Encouraging Carbon Transparency in a Carbon-constrained World

CPP INVESTMENT BOARD

David McCann

Vice-President and
Head of Relationship Investments

October 10, 2007

I am very pleased to participate in the launch of the CDP5 Canada Report and welcome this opportunity to discuss investment issues in the face of carbon constraints. As the CPP Investment Board's head of Relationship Investments, one of my responsibilities is the implementation of our Policy on Responsible Investing, which includes the assessment of climate change risk in the companies in which we invest.

Today's panel topic is business and investment opportunities in a carbon-constrained world. CPP Investment Board's support for carbon transparency is grounded in our need to manage long-term risk across our portfolio and to incorporate information about environmental risks and opportunities in company valuation.

We are investment managers of the CPP Fund, which is a largely passive $120.5 billion portfolio that is managed in the interests of 16 million Canadians with a view to being sustainable for 75 years and beyond.

So with that kind of long-term investment horizon we view increased transparency as mitigating long-term risk. We also see opportunity for companies to become early movers in enhanced carbon transparency and strategy, enabling them to attract investment.

I'd like to share a few slides with you to illustrate who we are, how we think about these issues and also give you a glimpse of our climate change risk activities in action.

CPP Investment Board – who we are

- Arm's-length Crown corporation created by federal and provincial governments as joint stewards of the CPP in 1997
- A professional investment management organization operating in the private sector with public sector accountability
- We manage the assets of the Canada Pension Plan not needed to pay current pension benefits
- An investment-only mandate: "Maximize returns without undue risk of loss"

2

CPP INVESTMENT BOARD

First of all: who we are.

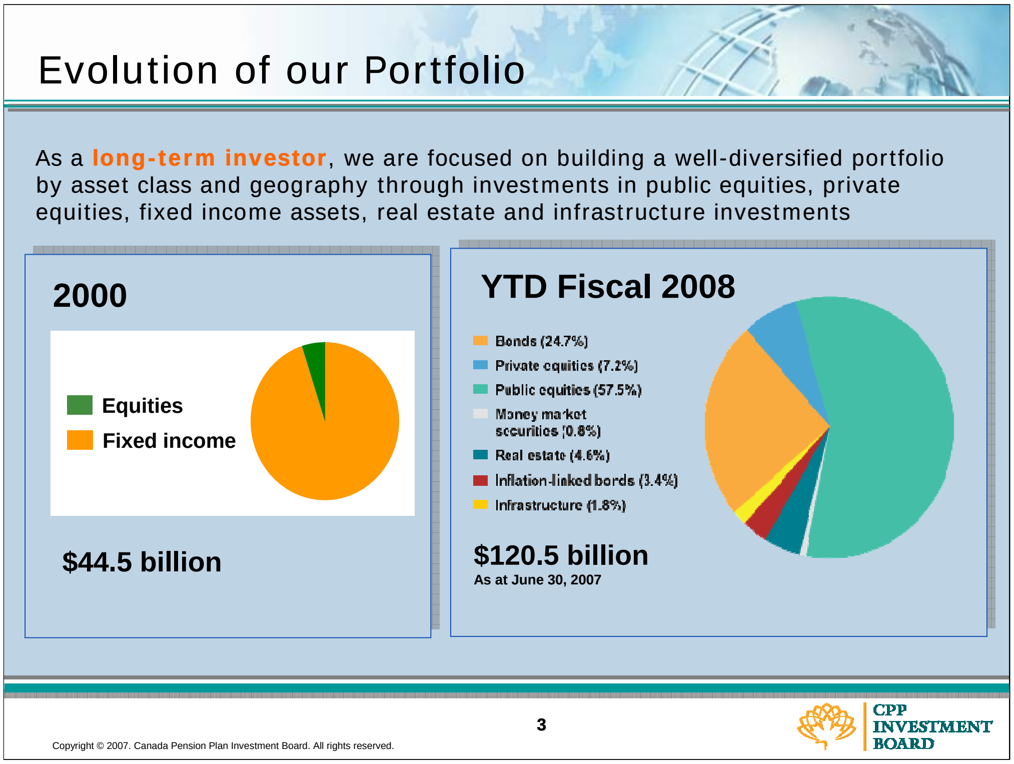
The CPP Investment Board is an arm's-length Crown corporation created in 1997 as part of a solution by the federal and provincial governments to the solvency crisis that was facing the Canada Pension Plan in the mid 1990s.

The solution, as many of you may know, is a uniquely successful rescue story in light of the crisis facing most national pension plans globally. It involved several bold reforms including creating the CPP Investment Board as a professional investment management organization operating in the private sector and sequestering the fund assets from government revenues.

Our governance model is unique in that we compete in the private sector as investment managers and report to an independent qualified board but at the same time are accountable to the provincial and federal finance ministers who are the stewards of the Canada Pension Plan.

This elegant remedy gave us the tools to effectively manage the assets of the Canada Pension Plan not needed to pay current pension benefits and to help keep the CPP sustainable for the next 75 years and beyond.

Our mandate is investment-only. Our founding legislation requires us to maximize returns without undue risk of loss. So when thinking about climate change factors in investment decision-making, we use an investment-only lens.



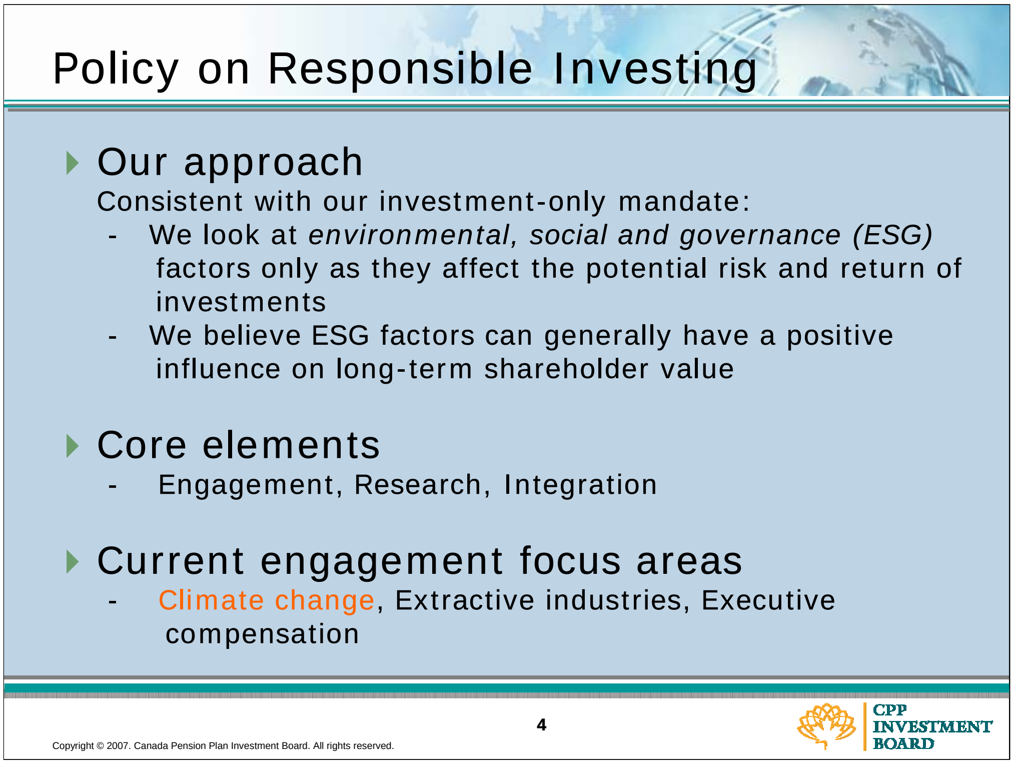
Our portfolio has evolved rapidly since 2000, when you can see we were mainly invested in legacy government bonds.

On the right is our portfolio as at June 30, 2007, the end of our latest quarter. The total value of the fund at that time was $120.5 billion and Canada's Chief Actuary projects that it will double within the next 10 years.

Our investment in Canadian and international equities continues to grow. And as the large amount invested in public equities indicates, we are keenly interested in transparency in public companies globally on carbon risk.

We recognize that companies face carbon risk through direct emissions, supply chain emissions, energy cost and end product use, among other sources.

Also of note: we have growing holdings in real estate and infrastructure – assets in which carbon risk is a key factor to consider prior to investment.



We have adopted a Policy on Responsible Investing and the principle underlying the policy is that we are a long-term investor managing the Fund with a view to the long-term needs of the CPP.

Climate change is of course a long-term consideration, though it has gained short-term urgency with the prospect of growing public concern and subsequent regulatory responses.

Consistent with our investment-only mandate, we consider environmental, social and governance factors (referred to as ESG factors) as they affect the potential risk and return of investments.

We believe ESG factors when managed well, can generally have a positive influence on financial performance, though they often play out over the medium to long-term.

Certainly growing public concern and tightening regulation are mechanisms through which ESG factors often affect a security's price.

Basically, our approach to responsible investing consists of a three-part program:

• Engagement with companies

• Actively supporting research into the materiality of ESG factors

• Integrating ESG factors into our investment process

Recently we identified three focus areas for that engagement: climate change, extractive industries and executive compensation.

How we approach climate change risk

- Engagement with companies in our public markets portfolio
  - collaborative engagement: CDP
- Due diligence in acquiring long-term private market assets, notably real estate and infrastructure assets
- Encouraging efficient mechanisms through which companies can disclose climate change-related elements of their business: MD&As a key vehicle

5

CPP INVESTMENT BOARD

The largest part of our portfolio is our passive public markets investments. It is therefore worthwhile for us to seek transparency on climate-change related risk in this part of our holdings. What we are seeking here is improved transparency and assurance that companies have a clear plan to manage risks in the short and long term.

We engage with companies to encourage improved performance on and disclosure of ESG issues. That engagement is done directly with companies and through coalitions of like-minded investors. When engaging directly, we dialogue with senior executives at the company in question. Because of the analysis and time required to be effective in direct engagement we have a target of pro-actively engaging about 10 new companies per year.

•However a prime example of collaborative engagement that can reach far more companies is the Carbon Disclosure Project itself. Here we are collaborating with 315 institutional investors to engage with some 2,400 companies globally. Now that’s powerful. And we have joined other similar coalitions including the Extractive Industries Transparency Initiative which is focused on a social issue -- corruption in resource-rich countries.

Elsewhere in our portfolio, we analyze climate change risk as part of our due diligence in completing major private investments in real estate and infrastructure, which I’ll talk about shortly.

Finally, another aspect of our activities on climate change disclosure is working with regulators to simplify the disclosure process as part of an effort to help companies comply with better disclosure and hopefully eliminate the duplicating nature of multiple reporting requirements across a large number of stakeholders. Our view is that in addition to answering the CDP questionnaire, MD&As should be one of the key vehicles for disclosure. And we would like to see enhanced disclosure beyond the current MD&A guidance.

Our proxy voting on climate change

- Supported several shareholder resolutions on climate change-related risks

Prepare a Sustainability Report	Wal-Mart, Wendy's Int'l, Kellogg Co., Allegheny Technologies, Amgen, CVS/Caremark, Comerica, Safeway, Dillard's, Comcast, R. R. Donnelley & Sons, Loblaws
Report / Adopt Greenhouse Gas Emissions Goals	Ford Motor Company, General Motors, Exxon Mobil, Wells Fargo & Company, Allegheny Energy, Dominion Resources

6

CPP INVESTMENT BOARD

Another form of engagement on climate change is in voting our proxies on climate change-related issues and this is an important part of our active ownership of shares in publicly-held companies.

We voted on numerous climate change related proposals in the past year.

For example we vote "For" proposals that seek to have companies prepare sustainability reports that outline the company's strategic approach to sustainability. In our view, sustainability reporting leads to improved transparency and improves the company's overall strategy.

We have been supporting proposals seeking improved transparency on companies' greenhouse gas emissions and their climate change strategy. We believe this is necessary in a tightening regulatory environment.

However, we have only been supporting proposals that are consistent with our fiduciary focus. We have not supported proposals to discourage addressing carbon risk, 'wolf-in-sheep's-clothing' proposals. We also do not support proposals that are overly prescriptive regarding company actions.

….By the way, we were delighted to see the declaration by the Canadian Council of Chief Executives regarding commitment to addressing climate change risk, including requesting regulatory certainty.

Sample infrastructure due diligence on climate change factors

Anglian Water storage tank
AWG Plc ($1.1 billion)

Sample Risks from Climate Change:
Changing rain patterns
Asset loss due to flooding, sea level rise, coastal realignment
Resource competition
Requirement to adapt design standards eg. sewer capacity
Monitoring of energy consumption and GHG emissions

Ways to Proactively Address Risks:
Generate own power from renewables including methane gas and wind turbines

7

CPP INVESTMENT BOARD

And here is an example of our climate change risk due diligence performed prior to our infrastructure investment in the U.K. water utility Anglian Water. It was part of a comprehensive transaction due diligence following which we paid $1.1 billion for a major stake in Anglian's parent company AWG plc.

During the due diligence period we ascertained that potential long-term climate change risks could include:

• Changing rain patterns in the east of England, with winter rainfall increasing significantly and summer rainfall decreasing even more significantly.

• Temporary and even permanent loss of infrastructure due to rainfall causing flooding, rising sea levels and coastal realignment.

• Competition for resources including environmental or economic pressure to share water resources

• Requirements to redesign infrastructure components such as sewer capacity to handle heavy rainfall, and..

• Finally, the cost and consequences of monitoring greenhouse gas emissions and curbing energy consumption in order to reduce emissions

As part of that process we wanted to see what plans were in place to proactively address long term climate change risks. We were pleased to see that the company did have plans in place and in addition, they also included:

• Generating some of its own heat and power with methane gas, a by-product of the sewage treatment process, and erecting wind turbines on utility land.

We believe that the Carbon Disclosure Project has the momentum to help improve disclosure swiftly. In addition to being a signatory to the CDP, we have helped fund the CDP Canada report since its inception last year and are happy to be working together with the Conference Board of Canada and the Advisory Group on this important endeavour. As investors we pay close attention to company responses, and we have a vested interest in doing so in the interests of the 16 million Canadians who participate in the CPP. We own 2 to 3 per cent of the outstanding shares of some 600 Canadian public companies. And $29.4 billion of our portfolio was invested in Canadian public equities at June 30th, the end of our latest quarter.

The CPP Fund is invested in 2,600 companies globally, so the fact that the CDP questionnaire was sent to 2,400 companies globally also has relevance for us. Although our average stake in major non-Canadian traded companies is currently only 0.1 %, we had $40 billion invested in foreign public equities at the end of our last quarter. And as we continue to diversify the CPP Fund by geography, responses to the global questionnaires will be increasingly helpful to us.

Finally we provided financial support and technical expertise to help create the new CDP database for categorizing and comparing company responses. The new database enables users to sort responses by sectors and issues for the first time, which we think will help significantly with analysis.

….. So I'll leave it at that in the interests of hearing the views of my co-panelists and I look forward to the discussion and questions to follow.