

HIGHLIGHTS

REAL ASSETS

\$50.4 B

Net assets as at December 31, 2017

5 years

11.0%
Annualized return

\$18.9 B

Net investment results

2017

8.7%
Return

\$4.0 B

Net investment results

2 portfolios

Real Estate

Infrastructure

Advantages

- Attractive risk-return profile and substantial cash flows
- Overall portfolio risk diversification
- Greater resilience to market swings and some protection of capital in times of market turbulence

As at December 31, 2017, Real Assets accounted for 17% of la Caisse's overall portfolio. This asset class includes the actively managed Real Estate and Infrastructure portfolios.

Since real assets are less liquid than bonds and stock market portfolios, they provide stable current revenue, diversified income sources, and protection against the inflation risk associated with the commitments of several clients.

With fierce competition driving prices up for less-liquid assets such as real estate and infrastructure, la Caisse relies on its comparative advantages to seize the best opportunities available in these market segments. Thanks to its internal research teams, operational experts, network of partners and project development abilities, both in real estate and infrastructure, la Caisse makes direct investments using selective criteria that generate solid long-term returns.

Market context

The attractiveness of real assets has not waned in recent years for a variety of reasons, including low interest rates, volatility in other asset classes, as well as stable cash flows and the protection against inflation they provide.

In real estate, the capitalization rate was generally stable in 2017 for quality assets in most commercial markets. In Canada, sustained transaction activity continued from 2016. The office space market was characterized by strong demand for new space and rising rents. The industrial sector showed this same dynamism. In the United States, transaction volume was down from 2016 levels. The vacancy rate in office buildings was constant. Although rents began rising in the second half of 2017, the increase was weak. In the residential sector, the supply of apartments that flooded the market weighed on the sector, despite healthy demand.

Compared with 2016, European transaction volumes remained steady in London and were down in Paris. The office space sector was more attractive in Paris than in London, where rental prices are stagnating. German cities are among those targeted most by investors. Lastly, in growth markets, there was a sharp

rise in transaction activity in Brazil since mid-2017, a sign that investors are regaining confidence following political turmoil that shook the country. In China, fundamentals remain solid, especially in the logistics sector.

In Infrastructure, despite a decline from 2016 to 2017, activity remained vigorous compared with the last ten years. Most transactions were executed in Europe and North America. In addition, there was a general trend towards larger transactions, where those greater than US\$500 million increased around 15% over 2016. The renewable energy sector remains by far the most active in the market, accounting for more than half of total infrastructure transactions.

Portfolio returns

REAL ESTATE

This portfolio invests in buildings and real estate companies around the world. It plays a key role in diversifying la Caisse's overall portfolio of assets, which include shopping centres, office buildings and logistics and residential properties, all of which are less correlated to global markets. Targeting the most promising sectors in the main developed markets and certain targeted growth markets, the investments aim to generate optimal risk-adjusted returns. The portfolio is managed by la Caisse's real estate subsidiary, Ivanhoé Cambridge, whose approach focuses on developing investment platforms and strategic relationships with key partners to seize quality opportunities around the world.



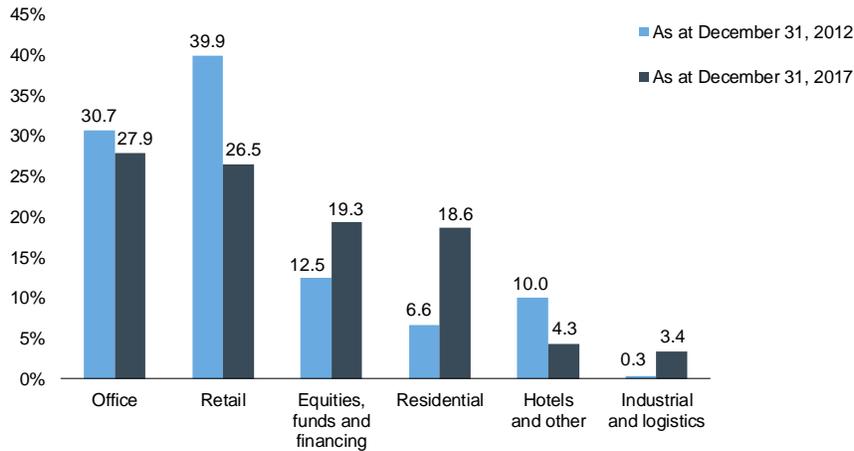
increase in the shares of Chongbang and Gecina. Commercial centres in Brazil also provided good returns.

During the year, Ivanhoé Cambridge completed over 60 transactions totalling \$12.4 billion, including \$8.0 billion in investments. The following are a few highlights from 2017:

- Following the signing of two major leases, to be developed in partnership with Hines, construction began on two exceptional complexes:
 - DUO, a large urban project located in the 13th arrondissement in Paris and designed by Ateliers Jean Nouvel. It will feature a hotel and office building that will house the future headquarters of Natixis;
 - CIBC Square, CIBC's new global headquarters, located on Bay Street in downtown Toronto;
- Evergreen Industrial Properties: The acquisition of a promising company specialized in industrial real estate that owns and operates a portfolio of close to 150 properties in 18 U.S. markets;
- LOGOS: A commitment from Ivanhoé Cambridge and QuadReal Property Group that made possible the launch of LOGOS India Logistics Venture, an Indian investment platform with up to US\$800 million in investment capacity. With LOGOS, Ivanhoé Cambridge launched a third logistics investment vehicle in four regions in China (providing up to US\$830 million in new capacity);
- 85 Broad Street: The acquisition of this prestigious office building in Manhattan for approximately \$900 million;
- Monogram Residential Trust: A \$1.6 billion investment with partners, including Greystar, to privatize this U.S. real estate investment trust, which manages more than 12,000 residential rental units in the U.S.

Other highlights include the sale of Oakridge Centre shopping centres in Vancouver and Madrid Xanadú in Spain. At the beginning of 2018, Ivanhoé Cambridge also sold its interest in Richmond Centre in British Columbia, and in Fairview Mall in Toronto.

Real Estate portfolio exposure by sector
As a percentage of total assets



INFRASTRUCTURE

The infrastructure portfolio includes direct investments in companies operating infrastructure in developed markets, as well as targeted growth markets. These tangible assets include wind farms, electrical transmission and distribution networks, ports, airports, highways, and passenger transportation systems. Given that many of these sectors are regulated, they provide stable, predictable long-term revenues and a better risk-return profile than other asset classes. They also provide some capital protection against inflation.

| | | | |
|---|---|-------------------------------|--------------------------------|
| <p>\$16.2 B Net assets as at December 31, 2017</p> <p>\$5.4 B 5-year net investment results</p> | <p>5 years</p> | | <p>2017</p> |
| | <p>10.3% Annualized return</p> | <p>11.6% Index</p> | <p>10.1% Return</p> |

Five-year return

Since 2013, infrastructure generated an annualized return of 10.3%, or net investment results of \$5.4 billion. This performance can be attributed to the high current yield of certain companies within the portfolio, especially those that operate with regulated and contracted assets. HAH (Heathrow Airport), Trenchap (Énergir) and Invenenergy made noteworthy contributions. Appreciation of assets also contributed to the return, particularly the investments in Airport Holdings, Port of Brisbane and Invenenergy.

The gap between the portfolio return and its benchmark is due to the benchmark being comprised of public company securities with returns that reflect the associated higher operational risks. La Caisse has decided to invest in assets with a lower risk level, in compliance with its strategy. The portfolio’s performance is therefore consistent with the targeted risk-return profile.

\$1.4 B

2017 net investment results

2017 return

The portfolio's current return accounts for more than half of the total 10.1% return, adding \$1.4 billion to net assets. Strong asset appreciation, as well as investor attraction for infrastructure also explain this performance. Both factors lower the average discount rate of the portfolio. All types of infrastructure contributed to performance, particularly regulated assets and economic infrastructure.

Some of the portfolio's major transactions in 2017 included:

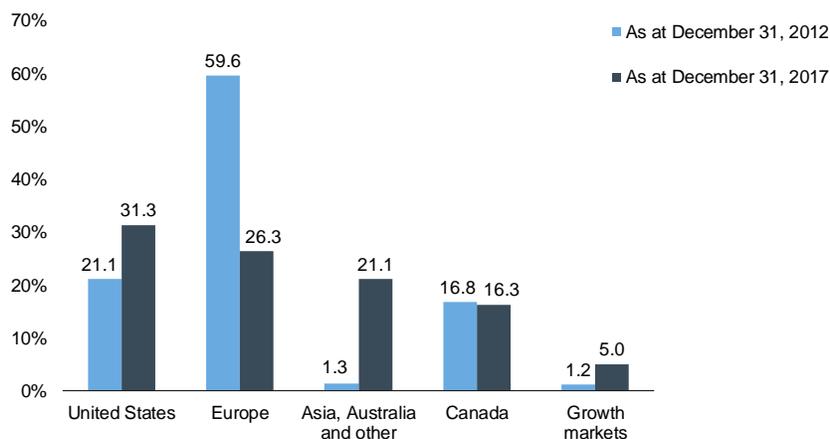
- Enel: Joint investment of US\$1.35 billion with CKD Infraestructura México (CKD IM), a consortium of Mexican institutional investors, to acquire 80% of a portfolio of wind and solar assets owned by Enel Green Power, a global leader in renewable energy;
- Boralex: Acquisition of a 17.3% stake in this renewable energy leader in Canada and France;
- Énergir: A \$70-million investment in this innovative Québec company with diversified activities.

The sale of a stake in South East Water, which drew several investors and generated an attractive return, is also noteworthy.

In addition to this, several milestones were achieved for the Réseau express métropolitain (REM), a fully automated electric transit system for the Greater Montreal Area. In the last year, investments from the governments of Québec and Canada were confirmed, and more recently, CDPQ Infra, a subsidiary of la Caisse, announced the REM's winning construction consortia, as well as its route and budget.

Infrastructure portfolio geographic exposure

As a percentage of total assets



Investment results for Real Assets portfolios

| As at December 31, 2017 | 5 years | | | | 2017 | | |
|-------------------------|---------------|------------------------|-------------|-------------|------------------------|------------|------------|
| Specialized portfolio | Net assets | Net investment results | Return | Index | Net investment results | Return | Index |
| | \$M | \$M | % | % | \$M | % | % |
| Real Estate | 34,260 | 13,567 | 11.3 | 11.4 | 2,539 | 8.0 | 8.2 |
| Infrastructure | 16,177 | 5,353 | 10.3 | 11.6 | 1,440 | 10.1 | 10.5 |
| Real Assets | 50,437 | 18,920 | 11.0 | 11.3 | 3,979 | 8.7 | 9.0 |