

## President's Message



**MARK MACHIN**  
President & Chief Executive Officer

CPPIB received its first dollar to invest two decades ago. Milestones like these provide opportunities to reflect on the factors that help an organization achieve its goals, but also consider disruptive challenges that must be addressed to ensure future progress.

In retrospect, CPPIB's beginnings clearly contained the elements of its future success.

Chief among these is our clear and simple mandate: maximize returns without undue risk of loss, taking into account factors that may affect the funding of the plan.

More than 10 years ago, CPPIB began building what is now our Sustainable Investing (SI) group to engage with companies, coordinate peer collaborations and work with our investment teams to strengthen our understanding of how environmental, social and governance (ESG) factors influence long-term returns.

We learned that embedding these factors more deeply into the investment process, through tools like bespoke databases that track ESG materiality (see page 12), is critical to the pursuit of our investment objectives.

The SI team's work built a solid foundation to help us navigate one of the great disruptive forces of our time: climate change. Our exceptionally long horizon, which requires us to think and invest over multiple decades, has crystalized climate change as an issue we need to understand and address.

All this was top of mind as we prepared this 2019 Report on Sustainable Investing. These pages highlight that team's work, as well as sustainable investing activities across the organization.

Consider our progress in these notable areas.

### CLIMATE CHANGE

These past 18 months saw major advances in our ongoing goal to be a leader among asset owners in understanding the risks posed, and opportunities presented, by climate change.

Foremost among these was an acceleration of our Climate Change Program. It elevated the ways our teams incorporate climate change considerations into our investment processes and evolved the organization from theoretical understanding to practical implementation. (See pages 14-16).

Our Climate Change Steering Committee oversees this program. We enhanced this Committee last year, adding more members of our Senior Management Team to facilitate agile, enterprise-level decision-making; so that challenges could be readily addressed.

Among its early achievements was the launch in April of an evaluation framework requiring investment teams to perform bottom-up analyses of climate change risks and opportunities on material investments. The goal is to better understand the risks we are taking on, and to make sure we are getting paid for them.

Such progress is encouraging. Yet we're mindful that fully understanding the implications of climate change – including physical, transition and adaptation risks – will be a continuous process.

For CPPIB, climate change is not merely about addressing risks. Its disruptive impact is also creating opportunities. This includes investments in renewable energy, where our size, expertise and long-term investment horizon make us an ideal partner.

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We were the first pension fund to issue a green bond in June 2018, and followed in January 2019 with the first euro-denominated green bond issued by a pension fund. Both issues met with robust demand. (See pages 31-33).

While CPPIB's renewable energy investments have been led by our Power & Renewables team (see pages 23-26), our pursuit of opportunities is not confined to a single investment program. Both our Energy & Resources and Thematic Investing teams seek climate change-related opportunities and collaborated on our investment in one of the world's leading electric vehicle charging networks. (Details on pages 21-23).

Finally, some of our broadly based investment programs are exposed to hundreds of companies that are leading the charge to displace traditional energy with more sustainable technologies.

### BOARD DIVERSITY

This year we expanded our efforts to improve board diversity among our portfolio companies.

Based on our research, we have long believed companies with diverse boards, including with respect to gender, are more likely to achieve superior financial performance. This is why we increasingly use our voting power to encourage companies to appoint more women to their boards.

We began this practice within Canada in 2017, by voting against the election of nominating committee chairs at companies where boards had no female directors and no extenuating circumstances warranting an exception. If no progress was made by the following year, we voted against all of the company's nominating committee members.

We also engaged directly with company directors prior to casting proxy votes; letting them know our concerns about the lack of female representation on their boards and clarifying our intentions to vote against their nominations.

We witnessed firsthand how this encouraged companies to prioritize the issue and add women to their upcoming nomination slates.

That success led us to take the practice global. As of December 2018, we now vote against the chair of the board committee responsible for director nominations at any investee public company if that board has no women directors and no exception is warranted.

At the end of fiscal 2019, we held shares in more than 3,400 companies outside of Canada. So these efforts mark a significant undertaking to improve board gender diversity across our global public portfolio. We will continue to be active in advancing this important matter.

Board diversity is just one of many issues about which we engage with companies, and success to date reinforces our firm belief in the importance of engagement.

Whether urging managers to more fulsomely consider the impacts of climate change, or to structure their boards for long-term success, engagement creates a path through which asset owners can become powerful, positive influences.

### CONCLUSION

Our climate change work, investments in renewable energy and actions to improve board diversity are just some of what we do to help spark positive change and improve long-term investment returns for the Canadian workers and retirees we serve.

This year's report shows the many ways our approach has evolved over 20 years. I hope by its conclusion you will share my optimism about what can be accomplished in the decades to come.



**Mark Machin**  
President & CEO