Our investment strategy to address climate change

Table of contents

+ 50% by 2020

In the short term:
50% increase in low carbon investments

- 25% by 2025

In the medium term:
25% decrease in GHG emissions per dollar invested

+ investment

Factoring in climate change in each of CDPQ's investment decisions

+ leadership

Strengthening our engagement with the financial sector and companies in our portfolio

Climate change has triggered a transition toward a low carbon economy. Markets are already proposing solutions that are generating profitable investment opportunities. The transition is underway, and CDPQ intends to seize these opportunities, as an investor, and make a constructive contribution.

Investing in light of a changing climate

Climate change impacts the environment, society and the global economy, and these impacts will continue to be important.

The growing consensus on the risks associated with climate change was formalized in the 2015 Paris Agreement, which was signed by 195 countries. In the coming years, the actions that authorities and companies take to accelerate the transition toward a low carbon economy will change markets for companies and investors.

Some markets are already undergoing rapid transformation. Increasing demand for low carbon solutions creates a combination of technological innovation and economies of scale that is changing the array of goods and services available to consumers. All industries are impacted: transportation, real estate, food, electronic goods, etc.

In fact, the risk-return profile is already changing in many sectors and companies. For some industries, this is a major challenge. For others, such as renewable energy, technology, infrastructure and electric transportation, this is already generating significant and profitable investment opportunities.

Fully understanding climate-related risks in order to ensure a stable transition is a new consideration for world-class investors like CDPQ. This is why the G20 Financial Stability Board (FSB) launched an initiative to enable financial institutions to better assess companies' climate-related risks. The first results were reported in spring 2017.

CDPQ's investment strategy sets out targets and means for taking concrete and constructive action, as an investor, in the global challenge that the transition toward a low carbon economy represents.

This is a first step for CDPQ, which will be better positioned to seize profitable investment opportunities and contribute to the fight against climate change.

SUMMARY

Our investment strategy was developed based on an in-depth analysis of best practices among leading institutional investors around the world. One of the results of this analysis is CDPQ's conviction that our economies cannot achieve a sustainable transition by targeting one sector; instead, the climate must be taken into account as a factor in all sectors, and therefore in all of our asset classes.

CDPQ built this strategy based on clear principles: The targets and means adopted should be achievable, measurable and its results reportable on a regular basis. Our targets will support the Paris Agreement.

Our strategy has four pillars:

1. **Factoring in climate change in every investment decision**

   CDPQ is prepared to accept the challenge of implementing this strategy. Over the next eight years, our teams will have to factor in climate change into each of their investment decisions. For example, if CDPQ's assets were to grow 60% by 2025, the climate would be factored into $170 billion of new assets.

2. **Increasing our low carbon investments by 50% by 2020**

   CDPQ is already among the world's largest investors in renewable energy, and it commits to invest even more. As global efforts to fight climate change intensify, many new investment opportunities will materialize in the coming years. In the short term (by 2020), CDPQ will increase its low carbon investments by 50%, which translates into additional investments of over $8 billion. This strategy allows the institution to contribute to the development of a variety of industries with low carbon footprints.

3. **Reducing our carbon footprint by 25% per dollar invested by 2025**

   In the medium term, between 2017 and 2025, CDPQ commits to reducing the carbon intensity of its overall portfolio by 25%. This makes CDPQ the first institutional investor in North America to set a carbon target covering all its asset classes. This means that, with the implementation of this strategy, the target will be fully integrated into CDPQ's investment process.

4. **Exercising stronger leadership**

   Through this strategy, CDPQ also intends to exercise stronger leadership in accounting for climate risk. We will base our work on best practices and promote them to the companies in our portfolio. We will also participate in international initiatives on climate risk reporting and transparency.

Ultimately, to ensure that progress toward these targets can be followed, we will publish audited information on our portfolio's greenhouse gas (GHG) emissions when we publish our annual report.

Four principles

Focused on results, the investment strategy that CDPQ has developed is based on our conviction that economies cannot achieve a sustainable transition by targeting one sector, instead, we must take into account climate change as a factor across industries. This conviction underlies our choice of targets and means, with the goal to make a constructive contribution to this transition.

This choice is also based on four principles that are focused on results. These principles are tied to CDPQ's objective as a world-class investor: to contribute to the transition toward a low carbon economy and seize the profitable investment opportunities it produces.

1. **Achievable**

   CDPQ is adopting a strategy and targets that have been thoroughly evaluated to incorporate the effect that the transition toward a low carbon economy will have on the market outlook.

2. **Measurable**

   It is critical for CDPQ to be able to measure its performance on carbon targets in relation to portfolio performance. The same is true of the effectiveness and sustainability of its action on climate issues.

3. **Transparent**

   We support a variety of initiatives promoting transparency on climate issues. To that end, we firmly believe that clearly communicating our progress on this front must be central to our approach as an investor.

4. **Collaborative**

   Our interactions with local and international stakeholders, as well as with our employees and partners, strengthen our conviction that addressing climate risk will require a shared understanding of the issues as well as a common approach.

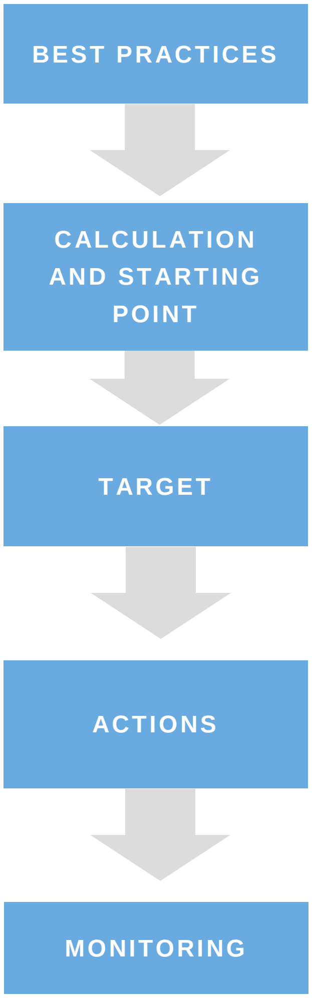
A rigorous process

To build a climate change strategy with both ambitious and achievable targets, we have conducted a thorough review of the financial industry to identify international best practices for a long-term investor in the fight against climate change. Our teams also conducted in-depth analyses of both markets and sectors.

A RISK AND OPPORTUNITY ANALYSIS

As an investor, CDPQ bases its climate change strategy on a rigorous analysis of current and future market risks and opportunities in the various countries where the institution is present.

STEPS OF THE PROCESS



1. Reviewing best practices. By joining international initiatives calling on the financial sector to make climate commitments, and through discussions with its international peers, CDPQ reviewed and identified current best practices. Since industry practices are constantly changing, this exercise will be ongoing.

2. Calculating portfolio carbon footprints and setting a starting point. Calculating GHG emissions related to assets in our portfolios provided a better understanding of CDPQ's carbon footprint. It also allowed us to set our starting point and benchmark year.

3. Defining an overall target for lowering GHG emissions per dollar invested. We analyzed our portfolios and set a GHG emissions intensity reduction target, equipping CDPQ to make a constructive contribution to the transition toward a low carbon economy and act on investment opportunities that generate good returns for our clients.

4. Identifying actions to ensure the reduction of our portfolio's carbon footprint. CDPQ wants to implement actions that empower our teams to achieve targeted results in the most efficient way possible. With flexibility to select the best investments, our teams will be able to meet the significant challenge of achieving their target.

5. Implementing monitoring mechanisms. Reporting on CDPQ's performance on climate matters by definition requires monitoring. We will integrate monitoring mechanisms into our business processes and prepare yearly reporting when we publish our annual report.

Four pillars for a lower carbon portfolio

1. Factoring in climate change in every investment decision

CDPQ commits to factoring climate change into each of our investment decisions. This pillar of our strategy is focused on the efforts and expertise of our investment teams, who will look at various investment opportunities and determine which ones will:

Starting today, CDPQ will factor the climate into each of its investment decisions.

- Contribute to achieving the targets set out by this strategy;
- Generate good returns for our clients.

Climate therefore becomes fully factored into our investment process in the same way risk is.

This commitment is a significant challenge, because the value of our assets will grow considerably over the next eight years. For example, if assets were to grow 60 % over the period this strategy covers, the climate would be factored into the $170 billion that would be added, helping us reach our targets for the overall portfolio.

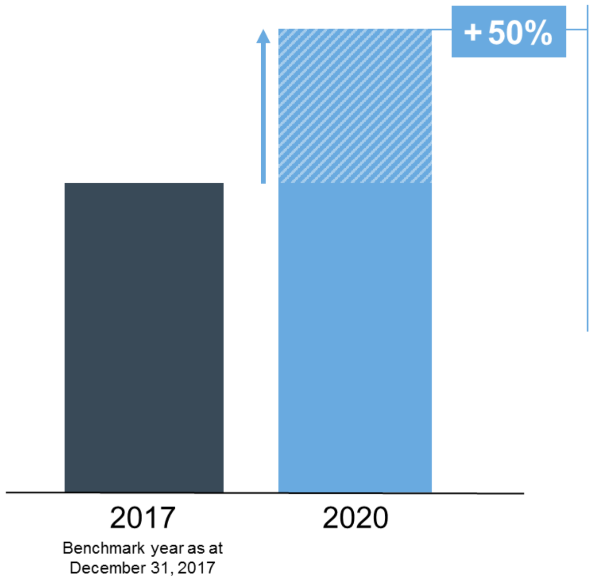
2. Increasing our low carbon investments by 50% by 2020

CDPQ is already one of the world's largest investors in renewable energy, and we resolve to do even more. As global efforts to fight climate change intensify, CDPQ's clients will benefit from the many new investment opportunities that will materialize in the coming years. By 2020, we will increase our low carbon investments by 50% over 2017, representing more than $8 billion. This strategy will enable us to:

In 2020, CDPQ's portfolio will include over $25 billion in low carbon assets.

- Contribute to the development of promising projects in many low carbon footprint sectors;
- Generate good returns for our clients.

GROWTH TARGET FOR LOW CARBON ASSETS



Clean and renewable energy
- Solar
- Wind

Clean infrastructure
- Public transportation
- Smart networks

Energy efficiency
- Energy-efficient buildings
- Residential
- Commercial

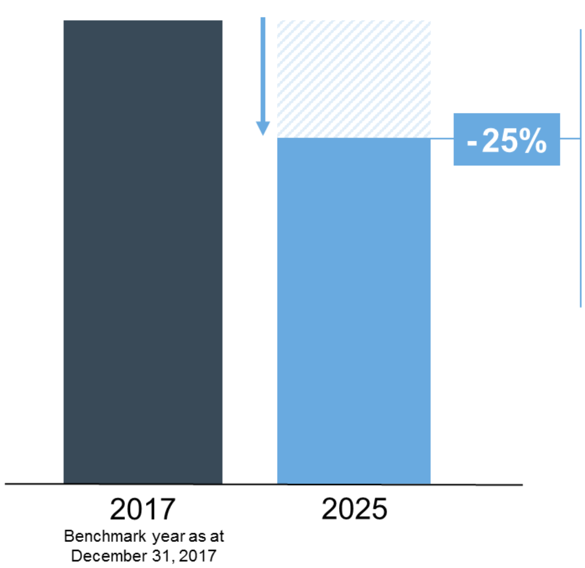
Technology
- Batteries
- Transportation electrification

3. Reducing our carbon footprint by 25% per dollar invested by 2025

CDPQ commits to reducing the carbon intensity of our overall portfolio, namely of our equity markets, private equity, real assets and fixed income portfolios, by 25% between 2017 and 2025 (see page 14 for the methodology). This will make CDPQ the first institutional investor in North America to set a climate target for reducing GHG emission intensity covering all its asset classes.

In 2025, CDPQ will have reduced the carbon intensity of each dollar invested by 25%.

PORTFOLIO CARBON INTENSITY REDUCTION TARGET



Reduction of high carbon assets

Examples:
- Energy (e.g. coal)
- Industrial materials

Addition of low carbon assets

Examples:
- Clean and renewable energy
- Clean infrastructure
- Energy efficiency
- Technology

As part of this strategy, CDPQ will continue reviewing the risk-return profile of our investments and, by 2025, reduce the portfolio’s higher carbon-intense content (e.g. activities related to coal).

Setting carbon intensity budgets by portfolio

CDPQ will set carbon intensity budgets for our various investment portfolios and mandates. These annual budgets, which limit the GHG emissions allowed for a given portfolio, will be established to achieve the target set for 2025.

By allowing our teams the flexibility of selecting investments while respecting carbon budget limits, we strongly believe that our target will be achieved as efficiently as possible. As such, meeting carbon intensity budget targets will influence employee performance appraisal.

CDPQ has based its carbon intensity reduction target on the best practices of members of the international financial community.

A target aligned with the global financial community's best practices

CDPQ's adoption of an intensity-based GHG emissions reduction target, meaning the target is in relation to the overall portfolio's size, meets the orientations of the Task Force on Climate-related Financial Disclosures (TCFD) led by Michael Bloomberg, an initiative supported by CDPQ. TCFD's 32 members from around the world were selected by the Financial Stability Board (FSB) and include various organizations such as banks, insurance companies, asset managers, pension funds and non-financial companies.

The Task Force was set up by the FSB—a group of national and international economic institutions across the G20 that is responsible for monitoring and assessing vulnerabilities in the global financial system and proposing actions to address them—to develop recommendations for efficient disclosure of climate-related information.

This group believes that the use of an intensity measurement is appropriate for investors, as it can be applied to all asset classes in a relatively simple manner. This is well aligned with the international dimension of CDPQ's portfolio. As such, CDPQ will be able to more easily compare its efforts against funds of a similar size and growth profile from around the world.

With its network of international offices, CDPQ invests directly in over 75 countries. As at December 31, 2016, its exposure to global markets was $160 billion, or 59% of its net assets.

4. Exercising stronger leadership

CDPQ will exercise more leadership in advancing the need to account for climate change. This is why we will take a more active role to mobilize various stakeholders. To that end, we are focusing on the following:

CDPQ will exercise stronger leadership by advancing the need to factor in climate change.

- **Engaging actively with companies in our portfolio**

  CDPQ commits to playing an important role for portfolio companies. This means:

  - Discussing climate risk with companies' management and encouraging them to adopt a plan to reduce their GHG emissions; and
  - Supporting shareholder initiatives and proposals aimed at enhancing transparency on climate risk matters and carbon emissions.

- **Applying best practices**

  In developing its position, CDPQ relied on an analysis of practices adopted by comparable funds around the world. We have used a sample of 18 funds totalling over $4.5 trillion to obtain a representative picture of the climate change measures most often adopted. This analysis showed that CDPQ appears to apply a high number of measures on several fronts, such as by establishing targets for reducing the intensity of the carbon footprint and for capital deployment.

- **Improving how companies and assets in the portfolio perform on GHG emissions**

  As a shareholder, CDPQ will play a more active role in supporting portfolio companies in their transition toward a low carbon economy. This could include efforts such as supporting investments tied to modernizing industrial processes to achieve greater energy efficiency.

- **Participating in initiatives targeting transparency on climate change-related issues**

  Climate change is a global issue and requires the active involvement of many from around the world. Addressing climate risk requires a shared understanding of the issues and a joint approach. This is why CDPQ is involved in several international initiatives on climate change, particularly in the financial sector. We strongly believe that information sharing and collaboration are necessary to develop credible standards that will positively influence markets. As such, we support the following organizations and declarations, and work actively to adopt their principles in our operations:

  - <u>Task Force on Climate-related Financial Disclosures</u>

    CDPQ endorses the recommendations of this group, headed by Michael Bloomberg, that collects information on climate-related financial risks for investors, lenders, insurers and other stakeholders. In addition, CDPQ is already applying the Task Force's orientations on setting targets and measures to manage our carbon footprint.

  - <u>Principles for Responsible Investment (PRI)</u>

    These six principles put forward by the UN call for the integration of environmental, social and governance (ESG) factors into investment activities. CDPQ was one of the first institutional investors to integrate the PRI into its activities. By following these principles, we are participating in international efforts to promote this type of investment. To date, there are over 1,800 signatories to the PRI that, together, manage some USD 60 trillion, giving them great influence.

  - <u>Montréal Carbon Pledge</u>

    Launched in Montréal in September 2014, this initiative, backed by the PRI and the United Nations Environment Programme—Finance Initiative (UNEP FI), is intended to formalize the commitment of major investors to better understand, quantify and manage their impact on the climate. To date, over 120 investors from around the world, with assets under management representing more than USD 10 trillion, have committed to measuring and disclosing the carbon footprint of their portfolio.

  - <u>CDP</u>

    Previously known as the Carbon Disclosure Project, CDP runs a global carbon emissions disclosure system. As a participant, CDPQ is a member of a network of investors, companies and public administrations from over 50 countries. CDP helps them measure and manage their environmental impact so they can adopt climate-related best practices.

  - <u>Ceres</u>

    CDPQ is a member of this international organization that works with investors and companies from around the world to build strong leadership. The organization looks into social and environmental issues, including climate change, to find sustainable solutions for the economy.

Adopting carbon pricing

CDPQ also supports the global adoption of carbon pricing mechanisms as a way to more transparently integrate all costs related to using a given energy source.

- **Targeting carbon neutrality**

  To support its position on climate change, CDPQ aims to become carbon neutral by offsetting the carbon emissions arising from our energy consumption and from employee business travel. To achieve this objective, we will fund projects to offset our GHG emissions.

  CDPQ commits to implementing the latest energy-efficiency measures in its buildings and adopting eco-friendly practices for managing material resources and waste materials. Currently, CDPQ's main business office in Montréal is certified LEED EB Gold and BOMA BEST Platinum.

Reporting

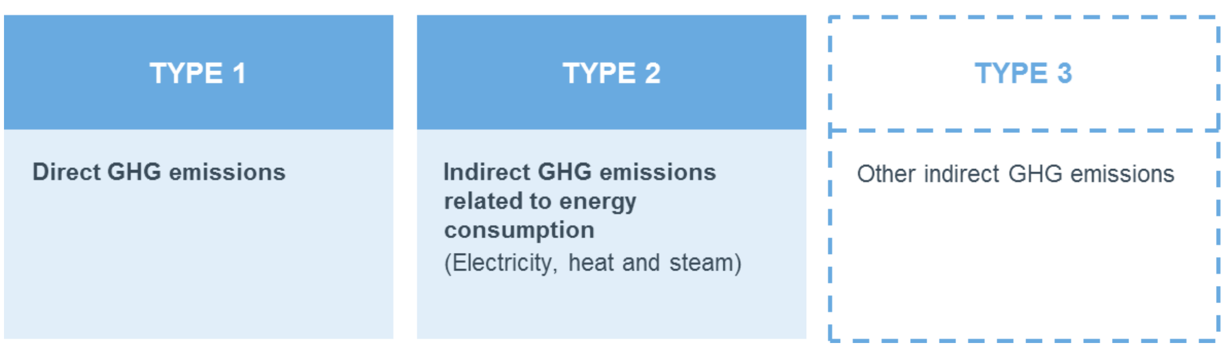
CDPQ will disclose information and data on our portfolio's GHG emissions when we publish our annual report.

This data will illustrate CDPQ's progress toward its objective of reducing its portfolio emissions by 25% per dollar invested by 2025 compared with its benchmark year (2017).

CDPQ's measurement includes the following emissions for all asset classes it holds:

- Type 1: emissions directly produced by a company or asset; and
- Type 2: emissions produced indirectly, such as when a company consumes electricity to generate heat or steam.

TYPES OF GHG EMISSIONS



In the application of this strategy, type 3 emissions are not included in the calculation of CDPQ's portfolio emissions. There is no international consensus on the best methodology to account for these indirect emissions, which are those resulting from a company's activities, but over which the company has no ownership or control.

The methodology used to measure the portfolio's carbon footprint will be consistent with international best practices and validated by CDPQ's auditors as part of their annual audit of our financial information.

Carbon intensity calculation for CDPQ's overall portfolio

CDPQ applies the following formula to calculate our portfolio's carbon intensity:*

$$\text{Total CDPQ intensity} = \frac{\text{Total portfolio } CO_2 \text{ emissions } (tCO_2)}{\text{Total assets } (\$)}$$

*Except for sovereign debt for which the calculation is not defined.

The denominator is CDPQ's total assets, published each year in the disclosure of our financial results as at December 31. The numerator (CO_2 emission associated with CDPQ's portfolio) is calculated as follows:

$$\text{CDPQ portfolio emissions} = \text{Asset } CO_2 \text{ emissions } (tCO_2) \times \frac{\text{CDPQ holdings in equity + LT debt}}{\text{Enterprise value}}$$

This calculation is used to attribute to CDPQ the CO_2 corresponding to the percentage of holdings of the value of a company or asset, which includes its market capitalization and long-term (LT) debt. Adding the CO_2 emissions attributable to each of our investments yields the portfolio's total emissions.