

HIGHLIGHTS

FIXED INCOME

\$96.7 B

Net assets as at December 31, 2017

5 years

3.7%

Annualized return

\$14.6 B

Net investment results

2017

3.5%

Return

\$3.2 B

Net investment results

5 portfolios

Rates

Credit

Short-Term Investments

Long-Term Bonds

Real Return Bonds

Advantages

- Diversifies the overall portfolio's risk
- Enables clients to match their assets and liabilities
- Offers a substantial source of liquidity

As at December 31, 2017, the Fixed Income category represented 32% of la Caisse's overall portfolio. It included:

- Two new actively managed portfolios: Rates and Credit;
- Three indexed portfolios: Short-Term Investments, Long-Term Bonds, and Real Return Bonds.

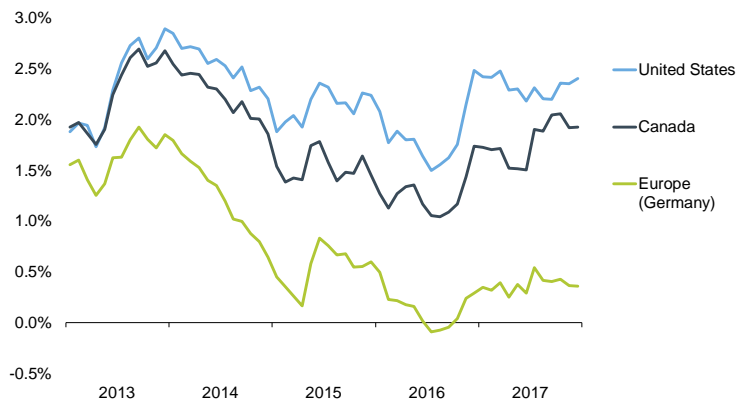
The two actively managed portfolios are a result of the reorganization of the Bond and Real Estate Debt portfolios, effective January 1, 2017. This new structure illustrates that la Caisse's strategy involves diversifying sources of returns and expanding its credit activities. It therefore seeks additional exposure to market segments with more attractive return profiles.

Market context

Over the last five years, 10-year government bond yields continued their downward trend. From the end of 2013 to around the end of 2016, the ongoing decline in the yields, which hit historical lows in mid-2016, can be explained by a few factors:

- Maintaining key rates at low levels, the conciliatory tone of central banks and the massive asset purchase programs set into motion by some of them;
- Fears of deflation (especially in Europe and Japan);
- A high level of uncertainty that prompted investors to seek the safety of high-quality bond markets.

Performance of 10-year government bond yields



The generalized downtrend in yields ceased following the election of Donald J. Trump as President of the United States in November 2016. His promise to stimulate the economy through means such as easing environmental regulations and adopting an expansionist budget policy, at a time when the economy was already at full employment, prompted upgrades to outlooks on growth, inflation and the trajectory of the Federal Reserve's key rate. This triggered 10-year interest rates to rise sharply in the U.S. at the end of 2016,

with Canada following suit. In contrast, while the Canadian interest rate continued to climb in 2017, the U.S. 10-year rate remained relatively stable. German yields also increased at the end of 2016, but remained weak given the European Central Bank's stimulus program.

The widening spread between U.S. and Canadian yields since 2015 is mainly due to the fall in oil prices, which weakened Canadian growth and prompted the Bank of Canada to lower the key interest by 0.50%. With the Canadian economy's strong performance since mid-2016, this spread narrowed sharply in the second quarter of 2017. The Bank of Canada hiked its key rate by 0.25% twice during the second half of 2017.

Portfolio returns

RATES

The role of this actively managed portfolio is to manage risk while being la Caisse's main source of liquidity. It includes traditional government bonds (Canada, Canadian provinces and other developed countries) that have an excellent credit quality. It has two primary activities: rate management and sovereign debt.

<p>\$40.1 B Net assets as at December 31, 2017</p> <p>\$665 M 2017 net investment results</p>	<p>5 years</p> <p>This portfolio was created in 2017.</p>	<p>2017</p> <p>1.8% Return</p>
<p>2017 return</p> <p>The portfolio generated a 1.8% return and net investment results of \$665 million, reflecting the strong performance of provincial bonds. A strengthening Canadian economy, stimulated by sustained job creation over the course of the year, saw provincial bond credit spreads narrow, which benefited the portfolio. On the other hand, the rise in federal rates was unfavourable. Current yield is therefore the main contributor to this year's performance.</p>		

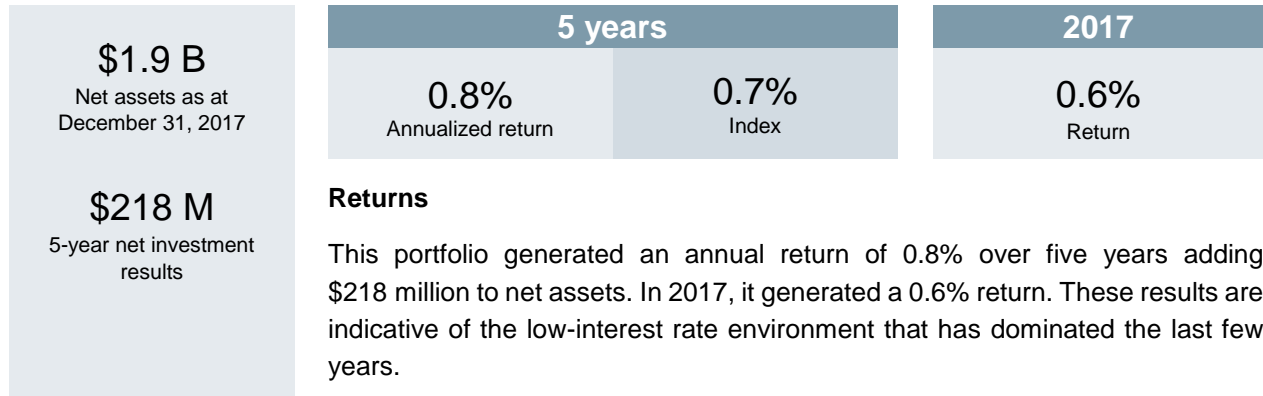
CREDIT

This portfolio aims to generate higher returns than the more traditional bond market and to diversify sources of value. It includes a broader range of instruments with fixed income characteristics. Investment activities are grouped into four core mandates: Corporate Credit, Real Estate Debt, Specialty Finance and Sovereign Credit. The latter primarily targets government securities of growth markets. This contribution is expected to decrease in the coming years depending on the deployment of other credit activities.



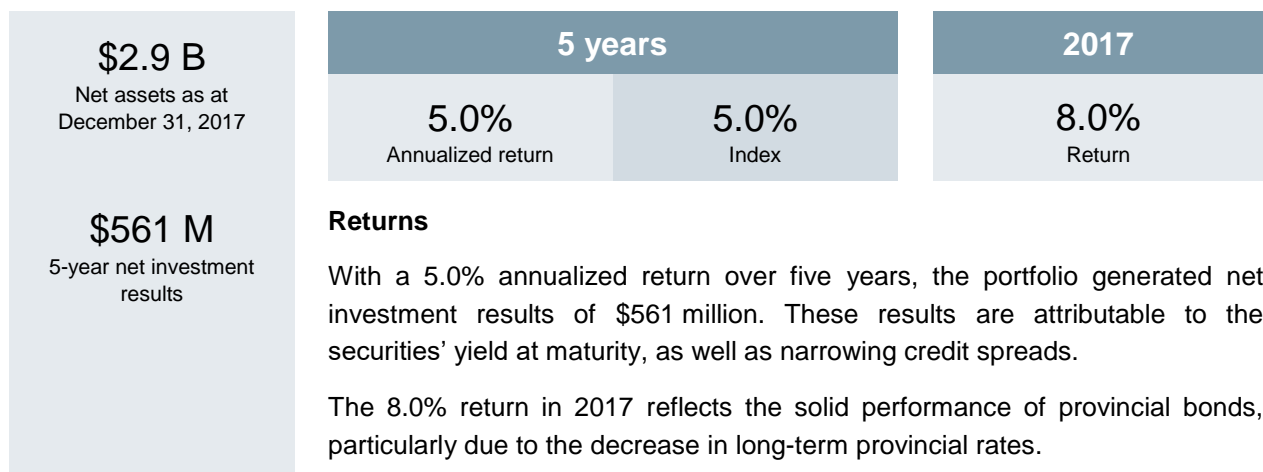
SHORT-TERM INVESTMENTS

This indexed portfolio consists of short-term liquid investments in the Canadian money market. It aims to preserve capital and maintain a high degree of liquidity while providing a return comparable to 91-day Canadian Treasury Bills.



LONG-TERM BONDS

Primarily composed of long-term provincial bonds, this portfolio is managed with an optimized index-type approach. Consequently, not all of the index's securities are held in the portfolio. However, the selected securities replicate the index's various risk factors such as duration, spread change or exposure per issuer.



REAL RETURN BONDS

This indexed portfolio aims to protect la Caisse's overall portfolio against rising Canadian inflation rates. For clients who choose to allocate capital to it, the portfolio is also intended to better match assets with liabilities, which are sensitive to rising inflation.

\$1.2 B Net assets as at December 31, 2017	5 years		2017
	1.0% Annualized return	0.9% Index	0.8% Return
\$24 M 5-year net investment results	Returns This portfolio provided a 1.0% annualized return over 5 years and a 0.8% return in 2017. These results added \$24 million to net assets.		

Investment results for Fixed Income portfolios

As at December 31, 2017	5 years				2017		
Specialized portfolio	Net assets \$M	Net investment results \$M	Return %	Index %	Net investment results \$M	Return %	Index %
Rates	40,065	665	N/A	N/A	665	1.8	1.4
Credit	50,645	2,261	N/A	N/A	2,261	5.1	4.0
Short-Term Investments	1,892	218	0.8	0.7	22	0.6	0.6
Long-Term Bonds	2,935	561	5.0	5.0	223	8.0	7.6
Real Return Bonds	1,187	24	1.0	0.9	10	0.8	0.7
Fixed Income¹	96,724	14,587	3.7	3.0	3,181	3.5	2.8

1. The history of the Bond and Real Estate Debt specialized portfolios is included in this line.