

GOVERNANCE PRACTICES OF THE BOARD OF DIRECTORS

The *Canada Pension Plan Investment Board Regulations* require that the annual report disclose the governance practices of the board of directors. More extensive governance information is posted at www.cppib.ca.

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management.

As fiduciaries, the directors are required to act honestly and in good faith in the best interests of CPP contributors and beneficiaries. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must use their specialist knowledge in carrying out their duties and are subject to higher standards of care in areas that relate to their expertise.

Among other duties, the directors review and approve investment policies, standards and procedures; appoint the chief executive officer and annually review his performance; determine with management the organization's strategic direction; review and approve the annual business plan and budget; appoint independent internal and external auditors; establish procedures to identify and resolve conflicts of interest; establish codes of conduct for directors and employees; assess the performance of the board itself; and review and approve the stakeholder communications strategy, including material disclosure such as quarterly and annual financial statements and the annual report.

A key part of the carefully designed governance structure that balances independence with accountability is that investment professionals are accountable to an independent board of directors operating at arm's length from governments with decisions made on the basis of sound investment principles, not political considerations. Symbolic of the board's ongoing vigilance with regard to potential interference is the formal process whereby the chair annually asks board members and the CEO if they have been subjected to pressure with respect to investments, procurement and hiring decisions. As intended by the stewards, the answer has always been in the negative.

DIRECTOR APPOINTMENT PROCESS

Directors are appointed by the federal finance minister in consultation with the participating provinces with the assistance of a nominating committee. The federal government appoints the chair of the nominating committee, and each participating provincial government appoints one representative.

The nominating committee recommends candidates for appointment and re-appointment to the federal finance minister who, in turn, makes the appointments in consultation with the provincial finance ministers.

The nomination process is designed to ensure that only those with expertise in investment, business and finance are appointed to the board.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees – investment, audit, governance and human resources and compensation. The investment committee consists of the full board. Membership of the other committees is shown.

The investment committee reviews and recommends our Investment Statement to the board for approval and reviews, approves and monitors the CPP Investment Board's investment program. It also reviews portfolio risk tolerance and approves the engagement of external investment managers and custodians.

The audit committee oversees financial reporting, the external and internal audit, information systems and internal control policies and practices. It also oversees aspects of the employee pension plans and advises the board in connection with any statutorily mandated special examinations. Responsibility for enterprise risk management is shared with the board and other committees. The audit committee regularly meets with both external and internal auditors without management present.

The governance committee monitors application of the code of conduct and conflict of interest procedures, recommends governance initiatives, makes recommendations to the board to improve the board's effectiveness, reviews criteria for new directors, establishes and recommends a performance evaluation process for the chief executive officer and assumes other duties at the board's request.

The human resources and compensation committee administers a performance evaluation process for the chief executive officer, reviews and recommends the compensation framework, reviews organizational structure and ensures succession planning. It also oversees employee benefits and human resource policies, the employee pension plans and directors' compensation.

At every meeting, the board of directors and all committees have *in-camera* sessions, meaning that no member of management is in attendance. The audit committee also has *in-camera* meetings with both internal and external auditors. In addition, the board also has *in-camera* meetings with the president and CEO.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is established in board or committee approved policies. The board considers recommendations made by management to board committees. In particular, board approval is required for the strategic direction for the organization and the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the board established an annual process for evaluating its own performance, that of the chairperson and that of its committees. In May 2005 the board incorporated a confidential and separate Chairperson Effectiveness Assessment process. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and provide a basis for action plans for improvement. The board conducts a confidential annual peer review to assist each director in identifying self-development initiatives and assist in providing the external nominating committee with guidance when it considers individual re-appointments. The chairperson also meets formally with each director as part of the board and individual director assessment process.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and Regulations as well as all policies approved by the board. Management develops, with involvement from the board, the strategic direction of the organization in response to its growing asset management responsibilities and the ever-changing outlook for capital markets. The strategy incorporates risk management policies and controls as well as monitoring and reporting mechanisms.

Management is charged with developing benchmarks that objectively measure the performance of markets and asset classes in which CPP assets are invested. Once approved by the board, benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

Management is expected to make full and timely disclosure to the board and the public of all material activities, including new investments, the engagement of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPP Investment Board's reputation.

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors is summarized in Note 7b to the Consolidated Financial Statements. Director compensation is based in part on data contained in a study prepared by a private compensation consulting firm in March 2004, using relevant data with respect to TSX companies and selected public sector organizations.

The total compensation of the five most highly paid executive officers of the corporation is detailed in Note 7a to the Consolidated Financial Statements. Executive officer compensation is partially incentive-based and is reviewed annually by the board.

Incentive compensation is awarded based on the achievement of a combination of corporate, investment and personal objectives and is a combination of annual and long-term (four years) incentive components.

An independent compensation consulting firm advises the human resources and compensation committee on officer compensation.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

At least once every six years, as required under section 47 of the *Canada Pension Plan Investment Board Act*, the Minister of Finance routinely orders a special examination of the CPP Investment Board's financial and management control and information systems and management practices. The latest such examination included a comprehensive review of all business processes during a three-month period beginning in January 2004. The report of the special examination is available on our website, www.cppib.ca.

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the federal and provincial governments' desire to recruit directors with financial and investment expertise and to engage employees with financial expertise. The code of conduct has been established to manage and, where possible, eliminate such conflicts. The procedures under the legislation and these codes of conduct are designed to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal or business interests that might lead to a real, potential or perceived conflict is required.

It is CPP Investment Board policy that non-audit services being provided by either our internal or external auditor must be approved by the audit committee. Firms that perform an internal or external audit function must also provide confirmation that non-audit services do not impair their independence.

CODES OF CONDUCT

The codes of conduct for directors and employees are designed to create a corporate culture of trust, honesty and integrity, and conflict of interest procedures deal with such matters as relations with suppliers, personal investments and confidentiality of proprietary information. For example, the code establishes strict pre-clearance procedures for personal trading in securities. It also deals with the acceptance by directors and employees of entertainment, gifts or special treatment that could create or appear to create a favoured position for actual or potential contractors or suppliers.

To augment our code of conduct and conflict of interest procedures, the board of directors decided in 2003 to appoint an external conduct review advisor. This person is available to discuss ethical issues with directors and employees on a confidential basis.

BOARD ATTENDANCE: FISCAL 2006

The board held 11 meetings in fiscal 2006. The investment committee is a committee of the full board. The table below reflects the number of meetings attended by each director relative to the total meetings that director could have attended.

	Board and Investment Committee ¹	Audit Committee	Governance Committee	Human Resources and Compensation Committee (HRCC)	Ad Hoc Communications Committee
Gail Cook-Bennett ²	11/11	5/5	6/6	8/8	2/2
Germaine Gibara ³	10/11	N/A	5/6	6/6	1/2
Peter K. Hendrick	11/11	5/5	N/A	N/A	N/A
Jacob Levi	8/11	4/5	N/A	6/8	N/A
Philip MacDougall	11/11	N/A	6/6	N/A	N/A
Helen M. Meyer	11/11	5/5	N/A	8/8	N/A
Dale G. Parker ⁴	11/11	4/4	2/2	6/6	2/2
M. Joseph Regan ⁵	11/11	N/A	4/4	2/2	N/A
Mary C. Ritchie	11/11	5/5	N/A	N/A	N/A
Helen Sinclair ⁶	9/11	N/A	6/6	2/2	N/A
Ronald E. Smith ⁷	11/11	1/1	N/A	6/6	2/2
David Walker ⁵	11/11	N/A	5/6	2/2	2/2

¹ Eight regular meetings and three special meetings.

² Chair of board and investment committee and member of governance committee, but attends all committee meetings.

³ Appointed to HRCC effective May 12, 2005.

⁴ Term on governance committee expired May 11, 2005. Appointed to audit committee and HRCC effective May 12, 2005.

⁵ Term on HRCC expired effective May 11, 2005. Appointed to governance committee effective May 12, 2005.

⁶ Term on HRCC expired effective May 11, 2005.

⁷ Term on audit committee expired May 11, 2005. Appointed to HRCC effective May 12, 2005.

DIRECTORS' REMUNERATION

	Annual Retainer	Board and Committee Meeting Fees	Total Remuneration
Gail Cook-Bennett, Chair of the Board	\$ 95,000	N/A	\$ 95,000
Germaine Gibara	20,000	\$ 23,000	43,000
Peter K. Hendrick	20,000	16,000	36,000
Jacob Levi	20,000	18,000	38,000
Philip MacDougall	20,000	17,000	37,000
Helen M. Meyer	20,000	24,000	44,000
Dale G. Parker	21,250	28,000	49,250
M. Joseph Regan	21,250	17,000	38,250
Mary C. Ritchie, Chair of Audit Committee	27,500	16,000	43,500
Helen Sinclair, Chair of Governance Committee	26,250	17,000	43,250
Ronald E. Smith, Chair of HRCC	26,250	22,000	48,250
David Walker ⁸	27,500	20,000	47,500

Directors' remuneration includes an annual retainer for each director of \$20,000, board and committee meeting fees of \$1,000 per meeting, including meetings attended by invitation, plus an annual retainer of \$7,500 for each committee chair. Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the custom. The chair of the board of directors receives \$95,000 in annual compensation but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings.

⁸ Chair of ad hoc communications committee.