Caisse de dépôt et placement du Québec

Real Assets

HIGHLIGHTS

REAL ASSETS	5 years	2019
$67.5 B Net assets as at December 31, 2019	8.0% Annualized return	1.0% Return
	$17.5 B Investment results	$0.6 B Investment results

2 portfolios

Real Estate

Infrastructure

Benefits

Attractive risk-return profile and substantial cash flows

Diversifies the overall portfolio's risk

Greater resilience to market swings and some protection of capital

The Real Assets class, which represented close to 20% of CDPQ's investment portfolio as at December 31, 2019, was made up of two actively managed portfolios:

- **Real Estate,** which invests in buildings and real estate companies around the world.
- **Infrastructure,** which includes direct investments in companies operating infrastructure in developed markets, as well as in growth markets.

Real Assets play a crucial role in diversifying CDPQ's portfolio, as the investments held are less correlated to global markets. Since real assets are less liquid than bonds and stock market portfolios, they provide stable current revenue and some protection against the inflation risk associated with the commitments of several of CDPQ's depositors.

In a context of fierce competition for real assets, CDPQ draws on its comparative advantages to distinguish itself: the leading edge expertise of its teams and operational specialists, a vast network of partners and a capacity to develop projects and to conclude private direct investments.

Market conditions

Investors continue to be attracted to real assets year after year. Several factors explain this:

- Low interest rates
- Less volatility than other asset classes
- Stable cash flows
- High current yield and some protection against inflation through index leasing

Real Estate

In general, the market context over the last decade, buoyed by advantageous rates, was very favourable for real estate. Institutional investors continue to have a large appetite for this asset class which, combined with low central bank key rates, allows capitalization rates to remain stable.

The residential and industrial real estate sectors continue to display sound economic foundations, with growing demand for space and keen interest from investors. In the office sector, rent growth has generally been steady, but has been more moderate for more traditional buildings. In the shopping centre sector, Canada must continue to adjust to the strength of e-commerce and changing consumer habits. The sector saw falling valuations of certain types of properties in 2019. In North America, large and dominant regional shopping centres remain relatively more attractive than secondary centres.

Globally, opportunities related to urbanization, socio-demographic change and new technologies are creating demand for new projects, notably in the logistics sector. This is prompting real estate investors to innovate and offer sustainable urban solutions. In particular, Europe continues to provide many investment opportunities on this front.

Infrastructure

In 2019, the favourable macroeconomic environment contributed to a very active year in infrastructure markets. Even though the total volume of transactions is down for the second straight year, the dry powder available in infrastructure investment funds reached new heights.

The total value of transactions was up 30% over 2018. Demand for this asset class remained stable, especially from institutional investors, resulting in rising valuations.

Over the last five years, energy was by far the most dynamic sector, representing two thirds of the market in 2019. Investments related to the transition toward a low-carbon economy also accelerated, particularly in the electricity segment.

Portfolio returns

REAL ESTATE

This portfolio, managed by Ivanhoé Cambridge, CDPQ's real estate subsidiary, invests in properties and real estate companies in the office, shopping centre, residential and logistics sectors. Investments are made around the world to generate optimal risk-adjusted returns. The approach is focused on developing strategic partnerships and creating investment platforms to seize quality opportunities, with agility.

To strengthen the real estate portfolio, Ivanhoé Cambridge accelerated the transition under way to reduce the weight of more traditional assets and prioritize opportunities in promising sectors. The objective is to benefit from major structural trends like urbanization, sociodemographic changes and new technologies.

	5 years		2019	
$39.7 B Net assets as at December 31, 2019	7.2% Annualized return	8.8% Benchmark	-2.7% Return	1.4% Benchmark

$10.2 B
5-year investment results

$-1.1 B
2019 investment results

Five-year return

Over five years, the portfolio has posted an annualized return of 7.2% and generated investment results of $10.2 billion. This performance is in line with depositors' long-term expectations, but below the benchmark index, which was 8.8%. Over the period, all sectors made significant contributions to the portfolio's returns. Next generation office real estate generated a good return, driven by the development of major projects such as Duo in Paris and CIBC SQUARE in Toronto, where spaces are renting rapidly. Investments in funds, stock and financing also contributed to the portfolio's performance.

Compared to its benchmark index over the same period, the return was negatively affected by its greater exposure to the Canadian shopping centre sector, which recorded weak performance. The difference also stems from a lower return in the U.S. residential sector, given rent control measures in New York, a different geographic allocation of debt than the benchmark index and lower weighting in the industrial sector. Quality acquisitions recently made in the industrial sector nonetheless partly offset this difference.

2019 return

The portfolio posted a -2.7% return for the year, which is a difference of -4.2% with its benchmark index, which was 1.4%. Even though current yields remained stable and investments in funds and stocks as well as in the industrial sector provided good performance, the overall return was affected by the Canadian shopping centre sector and, to a lesser extent, by falling valuations for residential real estate in New York because of increased regulations to control rent increases. Long-term debt revaluation also diminishes the return and partially explains the difference with the benchmark index for the one-year period. The main reason for this difference, however, is the weakness in the

Canadian shopping centre sector, in which Ivanhoé Cambridge has historically been very present.

During 2019, over $11 billion in acquisitions, capital investments and sales were made, underscoring the active transition under way. Other Ivanhoé Cambridge highlights include an increase in investments in the industrial sector, notably the LOGOS platform in Asia Pacific and Prologis in Brazil. Other major transactions of the year include:

- PLP: Strengthening industrial investments in the United Kingdom with the acquisition of four development projects through the PLP platform, which was launched in 2017.
- LOGOS: Acquisition of two logistics parks in Chennai, the first Indian investments made by this industrial real estate platform, in partnership with Ivanhoé Cambridge and QuadReal Property Group.
- Golden Capital: Acquisition of a strategic stake in this real estate platform focused on repositioning office assets in Germany managed by Lianeo Real Estate.
- ICAWOOD: As part of a strategic partnership with ICAMAP, a fund manager specialized in real estate, the launch of ICAWOOD, a fund with a €1.6 billion capacity to develop next-generation offices with low-carbon emissions in Greater Paris.

INFRASTRUCTURE

This portfolio includes holdings in companies operating various types of infrastructure. These tangible assets include wind and solar farms, electrical transmission and distribution networks, ports, airports, highways, passenger transportation systems and telecommunications infrastructure.

Given that many of these sectors are regulated, the investments provide stable, predictable long-term revenues and a better risk-return profile than other asset classes. They are also less sensitive to economic fluctuations and provide some capital protection against inflation. Focus is placed on establishing long-term partnerships and creating value through operational performance, in collaboration with the companies.

	5 years		2019	
$27.8 B Net assets as at December 31, 2019	9.2% Annualized return	7.8% Benchmark	7.1% Return	17.7% Benchmark

$7.3 B
5-year investment results

Five-year return

The portfolio generated investment results of $7.3 billion, almost tripling the assets since 2015. Its annualized return was 9.2%, compared to 7.8% for its benchmark index. The 1.4% difference represents $153 million in value added. A little more than half of the portfolio's overall return stems from the current yield generated by the assets. The other part of the overall return is the result of the significant value creation of the assets over the period due to their sound performance. Over 60% of this appreciation was generated by Airport Holdings (Budapest airport), Indianapolis Power & Light, Port of Brisbane, HAH (Heathrow airport) and DP World Canada. All sectors and regions recorded good returns over the period, with the industrial sector and growth markets really standing out. Since 2015, CDPQ has made over $16 billion in infrastructure investments, compared to materializations of $1.5 billion.

$1.7 B
2019 investment results

2019 return

This portfolio recorded investment results of $1.7 billion and an annualized return of 7.1%. Aligned with the long-term expectations of depositors, this performance is below the 17.7% performance of its benchmark index. This difference is due to the benchmark's composition. Made up of over 200 public-company stocks, the benchmark greatly benefited from soaring markets. CDPQ's portfolio, comprised of around forty private assets, targets a lower level of risk and more stable long-term performance. Due to their distinct profiles, a more relevant comparison is over the longer term, as can be seen for the five-year period. In 2019, a major portion of the return was attributable to the growth in value of assets, due to their quality and robust performance. The other portion results from the significant current yield generated during the year.

The infrastructure team completed transactions totalling $4.9 billion in various sectors and regions in 2019, including:

- Vertical Bridge: A 30% stake in the main operating subsidiary of this wireless communications infrastructure leader in the United States, to support its long-term investment strategy.
- Transportadora Associada de Gás (TAG): Acquisition, in partnership with ENGIE, the leading independent electricity producer in Brazil, of a 90% stake (31.5% for CDPQ) in the country's largest natural gas transportation company.
- DP World: Acquisition of a major stake in various ports, including one in Chile at 45%, through the USD $3.7 billion platform created with this port operator in 2016.
- Sydney Metro: A 24.9% share-capital stake in the pubic-private partnership contract for trains, systems, operations and maintenance of the Sydney Metro, the largest public transportation project in Australia, in a $150 million transaction.
- Azure Power Global: A USD 75 million reinvestment through a private placement in this independent Indian leader in solar energy, increasing CDPQ's equity interest from 40.3% to 49.7%.

In addition, CDPQ Infra, CDPQ's infrastructure subsidiary, continued to build the Réseau express métropolitain (REM) in Greater Montréal, with multiple parts of the network under construction, including the construction of nine stations. The project is on track and the first rail tests should begin by the end of 2020.

Investment results table for Real Assets portfolios

As at December 31, 2019		5 years			2019		
Specialized portfolios	Net assets	Investment results	Return	Benchmark	Investment results	Return	Benchmark
	$M	$M	%	%	$M	%	%
Real Estate	39,702	10,164	7.2	8.8	-1,128	-2.7	1.4
Infrastructure	27,779	7,287	9.2	7.8	1,688	7.1	17.7
Real Assets	**67,481**	**17,451**	**8.0**	**8.6**	**560**	**1.0**	**7.2**