

## HIGHLIGHTS

### EQUITIES

**\$149.5 B**

Net assets as at December 31, 2017

### 5 years

**14.3%**

Annualized return

**\$72.4 B**

Net investment results

### 2017

**13.6%**

Return

**\$17.6 B**

Net investment results

### 2 portfolios

#### Equity Markets

##### Advantages

- The risk-adjusted return is higher than that of markets thanks to an absolute-return approach

#### Private Equity

##### Advantages

- Expected long-term performance above that of equity markets

As at December 31, 2017, the Equities asset class represented 50% of la Caisse's overall portfolio and included two specialized portfolios: Equity Markets and Private Equity.

The Equity Markets portfolio aims to achieve sustained performance over the long-term by actively selecting securities based on their fundamental value. Top-down management of the portfolio provides la Caisse with increased flexibility to make investment choices that better reflect its convictions. The **Equity Markets** portfolio is divided into seven mandates:

- Global Quality
- Canada
- Growth Markets
- Alternative Beta
- Global Value
- Relationship Investing
- Strategic

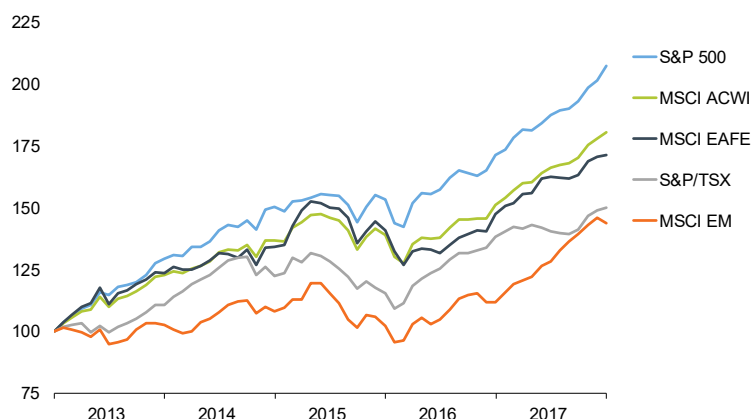
The **Private Equity** portfolio includes securities of public and private companies in which la Caisse takes privately negotiated stakes through which it increasingly aims to exercise influence. Strategic partnerships are also established with fund managers who manage a portion of the portfolio's assets.

## Market conditions

From 2013 to 2017, stock markets generated solid returns, particularly in the last two years. Despite relatively flat earnings over the period, the main benchmark indexes enjoyed sustained investor confidence and synchronized acceleration in worldwide growth. Favourable economic data in many regions lifted the MSCI ACWI Index to a record high in 2017.

The S&P 500 stood out from other major indexes with an annualized return in local currency of 15.8% over five years and 21.8% in 2017. This was its ninth consecutive yearly rise and the second-longest uptrend in its history, a result of the resumption of corporate earnings growth in recent years. Such a recovery is typical of the economic context that has been prevailing in the U.S., characterized by a low and declining

**Equity Markets 2013 to 2017**  
December 31, 2012 = 100, in local currency



unemployment rate, improving household confidence, and positive economic growth combined with accommodative monetary policy, among other things. The rise in the index was also supported, more recently, by the enthusiasm generated by U.S. tax reform.

The MSCI EAFE Index was stimulated by more robust economic growth in Europe and Japan and by accommodating monetary policies. It gained an annualized 11.4% over five years, and 15.2% in 2017, in local currency.

Canada posted a lower, yet substantial, performance of 8.6% annualized over five years and 9.1% in 2017. The S&P/TSX's performance was dampened by materials and energy sectors, where commodity prices fell, especially for oil.

With strong global growth, and after several years of mitigated performance, growth markets equities (MSCI EM index) obtained an annual five-year average return of 8.0% in local currencies. The index rose the most in the last two years, particularly in 2017 where it saw 30.6% growth.

## Equity Markets portfolio returns

### GLOBAL QUALITY MANDATE

This mandate, a pillar of la Caisse's absolute-return strategy, is the largest in the Equity Markets portfolio. It invests in the securities of high-quality companies exposed to global growth that are traded on the stock exchanges of the countries included in the MSCI ACWI Index. The targeted companies share certain characteristics: high and stable profitability, solid economic foundations over time and the use of financial leverage. As a result, the investments tend to be less sensitive to market fluctuations and provide some protection during periods of market turbulence.

<p><b>\$38.8 B</b> Net assets as at December 31, 2017</p>	<p><b>5 years</b></p>		<p><b>2017</b></p>
	<p><b>16.8%</b> Annualized return</p>	<p><b>13.6%</b> Index</p>	<p><b>9.5%</b> Return</p>
<p><b>\$17.2 B</b> 5-year net investment results</p>	<p><b>Five-year return</b></p> <p>Since its inception in 2013, the mandate has generated net investment results of \$17.2 billion, and a 16.8% annualized return, outpacing its benchmark by 3.1%. It is less volatile than the market in general, capturing almost all market highs, but only a fraction of market lows. Having contributed \$2.3 billion, or over one-third of the total value added obtained by the seven mandates, this mandate is the primary source of value added in the Equity Markets portfolio.</p>		

**\$3.4 B**

2017 net investment results

This performance is attributable to the solid returns from companies incorporated in the U.S. in conditions where the economy was consolidating and the number of jobs created was rising. Both over five years and in 2017, the healthcare, consumer staples and information technology sectors were significant contributors to the return. The selection of securities in industrials and finance also turned out to be beneficial to the mandate, as was the strength of the U.S. dollar against the Canadian dollar.

#### 2017 return

Net investment results were \$3.4 billion due to a 9.5% return, which is consistent with the defensive nature of the investments. Accordingly, there is less exposure to growth market securities and U.S. and Chinese Internet giants, which soared in 2017. Many sectors nonetheless posted returns greater than 10%, including healthcare, industrials and consumer staples.

## CANADA MANDATE

This mandate invests in securities of publicly listed Canadian corporations, with an emphasis on constructing a quality, concentrated portfolio that reflects distinctive aspects of the Canadian universe. Exposed to growth, targeted companies demonstrate fundamental qualities and competitive advantages that allow them to withstand market variations. Shares in Québec companies represent one-third of the mandate's composition compared to 16% for the S&P/TSX index.

**\$26.4 B**

Net assets as at December 31, 2017

**\$12.0 B**

5-year net investment results

**\$1.9 B**

2017 net investment results

#### 5 years

**10.9%**

Annualized return

**9.4%**

Index

#### 2017

**7.9%**

Return

#### Five-year return

Managed solely through an absolute-return approach since 2015, the mandate posted an annualized return of 10.9%, against 9.4% for its benchmark. It created \$1.6 billion of value added on net investment results of \$12.0 billion. Overweighting in securities of Québec-based companies was beneficial to the mandate. Of note, the strong performance of companies with a significant presence in the U.S., including Alimentation Couche-Tard, CGI and CN, underscore the strategy's success in capitalizing on that country's robust economy. Finance and consumption were the sectors contributing the most to the return, while materials and oil suffered the effects of falling prices around the world.

#### 2017 return

With a 7.9% return, the mandate produced net investment results of \$1.9 billion. Finance once again stands out from other sectors. This was particularly true for the banking segment, which enjoyed improved growth in Canada. The economy's strong performance also favoured the consumer discretionary sector, which was a major contributor to the return thanks to the performance

of securities such as Dollarama and Gildan. However, the mandate fell short of its index, which is mainly due to the sharp decline in securities of companies operating in the oil sector where the price of a barrel declined. Underweighting in industrials and stock selection in this sector was also unfavourable.

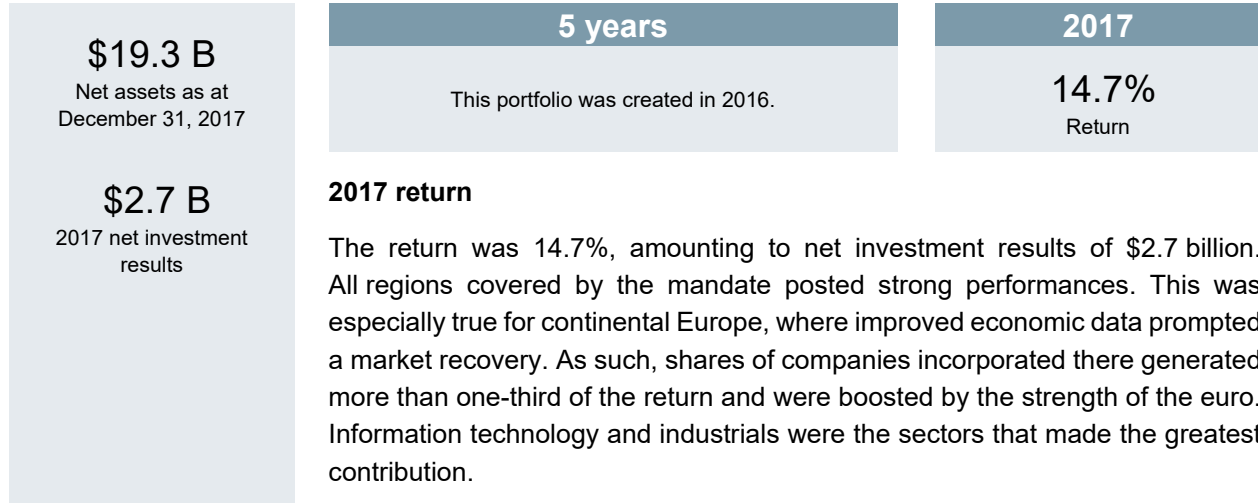
## GROWTH MARKETS MANDATE

This mandate invests in securities of growth markets and aims to generate a return higher than that of developed markets over the long-term. It includes a significant absolute-return management component that is carried out alongside well-established local partners. These local partners are deeply familiar with their markets and share la Caisse's long-term investment philosophy. Since January 1, 2017, part of the indexed management component has been replaced by a new alternative beta component, which is based on a management style that does not rely on traditional indexes based on stock market capitalization.

<p><b>\$18.7 B</b> Net assets as at December 31, 2017</p> <p><b>\$7.4 B</b> 5-year net investment results</p> <p><b>\$4.3 B</b> 2017 net investment results</p>	<p><b>5 years</b></p>		<p><b>2017</b></p>
	<p><b>10.3%</b> Annualized return</p>	<p><b>9.1%</b> Index</p>	<p><b>28.4%</b> Return</p>
	<p><b>Five-year return</b></p> <p>This mandate recorded net investment results of \$7.4 billion and an annualized return of 10.3%. It outperformed its benchmark by 1.2% and added \$835 million of value. The performance was driven by excellent returns in the main Asian stock markets. The mandate benefited from its active management component, which is handled by external managers. With their expertise, they have added substantial value since 2013, primarily in China, but also in India, even during market downturns. Rigorous selection of partners is a pillar of la Caisse's globalization strategy.</p>		
<p><b>2017 return</b></p> <p>At 28.4%, this mandate posted the best return in the Equity Markets portfolio in 2017. This performance stems from the exceptional returns in Chinese and Korean markets, which were boosted by the information technology sector, and the judicious selection of securities by external partners. Their local knowledge continued to make a difference, particularly in the segment of Chinese Class A shares. The finance, information technology and consumer discretionary sectors account for two thirds of the return.</p>			

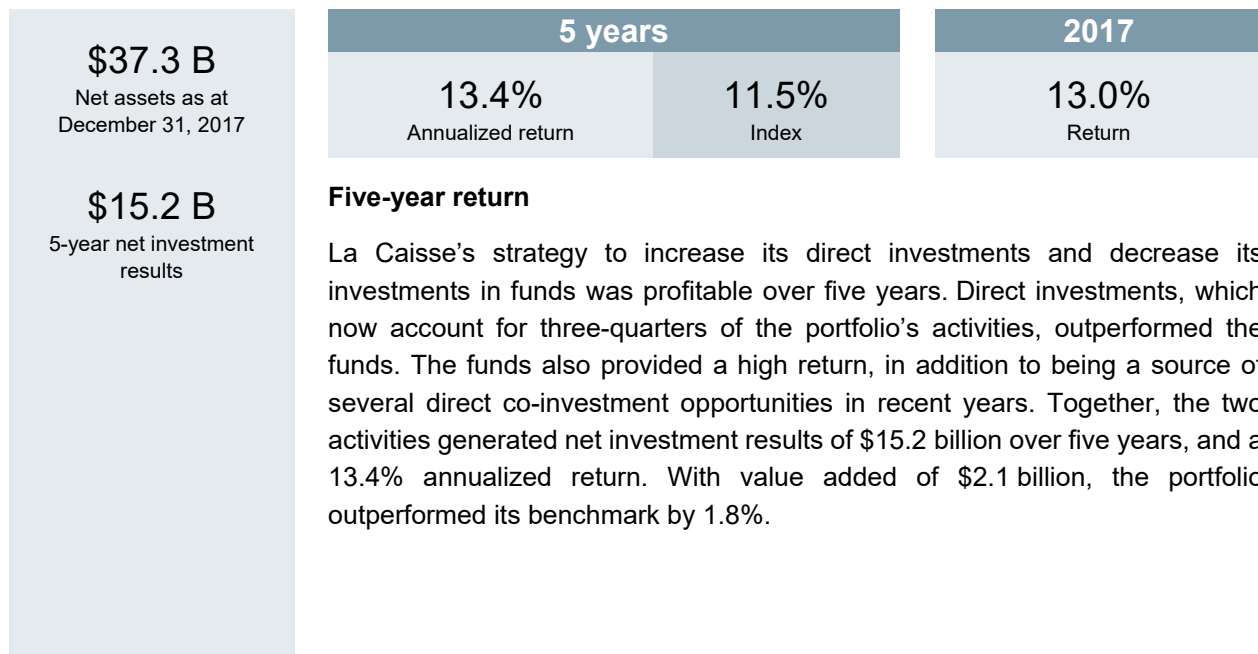
## ALTERNATIVE BETA MANDATE

This mandate invests in securities in developed markets, excluding Canada. It uses a securities weighting strategy based on various fundamental measures (revenues, cash flows, dividends, etc.) rather than on their market capitalization.



## Private Equity portfolio returns

The Private Equity portfolio includes direct investments and stakes in investment funds. Investments are made in many sectors and various regions, but primarily in Canada, the United States, and Europe, with an increased presence in growth markets. Approximately one-third of assets were invested in Québec as at December 31, 2017. Quality partnerships and long-term value creation, mainly through operational efficiency, are the central aspects of the investment approach.



**\$4.0 B**

2017 net investment results

**2017 return**

The portfolio's return of 13.0% adds \$4.0 billion to net assets. Once again, most of the return stems from direct investments in 2017. The strong performance of Québec companies made a significant contribution. During the year, managers made private equity investments totalling \$7.6 billion in leading international companies, including:

- SUEZ Water Technologies & Solutions: A US\$800-million investment for a 30% stake in this global leader in water treatment solutions;
- USI Holdings: Joint acquisition with KKR, valued at US\$4.3 billion, of one of the largest insurance brokerage and consulting companies in the U.S. SME market;
- Sebia: With Astorg and Montagu, the acquisition of a large minority stake in this international medical diagnostics company established in France;
- Datamars: Significant investment in this global leader in animal identification and textiles;
- AvidXchange: A US\$100-million investment in this automated bill payment and accounts payable solutions leader, expanding la Caisse's presence in the financial technology sector.

**Investment results for the Equities portfolios**

As at December 31, 2017	5 years				2017		
	Net assets	Net investment results	Return	Benchmark	Net investment results	Return	Benchmark
Specialized portfolio and mandate	\$M	\$M	%	%	\$M	%	%
<b>Equity Markets<sup>1</sup></b>	<b>112,179</b>	<b>57,222</b>	<b>14.5</b>	<b>12.6</b>	<b>13,557</b>	<b>13.7</b>	<b>14.2</b>
Global Quality mandate <sup>2</sup>	38,831	17,164	16.8	13.6	3,369	9.5	13.5
Canada mandate <sup>3</sup>	26,397	11,966	10.9	9.4	1,903	7.9	9.9
Growth Markets mandate <sup>4</sup>	18,704	7,376	10.3	9.1	4,343	28.4	25.2
Alternative Beta mandate	19,348	3,481	N/A	N/A	2,676	14.7	14.6
Other <sup>5</sup>	8,899	2,109	N/A	N/A	1,266	N/A	N/A
<b>Private Equity</b>	<b>37,332</b>	<b>15,222</b>	<b>13.4</b>	<b>11.5</b>	<b>3,999</b>	<b>13.0</b>	<b>10.5</b>
<b>Equities</b>	<b>149,511</b>	<b>72,444</b>	<b>14.3</b>	<b>12.5</b>	<b>17,556</b>	<b>13.6</b>	<b>13.3</b>

1. Includes the history of terminated activities.

2. Includes the Global Quality Equity portfolio history prior to 2016.

3. Includes the Canadian Equity portfolio history prior to 2016.

4. Includes the Emerging Markets Equity portfolio history before 2016.

5. Includes the Relationship Investing, Global Value and Strategic mandates.