



2018



Stewardship  
Investing



Caisse de dépôt et placement  
du Québec

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Investing for the  
long term means  
**investing sustainably**



# A critical role for investors

The world needs sustainable and inclusive growth, solutions to climate change and infrastructure. Governments – often burdened with high debt – cannot, on their own, meet the challenge of building a prosperous society for the long term. The many constraints we are facing are forcing us to think differently. And many actors can contribute to finding concrete solutions. Among them, investors have a critical role to play.

Institutional investors around the world have over \$50 trillion dollars under management. This is enough capital to move the needle. La Caisse is rising to the challenge of our responsibilities on these issues facing society to demonstrate that commercial interests are compatible with the public interest. Because as a long-term global investor, we know that our performance will only be as sustainable as the world in which we invest.

As such, we have taken an approach focused on sustainability, which covers our investments, our role as a shareholder and the role we play in communities. And we have decided to exercise our leadership by adopting a structured approach and creating strong partnerships.

From the outset in 2017, we have prioritized climate change. We also continued to focus on international tax and diversity, especially as we have already been active in governance matters and in integrating ESG factors into our investment decisions. In 2018, we devoted our efforts to further structuring our actions in these areas to become more systematic and efficient, and we have engaged our partners around our priorities. These actions have delivered concrete results.

As a long-term global investor,  
we know that our performance  
will only be as sustainable  
as the world in which we invest.

We have decided to take action and convince our partners to take action as well, so that together, we can have an impact. Because that is in everyone's best interest.

# 2018 Highlights

## Concrete actions

**+\$10 B**

in low carbon assets

**-10%**

of the portfolio's carbon intensity

Coalition of

**+\$6 T**

of assets under management

### STRATEGY TO ADDRESS CLIMATE CHANGE

We have deployed our strategy across all our activities and asset classes. The results are clear:

- › **objective exceeded:** \$10-billion increase in low-carbon assets;
- › 10% decrease in the portfolio's carbon intensity;
- › stronger leadership through numerous initiatives and public forums.

### A STEWARDSHIP INVESTING PARTNERSHIP – CDPQ-GENERATION

We built a long-term investing partnership with Generation Investment Management:

- › planned initial investments of US\$3 billion in sustainable and resilient companies;
- › first investment made in FNZ in 2018.

### INVESTOR LEADERSHIP NETWORK



With other global investors, we formed a coalition that represents over \$6 trillion in assets under management. Together, we intend to make a difference by undertaking three major initiatives:

- › a sustainable infrastructure study program;
- › diversity in finance and investing;
- › climate change disclosure.

### LES CHEFFES DE FILE



To accelerate the growth of companies owned by women, we created a community of women entrepreneurs that includes:

- › a collaboration platform;
- › networking activities;
- › access to la Caisse's network of experts.

## NEW INVESTMENTS IN OUR PORTFOLIO

Low-carbon assets  
and investments  
that contribute to  
the energy transition



1



2



3



4



5



6

### 1 CONTOURGLOBAL / SPAIN

**Renewable energy**  
Financing for this growth  
platform focused on  
acquiring and developing  
energy assets.

### 2 TECHEM / GERMANY Energy

Co-investment in this global  
leader in heat and water  
sub-metering services.

### 3 BORALEX / QUÉBEC Renewable energy

Investment in equity  
and unsecured  
subordinated loan  
to support this Canadian  
renewable energy leader's  
growth in Québec  
and internationally.

### 4 INVENERGY RENEWABLES / U.S. and CANADA

**Renewable energy**  
Significant increase in our  
stake in this global wind  
and solar energy producer.

### 5 STUYTOWN / U.S. Green real estate

Major investment by  
Blackstone and Ivanhoé  
Cambridge in this private  
complex for the installation  
of solar panels to serve all of  
its 11,200 residential units.

### 6 REM / QUÉBEC Electric public transportation

Construction of the REM,  
Québec's largest public  
transportation project  
in 50 years, which will be  
100% electric and include  
26 stations spanning 67 km.

## Our Approach

At la Caisse, we believe that environmental, social and governance matters should not be seen as constraints. They are an opportunity to **generate sustainable growth** that benefits everyone.



## Global approach

Our approach covers our overall portfolio and activities, and is an integral part of our investment cycle and decision-making processes. This provides cross-functional insight into the impact of our stewardship investing priorities and allows us to take action at all levels, rather than in only a few sectors.

## Priority: Climate

Because the impacts of climate change are becoming more obvious than ever around the world, with negative human, environmental and economic consequences, we have prioritized this issue. This is why we have adopted a climate change strategy that aims to contribute to a transition toward a low-carbon economy, and we have already made considerable progress on that front.

## Leadership

We want to be a leader in engaging our partners on our priorities. We also want to encourage a collective and constructive commitment to questions impacting the future and sustainability of our communities and our planet. We have created a coalition of global investors representing over \$6 trillion of assets under management, while we continue to collaborate on local and international initiatives promoting sustainable growth and investment.

## Focal areas

In addition to climate change, which is an important element of our stewardship investing approach, we have targeted four focal areas for our efforts: governance, by fulfilling our role as a shareholder; expanding opportunities for women in business to enhance diversity; promoting sound practices and transparency in international tax; and engaging on social issues to build strong communities and generate lasting impacts.

## Centralizing expertise

In 2018, we reorganized some of our activities to consolidate the stewardship investing group, to build on our long-standing leadership in ESG matters, with the goal of systematizing our approach to better integrate it into our activities and broaden our role, particularly on the international stage. This team's principal mandate is to analyze climate change issues and advise investment teams throughout the acquisition (investment) and asset-holding (post-investment) cycle.

The task ahead is significant: adopt renewed principles and policies, modernize or design rigorous methodologies, increase the impact of our engagement with companies and exercise stronger leadership among them, our peers and in various public forums.

# From commitment to action

More than ever in 2018, climate change is being felt around the world. It is no longer a remote risk. Everyday, we experience its human, environmental and economic impacts. For la Caisse, there is no doubt that action is needed. Even more so because, as an investor, we can contribute to meeting the challenge by seizing good opportunities to invest in low-carbon assets.

That is why in 2017 we undertook to contribute in a constructive way to this challenge with the implementation of an investment strategy to address climate change. We went straight to work in 2018 with a deployment that strengthens our ability to act and has already produced promising results. **So far, we have added \$10 billion in low-carbon investments to our portfolio, exceeding our target for 2020 and we have set a new objective. We also decreased our portfolio's carbon intensity by 10%.**

Over the year, we structured our approach to optimize the impact of our actions, notably through the consolidation of expertise within a team dedicated to stewardship investing. Since institutional investors can and should advance the fight against climate change, we have engaged several partners on this issue by explaining our approach and the opportunities we see on numerous international platforms. In only one year, we have made considerable progress on all four of our strategy's pillars, as a way to concretely contribute to the transition toward a low-carbon economy.

## Low-carbon investments in the portfolio

Starting point 2017

\$18 B

2018 results

\$28 B

+\$10 B  
over 2017

2020 target

\$32 B

+\$14 B  
over 2017

## Portfolio carbon intensity

Starting point 2017

79

tCO<sub>2</sub>e/M\$ invested

2018 results

- 10%

or 72 tCO<sub>2</sub>e/M\$ invested

2025 target

- 25%

or 59 tCO<sub>2</sub>e/M\$ invested

## THE FOUR PILLARS OF OUR INVESTMENT STRATEGY TO ADDRESS CLIMATE CHANGE

### Pillar

### Results obtained after one year

Factoring in climate change in each of our investment decisions

- › Tools developed and implemented to reach our targets
- › Included in employees' incentive compensation

Increasing our low-carbon investments by 50% between 2017 and 2020

- › Target of \$26 billion for 2020 exceeded in 2018
- › Increase of the 2020 target to \$32 billion

Reducing our carbon footprint per dollar invested by 25% between 2017 and 2025

- › 10% reduction in 2018
- › On track to reach the 2025 target

Exercising stronger climate leadership within the industry and with the companies in our portfolio

- › Active participation in several activities, working groups and conferences in 2018, including the G7 and the G20

## Climate Change

### 1. FACTORING IN CLIMATE CHANGE IN EVERY INVESTMENT DECISION

This pillar, which is the heart of our strategy, consists of factoring the climate into all our investment processes (see Figure 1) in the same way we analyze financial risk. One of the key elements of success rests on a culture change among all of la Caisse's teams, and specifically those responsible for investment. During 2018, we worked extensively to explain the methods used, detail the climate change risks and clarify the impacts climate change can have on our investment decisions and commitments.

In this way, we equipped la Caisse's managers to better understand the climate change risks and opportunities for all our asset classes, so that they can make informed decisions that enable us to meet our targets. We have also included carbon data in our systems to improve their performance and measure the carbon impact for a transaction under consideration.

Lastly, to ensure optimal alignment between the strategy and our investment decisions, carbon now influences the calculation of our employee's incentive compensation, which therefore increases or decreases depending on whether or not our carbon intensity reduction objectives are reached.

### 2. LOW-CARBON INVESTMENTS

La Caisse has been investing in renewable energy and other types of low-carbon assets over the last several years. To set our starting point, we evaluated the amount of our low-carbon investments according to criteria recognized by the Climate Bonds Initiative. Using this calculation, our portfolio was evaluated at approximately \$18 billion as of December 31, 2017.

As part of our strategy to address climate change, we undertook to increase our low-carbon investments by 50% between 2017 and 2020. Based on this target, by the end of 2020, our portfolio should have amounted to around \$26 billion, a significantly higher growth rate than was expected for our overall assets.

FIGURE 1

#### FACTORING IN CLIMATE CHANGE IN OUR INVESTMENT PROCESS



We made several investments based on our strategy in 2018, and have already reached the target set for 2020. In fact, we added almost \$10 billion in assets to our low-carbon portfolio during the year, specifically as a result of:

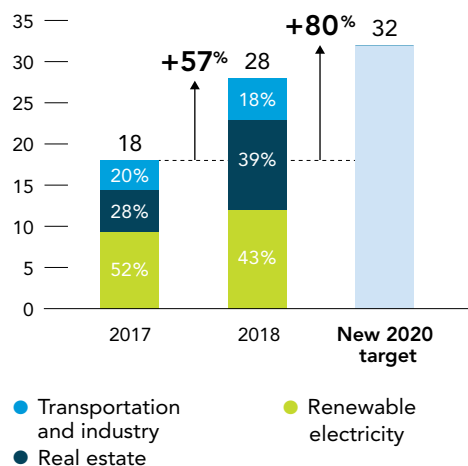
- › A significant increase in our stake in Invenergy Renewables, the largest private North American company in the renewable energy sector;
- › The acquisition of the wind and solar assets of Enel Green Power in Mexico;
- › A major investment in Boralex, a Canadian leader in renewable energy production;
- › The acquisition of Techem, a German company whose products and services help manage heating and energy precisely and sustainably to prevent waste;
- › Support to ContourGlobal for its acquisition of a concentrated solar power portfolio in Spain;
- › Investments in improving or obtaining environmental certifications on three buildings:
  - LEED Platinum and Energy Star for Eighth Avenue Place, an office building in Calgary, Alberta;
  - BOMA BEST Platinum for the Oshawa Centre, a shopping centre in Ontario;
  - Energy Star and LEED Platinum for Stuyvesant Town-Peter Cooper Village in Manhattan, which was the first multi-residential complex in New York to obtain the highest environmental certification from the U.S. Green Building Council.

As at December 31, 2018, our low-carbon portfolio totalled \$28 billion, which is above our 2020 target.

In light of this rapid progress, we decided to set a new low-carbon investment target for 2020. We are now aiming for \$32 billion in low-carbon assets (see Figure 2).

**FIGURE 2**

**LOW CARBON INVESTMENTS<sup>1</sup>**  
(in billions of dollars)



1. Based on Climate Bonds Initiative criteria.

In just one year, we added \$10 billion in low-carbon investments to our portfolio and exceed our initial target for 2020. We therefore increased the target from \$26 billion to \$32 billion.

### 3. OUR CARBON FOOTPRINT PER DOLLAR INVESTED

In 2017, we committed to reducing the carbon intensity of our global portfolio by 2025. With that, la Caisse became the first institutional investor in North America to set a climate target for reducing greenhouse gas (GHG) across asset classes. This target, which involves reducing our portfolio’s carbon footprint by 25% per dollar invested, will be reached through the acquisition of low-carbon assets, a reduction of our high carbon intensity assets and the improvement of the practices of certain companies in our portfolio (see the detailed calculation of our carbon intensity in Appendix 1).

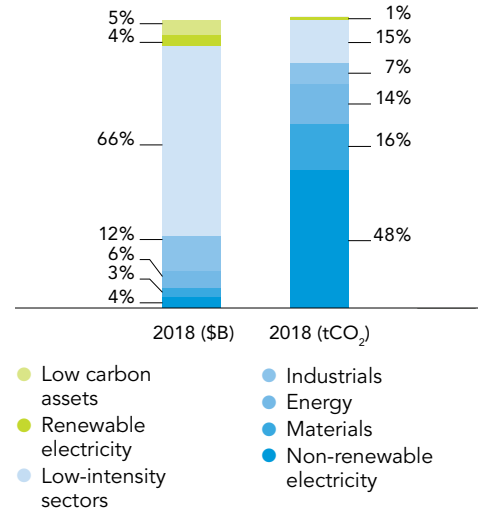
#### Carbon intensity budgets

To reach our objective while continuing to generate the returns expected by our depositors, we have set carbon intensity budgets for la Caisse’s investment portfolios. They set an annual cap of GHG emissions allowed for each portfolio, which is based on the target set for 2025. Portfolio managers include these carbon budgets in their annual strategic planning and ensure compliance with their targets, specifically through the evaluation and inclusion of the carbon footprint in all investment decisions. This practice ensures that la Caisse’s overall reduction target will be met in a structured manner, while giving our teams the flexibility necessary to act on good investment opportunities.

As of December 31, 2017, which is the reference point for future reductions, three-quarters of la Caisse’s portfolio was made up of low- or very low-intensity assets. Its carbon footprint is mainly a result of electricity generation activities and certain high-intensity sectors (see Figure 3). In 2018, the proportion of low-carbon assets and generation of renewable electricity increased from 7% to 9%.

FIGURE 3

PORTFOLIO COMPOSITION: DOLLARS AND CARBON FOOTPRINT



In 2018, to assess climate risk, we measured the carbon intensity of 150 investment opportunities and their impact on the carbon intensity of the overall portfolio.

The portfolio's carbon intensity amounted to 79 tCO<sub>2</sub>e/M\$ in 2017, and we have undertaken to reduce it to 59 tCO<sub>2</sub>e/M\$ by 2025. By the end of 2018, it had been reduced to 72 tCO<sub>2</sub>e/M\$. As shown in Figure 4, the results obtained after one year are well in line with our 2025 target.

Even though it is probable that the gradual reduction in our portfolio's carbon intensity will not follow a linear path over the coming years, the 10% reduction that we obtained during the first year shows positive progression.

EY has conducted an assurance engagement of the measurement of the carbon intensity of la Caisse's portfolio (see the report in Appendix 3).

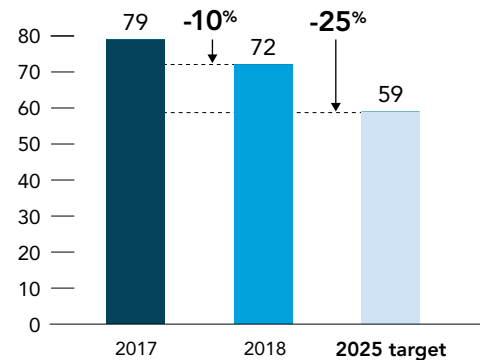
#### 4. EXERCISING STRONGER CLIMATE LEADERSHIP

The transition toward a low carbon economy will not happen overnight. It requires persistence and involvement by all concerned: citizens, governments, organizations and groups, companies and investors. The last two, specifically, must follow suit and change their approaches. Climate change must be seen as an opportunity for doing things differently rather than as a constraint.

As a long-term investor, la Caisse has chosen to exercise strong public leadership on climate issues. In 2018, we participated in several events and initiatives that gave us the opportunity to share our experience and our best practices related to climate risk and opportunities. In this regard, our objective is to contribute to changes in the financial sector, which includes its greater involvement on this matter.

**FIGURE 4**

**PORTFOLIO CARBON INTENSITY<sup>1</sup>**  
(in tCO<sub>2</sub>e/M\$)



1. Totals may vary due to rounding.

Our portfolio's carbon intensity was reduced by 10% in one year. We are therefore on track to reach our target by 2025.

## Climate Change

In addition to our continuing membership in several associations and groups of investors who are committed to stewardship investing, we participated actively in several activities, working groups and conferences in 2018, specifically:

- › Creation of the Investor Leadership Network (ILN), including an initiative aimed at harmonizing climate-related disclosure within the framework of the Task Force on Climate-related Financial Disclosures (TCFD) (see page 16);
- › A group of experts on sustainable finance;
- › A working group with four oil companies and four investors to discuss disclosure expectations in the energy sector, organized by Massachusetts Institute of Technology (MIT);
- › Coalition for Environmentally Responsible Economies (CERES) – United Nations' Climate Change Summit;
- › PRMIA Toronto (Professional Risk Managers' International Association) – Conference regarding climate change strategies and approaches;
- › CEM Benchmarking – Conference with a group of international peers regarding climate change strategies from an organizational viewpoint;
- › PRI on Climate Forum – Participation in a panel on climate change investment strategies;
- › Canadian Public Sector Pensions and Benefits Conference – Presentation of our climate change strategy;
- › CFA Society of New York Climate and ESG Asset Owner Summit – Participation in a panel regarding our ILN project;
- › Nasdaq Marketsite Africa Investor Conference – Participation in a panel regarding our ILN project;
- › ARASQ – Evaluation of ESG integration by external managers;
- › PRI-Québec – ESG disclosure and integration in investment activities;
- › Investor Agenda – Signature and undertaking to report to CERES;
- › Meeting of the Ministers of the Environment for G7 countries – Speech by Michael Sabia on the investors' role in the fight against climate change;
- › G20 Investor Forum – Speech by Michael Sabia during the forum held as a side event to the G20 Summit in Buenos Aires regarding the acceleration of investments in sustainable infrastructure.



## Concrete actions

In 2018, la Caisse supported 76% of shareholder resolutions regarding environmental topics, such as the adoption of the Task Force on Climate-related Financial Disclosures (TCFD) disclosure framework and the publication of a report on companies' environmental footprints.

### Case study

#### ENGAGEMENT AND VOTING

For more than one year, we have combined shareholder dialogue with the exercising of our voting rights to better understand the steps that a Canadian utility company is taking toward sustainable development. We also wanted to understand its approach in matters of identifying, managing and monitoring environmental and social issues.

Since this discussion did not provide us with the assurance that the company would improve its disclosure practices, we supported the shareholder proposals that requested improved disclosure regarding sustainable development and climate change. Some of these proposals received more than 50% support. The company therefore produced and published a detailed report regarding its ESG practices. The report complied with the Sustainability Accounting Standards Board (SASB) and TCFD international disclosure standards.

## A pillar of global collaboration on stewardship investing

There is nothing new about institutional investors like la Caisse thinking about the long term – their obligations and responsibilities are of a long-term nature: pension plans, insurance benefits, etc. In doing so, institutional investors are paying growing attention to fundamental social, environmental and economic issues. The reason is simple: these investors increasingly understand that the quality of returns in the decades to come will depend on the strength and prosperity of the communities where they invest.

It is against this backdrop that la Caisse has chosen to play a leading role in creating the **Investor Leadership Network (ILN)**: a group of major institutional investors whose main goal is to unify its members' actions to address fundamental long-term challenges.

### THE G7 AS A STARTING POINT

Canada's 2018 G7 presidency was a great opportunity to create this group of investors, which now includes 12 members representing over \$6 trillion in assets under management. La Caisse, in partnership with the Ontario Teachers' Pension Plan (Ontario Teachers'), played a key role in implementing the ILN, from approaching new partners to deploying the platform's governance and collaboration network.

A network of partners representing assets under management of more than \$6 trillion



Allianz

AVIVA

CalPERS

CDPQ

CPP INVESTMENT BOARD



NATIXIS  
INVESTMENT MANAGERS

OMERS

ONTARIO  
TEACHERS'  
PENSION PLAN

OPTrust

PGGM

### THREE FUNDAMENTAL ISSUES, THREE MAJOR INITIATIVES

Action taken by ILN members is guided by the objective of taking quick, concrete steps to launch initiatives that will bring about long-term change. Under the joint leadership of la Caisse and Ontario Teachers', the ILN launched, with its members, three initiatives in 2018. ILN members pool their resources, their teams' know-how and their own global networks for every initiative. The priorities pertaining to each initiative were defined in 2018 and a number of concrete achievements are expected in 2019.

### ENGAGE AND MOBILIZE TO FOSTER BETTER COLLABORATION

La Caisse approaches its involvement in the ILN in the same spirit of partnership with which it approaches its investments. La Caisse and the ILN are keen on building a successful collaboration with actors whose expertise complements that of network members. To date, the partners involved in this initiative include the Sustainable Infrastructure Foundation (SIF), York University's Schulich School of Business, the CFA Institute and Catalyst.

A key meeting was also held in January 2019 in the context of the World Economic Forum in Davos, Switzerland. Representatives of la Caisse, Ontario Teachers' and other ILN members met with representatives of the main multilateral regional development banks, agreeing to work together in order to broaden the scope and impact of ILN initiatives.

## ILN STEERING COMMITTEE

INITIATIVE 1	INITIATIVE 2	INITIATIVE 3
<p><b>BUILD SUSTAINABLE INFRASTRUCTURE EXPERTISE IN GROWTH MARKETS</b></p> <p>ILN partners launched a training program for senior managers from growth markets in 2019. This eight-week program includes six weeks of academic training followed by two weeks of practical training with the investors' infrastructure teams taking part in the initiative.</p> <p>This initiative addresses a very real need, i.e. to support financial and operational skills development for public sector infrastructure managers from growth markets, where investment needs are critical.</p> <p>The first group of participants will be welcomed in the summer of 2019, when around 15 people will receive customized training in partnership with York University's Schulich School of Business in Toronto.</p>	<p><b>DIVERSITY IN FINANCE AND INVESTMENT</b></p> <p>Despite some progress, there continues to be a lack of diversity in executive-level positions and in investment roles in the finance and investment sectors, including in developed countries.</p> <p>In 2018, ILN members partnered with the CFA Institute in order to support its investment training and internship program for young women in certain growth markets, starting in India. This global group is also developing an action plan based on best practices to foster corporate diversity.</p> <p>Finally, the ILN's CEO Council will be launched in 2019. This global group of executives is making a public commitment to foster corporate diversity, and more globally, diversity in the industry.</p>	<p><b>CLIMATE CHANGE DISCLOSURES</b></p> <p>ILN members share their experience and best practices as part of this initiative to encourage and accelerate the adoption of uniform and comparable climate disclosure standards based on the framework proposed by the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The objective is to issue practical guidelines in 2019 for implementing TCFD recommendations, which will help to direct capital flows to sustainable businesses.</p>

# Our role as shareholder is a priority

We consider shareholder engagement to be of key importance. Monitoring the environmental, social and governance (ESG) practices of our portfolio companies allows us to preserve the value of our investments. We want to be a leader in ESG matters and, therefore, have broadened the scope of our engagement in recent years, especially in 2018.

Environmental, social and governance elements may impact a company's performance by undermining its ability to maintain its competitive edge over the long term. At the same time, when considered proactively, these criteria

can also be instrumental in building their reputation and creating value. That is why, as an investor, la Caisse takes ESG criteria into account in its investment analyses and decisions, in addition to monitoring the performance of its portfolio companies.

If our ESG analyses point to specific questions or potential issues, we use two main tools to encourage the companies in question to make the necessary changes and adjustments: direct dialogue and exercising our voting rights.

## ESG ANALYSIS

The expertise of our managers and teams of specialists allows us to assess ESG risks and issues before making an investment, and on an ongoing basis thereafter. For example, in 2018, our teams performed more than 250 analyses of companies and assets representing 100% of our new investments, as well as investments being monitored to determine whether there have been any changes in the quality of their ESG practices (see figure 5). These detailed analyses provide an overview of issues specific to each company's industry and the measures implemented to manage them. Company-specific issues are also identified.

These ESG analyses are submitted to portfolio managers and investment committees who consider them in their decisions and, regularly, in their negotiations with the company for the investment. Many give rise to more extensive follow-ups and discussions with companies to encourage them to improve their practices. Our teams also perform follow-ups to ensure that our portfolio companies are managing ESG criteria properly, thereby allowing la Caisse to play its role as a long-term investor in an effective and responsible manner.

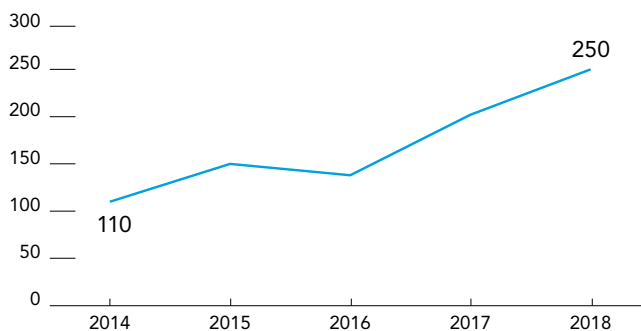
In 2018,  
our teams conducted

**250**

ESG analyses

FIGURE 5

### ESG REPORTS AND PROFILES PREPARED FOR INVESTMENT TEAMS



## DIRECT DIALOGUE WITH COMPANIES

We encourage open dialogue with the companies in our portfolio through meetings and discussions with their management to understand their actions and strategies. This is our preferred approach, especially for all matters pertaining to environmental protection, climate change action and the social impact of business practices.

In recent years, we engaged more actively as a shareholder in this area. In fact, our level of engagement, through dialogue, more than tripled between 2015 and 2018 (see figure 6). In 2018 alone, our teams and representatives addressed 771 ESG-related topics with companies in our portfolio. This represents an increase of 62% over 2017 and clearly shows that la Caisse has fully integrated ESG principles into its shareholder engagement. In addition, the number of interactions that addressed environmental topics more than doubled, clearly reflecting our intention to exercise stronger leadership on climate matters among our portfolio companies.

FIGURE 6

### ENGAGEMENT BY TOPICS ADDRESSED



## Governance

### EXERCISE OF VOTING RIGHTS

La Caisse also regularly discusses its expectations with regard to ESG criteria, in particular governance matters, at annual meetings. When certain issues related to governance are identified for a company in its portfolio, la Caisse does not hesitate to state and present its position and to vote against certain proposals submitted to shareholders for a vote.

We also make it our duty to exercise our voting rights at the annual meetings of our portfolio companies, regardless of where these companies are located and whether we are voting for or against a given proposal.

The proposals voted on during the year related to various topics, especially governance and compensation (see Table 7). For example, the election of directors, executive compensation and disclosure of political contributions as well as government relations activities were of particular interest.

In 2018

**45,286**

resolutions voted on  
at 4,260 shareholder  
meetings

### ELECTION OF DIRECTORS

In general, we believe that every Board should be comprised of a majority of independent directors. In a scenario where one shareholder holds a significant interest in the company, as is often the case with a founding shareholder, we usually require that a majority of directors be independent of both that shareholder and the management team.

We also encourage the election of Board members with different skills and experience, as well as the inclusion of women, since they are still underrepresented in the boardroom. In our view, having a variety of perspectives provides for better decisions.

We support any measure that broadens the pool of candidates qualified to act as directors. In 2018, we applied these principles by voting against the appointment of certain directors in 11% of cases, since the directors concerned lacked independence from management or had a low rate of attendance at Board meetings, or for other specific reasons.

TABLE 7

#### PROPOSALS VOTED ON IN 2018 BY TOPIC (management and shareholder proposals)

	(%)
Board members (elections and other)	51.6
Compensation	7.6
Capitalization	10.7
Mergers and acquisitions	4.9
Other <sup>1</sup>	25.2

1. Other: Appointment of auditors, proposals regarding government relations activities and political contributions, ESG questions, shareholder rights and procedural formalities.

## EXECUTIVE COMPENSATION

Executive compensation is an important consideration for la Caisse. Our actions in this regard are guided by a clear set of principles: compensation must be competitive, transparent and tied to the company's performance. In recent years, a number of shareholders, organizations and citizens have expressed their concerns about excessive compensation for certain company executives from around the world. We are aware of these issues and regularly make our positions known, either in private conversations or through our vote as a shareholder. We do not hesitate to vote against a management proposal when the situation justifies such action, as we did in 35% of cases in 2018.

## DISCLOSURE OF POLITICAL CONTRIBUTIONS AND GOVERNMENT RELATIONS ACTIVITIES

We believe that political funding should normally come exclusively from individual donors. Subject to applicable law, we are opposed to any manner of corporate contribution to a political party or similar movement. In jurisdictions where donations of this nature are permitted, we insist that companies disclose them publicly, along with any processes and policies governing their actions. In the interest of transparency, we also expect companies to disclose their government relations activities.

For example, in 2018, la Caisse voted in favour of 78% of shareholder proposals demanding more transparency for political contributions and government relations activities. In other cases, we reached agreements with the companies in question, which decided to be more transparent in this area.

### Case studies on our shareholder engagement

#### Topic 1

##### EXECUTIVE COMPENSATION

###### Non-binding vote on executive compensation adopted by Canadian corporations

Although mandatory in several countries (the U.S., France, the U.K., the Netherlands, Switzerland, Italy, Germany, Spain, Australia, Norway, Belgium, Denmark, South Africa) since 2011, non-binding votes on executive compensation remain a voluntary practice in Canada. Working in collaboration with a number of its Canadian peers, la Caisse has approached several Canadian corporations to encourage them to adopt this best practice regarding shareholder rights. Thanks to these group efforts, seven new companies have decided to hold non-binding votes. As a result, 170 companies in the S&P/TSX Composite Index have now adopted this practice.

#### Topic 2

##### ASSESSMENT OF CLIMATE-RELATED RISKS

###### Encourage improved disclosure of measures to transition to a low-carbon economy

A shareholder proposal was made at the annual shareholders' meeting of an energy producer requiring that the company report on how it assesses the long-term risks and business opportunities relating to climate change and the transition toward a low-carbon economy. Following a discussion with the company, la Caisse used its voting rights to state its position in favour of better disclosures. The proposal received very strong support and the company's first report on the long-term risks and opportunities relating to climate change is expected in April 2019.

#### Topic 3

##### DISCLOSURE OF POLITICAL CONTRIBUTIONS AND GOVERNMENT RELATIONS ACTIVITIES

###### Shareholder proposal for greater transparency

In 2018, a shareholder submitted a proposal requiring a company in the industrial sector to issue an annual report on its policy and procedures regarding government relations. While la Caisse is in favour of such disclosures and generally supports this type of proposal, we took the opportunity to meet with the company in question and explain our position on the matter to see where the current practices differ from the proposal made. This meeting revealed that the differences were very minor and that the two positions could be reconciled. We therefore focussed on collaboration to encourage the shareholder making the proposal and the company to discuss existing measures and determine those that could be adopted in the future. The shareholder ultimately supported the measures adopted by the company which, in turn, made a commitment to disclose additional information on its website starting in 2019.



# Inspiring ambition

Women's contributions to the financial industry and business world are vitally important. They foster better governance and stronger results in countless ways. La Caisse spearheads and backs a range of initiatives designed to bolster the representation of women in business and entrepreneurship, both in Québec and around the world.

### DIVERSITY IN BUSINESS

Since 2017, la Caisse has supported the 30% Club, which is active in a dozen countries and is committed to achieving a better gender balance in organizations. The Club specifically advocates for at least 30% female representation on Boards, a goal we wholeheartedly embrace. Alongside our peers, we are also a signatory to a joint investor statement calling on all S&P/TSX Composite Index companies to take the necessary measures to ensure, by 2022, that 30% or more of their Boards and executive management teams are women.

La Caisse also partners with the Association of Québec Women in Finance and supports CFA Montréal's Women in Investment Management initiative. In this context, we hosted

a panel discussion entitled Diversity and Inclusion: Long-term Value Creators in November 2018. Part of CFA Montréal's Women in Investment Management series, the event was attended by more than 150 business and financial professionals. The objective was to promote the presence of women in the financial sector and investment profession and to illustrate the added value of corporate diversity across all industries.

La Caisse's efforts regarding women in investment now have an international reach through the Investor Leadership Network (ILN). During the year, la Caisse played a leading role in developing an action plan on diversity, combining the efforts of 12 global institutional investors involved in the ILN. Several concrete developments arising from this initiative are planned for 2019, including the launch of a mentoring program and, in partnership with the CFA Institute, an investment training and internship program for young women in growth markets.

Lastly, we also continued to work with the CFA Institute to develop a best-practices guide to encourage diversity in investment.

## Women in Business

### ENTREPRENEURSHIP

La Caisse firmly believes Québec companies must pursue growth and globalization efforts in order to generate wealth. We also maintain that it is essential to have more women at the head of growing companies.

#### Cheffes de file

#### LES CHEFFES DE FILE

La force  
d'une communauté  
d'entrepreneures

For these reasons, la Caisse launched Cheffes de file in 2018 to accelerate the development of Québec companies owned by women. The initiative comprises a carefully selected group of approximately 60 women entrepreneurs from various regions across the province. These women run solid and promising companies with sales ranging from \$5 to \$20 million and who distinguish themselves through their roles as decision-makers, their achievements and their leadership.

The result of significant consulting and mobilizing efforts, *Cheffes de file* focuses on co-development and sharing best practices among women entrepreneurs with similar realities and objectives. The goal is to fuel their strategic thinking, allowing them to take advantage of the growth levers available to them and to create value within their own companies. A number of concrete actions have been put into place to drive the development of this community of women entrepreneurs and will continue in 2019:

- › creation of a collaboration platform to share resources and information;
- › networking activities to build bridges between the community of practice and the entrepreneurial ecosystem;
- › access to la Caisse's network of experts to support more advanced growth plans.

In 2018, we raised the issue of diversity directly with 18 companies, 16 of which are based in Canada

### Case study

#### DIVERSITY

At an annual general meeting, we drew attention to the lack of female directors on the Board of a company operating in the energy sector. We made our position on diversity known and encouraged the company's management to demonstrate a greater level of commitment in this regard.

We were informed that a recruitment process had been initiated a few months earlier and that some women had been identified as potential candidates. Not long after that, a woman was appointed to the Board for the first time in the company's history.

## Devenir entrepreneur

*Devenir entrepreneur*, a joint initiative of la Caisse, National Bank and Desjardins, was created to promote entrepreneurship in Québec. In 2018, we continued our awareness efforts with a specific focus on women in order to promote female entrepreneurship as an accessible and fulfilling career avenue.

The Québec-wide *Devenir entrepreneure* campaign featured profiles of inspiring women leaders who have built flourishing businesses.

## Other initiatives

Among the other initiatives we supported in 2018 was *Femmessor* and the creation of Cellules Femmessor Croissance, which provide support and guidance to women leaders of growing companies. This new strategic business network focused on codevelopment will continue to expand throughout Québec in 2019.

In addition, la Caisse sponsored the 2018 Québec Entrepreneurship Index, the province's largest survey of entrepreneurial intentions, including those of women. Not only did we travel to various areas throughout Québec to present the highlights of the survey's findings, but we also held meetings in five cities to discuss the particular challenges faced by local women entrepreneurs.

## Progress, but challenges remain

Having more women executives and entrepreneurs is good for society and good for the economy. The situation is improving from year to year, but we still have work to do.

**24%**

Proportion of Board seats held by women on TSX-listed companies

**10%**

Proportion of women in the senior management of companies on the TSX

**41%**

Proportion of companies owned by women in Québec

## Women in Business

### WOMEN AT LA CAISSE

La Caisse works hard to improve how we attract, retain and develop women within our organization. The Board of Directors' Human Resources Committee makes it a point to regularly address matters of gender diversity, and the Executive Committee pays close attention to the career paths of women at la Caisse on a yearly basis.

We actively seek to hire qualified female candidates, and for each open management and investment position, we aim to interview female candidates.

We also have mentorship programs in place, including one to fast-track the development of women with high potential identified by the Executive Committee. In addition, we offer women at la Caisse development and networking opportunities through a cohort related to l'Effet A and our partnership with the Association of Quebec Women in Finance.

Lastly, we partner with HEC Montréal to award four university scholarships a year, two of which are specifically directed toward women enrolled in a finance program.

# 39%

Proportion of women on la Caisse's Board of Directors and Executive Committee

## La Caisses's collaborations to expand opportunities for women in business



# Adhering to strict principles and exercising our influence

La Caisse considers tax issues to be particularly important and uses its position as a long-term investor to increase its support for international initiatives, notably with the creation of a coalition of peers focused on tax matters. In addition, in 2018 we leveraged our role as a shareholder to influence the practices of the companies in which we invest. We therefore continued to better align our methodologies and improve our processes for analyzing the tax rates of publicly listed companies in our portfolio. As a result, we have access to more comprehensive information in the application of our internal directive governing tax issues.

Abusive tax practices are one of the most important fairness issues of our time. That is why, in our view, having an effective and transparent international tax framework is essential in maintaining people's trust in businesses and governments. This is also of key importance in guaranteeing funding for government services.

### INTERNATIONAL COMMITMENT

Investing in low-tax jurisdictions must be governed by standardized and effective rules around the world. Long-term investors play an important role in this area, which is why la Caisse has been supporting various government initiatives for a number of years to fight tax evasion. Whether in private or in public, we are committed to promoting practices to ensure that all financial players follow the same rules in a spirit of fairness and healthy competition.

### A coalition of international peers

In 2018, la Caisse played a key role in creating a coalition of international investors to discuss on taxation issues. This coalition of 15 worldwide pension funds and sovereign wealth funds focusses on sharing information and tools to foster industry best practices.

## International Taxation

Members regularly exchange views on topical issues during the year in order to develop new tools. Ultimately, the goal is to standardize their respective approaches to have even greater influence in the financial industry, especially with investment fund managers.

### Country-by-country reporting

In accordance with the recommendations from the Organization for Economic Co-operation and Development (OECD) Base Erosion and Profit Sharing (BEPS) initiative, la Caisse has adopted detailed “country-by-country” reporting to facilitate the work of the tax authorities. This exercise in transparency is now part of our annual process in accordance with our commitment made last year.

### Participation in panel discussions

La Caisse’s tax experts took part in two panel discussions focussing on responsible investment at conferences organized by accounting firms. Among the topics discussed, they shared their thoughts on changes in la Caisse’s own tax practices as well as those being adopted internationally.

### CONCRETE ACTION AS INVESTOR AND SHAREHOLDER

As an investor, we expect the companies in our portfolio to adopt transparent and responsible tax practices. In 2018, la Caisse launched various initiatives to continue to improve its practices and lead by example in the industry.

### Analyzing the tax rates of publicly listed companies

In 2018, we improved our process for analyzing the tax rates of the publicly listed companies in our portfolio. In addition to improving our tools, the teams that worked on this exercise aligned their methodologies resulting in a standardized approach to this work that is built on a solid basis.

We will perform a detailed analysis of new investments in companies whose tax practices draw our attention in order to have a thorough understanding of the relationship between the targeted returns and the risk factors. We also make sure that these companies have adopted appropriate and sustainable tax practices.

Companies in which la Caisse has invested more than \$50 million are reviewed on a quarterly basis, which allows us to pinpoint major changes and take appropriate action.

La Caisse analyzed these companies in detail and performed periodic follow-ups in 2018. In some cases, we discussed tax policies, tax governance, effective tax rates and tax planning with the management teams to ensure that the companies' practices are viable in the long term.

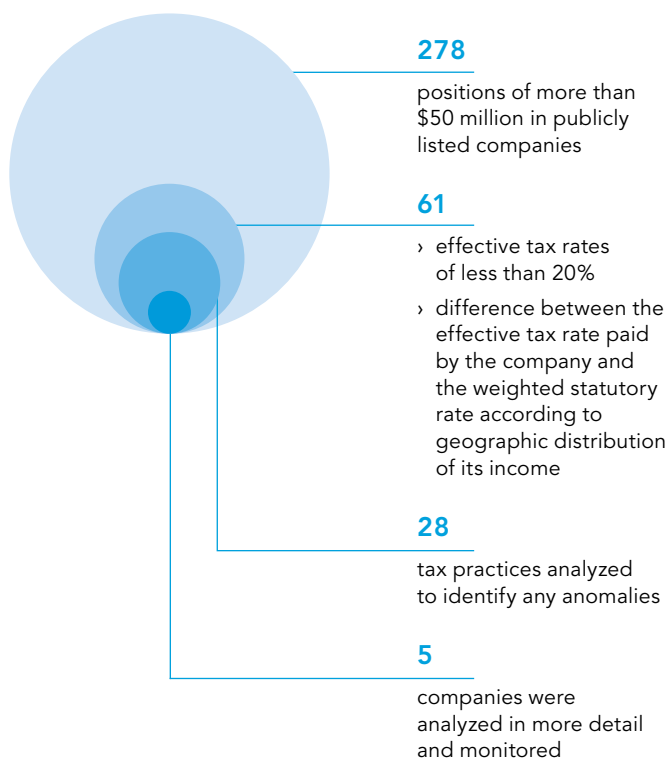
## A new tool for assessing tax practices

Similar to the approach taken for risk management several years ago, la Caisse has undertaken a process to structure and formalize a method to assess the tax practices of companies in its portfolio.

In 2018, we developed a tax practices questionnaire, which is now sent to companies in which we invest as part of our due diligence process. Like risk analyses, tax practices thereby become a factor that influences our analysis of a potential investment.

**Objective:**

Ensure that the tax practices of the companies in which we invest are appropriate and not abusive.



## International Taxation

### DIRECTIVE FOR TAX ISSUES

La Caisse continued to apply its internal directive on tax issues during the year. Since we firmly believe that abusive tax practices do not help to maximize long-term investment value, we ask our managers to:

- › consider an investment structure's tax risks when analyzing potential investments;
- › pinpoint these risks in proposals submitted to the various investment committees;
- › influence their business partners (e.g. companies or co-investors) to encourage alternatives to using low-tax jurisdictions as much as possible.

## A few examples of our influence in 2018

### Case 1

#### INFORMATION TECHNOLOGY

As part of an investment made in the U.K., la Caisse influenced an IT company to convert its tax structure from a low-tax jurisdiction to the U.K.

### Case 2

#### REAL ESTATE FUND

On a number of occasions, Ivanhoé Cambridge influenced one of its global investment fund partners to invest in funds located in Canada or the U.S. rather than in low-tax jurisdictions.

### Case 3

#### LOGISTICS AND MANUFACTURING

As part of two international joint private equity investments, la Caisse managers played a key role in influencing one of our partners to structure the transactions using investment funds registered in Canada rather than in a low-tax jurisdiction.



## OUR STATEMENT REGARDING INTERNATIONAL TAXATION

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### La Caisse's tax status

La Caisse is exempt from income tax in Québec and Canada. Most pension funds around the world operate according to EET systems, which are similar to the one applicable to Registered Retirement Savings Plans (RRSPs), under which:

- › E – employer and employee contributions are **exempt**;
- › E – pension fund returns are generally **exempt**;
- › T – pension benefits are **taxed** when retirees receive them.

La Caisse is also exempt from foreign income tax under various bilateral treaties or agreements with foreign tax authorities, including the United States, France, the United Kingdom and Australia.

Where exemptions are not available, la Caisse seeks to structure its investments to keep returns from being taxed twice – once in foreign jurisdictions and a second time when benefits are paid.

La Caisse's exemptions in no way reduce the tax obligations of the companies in which it invests, which still have to pay all income taxes owed in various jurisdictions.

### La Caisse's presence in low-tax jurisdictions

The growth in la Caisse's international investments has resulted in increasing its exposure to certain low-tax jurisdictions. La Caisse's investments in these jurisdictions fall under three categories:

#### **Category 1: Direct investments in operating companies.**

Most of these companies operate and employ a large number of people in the countries where they are domiciled and pay taxes on their profits. For example, la Caisse's investments in Nestlé, a multinational corporation domiciled in Switzerland, fall into this category.

**Category 2: Interests in investment funds.** These funds comprise hundreds of international investors and are sometimes domiciled in low-tax jurisdictions. These structures exist for legitimate business reasons and make it possible to share expertise, to better manage risk and to achieve economies of scale. Due to the large number of coinvestors, la Caisse has very little influence on the choice of jurisdictions in which these investment funds are incorporated. The use of these funds in no way affects the obligation of each investor and company to comply with the tax laws applicable to them.

**Category 3: Investments in companies that use low-tax jurisdictions to structure certain investments.** There are legitimate business reasons underlying the use of these structures. However, given that the number of investors is limited, la Caisse may sometimes have influence over its partners and achieve its business objectives by locating the structures in Canada or other countries where la Caisse benefits from tax exemptions.

Whether it is through its investments in operating companies, its interest in investment funds, or its use of holding companies, la Caisse abides by all tax laws and pays all taxes due in the jurisdictions where it operates.

Our complete statement can be consulted on the la Caisse website, under Responsible Investment ([www.cdpq.com](http://www.cdpq.com)).

## Investing in Communities

At la Caisse, we are dedicated to building ever-stronger communities and creating real and lasting benefits in the areas where we choose to direct our outreach efforts.

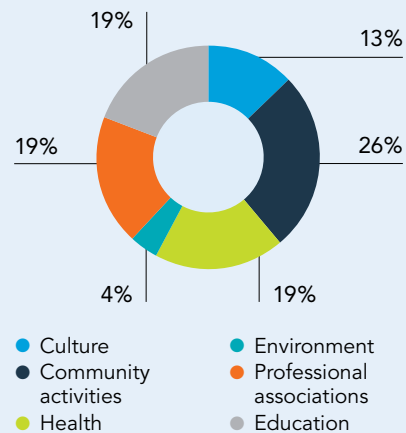
As such, our investments in communities are aligned with our business practices. We focus on highly respected organizations, teaming up with them to champion initiatives that maximize the impact of our commitments. And we continuously strive to ensure the sustainability of our actions, both in communities and within our own organization.

### PHILANTHROPY AND SPONSORSHIPS

Every year, we support an array of philanthropic endeavours, using a proactive approach rooted in strong, long-term partnerships. We join forces with organizations that share our commitment to integrity, accountability and innovation, and that operate in one of our priority spheres of action (see Figure 8).

**FIGURE 8**

**BREAKDOWN OF OUR COMMUNITY SUPPORT IN 2018**  
(percentage of donations and sponsorships)



## OUR FIVE CORE INITIATIVES

### 1. Fight against climate change

Fighting against climate change is one of our top priorities at la Caisse. In 2018, we decided to include this critical issue as one of our priorities for our philanthropic efforts. We tripled our contributions in this segment, and they will continue to increase in the years to come. As a result, we identified new partnerships during the year as well as a number of innovative, game-changing initiatives. The four strategic priorities in this regard are:

- › **Environmental education:** organizations and projects that teach youth about environmental issues and encourage them to adopt eco-friendly behaviours.
- › **Initiatives:** specific programs that deliver a positive, measurable environmental impact in a given region.
- › **Awareness:** organizations and projects that educate the public on environmental matters and encourage civic involvement and dialogue.
- › **R&D/standardization:** academic research (university chairs and programs), research institutes and organizations that standardize reporting and transparency.

Several new environmental partnerships have therefore been integrated into la Caisse's philanthropic ecosystem. Thanks to the contributions of a multidisciplinary in-house committee of experts, a number of forward-thinking initiatives to fight climate change are being developed. They aim to engage a broad network of stakeholders, from elementary schoolchildren to experienced financial executives.

The creation of a group of young climate change leaders, in partnership with Environnement Jeunesse, and the development of executive training initiatives in tandem with the scientific team at Ouranos, are two examples of efforts that are currently under development. More are set to follow in 2019.

## 2018 Philanthropic Profile

250+

Financial contributions to the same number of organizations

200+

Employee activities and commitments

5

Core initiatives

## Social Involvement

### 2. Climate change conference

In 2018, we organized a full day of climate change-related activities to coincide with the Conference of Montreal, presented by the International Economic Forum of the Americas. The event was an opportunity for hundreds of attendees and dozens of internationally renowned experts to share their expertise and debate the courses of action required to rise to the climate change challenge. This noteworthy awareness and engagement event helped us strengthen our leadership in the field, especially within the business community.

### 3. Impact 20-35

Launched in the fall of 2018, Impact 20-35 aims to provide volunteering opportunities to young professionals at la Caisse, a group that represents one third of our workforce. The initiative aligns their skill sets with the needs of organizations through a community of interest and

networking events. Not only does this fuel participants' professional development, it gives them a chance to share their expertise and to pool their efforts with la Caisse's.

### 4. FPJQ fund for young journalists

Working with the la Fédération professionnelle des journalistes du Québec (FPJQ), we set up a fund for future journalists. Created in an effort to address some of the significant challenges facing today's media companies and the journalism profession as a whole, this initiative provides a \$10,000 bursary to 10 journalism students every year so they can gain professional media experience through paid internships. By spending part of their internship in the local financial and economic sector, they have an opportunity to develop their knowledge in these realms. The purpose of this fund is to support the next generation of reporters and to ensure that the public has access to quality economic information.

## Our environmental partners

### EDUCATION



### INITIATIVES



### AWARENESS



### R&D/STANDARDIZATION



## 5. Inclusion fund

The Inclusion fund allows us to continue building safe, inclusive communities and empower young people to develop greater openness to diversity in all its forms. It was launched in cooperation with 24 partners from the Québec financial industry following the Québec City shooting. In 2018, nine youth organizations across the province were identified and selected to receive our support. In May, the fund's first education and awareness activity was held in a school in Montréal-Nord to present the work carried out by the Pacific Path Institute.

## A strong, highly motivated team

Our employees and executives actively give back to the community in a wide variety of ways, including mentorships, sponsorships, committee memberships, directorships on one of over 100 non-profit boards and contributions to various fundraising campaigns.

Centraide is one of the causes that is especially close to our employees' hearts. In the past 20 years, our campaigns in support of Centraide have raised more than \$10 million for community betterment efforts.

### The 2018 Centraide campaign in numbers

**\$800,000**

Total donation

**\$400,000**

Employee contributions,  
matched by la Caisse



# Appendices

## Appendix 1

### CALCULATION OF THE INTENSITY OF LA CAISSE'S PORTFOLIO

#### Calculation

**Total Caisse Portfolio Intensity** =  $\frac{\Sigma \text{Caisse emissions (tCO}_2\text{eq) of the portfolio as at December 31}}{\text{Caisse portfolio within the perimeter (millions of CAD)}}$

**Caisse Emissions** =  $\frac{\text{Asset-related emissions (tCO}_2\text{eq)} \times \text{LT Capital supplied by la Caisse (millions of CAD)}}{\text{Total LT Capital of the asset (millions of CAD)}}$

**LT Capital** = Long-term capital used by a company to finance its production assets (fair market value of equity + long-term debt).

#### Perimeter of calculation: Caisse portfolio within the perimeter

**Type of investment** = Investments, including those of non-consolidated subsidiaries, in the form of shares, corporate and Crown corporation debt, securities held through market indexes or exchange traded funds (ETFs), externally managed investments, securities lending and borrowing. Are excluded: Government bonds, cash, warrants, derivative financial instruments and securities purchased under resale agreements.

**Specialized portfolios** = Equity Markets, Fixed Income, Private Equity, Infrastructure, Real Estate, certain investments in shares (including short positions) held in Asset Allocation.

**Value as at Dec. 31, 2018** = Included \$285 billion, excluded \$54 billion (government bonds) and \$10 billion (other).

#### Emissions considered

The carbon footprint of an asset corresponds to its direct or indirect greenhouse gas emissions (scopes 1 and 2) converted into equivalent tons of CO<sub>2</sub> as defined in the GHG Protocol.

#### Data sources

##### A) Direct holdings

The Trucost database is la Caisse's preferred source for individual issuers. Combined with data from the Compustat database, the Trucost figures (calendar year 2018) form the foundation of our calculations of emissions of individual securities and average sector intensity. In the absence of Trucost data, our approach is:

Low Intensity Assets (<120 tCO <sub>2</sub> /M\$) and intense assets under the methodological threshold	Average sector intensity (GICS Level 4 classification)
High intensity assets (≥120 tCO <sub>2</sub> eq/M\$) that exceed the methodological threshold Ivanhoe Cambridge's assets	In order of priority: <ul style="list-style-type: none"> <li>› Footprint disclosed by the issuer (if credible)</li> <li>› Footprint estimated by a credible source</li> <li>› Use of specific comparables operating facilities similar to those of the issuer</li> <li>› Estimation based on technical data from emitting facilities and credible sources of standardized data</li> <li>› Average intensity of the sector</li> <li>› Average corporate intensity for certain sectors or assets in emerging markets</li> </ul>

##### B) Indirect holdings

Where data is available, the intensity of funds is calculated according to the rules applicable to direct holdings. Where data is not available, la Caisse uses the intensity of the fund disclosed by the manager or, if the data is unsatisfactory, the average intensity of the sector or asset class appropriate to the nature of the fund.

#### Methodological thresholds

La Caisse has established thresholds that allow it to adjust its level of analysis by sector:

	Caisse exposure threshold
Very high intensity sectors (≈5,000 tCO <sub>2</sub> eq/M\$)	\$10 million
High intensity sectors (≈2,000 tCO <sub>2</sub> eq/M\$)	\$25 million
Average intensity sectors (≈500 tCO <sub>2</sub> eq/M\$)	\$100 million



## Appendix 2



**The Task Force on Climate-related Financial Disclosures (TCFD, a working group chaired by Michael Bloomberg) was established in 2015 by the Financial Stability Board of the G20 to develop a consistent and uniform framework for worldwide climate-related financial risk disclosures.**

Issued in June 2017, the TCFD's final recommendations represent the today's global point of reference for financial disclosures relating to climate issues. Since la Caisse would like to see more and more companies and investors adopt these recommendations, it is leading by example and measuring its progress against this series of recommendations.

### Application of the recommendations by la Caisse

#### Governance

**Recommendation / Board oversight of climate-related risks and opportunities**

- › **Implementation** / Our responsible investment policy and climate strategy announced in 2017 require that ESG criteria, including the climate, be factored into the process for analyzing and approving investments. Our integrated risk management policy also encompasses the risks related to ESG criteria. These policies were approved by the Board of Directors, which monitors progress annually.
- › In 2018, the Board of Directors' Human Resources Committee also approved factoring carbon into the calculation of employees' incentive compensation. This component was taken into consideration for 2018 incentive compensation.

**Recommendation / Describe management's role in assessing and managing climate-related risks and opportunities**

- › **Implementation** / Climate-related risks and opportunities are assessed and managed by la Caisse's various investment committees. Working in collaboration with the strategy and investment teams, the stewardship investing team closely monitors the annual carbon budgets of our specialized portfolios to achieve the targets set for 2025. These analyses are submitted to the various committees which include Caisse executives, including the Investment and Risk Management Committee and the Executive Committee.

#### Strategy

**Recommendation / Describe the climate-related risks and opportunities identified over the short, medium and long term**

- › **Implementation** / Our teams analyze the physical and transition risks relating to climate change. Physical risks are difficult to analyze and quantify. They are taken into account for investments located in areas that are vulnerable to extreme climate events.
- › Various types of transition risks exist, including regulatory or political action (carbon pricing or subsidies), technological innovations, market risks (changes in demand for certain products), lawsuits and reputational risks. They are assessed by way of quantitative and qualitative analyses.
- › In the short term, these risks are moderate and specific to certain companies and jurisdictions. They are analyzed case by case. Medium-term risks (<5 years) are of a technological, regulatory or market-related nature or pertain to carbon pricing, potentially affecting the competitiveness of carbon intensive companies. Long-term transition risks (>5 years) are associated with high carbon intensity sectors for which lower carbon substitutes or disruptive technologies exist.

## Appendix 2

**Recommendation / Describe the impact of climate-related risks and opportunities on operations, strategy and financial planning and how they factor into investment portfolios and strategies**

› **Implementation** / As a long-term investor, la Caisse adapts its portfolio to seize opportunities and reduce its risk relating to climate change. Climate risk is analyzed by considering a number of unknowns and possible scenarios. These medium- and long-term systemic risks form the basis of our climate strategy, whose goal is to increase our number of low-carbon assets and reduce the carbon intensity of our overall portfolio by 25% between now and 2025. We therefore invest in low-carbon companies, projects and assets as well as companies that are poised to capitalize on the long-term energy transition.

**Recommendation / Describe the resilience of the strategy, taking into consideration different climate-related scenarios**

› **Implementation** / Analyzing physical and transition risks for the overall portfolio is an extremely complex process. We joined the UNEP FI task force in 2018 to develop a more precise methodology in this regard. Three variables are of particularly critical importance: carbon pricing, a sector's ability to share transition costs and whether product substitutes exist. While, in our view, these analyses and transition risk models are necessary, they currently do not provide a realistic and reliable indication of the resiliency of our portfolio. Our physical risk analyses have provided more promising results, although more work is still needed.

## Risk Management

**Recommendation / Describe the process for identifying and assessing climate-related risks based on portfolios and strategies**

› **Implementation** / Climate-related risks are evaluated by the investment committees when the investment decision is made. The degree of analysis depends on the materiality of the risk. The risks assessed include physical and transition risks and take into account the company's industry positioning, management of ESG issues and transition strategy.

› Scenarios are used, when necessary, to analyze the impact of transitioning to more sustainable forms of energy based on key performance indicators. Portfolios are reviewed periodically to monitor risks and analyze the mitigation measures implemented by companies.

**Recommendation / Describe the engagement with portfolio companies to improve their climate-related practices and disclosures**

› **Implementation** / This engagement can take many different forms. We support shareholder proposals aimed at promoting better disclosure of climate-related risks and opportunities, in accordance with the TCFD's recommendations, by exercising our shareholder voting rights. Moreover, we speak with executives from select companies to understand their climate change strategy and encourage them to adopt best practices.

› As part of the Climate Action 100+ initiative, we work with other investors to influence the practices of the largest GHG emitters in the world.

› Our teams also actively engage with their Canadian and international peers in connection with various events in order to raise awareness, among investors and companies, and share best practices developed by la Caisse to address climate-related issues.

**Recommendation / Describe the process for managing and mitigating climate-related risks based on portfolios and strategies**

› **Implementation** / For each portfolio, climate-related risks are managed with every investment decision, portfolio review or decision with regard to its composition. Transition risks are partially and gradually mitigated by way of annual carbon budgets for each portfolio based on the target of reducing the carbon footprint by 25% by 2025.

**Recommendation / Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management**

- › **Implementation** / Climate-related risks are addressed in specific sections of the investment approval and reporting documents and are subject to the same governance as other risks. The work done by the UNEP-FI task force in 2018 confirmed how difficult it is to develop models for physical and transition risks, particularly for the overall portfolio. We will continue our analyses in this area.

## Metrics and Targets

**Recommendation / Disclose the metrics used to assess and track climate-related risks and opportunities based on portfolios and strategies**

- › **Implementation** / Our main metrics are the carbon intensity (tCO<sub>2</sub>e per million dollars) of a company or portfolio and the volume of low-carbon investments (in billions of dollars), based on Climate Bonds Initiative criteria. These indicators help quantify our progress as we work towards achieving our targets.
- › La Caisse put in place an IT system in 2018 connecting its own internal databases to the databases of climate data suppliers, making it possible to estimate the carbon intensity of our various portfolios in real time. This system allows us to closely monitor their progress in achieving targets.

**Recommendation / Disclose carbon intensity of the portfolio (types 1 and 2) and the associated risks**

- › **Implementation** / In 2018, the carbon intensity of la Caisse's portfolio was 72 tCO<sub>2</sub>e M\$, down 7 tCO<sub>2</sub>e M\$ from 2017.

**Recommendation / Disclose carbon intensity based on portfolios and strategies, along with relevant data on the methodology used**

- › **Implementation** / We disclose the carbon intensity of our overall portfolio and provide information on the contribution of various sectors to our overall carbon footprint, in addition to their weight in la Caisse's total portfolio (in billions of dollars).
- › The methodology used to measure our carbon footprint is available in Appendix 1 and has been certified by la Caisse's external auditors (see Appendix 3).

**Recommendation / Describe targets used to manage climate-related risks and opportunities and performance against targets**

- › **Implementation** / Our carbon intensity reduction targets are broken down by portfolio based on asset class, investment horizon and investment universe. In 2018, we reduced the carbon footprint of our portfolio by 10% compared to the reference amount for 2017, and exceeded our target in terms of low-carbon investments initially set for 2020. We have therefore increased our 2020 target to \$32 billion.

## Appendix 3

### INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON THE CARBON INTENSITY OF THE PORTFOLIO WITHIN THE CALCULATION BOUNDARY OF THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

#### To the Board of Directors and Management of the Caisse de dépôt et placement du Québec

We have undertaken a limited assurance engagement of the carbon intensity of the portfolio within the calculation boundary of the Caisse de dépôt et placement du Québec as at December 31, 2018 appearing on page 13 of the Stewardship Investing Report, whose calculation is defined in schedule "Calculation of the Intensity of the Caisse Portfolio" of the Stewardship Investing Report (the "Carbon Intensity of the Caisse Portfolio").

#### Responsibility of the Caisse de dépôt et placement du Québec for the Carbon Intensity of the Caisse Portfolio

The Caisse de dépôt et placement du Québec is responsible for preparing the Carbon Intensity of the Caisse Portfolio in accordance with the internally developed criteria applied as explained in the schedule "Calculation of the Intensity of the Caisse Portfolio" of the Stewardship Investing Report. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of a Carbon Intensity of the Caisse Portfolio that is free from material misstatement, whether due to fraud or error.

There are currently no legislative or regulatory requirements requiring the Caisse de dépôt et placement du Québec to prepare, publish or have verified the carbon intensity of an asset. As a result, the quantification of the Carbon Intensity of the Caisse Portfolio is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

#### Our independence and quality control

We have complied with the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Canadian Standard on Quality Control and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Our responsibility

Our responsibility is to express a limited assurance conclusion on the Carbon Intensity of the Caisse Portfolio based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with Canadian Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* (CSAE 3410), issued by the Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Carbon Intensity of the Caisse Portfolio is free from material misstatement.

A limited assurance engagement undertaken in accordance with CSAE 3410 involves assessing the suitability in the circumstances of the use by the Caisse de dépôt et placement du Québec of internally developed criteria as the basis for the preparation of the Carbon Intensity of the Caisse Portfolio, assessing the risks of material misstatement of the Carbon Intensity of the Caisse Portfolio whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Carbon Intensity of the Caisse Portfolio. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we performed:

- › Interviews with selected personnel to understand the key issues related to the data and processes for the collection and accurate reporting of the Carbon Intensity of the Caisse Portfolio.
- › Where relevant, walkthroughs of systems and processes for data aggregation and reporting.
- › Inquiries of management regarding key assumptions and the evidence to support the assumptions.
- › Validations of the accuracy of calculations performed, on a sample basis, primarily through inquiry, analytical procedures and recalculations.

Our procedures did not include providing conclusions in relation to:

- › The completeness or accuracy of data sets or information relating to areas other than the Carbon Intensity of the Caisse Portfolio included in the Stewardship Investing Report.
- › An assessment of the current value of the individual or aggregate interests of the Caisse de dépôt et placement du Québec appearing in the schedule "Calculation of the intensity of the Caisse Portfolio."

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Carbon Intensity of the Caisse Portfolio has been prepared, in all material respects, in accordance with the internally developed criteria applied as explained in schedule "Calculation of the Intensity of the Caisse Portfolio" of the Stewardship Investing Report.

#### Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Carbon Intensity of the portfolio within the for calculation boundary of the Caisse de dépôt et placement du Québec as at December 31, 2018 appearing on page 13 of the Stewardship Investing Report is not prepared, in all material respects, in accordance with the internally developed criteria applied as explained in the schedule "Calculation of the Intensity of the Caisse Portfolio" of the Stewardship Investing Report.

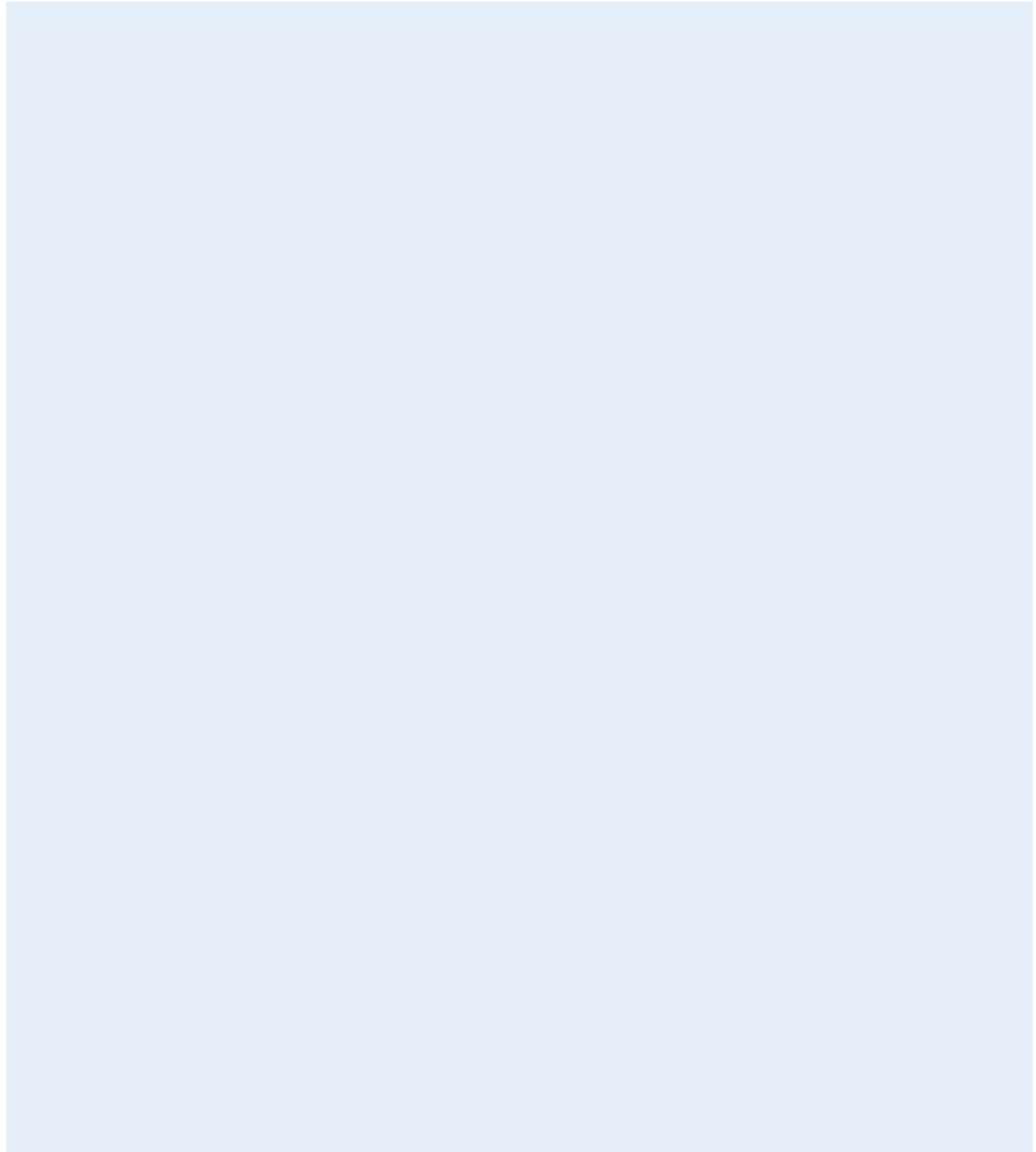
*Ernst + Young LLP*<sup>1</sup>

Montréal, Canada  
March 19, 2019

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