



## PAYING FOR PERFORMANCE:

### THE CASE OF THE CPP INVESTMENT BOARD - PART II

*“We give due and careful consideration to management compensation. The CPPIB has developed a compensation framework that meets, and in many ways exceeds the best-practice principles set out by the G20 nations. This includes a pay-for-performance formula within a risk framework approved by the board of directors.”*

Robert Astley  
Board Chair, CPP Investment Board  
CPPIB 2010 Annual Report

#### The Context

Our ‘Tomorrow’s Pension Fund’ narrative identifies five drivers of pension fund excellence. The last two *Letters* dove deeply into the ‘competitive compensation’ driver. The November *Letter* set out a framework that identified the key issues pension fund boards and managements must address in effective compensation design for their organizations, and the principles that should guide that quest. We stressed the value of setting separate corporate and investment goals. The December *Letter* responded to the question: “yes, but can all this work in practice?” We noted that the 2010 Annual Report of the CPPIB describes its current ‘pay for performance’ compensation scheme in considerable detail, and hence that it would make an excellent case study.

The December *Letter* organized actual CPPIB performance into the two categories: corporate- and investment-related. It further organized CPPIB’s substantive corporate achievements into four sub-categories: 1) strategic planning and organization design, 2) branding and stakeholder relations, 3) research and innovation, and 4) attracting and retaining the right people. On the investment side, it explained the rationale and use of the CPPIB Reference Portfolio, and set out the achieved 4-year results in that context. Specifi-

cally, the CPP Fund achieved a net 4-year return of 1.3% to the end of March 31, 2010 versus 1.4% for the Reference Portfolio and 6.1% for the target CPP actuarial return. The cumulative 4-year underperformance of the CPP Fund versus the Reference Portfolio was 34 basis points.

#### Report of the Human Resources and Compensation Committee (HRCC) of the Board

In commenting on these results and on CPPIB’s compensation philosophy and its application, the HRCC noted:

- CPPIB does not need to be positioned as the maximum compensation opportunity for the people it wants to attract and retain. The organization has other important attributes which make it an attractive place to work.
- The management of organizational growth is a current key corporate objective.
- In assessing performance, how work gets done is as important as what gets done.
- An evaluation using the G20 Principles on Compensation in Financial Services led to the conclusion that CPPIB’s compensation principles and practices meet, and in many cases exceed, the G20 standards.