

Rating Report

Caisse de dépôt et placement du Québec and CDP Financial Inc.

DBRS Morningstar

June 29, 2023

Contents

- 1 Ratings
- 1 Rating Update
- 2 Financial Information
- 2 Issuer Description
- 2 Rating Considerations
- 4 Investment Performance
- 5 Investment and Risk Management
- 12 Depositors and Net Assets
- 14 About CDPQ
- 15 Ranking and Guarantees
- 17 ESG Checklist
- 19 Rating History
- 19 Previous Action
- 19 Related Research
- 19 Commercial Paper Limit
- 19 Previous Report

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Ratings

Debt	Debt	Rating	Rating Action	Trend
Caisse de dépôt et placement du Québec	Issuer Rating	AAA	Confirmed	Stable
CDP Financial Inc.*	Long-Term Debt	AAA	Confirmed	Stable
CDP Financial Inc.*	Canadian Short-Term Promissory Notes	R-1 (high)	Confirmed	Stable
CDP Financial Inc.*	U.S. Commercial Paper Notes	R-1 (high)	Confirmed	Stable
CDP Financial Inc.*	Euro Commercial Paper Notes	R-1 (high)	Confirmed	Stable

* Guaranteed by Caisse de dépôt et placement du Québec.

Rating Update

DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating of Caisse de dépôt et placement du Québec (CDPQ) at AAA. DBRS Morningstar also confirmed CDP Financial Inc.'s (CDP Financial) Long-Term Debt rating at AAA as well as its Canadian Short-Term Promissory Notes, U.S. Commercial Paper Notes, and Euro Commercial Paper Notes ratings at R-1 (high). All trends are Stable. The ratings are supported by a legislative framework that results in a substantial and captive asset base, a low-recourse debt burden, ample liquidity, and strong operating performance.

Despite the strong performance from real assets (including real estate and infrastructure), CDPQ experienced a loss of 5.6% in 2022, driven mainly by the negative returns of fixed income and public equities. On a relative basis, the overall portfolio outperformed its benchmark (BM) by 270 basis points (bps), primarily because of the exceptional performance of private investments under real assets and private equities. Net assets decreased by \$17.9 billion to \$401.9 billion in 2022 as a result of \$23.7 billion in net investment losses and \$0.9 billion in operating expenses, offset by \$6.7 billion in net contributions received from depositors. Returns measured over both a five-year and a 10-year investment horizon have outperformed their BMs by 90 and 100 bps, respectively.

CDPQ's strategic orientations have remained largely unchanged in recent years. The key pillars of the strategy are (1) optimizing performance for clients, which contributed to the strong relative investment performance achieved in 2022; (2) contributing to the economic development of Québec; (3) increasing CDPQ's global presence, which is now being approached in a concerted effort through CDPQ Global; (4) affirming the leadership in sustainable investing, which showed through CDPQ's commitment to follow through with its environmental plan set at the end of 2021 of exiting from oil production activities and the continued goal of achieving a net-zero portfolio by 2050; and (5) investing in leading technology companies, managing technology risk, and seeking idea generation tools supported by augmented intelligence. CDPQ's credit profile continues to benefit from a diverse and captive group of depositors.

Management continues to strengthen its risk management and depositor relationship management functions.

Debt with recourse to CDPO increased to \$32.8 billion in 2022, bringing the recourse debt level relative to adjusted net assets to 7.5%. However, it remained well below the board-approved limit of 10% of adjusted net assets, providing considerable room for cyclical fluctuations in asset values. CDPO meets the DBRS Morningstar criteria for commercial paper (CP) liquidity support, as outlined in the Appendix to the DBRS Morningstar methodology *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers* under the heading “Self-Liquidity for Canadian Public Pension Funds and Related Exclusive Asset Managers’ CP Programs.” CDPO’s liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit, which is consistent with DBRS Morningstar’s policy on backup liquidity support for pension funds and provides considerable short-term financial flexibility.

As an additional source of liquidity, CDPO maintains a USD 4.0 billion credit facility for general corporate purposes. The credit facility was renewed in 2022 and remained undrawn as at year end.

Financial Information

	For the year ended December 31				
(CAD billions)	2022	2021	2020	2019	2018
Net depositor assets	401.9	419.8	365.5	340.1	309.5
Recourse debt ¹	32.8	25.3	22.1	21.1	15.5
As a share of adjusted net assets (%) ²	7.5	5.7	5.7	5.8	4.8
Portfolio return (%)	(5.6)	13.5	7.7	10.4	4.2
BM return (%)	(8.3)	10.7	9.2	11.9	2.4

1. Fair value.

2. For the purposes of the ratio calculation, net assets are adjusted by adding back recourse debt.

Issuer Description

Created in 1965, CDPO is a public-sector entity with the mandate to manage funds for 48 public and parapublic depositors. Depositors include public-sector pension and insurance plans and some government entities. CDP Financial is a wholly owned subsidiary of CDPO set up to develop financing programs to meet the needs of CDPO’s investment groups. The ratings on the debts issued by CDP Financial are predicated on the unconditional and irrevocable guarantees provided by CDPO.

Rating Considerations

Strengths

1. Exclusive legislated mandate to manage the assets

CDPO has an exclusive mandate to manage a large pool of assets on behalf of public-sector depositors. The eight largest depositors, that account for 96.4% of net assets (as of December 31, 2022), are required to deposit their funds with CDPO. The broad base of depositors provides a degree of

diversification with respect to depositors' contributions. In recent years, CDPQ has worked to improve its depositor relationships through enhanced services/support, which has led to high depositor satisfaction.

2. Large base of unencumbered assets and low debt

CDPQ had net assets of \$401.9 billion as at December 31, 2022, while recourse debt amounted to 7.5% of adjusted net assets, which provides a significant cushion against adverse market movements. In addition, the substantial net assets have provided CDPQ with the scale necessary to develop robust investment and risk management functions and achieve a high degree of diversification.

3. Substantial liquidity

CDPQ maintains a large pool of marketable fixed-income securities that can be readily converted to meet financial obligations. It has prudent policies and procedures in place that require sufficient liquidity to ensure all of its liquidity commitments to the capital markets and its depositors are met and it could rebalance its portfolios as well as deploy capital opportunistically during a period of market stress. CDPQ also has the ability to issue CP and term notes globally in various currencies and has access to repurchase agreements, which enables it to quickly generate liquidity if necessary. In addition, CDPQ has a committed USD 4.0 billion credit facility, which was renewed in 2022 and remained undrawn as at December 31, 2022.

4. No direct responsibility for depositors' liabilities

The depositors retain responsibility for their underlying pension and other obligations. While those obligations will influence asset allocation and the timing and scope of withdrawals, CDPQ is not ultimately responsible for those obligations.

Challenges

1. Legislative changes could weaken depositor relationships

The ratings are strongly supported by legislative provisions that result in a highly captive asset base available to meet debt obligations. Legislation could be introduced that results in a less-captive asset base, which could significantly reduce net assets and debt coverage. Given the historical role of CDPQ in the Province of Québec (Québec or the Province; rated AA (low) with a Stable trend by DBRS Morningstar) and its success in recent years, DBRS Morningstar considers any wholesale change in CDPQ's role as the provincial public-sector asset manager as a remote possibility.

2. Volatility inherent in investment activities

Asset valuations fluctuate over time. The current outlook for high interest rates, heightened geopolitical risk stemming from the conflict in Ukraine, commercial tensions between China and the U.S., rising inflation that can affect asset valuations, intensifying competition for private assets, and the transition to a low carbon economy is leading to an uncertain and challenging investment environment, with increased volatility in financial markets. A significant decline in asset valuations could result in a material erosion in CDPQ's asset base. However, this challenge is mitigated by CDPQ's diversified portfolio, disciplined investment approach, prudent and proactive approach to risk management, history

of strong investment returns, and a low recourse debt burden that provides considerable room for asset-based movements.

Investment Performance

CDPQ experienced a loss of \$24.6 billion in investment income net of operating expenses, or a return of -5.6%, in 2022, driven mainly by the negative returns of fixed income and public equities. On a relative basis, the overall portfolio outperformed its BM by 270 bps, primarily because of the exceptional performance of private investments under real assets and private equities.

To counter the quick rise of inflation and the heated economy that resulted from the expansionary monetary policies in 2020 and 2021, central banks steeply raised the interest rates, which created a difficult environment for the fixed income portfolio. Taking advantages of the rising rates, the fixed income team diversified the portfolio and tilted to private credit such as sovereign debt, corporate credit and real estate debt. Private credit was the main contributor to the outperformance of the fixed income portfolio against its benchmark return by 150 bps. In the public equity asset class, CDPQ adjusted its investment style back to quality and defensive equities while maintaining the change to dynamic management applied starting in 2021. This switch helped its portfolio to counter the unusual and difficult economic environment of 2022. This helped the equity portfolio to outperform its BM by 10 bps in 2022. Private equity continued to perform well, returning 2.8% and outperforming its BM of 0.0% by 2.8%. Direct investments made in healthcare and insurance, along with good operational management of assets, provided resilience to the portfolio in a highly uncertain year. During 2021, the Private Equity teams were disciplined in making \$5.7 billion in acquisitions and \$6.5 billion in realizations. On the real assets side, the repositioning of the real estate portfolio resulted in the strongest return, 12.4% in 2022, of all asset classes. CDPQ has been focusing on promising sectors such as logistics, residential, and life sciences, while exposures to traditional assets such as shopping malls and office properties have been reduced. Along with real estate, infrastructure offered the strongest return in double digits, 11.5%, in 2022. Infrastructure led the outperformance of CDPQ's portfolio by outperforming its BM in 2022 by the widest margin of 10.7%. Particularly, transportation and renewable energy contributed favourably to the investment return.

Since the end of the 2008 financial crisis, CDPQ has generally outperformed its BM. Returns in 2022 and 2021 generated the strongest two-year outperformance in the fund's history. Over the last five years, CDPQ has achieved an average annual return of 5.8%, which exceeded the BM average return of 4.9%. CDPQ attributes much of this success to its efforts to enhance the investment selection process, its globalization strategy, and its focus on quality assets.

Investment Returns

	Five-Year Return	Ten-Year Return	For the year ended December 31				
			2022	2021	2020	2019	2018
Portfolio (%)	5.8	8.0	(5.6)	13.5	7.7	10.4	4.2
BM (%) ¹	4.9	7.0	(8.3)	10.7	9.2	11.9	2.4

1. CDPQ's policy portfolio BM is weighted using actual portfolio class weightings.

Investment Returns

For the year ended December 31							
	2022	2022	2022	2021	2020	2019	2018
Percentage	Return	BM	Variance	Return	Return	Return	Return
Fixed Income							
Rates	(13.4)	(13.1)	(0.3)	(2.7)	8.6	4.8	2.3
Credit	(15.7)	(18.2)	2.4	0.9	8.9	10.9	2.3
Short-term investments	2.0	1.8	0.1	0.3	1.0	1.7	1.5
Long-term bonds ¹				n/a	11.6	12.6	0.0
Real return bonds ¹				n/a	12.8	8.0	(0.1)
Total	(14.9)	(16.4)	1.5	(0.6)	9.0	8.9	2.1
Real Assets							
Real estate	12.4	9.2	3.2	12.4	(15.6)	(2.7)	7.8
Infrastructure	11.5	0.8	10.7	14.5	5.1	7.1	11.2
Total	12.0	5.2	6.8	13.6	(7.0)	1.0	9.0
Equities							
Public equity ²	(11.3)	(11.4)	0.1	16.2	8.3	17.2	(0.9)
Global Quality mandate	(5.1)	(8.8)	3.7	19.9	4.4	18.2	6.4
Canada mandate	(4.3)	(3.8)	(0.5)	20.7	(1.7)	20.5	(7.2)
Growth Markets mandate	(18.1)	(14.8)	(3.3)	0.7	23.2	17.2	(7.9)
Global Value mandate	(5.9)	(3.4)	(2.5)	17.4	0.6	12.1	
Growth mandate	(26.7)	(24.4)	(2.3)	n/a			
Private equity	2.8	0.0	2.8	39.2	20.7	10.5	16.6
Total	(5.7)	(6.9)	1.2	24.6	12.4	10.4	3.5
Other Investments							
Consolidated Asset Allocation ³	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portfolio ⁴	(5.6)	(8.3)	2.7	13.5	7.7	10.4	4.2

1. The Real Return Bonds and Long-Term Bonds specialized portfolios were closed on December 31, 2021.

2. Includes the activities of the Strategic mandate.

3. Consolidated Asset Allocation activities include the Asset Allocation specialized portfolio and allocations to other specialized portfolios.

4. The total includes customized overlay operations, cash activities, and terminated activities.

Investment and Risk Management

Investment Allocations and Strategy

CDPQ manages depositors' funds in accordance with the depositors' asset allocations and investment policies, which are based upon the depositors' objectives/purposes, return requirements, risk tolerances, and investment horizons. Depositors allocate funds across eight specialized portfolios, which are managed in accordance with specific investment policies that define, among other things, the investment philosophy and universe, the BM, value-added objectives, and concentration and risk limits. CDPQ also offers customized advisory service that allows depositors to tailor their exposures in line with their long term needs.

The BM portfolio represents the weighted average (WA) of the depositors' asset allocations; thus, depositor's adjustments to their BM portfolios have a direct impact on CDPQ's BM portfolio. CDPQ's actual asset allocation shifted generally in line with the BM portfolio in 2022, with an increased capital allocation from fixed income and public equities to private assets and real assets.

The core elements of CDPO's investment strategy have remained stable in recent years, and revolve around the following main orientations:

- Optimization of clients' portfolio performance.
- Contribution to the economic development of Québec.
- Increase in global presence and promote integrated approach across regions and partners.
- Leadership in sustainable investing.
- Capitalization on technological trends and utilize technology in security and idea generation.

CDPO is looking to create value by seeking investment opportunities in the areas where promising technology innovation is transforming the economy, as well as managing technology risks where they may have an impact on its current portfolio and business operations.

CDPO has continued to move away from complex investment strategies and heavy use of derivatives. It favours a portfolio that is grounded in high-quality assets that are expected to be resilient during periods of market volatility, which proved fruitful during the highly unusual and uncertain 2022 and brought out a strong outperformance against the fund's BM, and generate strong returns over the long run. This approach focuses less on BM replication and short-term outperformance and more on fundamental analysis and long-term convictions about the market and the real economy. BMs are still used for performance evaluation purposes, though the approach stresses strong absolute returns over the long term.

As CDPO further solidified its support of the Québec economy, it announced its ambition to hold \$100 billion in Quebec assets by 2026. It also continued the Ambition ME program, providing mid-market enterprises with support services and access to CDPO's extensive network. CDPO through CDPO Infra continued to develop infrastructure projects such as the Réseau express métropolitain (REM), an important transportation network connecting Montréal to the larger existing regional transportation network, which is expected to reach the commissioning of its first branch in 2023. In 2022, it added \$4.0 billion in new investments and commitments, bringing its total assets in the region to \$78.4 billion, including \$12 billion in low-carbon assets.

From 2017 to 2022, the share of the portfolio invested directly in Canada has fallen to 25% from 42%, while the share of investment into the U.S. market has increased to 40% from 28%. Furthermore, to support globalization of its portfolio as well as growth in less-liquid asset classes, CDPO has sought to build and enhance its long-term relationships with other institutional investors and asset managers. Through these relationships, CDPO expects to access better investment opportunities and improve asset returns.

In recent years, illiquid private market assets have supported returns. While CDPO has had a large real estate footprint for many years, it has quickly expanded into infrastructure, particularly in the rail and road transportation sectors. Over the past five years, CDPO's infrastructure holdings have more than doubled to \$54.6 billion as at YE2022. CDPO established CDPO Infra in 2015 to serve as the operational subsidiary that will hold existing and new brownfield investments and carry out greenfield infrastructure

projects like the REM in Montréal. While greenfield investments are notably higher risk, CDPQ expects traditional brownfield infrastructure investments will continue to account for the bulk of the infrastructure portfolio's holdings. Infrastructure also fits into a broader globalization theme. With the focus on globalizing its investment portfolios, CDPQ has invested heavily around the world, particularly in the Latin America region, where the share in its infrastructure portfolio increased to 12% at the end of 2022 from 1% in 2017.

In 2017, the board approved an investment strategy to address the global challenge of climate change. CDPQ was the first Canadian pension asset manager to include climate change as one of its targets. It has committed to a carbon-neutral portfolio by 2050 and it has joined forces with other global asset managers to found the Net-Zero Alliance, an initiative convened by the United Nations and the Principles for Responsible Investment, to address the goals of the Paris Agreement. By being actively involved in industry initiatives and forming alliances, CDPQ can continue to influence changes and solidify its leadership position in environmental, social, and governance (ESG) matters. In 2022, CDPQ increased its low-carbon assets by \$8.0 billion, bringing the total investment to \$47 billion and targeted to invest a total of \$54 billion in green assets by 2025. Since 2017, it has reduced the carbon intensity by 53%, exceeding the target of achieving a 25% reduction by 2025, and is on track to reach the new interim target set in 2021 of 60% reduction by 2030. By the end of 2022, CDPQ was holding over \$300 billion of assets that were low-carbon or in low-intensity sectors. As planned at the beginning of 2022, CDPQ generally exited from oil production activities.

Portfolio Composition

Percentage	Actual Portfolio Composition					
	BM 2022 ¹	2022	2021	As at December 31		
				2020	2019	2018
Fixed Income						
Rates	10.2	8.3	10.5	8.4	9.2	10.7
Credit	20.3	21.1	20.0	20.6	19.5	18.2
Short-term investments	1.2	0.4	0.4	0.4	0.3	0.3
Long-term bonds ²	n/a	n/a	n/a	0.9	0.9	0.9
Real return bonds ²	n/a	n/a	n/a	0.2	0.4	0.4
Total	31.7	29.8	30.9	30.5	30.3	30.5
Real Assets						
Real estate	11.9	11.9	10.1	9.8	11.7	12.4
Infrastructure	11.0	13.6	10.8	8.8	8.2	7.3
Total	22.9	25.5	20.9	18.6	19.9	19.7
Equities						
Public equity	30.0	24.8	28.3	32.6	34.4	35.1
Private equity	16.2	20.1	19.7	17.8	14.8	13.9
Total	46.2	44.9	48.0	50.4	49.2	49.0
Other Investments³						
Active overlay strategies	n/a	n/a	n/a	n/a	0.2	0.2
Asset allocation	0.0	0.6	0.5	0.5	0.4	0.6
Leverage Product ⁴	(0.8)	(0.8)	(0.3)	n/a	n/a	n/a
Total	(0.8)	(0.2)	0.2	0.5	0.6	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

1. The BM portfolio composition is the weighted average of the depositors' BM portfolios.

2. Closed on December 31, 2021.

3. Includes Customized Overlay Activities (COA) that are not capitalized and consequently have no reference weight.

4. The Leverage product has been offered since July 1, 2021.

Leverage and Debt

In 2022, CDPQ's investment-related liabilities significantly increased by 38.5% to \$70.3 billion, largely driven by securities sold under repurchase agreements, short-term promissory notes, and term notes issued during 2022. Positions in securities sold short to cover its financial positions continued their downward trend since 2014.

CDPQ greatly changed its positions on the use of repurchase agreements in 2022 and largely increased its use of the instrument as a source of funding. CDPQ had \$29.6 billion in repos in FY 2022, almost double from FY 2021 (\$15.0 billion). CDPQ generally sells Government of Canada and related issuers' securities under repurchase agreements with relatively short contract terms.

CDPQ, like other DBRS Morningstar-rated pension fund asset managers, makes use of derivatives to achieve various portfolio objectives; however, as at full-year 2022, liability positions remained small relative to the overall portfolio. CDPQ manages counterparty risk related to its over-the-counter derivative positions by setting credit quality standards and concentration limits, monitoring counterparties daily, netting under International Swaps and Derivatives Association master agreements, and exchanging collateral under credit support annexes.

The Board's policy limits recourse debt to 10% of adjusted net assets. Recourse debt, measured at fair value, increased by 29.6% to \$32.8 billion in 2022, equivalent to 7.5% of adjusted net assets. The rise was driven by the increasing use of short-term promissory notes, 34.3% year-on-year (YOY), and of term notes, 26.6% YOY, in 2022. So far in 2023, CDPQ has issued twice (USD 2.00 billion Senior Notes maturing in February 2026 and CAD 1.25 billion Senior Notes maturing in March 2028, re-opened the CAD series for another \$750 million), and placed three private issuances (NOK 600 million Senior Notes maturing in April 2038, AUD 300 million Senior Notes maturing in May 2030, and USD 1.00 billion Senior Notes maturing in May 2025). Recourse debt remains below the 10% board limit, providing sufficient room for cyclical fluctuations in asset values.

CDPO's CP programs have authorized limits of \$4.0 billion and USD 12.0 billion. It has policies in place overseeing the intended use of the program and requirements to stagger maturities. CDPQ meets the DBRS Morningstar criteria for CP liquidity support, as outlined in the Appendix to DBRS Morningstar's *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers* methodology. The liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit, which is consistent with DBRS Morningstar's policy on backup liquidity support for pension plans and provides considerable short-term financial flexibility.

As an additional source of liquidity, CDPQ maintains a USD 4.0 billion credit facility for general corporate purposes. The credit facility was renewed in 2022 and remained undrawn as at year end.

Investment-Related Liabilities and Capital Market Debt

(CAD millions)	As at December 31				
	2022	2021	2020	2019	2018
Accounts payable from pending trades	1,943	3,443	3,290	1,537	1,113
Securities sold short	2,314	5,532	2,761	3,787	7,802
Securities sold under repurchase agreements	29,551	14,990	14,716	23,527	12,539
Derivatives	1,669	1,232	1,591	1,022	2,057
Loans	1,992	203	942	368	290
Short-term promissory notes payable	13,068	9,729	5,983	8,794	5,921
Term notes	19,749	15,601	16,113	12,332	9,598
Total	70,286	50,730	45,396	51,367	39,320
Recourse debt ¹	32,817	25,330	22,096	21,126	15,519
As a share of adjusted net assets (%) ²	7.5	5.7	5.7	5.8	4.8

1. Recourse debt comprises capital market debt on a fair-value basis.

2. Net assets adjusted by adding back recourse debt.

Capital Market Debt Outstanding

As at December 31, 2022 (CAD millions)					
	Maturity	Currency	Face Value		Effective Interest Rate (%)
			Currency of Issue	Equivalent CAD ¹	
Canadian Short-Term Promissory Notes ²	< 1 year	CAD		744	4.24
Abroad Short-Term Promissory Notes ²	< 1 year	EUR		14	1.03
U.S. Commercial Paper Notes (Program Size USD 12 billion)	< 1 year	USD		12,453	4.38
Senior Notes	Apr 2023	USD	2,000	2,710	1.00
Senior Notes	Jul 2024	USD	2,000	2,710	3.15
Senior Notes	Jun 2025	USD	2,500	3,387	0.88
Senior Notes ³	May 2026	USD	1,000	1,355	1.00
Senior Notes	Oct 2026	CAD	1,250	1,250	1.50
Senior Notes	Feb 2027	USD	1,500	2,032	1.75
Senior Notes	Apr 2027	EUR	2,000	2,892	1.13
Senior Notes	Jun 2027	CAD	1,250	1,250	3.80
Senior Notes ³	Sep 2029	CAD	1,500	1,500	3.95
Senior Notes	Nov 2039	USD	1,250	1,694	5.60

1. Face value converted to Canadian dollars as at December 31, 2022.

2. Program Size of short-term promissory notes issued in Canada and abroad, excluding the U.S., is \$4.0 billion.

3. As at December 31, 2022, term notes include \$2,605 million in green bonds that are to be allocated to a selection of investments that are compliant with the eligible project categories established under CDPQ's Green Bond Framework, which is aligned with the Green Bond Principles of the International Capital Market Association (\$1,263 million as at December 31, 2021).

Risk Management

CDPQ has a robust risk management framework and practices. The board has instilled risk management into the culture and has adopted an integrated risk management policy. This policy sets out the broad risk management framework, roles and responsibilities, risk budgets, limits, and key methodologies and processes.

For investment activities, each specialized portfolio is governed by a separate investment policy that prescribes overall management style, return targets, key risk, and concentration limits. These policies are supplemented by additional policies, procedures, and processes that address specific risk areas (e.g., liquidity, valuations, etc.). Operationally, investment groups are responsible for managing their investment risk and are supported by various risk management functions. Within each investment group, a Business Unit Risk Manager (BURM) is assigned to support the investment decision-making process by carrying out supporting analysis, influencing strategy, and providing a linkage to the risk management department as the BURMs report to the CRO. Further supporting the investment groups and the BURMs is the independent risk management department, which carries out risk measurement and analysis on individual transactions as well as across assets groups.

Further integration of risk management into the investment approach and strategy occurs through the Investment-Risk Committee, which is responsible for reviewing and approving strategies, providing risk oversight and monitoring cross-sector risk, risk factors, liquidity, concentrations, etc. This committee is co-chaired by the chief executive officer (CEO) and the chief risk officer.

CDPQ estimates the absolute risk for its portfolio by calculating the value at risk (VaR) using the historical simulation method. In 2020, CDPQ revised the observation history of the risk factors used to calculate the VaR, changing from a fixed number of 3,000 days to a longer period that goes from 2006 to the reporting date. As at December 31, 2022, CDPQ estimated the VaR over a one-year horizon with a 95% confidence level to be 16.8% of the portfolio, which was higher than the estimate of 16.1% for the BM and higher than the 2020 VaR estimate of 14.9% of the actual portfolio, reflecting the highly unusual and uncertain economic environment in 2022 and the fund's increasing allocation to private assets.

In addition to the VaR measure, CDPQ conducts stress testing on its portfolios under historical and hypothetical market events as well as under risk-factor-sensitivity scenarios. A wide range of factors are considered in the analysis, from share prices, interest rates, and rate spreads to exchange rates, commodity prices, and market volatility. This is particularly useful to enhance the assessment of private investments where VaR is a less reliable measure.

Over the past couple of years, CDPQ has continued to further increase oversight and to enhance its internal risk modelling functions/processes to better understand asset-specific risks, improve comparability of risk estimates/processes across asset classes, and assess the broader implications of key risk factors across asset classes and sectors (transversal risks).

Liquidity Management

Liquidity management falls within CDPQ's broader risk management framework and investment risk management framework. Under the risk policies, CDPQ is expected to maintain ample liquidity so as to be able to meet all expected and unexpected liquidity requirements that could arise in a severe stress scenario. Policies also specify minimum liquidity levels and how liquidity is to be maintained. The board places considerable emphasis on liquidity and the desire to be well positioned to deploy capital during the next downturn or market correction. The overall liquidity of the plan and corresponding issues are reported to the board's Investment and Risk Management Committee regularly and reviewed internally by the Liquidity and Debt Financing Committee. As at December 2022, CDPQ had close to \$46 billion in liquidity in the form of government bonds and money market securities. Under the most severe stress-testing scenarios, which include significant reductions in asset prices and margin/collateral calls, this level of liquidity continues to be ample. CDPQ also maintains further liquidity in the form of other non-government debt and public equities.

CDPQ has a Contingency Funding Plan in place in the event of a market event or funding disruption. The plan outlines various protocols, including individual responsibilities and a liquidity waterfall.

Valuation of Private Market Assets

CDPQ measures all of its investments at fair value in accordance with accounting standards. Valuation of all assets is directed by CDPQ's Investment Valuation Policy, which is approved by the board and is further supported by the valuation directive applicable to private investments and the valuation protocols that establish the methodology for each type of investment. The valuation committee reviews

fair values and compliance with the valuation policy of investments semiannually and recommends the results to the Audit Committee.

Nearly all private market assets are valued externally at least once every three years. Internally, the process is such that an independent valuation group within the finance team, which is separate from the investment teams, prepares and reviews valuations. CDPO also relies on outside valuations to supplement internal valuations. The valuation group seeks to appraise valuations individually and collectively to ensure consistency and reasonableness of assumptions and valuations across individual assets and asset classes. Valuations are approved by the internal valuation committee. CDPO's real estate holdings are held by Ivanhoé Cambridge and nearly all assets are subject to valuations twice annually.

Depositors and Net Assets

In 2022, net assets attributable to depositors decreased by \$17.9 billion, or 4.3%, to \$401.9 billion. The change came from the dip of \$23.7 in net investment income and \$0.9 billion in operating expense, offset by \$6.7 billion in net contributions by depositors. Overall, the strong long-term outperformance of CDPO against its benchmark will generally satisfy or exceed the depositors' needs.

As at YE2022, CDPO managed \$401.9 billion in net assets for 48 public- and parapublic-sector depositors, and a further \$170.4 billion in assets are managed or administered for other clients, though they are not consolidated in CDPO's financial statements. The assets under administration have grown by 6.2% from \$160.4 billion in 2021, mainly as a result of a significant increase in assets administered by MCAP Commercial LP (rated BBB with a Stable trend by DBRS Morningstar), a subsidiary of Otéra Capital, itself one of CDPO's subsidiaries. The eight largest depositors account for 96.4% of net assets and are required by provincial law to deposit their funds with CDPO, resulting in a highly captive asset base for CDPO.

- **Public-Sector Pensions (\$201.7 Billion):** Three of the eight largest depositors relate to broad public-sector pension plans. The major government-sector pension plans are cost shared. Two of the depositors are for employee contributions, while the third, the Retirement Plans Sinking Fund, is the government's share of pension contributions.
- **Québec Pension Plan (\$106.8 Billion):** The Québec Pension Plan (QPP) has 4.2 million contributors and 2.2 million beneficiaries receiving \$16.0 billion in benefits annually. The additional QPP plan, which gradually phases in an increased contribution rate and maximum pensionable earning over five years, was announced in 2018 and began in January 2019. The additional plan is aimed to boost the retirement income of pension earners in the future. QPP continues to have net positive contributions (contributions - benefits paid), which are transferred to CDPO for investment.
- **Construction Industry Pension Plan (\$28.5 Billion):** In Québec, construction workers and their employers are required to contribute to a supplementary pension plan that they jointly manage. The plan has 190,000 contributors and 101,000 beneficiaries receiving \$1.0 billion in benefits annually.

- Public Sector Insurance Plans (\$32.7 Billion):** CDPQ manages the investments held by the provincial workplace safety and insurance board and the provincial automobile insurance program (Québec has a public-private insurance system whereby a provincial program compensates road accident victims). The workplace insurance scheme covers 4.0 million workers while the auto insurance scheme covers 5.7 million drivers. Collectively, they paid out \$3.7 billion in benefits in 2022.
- Government Debt Sinking Fund (\$17.8 Billion):** The Generations Fund was established in 2006 to accumulate funds to support the Province's debt-reduction goals and improve intergenerational fairness. The provincial government expects to keep contributing its dedicated source of revenues to the fund.

The strength of the rating relies heavily on the captivity of the asset base. While legislative changes could weaken the captivity of the asset base, DBRS Morningstar views this risk as very remote, given the success of the Canadian public-sector asset manager model, CDPQ's strong results in recent years, and CDPQ's established relationships with both the provincial government and its depositors.

Change in Net Assets

(CAD millions)	For the year ended December 31				
	2022	2021	2020	2019	2018
Investment results	(22,726)	49,952	26,013	32,721	13,261
Expenses	(962)	(505)	(653)	(945)	(886)
Net investment results	(23,688)	49,447	25,360	31,776	12,375
Operating Expenses	(924)	(718)	(609)	(630)	(585)
Net contributions (withdrawals)	6,703	5,576	632	(548)	(791)
Increase (decrease) in net assets	(17,9010)	54,305	25,383	30,598	10,999
Net assets	401,887	419,797	365,492	340,109	309,511

Depositors' Net Assets

(CAD billions)	First Deposit	For the year ended December 31				
		2022	2021	2020	2019	2018
Pension Plans						
Government and Public Employees Retirement Plan	1973	83.3	91.5	82.4	76.8	70.4
Retraite Québec	1966	106.8	105.9	87.8	81.6	72.6
Retirement Plans Sinking Fund	1994	107.5	112.9	99.4	93.0	83.2
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	28.5	30.5	27.6	25.8	23.3
Pension Plan for Management Personnel	1973	10.9	11.6	10.1	9.1	8.0
Other	1977–2017	9.8	11.0	9.1	8.7	7.9
Total		346.8	363.4	316.4	295.1	265.4
Insurance Plans						
Commission des normes de l'équité, de la santé et de la sécurité au travail	1973	19.3	20.7	18.8	18.1	16.6
Société de l'assurance automobile du Québec	1978	13.4	14.9	13.4	13.0	12.1
Other	1967–2005	2.7	2.8	2.8	2.8	2.4
Total		35.4	38.4	35.1	33.9	31.1

Other						
Generations Fund	2007	17.8	16.0	12.0	9.2	11.3
Other	1992– 2012	2.0	2.0	2.0	1.9	1.7
Total		19.7	18.0	14.0	11.1	13.0
Net Assets		401.9	419.8	365.5	340.1	309.5

About CDPQ

CDPQ is one of Canada's largest institutional investment managers, with \$401.9 billion in net assets as at December 31, 2022. CDPQ manages assets on behalf of public-sector entities in Québec, which include pension plans, insurance plans, and other public-sector entities.

CDPQ is governed by the *Act Respecting CDPQ de dépôt et placement du Québec* (the Act), which, among other things, states that CDPQ shall seek to optimize the return on capital within the framework of the depositors' investment policies while at the same time contributing to Québec's economic development. While CDPQ is established by provincial legislation and that legislation imposes governance requirements and a process for appointing the board, CDPQ operates independently of the Province and does not serve as the Province's economic development arm. The Act specifically includes a provision recognizing CDPQ's independence.

While CDPQ holds \$78.4 billion in assets in Québec, its investment decisions are not driven by political or economic development considerations. Its investments in the Province are driven by commercial and investment considerations. Given its long history of investing in Québec and its scale, CDPQ continues to be viewed as among the best-informed investors in Québec.

At present, the leading political parties in the Province remain committed to maintaining an independent CDPQ. While its independence could be tested by subsequent governments, DBRS Morningstar views this risk as remote, given the success of the current model, the increasing complexity and scale of the investment operation, and the potential downside risk that could result from interference or mismanagement.

Governance

CDPQ is governed by a 13-member board that includes independent and non-independent members. The Act limits the board to 15 members, at least two-thirds of whom must be independent directors, three-quarters of whom must be Québec residents, and at least 40% of whom must be women. The legislative framework does not require depositors to be represented on the board. Board members are appointed by the Province on the recommendation of the existing board, which conducts a selection and screening process to ensure the prospective members have the skills and attributes necessary to complement those of the existing board. The board is composed of professionals with significant executive-level experience in a range of industries, including investment management, finance, insurance, economics, and government. Board members are appointed for terms of up to four years, while the chairman is appointed for a mandate not to exceed five years and all mandates may be renewed twice.

The board acts independently of the Province and makes decisions in the best interests of CDPO and its depositors. While day-to-day management of CDPO is delegated to the management team, the board retains responsibility for appointing the president and CEO, providing general management oversight, setting compensation, strategic planning, ensuring that there are adequate internal controls and risk management systems, developing and approving key policies, approving key investment and risk management policies, overseeing the audit, and approving key financial policies.

The board operates through four subcommittees: Audit, Human Resources, Governance and Ethics, and Investment and Risk Management. The Act outlines their responsibilities.

In 2022, there were three appointments to the Board: The Government of Québec appointed Rene Dufresne, who is the President and Chief Executive Officer of Retraite Québec; Olga Farman, who is Managing Partner, Québec Office at Norton Rose Fulbright Canada; and Nelson Gentiletti, who is a Corporate Director, as independent members of the Board.

Management

CDPO has a strong and well-established management team. The team has put in place a stable and coherent investment strategy with a robust track record of delivering consistent strong results in the past 10 years. Risk management functions are robust and well-integrated into the investment decision-making process. On this front, CDPO continuously improves its risk management framework so as to strengthen its monitoring process and to support investment initiatives, such as the development of large-scale transaction analysis framework, mitigation of operation risks from transactions, globalization of CDPO's portfolio and organizational transformation, and further integration of ESG risks in transaction structuring.

As of December 31, 2022, CDPO had 1,573 direct employees and more than 769 people employed by its two real estate subsidiaries, Ivanhoé Cambridge and Otéra Capital, with another 112 employed by its infrastructure subsidiary, CDPO Infra. The organization has been expanding and seeking to hire top talent in the sectors and regions in which it operates. CDPO has subsidiaries with offices in New York, Paris, Singapore, Mexico City, Sydney, London, New Delhi, and São Paulo. For better operational efficiency, the Shanghai office will be transferred to the Singapore office at the end of 2023.

Ranking and Guarantees

The depositors retain responsibility for their underlying pension and other obligations. While those obligations will influence depositors' asset allocations and the timing and scope of withdrawals, CDPO is not ultimately responsible for those obligations. DBRS Morningstar has reviewed a legal opinion provided to CDPO stating that counterparty liabilities, such as the guaranteed obligations, are senior to the participation deposits of the depositors, with the exception of certain secured deposits that comprise a small fraction of assets.

CDPO irrevocably guarantees the full payment of principal and interest with respect to the debentures and CP programs of CDP Financial. Should CDP Financial fail to make required payments, investors

would be able to seek payment from CDPO without first exhausting recourse to CDP Financial. Governing legislation permits guarantors to terminate guarantees after three years under certain circumstances. However, CDPO will waive its right to revoke its guarantee. Obligations under the guarantee will not accelerate unless there is a default by CDP Financial and CDPO. DBRS Morningstar has received a legal opinion stating that the guarantee is enforceable and is provided in accordance with board resolutions and governing bylaws and that the net assets of CDPO (net of certain forms of deposits that represent a negligible fraction of assets) would be available to satisfy obligations arising under the guarantee.

ESG Considerations

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis: Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*		
Environmental		Overall:	N	N
Emissions, Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	N	N	N
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	N	N	N
Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?	N	N	N
Land Impact and Biodiversity	Is there a financial risk to the issuer for failing to effectively manage land conversion, rehabilitation, land impact, or biodiversity activities?	N	N	N
Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N	N
Social		Overall:	N	N
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N	N
Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N	N
	Do violations of rights create a potential liability that can negatively affect the issue's financial wellbeing or reputation?	N	N	N
	Human Capital and Human Rights:	N	N	N
Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N	N
	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N	N
Data Privacy and Security	Would the failure to address workplace hazards have a negative financial impact on the issuer?	N	N	N
Occupational Health and Safety	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N	N
Community Relations	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N	N
Access to Basic Services		N	N	N
Governance		Overall:	N	N
Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N	N
	Are there any political risks that could impact the issuer's financial position or its reputation?	N	N	N
	Bribery, Corruption, and Political Risks:	N	N	N
Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N	N
Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N	N
	Corporate / Transaction Governance:	N	N	N
Institutional Strength, Governance, and Transparency (Governments Only)s	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N	N
	Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N	N
	Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N	N
	Institutional Strength, Governance, and Transparency (Governments Only)s:	N	N	N
Consolidated ESG Criteria Output:		N	N	N

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which environmental factors could have an effect on the credit analysis, please refer to the checklist above.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit analysis, please refer to the checklist above.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the checklist above.

The above ESG discussion relates to credit risk factors that could affect the issuer's credit profile and, therefore, the ratings on the issuer, MTNs, and CP. They are separate from ESG sustainability factors, which are generally outside the scope of this analysis. A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at <https://www.dbrsmorningstar.com/research/396929>.

Rating History

	Current	2022	2021	2020	2019	2018
Caisse de dépôt et placement du Québec						
Issuer Rating	AAA	AAA	AAA	AAA	AAA	AAA
CDP Financial Inc.						
Long-Term Debt	AAA	AAA	AAA	AAA	AAA	AAA
Canadian Short-Term Promissory	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)
U.S. Commercial Paper Notes	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)
Euro Commercial Paper Notes	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)

Previous Action

- Confirmed, June 30, 2022.

Related Research

- *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers*, April 27, 2023.

Commercial Paper Limit

- CDP Financial Inc., Canadian Short-Term Promissory Notes and Euro Commercial Paper Notes: \$4.0 billion.
- CDP Financial Inc., U.S. Commercial Paper Notes: USD 12.0 billion.

Previous Report

- Caisse de dépôt et placement du Québec and CDP Financial Inc.: Rating Report, June 30, 2022.

Notes:

All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrsmorningstar.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

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