enhance long-term outcomes.
- We support the division of authority and responsibilities among the triad of interests that is the core of good corporate governance – shareholders, directors, and management – whereby we expect management teams of our portfolio companies to integrate material sustainability-related factors into strategy, operations and disclosure, and boards of directors to demonstrate oversight of the risks and opportunities related to these factors.
- Employees, customers, suppliers, governments and the community at large have a vested interest in forward-thinking corporate conduct and long-term business performance.

This Policy outlines our approach to applying these principles to our portfolio.

3.0 Integration of Sustainability-related Considerations

We integrate sustainability-related factors into our investment and asset management activities across asset classes where they are financially material to the investment, as these factors can affect our assessment of an investment’s risk profile and intrinsic value. We believe this contributes to generating better risk-adjusted returns across our portfolio.

A materiality assessment considers the asset class, investment strategy, industry, geography, business model and investment thesis for each investment. The identification of material sustainability factors is reflected in the underwriting assumptions, approach to negotiating the terms of the investment and asset management plans for the investment, as appropriate.

We encourage companies to report in alignment with International Sustainability Standards Board (ISSB) IFRS Standards, and we encourage private companies to consider emerging initiatives like the ESG Data Convergence Initiative.

4.0 Approach to Climate Change

Climate change represents a significant risk and investment opportunity for the CPP Fund as the whole economy transitions in line with sovereign climate commitments.

As an institutional investor with a diversified global portfolio, we seek to factor in a broad range of climate change-related risks and opportunities as part of our investment strategy, total portfolio design, investment decisions and asset management activities.

The following climate change principles inform our decision-making:

- Principle 1: Invest for a whole economy transition required by climate change.
- Principle 2: Evolve our strategy as transition pathways emerge and global standards for decarbonization materialize.
- Principle 3: Exert influence to create value and mitigate risk.
- Principle 4: Support a responsible transition consistent with our investment beliefs and expertise, including our belief that accelerating the global energy transition requires a sophisticated, long-term approach rather than blanket divestment.
- Principle 5: Report on our actions, their impacts and our portfolio emissions.

Our approach to climate change underlies our own commitment to achieve net zero emissions across all scopes by 2050, in both our portfolio and operations. Our commitment is made on the basis and with the expectation that the global community will continue to advance towards the goal of achieving net-zero emissions by 2050. These advancements include the acceleration and fulfilment of commitments made by governments, technological progress, fulfilment of corporate targets, changes in consumer and corporate behaviours, and development of global reporting standards and carbon markets, all of which will be necessary for us to meet our commitment.

5.0 Engagement

We use selective engagement to communicate and action our expectation that portfolio companies proactively identify and manage material sustainability-related factors. We focus our engagement efforts on sustainability-related issues that are most material to a company’s creation of long-term value. Engagement objectives are identified taking into consideration time horizon, resource implications and likelihood of success.

CPP Investments participates in domestic and international discussions to help shape evolving regulation, market convention, standard setting and best practices in sustainable investing.

Please refer to our [Report on Sustainable Investing](#) for a list of industry organizations in which we participate.

5.1 Proxy Voting

Proxy voting is an effective form of engagement with public companies, enabling shareholders to express their views on a variety of issues. Our [Proxy Voting Principles and Guidelines](#) are reviewed and approved annually by our Board of Directors. They set out how CPP Investments is likely to vote on a range of topics. We also provide timely disclosure of our [voting decisions](#).

6.0 Exclusions and Exit

As a long-term investor, we prefer to engage with and attempt to influence companies when we disagree with a position they take. We can choose to patiently provide capital and work with companies to bring about change. However, we may conclude not to pursue or maintain investments in companies for reasons including the following:

- We conclude that management’s strategy or lack of engagement with sustainability-related issues undermine the long-term competitiveness of the business;
- Where brand and reputation considerations from sustainability-related factors may significantly adversely affect expected risk-adjusted returns; and
- Legal considerations.

These are not applied to our indirect exposure to companies resulting from our use of broad-based index future contracts.

7.0 Reporting

CPP Investments is committed to public transparency of our sustainable investing activities. Our annual [Report on Sustainable Investing](#) provides a detailed review of our activities. The Sustainable Investing section of our [website](#) provides additional information on our work. We also publish material sustainability-related disclosures, guided by ISSB standards, in our [Annual Report](#).

8.0 Governance

This Policy is approved by the CPP Investments Board of Directors. The Board of Directors delegates authority to the CEO and Management to oversee the implementation of the Policy.