



Caisse de dépôt et placement
du Québec

Socially Responsible Investment: Caisse Policy and Approach

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01

WHY SRI?



- > 2002: Mandate from the Board to review the Caisse's governance and the issue of SRI
- > 2003: Formation of an SRI working group –
Conclusions:
 - > Corporate governance, a concept that is constantly changing and being redefined, has become a vital aspect of risk management as regards governance as well as corporate social responsibility



- > SRI is expanding to include governance and various issues that are helping make it mainstream
 - > SRI is evolving toward an activist approach at the expense of a securities-exclusion approach
 - > Activists are now often investors and have shifted the SRI focus to returns rather than ethics per se
- > March 2004: The Board of Directors adopts a Policy on Socially Responsible Investment to take effect on January 1, 2005



- > Elements considered by the SRI Policy:
 - > Caisse's mission
 - > Depositors' intentions
 - > Caisse's position vis-à-vis other large pension funds
 - > Ability to implement an effective policy
 - > Impact on returns and investment opportunities



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02 SRI POLICY



SRI Policy Approach

- > Unique, comprehensive approach that enables the Caisse to act more effectively
- > Proactive approach that emphasizes dialogue with companies
- > No systematic exclusion process



SRI Policy Action

- > Dialogue and collaboration with corporate officers on various responsible investment issues, including aspects of corporate governance
- > Exercise of proxy voting rights in accordance with principles developed, including case-by-case analysis and consultation, if necessary
- > Last resort: sale of investment in a company if no improvement is seen after several discussions and attempts at collaboration
- > Integration of environmental, social and governance issues into the investment process



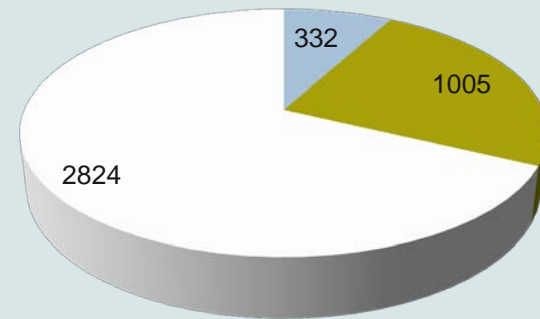
Implications for portfolio managers

- > They must take into account governance criteria and social, ethical and environmental criteria into their analysis of the risk inherent in each investment
- > They must ensure that companies have policies, reports and/or studies on such matters and that they report to their shareholders
- > They must ensure during their discussions that companies are aware of the Caisse's concerns regarding these matters



Voting at shareholder meetings

- > Exercise of voting rights in 2008: the Caisse voted at 4,152 shareholder meetings, which break down as follows:



- Canadian companies
- U.S. companies
- International companies ex U.S.

- > The meetings involved analysis of 38,199 proposals.



Voting at shareholder meetings

- > Shareholder proposals: 623 proposals processed
 - > 432 on governance
 - > 51 on environmental matters
 - > 140 on social matters that may have an environmental component
- > 60% of the votes were in favour



Dialogue with companies

- > A total of 546 communication initiatives in 2008 as follows:
 - > 37 instances of multiple communication (telephone calls and/or meetings) on specific subjects
 - > 60 instances of communications that took place less frequently or only once
 - > 449 instances of communication by letter in co-operation with other investors on identified subjects

- > These initiatives involved:
 - > Environmental issues in 42% of the cases
 - > Social issues in 27% of the cases
 - > Governance issues in 82% of the cases



Example of the Carbon Disclosure Project

- > Group of international investors (385 in 2008) that ask large public companies (3,000, including 200 in Canada) to disclose their greenhouse gas emissions
- > Follow-up by the Caisse
 - > 83 letters sent to targeted Canadian companies in the portfolio
 - > 42 instances of direct communication thereafter to reiterate the importance of such disclosure for the Caisse



Example of the Carbon Disclosure Project

> Increase in response rate for Canada

	Caisse	Carbon Disclosure Project
Number of companies that received a letter from the Caisse and/or CDP6 in 2008	83	200
Number of companies that responded to the 2007 questionnaire (CDP5)	53	88
Number of companies that responded to the 2008 questionnaire (CDP6)	62	110
2007 response rate (CDP5)	58%	45%
2008 response rate (CDP6)	75%	55%
Percentage increase in response rate	17%	10%



03

Implementation of SRI Policy and Activities



Integration of ESG issues

- > Canadian equity markets
 - > Tool incorporating SRI scores assigned by our supplier for the Canadian equity portfolio
 - > Inclusion of SRI ratings in summary cards on the portfolio companies
 - > Regular discussion of such matters with the portfolio managers



Integration of ESG issues

- > Specific integration model developed by a portfolio manager
 - > Canadian mining companies with foreign operations
 - > Exhaustive issue checklist adapted to the industry
 - > Qualitative evaluation of information and classification
 - > Analysis of risks, concerns and impact on economic value
 - > Assignment of a rating to be included in the overall analysis of the company
 - > Adaptable to other sectors



Integration of ESG issues

- > Private equity
 - > Effective integration of environmental and governance issues into analysis of direct investments
 - > Analysis of social aspects has to be developed
 - > Intention to develop a systematic approach
 - > Involvement in a working group of the United Nations-backed PRI to develop an approach that integrates ESG issues into private equity
 - > Adoption by the Private Equity Council of 10 integration principles
 - > Initiative in progress for concrete integration into decision-making documents



Integration of ESG issues

> Real estate

- > For several years SITQ and Ivanhoe Cambridge have integrated environmental issues into due diligence and property management
- > Specific committees manage environmental issues and permanent specialized resources are assigned to these matters
- > Buildings owned and/or managed have earned or will obtain prestigious environmental certifications
 - > Caisse's business office recently received LEED Gold certification



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03

PRI



Why the Caisse joined PRI

- > The Caisse had already adopted its SRI Policy in 2004
- > The approach developed by PRI was a logical continuation of implementation of our own policy



PRI Philosophy

- > Objective: integrate environmental, social and governance (ESG) issues into investment decisions
- > Viewpoint of an institutional investor that owns its assets
- > Attempt to influence corporate behaviour as opposed to activism
- > Non-binding principles: investors integrate the principles into their operations to varying degrees
- > Proposal of possible action to comply with or to integrate each principle



- > Membership offers the Caisse the following advantages:
 - > Large network of contacts
 - > Access to quality research
 - > Support for ways of integrating ESG issues into investment decisions



- > The Caisse's SRI policy and its membership in PRI enables it to:
 - > Structure its initiatives and systematize its commitment as a shareholder
 - > Associate its initiatives with those of other institutional investors, such as PRI members
- > Moreover, by putting in place new initiatives and associating its initiatives with those of other investors, it helps align the interests of all stakeholders with a view to sustainable solutions
- > This approach also demonstrates that the financial markets can help reduce the negative impacts of economic activity on the environment generally