



# INTERIM CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2020 and 2019

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(in millions of Canadian dollars) (unaudited)*

|  | Note | June 30, 2020  | December 31, 2019 |
|--|------|----------------|-------------------|
| <b>ASSETS</b>  |      |                |                   |
| Cash   |      | 1,225          | 994               |
| Amounts receivable from transactions being settled                       |      | 6,150          | 6,223             |
| Advances to depositors   |      | 236            | 960               |
| Investment income, accrued and receivable                                |      | 1,225          | 1,391             |
| Other assets   |      | 937            | 584               |
| Investments  | 3    | 377,402        | 382,467           |
| <b>Total assets</b>  |      | <b>387,175</b> | <b>392,619</b>    |
| <b>LIABILITIES</b>   |      |                |                   |
| Amounts payable on transactions being settled                            |      | 3,622          | 1,537             |
| Other financial liabilities  |      | 1,353          | 1,143             |
| Investment liabilities   | 3    | 49,237         | 49,830            |
| <b>Total liabilities excluding net assets attributable to depositors</b> |      | <b>54,212</b>  | <b>52,510</b>     |
| <b>NET ASSETS ATTRIBUTABLE TO DEPOSITORS</b>                             |      | <b>332,963</b> | <b>340,109</b>    |

The accompanying notes are an integral part of the interim consolidated financial statements.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the six-month periods ended June 30

(in millions of Canadian dollars) (unaudited)

|   | Note | 2020            | 2019    |
|---|------|-----------------|---------|
| Investment income   |      | 5,093           | 5,167   |
| Investment expense  |      | (386)           | (429)   |
| Net investment income   | 6    | 4,707           | 4,738   |
| Operating expenses  |      | (307)           | (315)   |
| <b>Net income</b>   |      | <b>4,400</b>    | 4,423   |
| <b>Net gains (losses) on financial instruments at fair value</b>      | 6    | <b>(12,637)</b> | 13,949  |
| <b>Investment result before distributions to depositors</b>           | 6    | <b>(8,237)</b>  | 18,372  |
| Distributions to depositors   |      | (8,731)         | (7,143) |
| <b>Net income and comprehensive income attributable to depositors</b> |      | <b>(16,968)</b> | 11,229  |

The accompanying notes are an integral part of the interim consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO DEPOSITORS**

For the six-month periods ended June 30

*(in millions of Canadian dollars) (unaudited)*

|  | Demand deposits | Term deposits | Distributions payable to depositors | Participation deposits | Net assets attributable to depositors |
|--|-----------------|---------------|-------------------------------------|------------------------|---------------------------------------|
| Balance as at December 31, 2019                                | 406             | 6             | 2,961                               | 336,736                | 340,109                               |
| <b>Attributions and distributions</b>                          |                 |               |                                     |                        |                                       |
| Net income and comprehensive income attributable to depositors | -               | -             | -                                   | (16,968)               | (16,968)                              |
| Distributions to depositors                                    | 10,113          | -             | (1,382)                             | -                      | 8,731                                 |
| <b>Participation deposits</b>                                  |                 |               |                                     |                        |                                       |
| Issuance of participation deposit units                        | (8,405)         | -             | -                                   | 8,405                  | -                                     |
| Cancellation of participation deposit units                    | 974             | -             | -                                   | (974)                  | -                                     |
| <b>Net deposits</b>  |                 |               |                                     |                        |                                       |
| Net contributions  | 1,091           | -             | -                                   | -                      | 1,091                                 |
| <b>BALANCE AS AT JUNE 30, 2020</b>                             | <b>4,179</b>    | <b>6</b>      | <b>1,579</b>                        | <b>327,199</b>         | <b>332,963</b>                        |

|  | Demand deposits | Term deposits | Distributions payable to depositors | Participation deposits | Net assets attributable to depositors |
|--|-----------------|---------------|-------------------------------------|------------------------|---------------------------------------|
| Balance as at December 31, 2018                                | 712             | 6             | 2,506                               | 306,287                | 309,511                               |
| <b>Attributions and distributions</b>                          |                 |               |                                     |                        |                                       |
| Net income and comprehensive income attributable to depositors | -               | -             | -                                   | 11,229                 | 11,229                                |
| Distributions to depositors                                    | 8,349           | -             | (1,206)                             | -                      | 7,143                                 |
| <b>Participation deposits</b>                                  |                 |               |                                     |                        |                                       |
| Issuance of participation deposit units                        | (10,839)        | -             | -                                   | 10,839                 | -                                     |
| Cancellation of participation deposit units                    | 3,907           | -             | -                                   | (3,907)                | -                                     |
| <b>Net deposits</b>  |                 |               |                                     |                        |                                       |
| Net withdrawals  | (1,149)         | -             | -                                   | -                      | (1,149)                               |
| <b>BALANCE AS AT JUNE 30, 2019</b>                             | <b>980</b>      | <b>6</b>      | <b>1,300</b>                        | <b>324,448</b>         | <b>326,734</b>                        |

The accompanying notes are an integral part of the interim consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the six-month periods ended June 30

*(in millions of Canadian dollars) (unaudited)*

|   | 2020     | 2019     |
|---|----------|----------|
| <b>Cash flows from operating activities</b>                                       |          |          |
| Net income and comprehensive income attributable to depositors                    | (16,968) | 11,229   |
| <b>Adjustments for:</b>   |          |          |
| Unrealized net losses on commercial paper, term notes and loans payable           | 497      | 269      |
| Foreign exchange (gains) losses on commercial paper, term notes and loans payable | 590      | (677)    |
| Distributions to depositors   | 8,731    | 7,143    |
| <b>Net changes in operating assets and liabilities</b>                            |          |          |
| Amounts receivable from transactions being settled                                | 73       | (1,202)  |
| Advances to depositors  | 724      | 739      |
| Investment income, accrued and receivable   | 166      | (96)     |
| Other assets  | (353)    | (408)    |
| Investments   | 6,035    | (32,957) |
| Amounts payable on transactions being settled                                     | 2,085    | 5,673    |
| Other financial liabilities   | 210      | 328      |
| Investment liabilities  | (3,455)  | 7,241    |
|   | (1,665)  | (2,718)  |
| <b>Cash flows from financing activities</b>                                       |          |          |
| Net change in commercial paper payable  | (3,386)  | (2,920)  |
| Issuance of commercial paper payable  | 5,267    | 5,002    |
| Repayment of commercial paper payable   | (5,158)  | (2,903)  |
| Net change in loans payable   | 34       | 417      |
| Issuance of term notes payable  | 6,166    | 5,313    |
| Repayment of term notes payable   | (1,148)  | -        |
| Net contributions (net withdrawals)   | 1,091    | (1,149)  |
|   | 2,866    | 3,760    |
| <b>Net increase in cash and cash equivalents</b>                                  | 1,201    | 1,042    |
| Cash and cash equivalents at the beginning of the period                          | 1,122    | 1,035    |
| <b>Cash and cash equivalents at the end of the period</b>                         | 2,323    | 2,077    |
| <b>Cash and cash equivalents comprise:</b>  |          |          |
| Cash  | 1,225    | 1,135    |
| Cash equivalents  | 1,098    | 942      |
|   | 2,323    | 2,077    |
| <b>Supplemental information on cash flows from operating activities</b>           |          |          |
| Interest and dividends received   | 5,146    | 4,966    |
| Interest paid   | (369)    | (373)    |

The accompanying notes are an integral part of the interim consolidated financial statements.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are presented in millions of Canadian dollars, unless otherwise indicated) (unaudited)

### 1. CONSTITUTION AND NATURE OF OPERATIONS

La Caisse de dépôt et placement du Québec (“la Caisse”), a legal person established in the public interest within the meaning of the *Civil Code* of Québec, is governed by the *Act respecting the Caisse de dépôt et placement du Québec* (CQLR, chapter C-2) (the “Act”).

La Caisse is domiciled in Québec, Canada. Its head office is located at 65 Sainte-Anne St., Québec City, Canada and its main office is located at 1000 Place Jean-Paul-Riopelle, Montréal, Canada.

La Caisse’s mission is to receive moneys on deposit as provided by the Act and to manage them with a view to achieving an optimal return on depositors’ capital within the framework of the depositor investment policies while also contributing to Québec’s economic development.

The Board of Directors approved la Caisse’s interim consolidated financial statements and the publication thereof on August 7, 2020.

#### Interim consolidated financial statements

These interim consolidated financial statements have been prepared for the purposes of presenting la Caisse’s financial position, financial performance and cash flows. La Caisse’s interim consolidated financial statements include the accounts of the General Fund, of the individual funds, and of the specialized portfolios as well as the accounts of its subsidiaries that exclusively offer services related to financing, administrative and management activities. In preparing the interim consolidated financial statements, all intercompany transactions and balances have been eliminated.

#### General Fund

The General Fund comprises cash and cash equivalent activities that include the management of demand deposits, term deposits, and the financing activities of la Caisse.

#### Specialized Portfolios

The specialized portfolios consist of common funds in which the individual funds may invest in the form of participation deposits. La Caisse’s specialized portfolios are as follows:

- |                                |  |
|--------------------------------|--|
| - Short Term Investments (740) | - Real Estate (710)                            |
| - Rates (765)                  | - Equity Markets (737)                         |
| - Credit (766)                 | - Private Equity (780)                         |
| - Long Term Bonds (764)        | - Asset Allocation (771)                       |
| - Real Return Bonds (762)      | - Active Overlay Strategies (773) <sup>1</sup> |
| - Infrastructure (782)         |  |

<sup>1</sup> On January 1, 2020, the Active Overlay Strategies (773) specialized portfolio was wound up. On the same date, the assets and liabilities of this specialized portfolio were transferred at fair value to other specialized portfolios. This winding up had no impact on the net assets and net income and comprehensive income attributable to depositors.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

La Caisse’s interim consolidated financial statements for the six-month periods ended June 30, 2020 and 2019 have been prepared in accordance with IAS 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). The interim consolidated financial statements do not include all of the information and disclosures required in annual financial statements and should be read in conjunction with la Caisse’s annual consolidated financial statements for the years ended December 31, 2019 and 2018.

La Caisse’s interim consolidated financial statements have been prepared using the main significant accounting policies as those used to prepare its annual consolidated financial statements for the years ended December 31, 2019 and 2018.

#### Presentation and measurement basis

La Caisse measures all of its financial instruments, including investments in unconsolidated subsidiaries, joint ventures, associates and structured entities, at fair value through profit or loss (FVTPL). Subsidiaries that solely provide services related to financing, administrative and management activities are consolidated in accordance with the guidance set out in IFRS 10 – *Consolidated Financial Statements*.

The Interim Consolidated Statements of Financial Position are presented based on liquidity.

#### Significant events

The COVID-19 pandemic declared in March by the World Health Organization generated high levels of uncertainty and volatility in the financial markets. As a result, the fair value of certain investments may have fluctuated considerably since December 31, 2019. The significant estimates and assumptions, including those used in measuring investments and analyzing and managing risks, incorporate the pandemic-related uncertainties and factors known to date. Management’s best estimates are reflected in the results presented.

### 3. INVESTMENTS AND INVESTMENT LIABILITIES

#### a) Investments

The following table shows the fair values of the investments. The geographic allocation is determined according to the country of the issuer's principal place of business. The geographic allocation of interests in unconsolidated subsidiaries is determined according to the country of the underlying investments, while the allocation of derivative financial instruments is determined according to the currency in which the instrument will be settled:

|  | June 30, 2020  |                |                | December 31, 2019 |                |                |
|--|----------------|----------------|----------------|-------------------|----------------|----------------|
|  | Canada         | Foreign        | Fair value     | Canada            | Foreign        | Fair value     |
| <b>Investments</b>                                       |                |                |                |                   |                |                |
| <b>Cash equivalents</b>                                  |                |                |                |                   |                |                |
| Short-term investments                                   | 100            | -              | 100            | 27                | -              | 27             |
| Securities purchased under reverse repurchase agreements | 998            | -              | 998            | 101               | -              | 101            |
| <b>Total cash equivalents</b>                            | <b>1,098</b>   | <b>-</b>       | <b>1,098</b>   | <b>128</b>        | <b>-</b>       | <b>128</b>     |
| <b>Fixed-income securities</b>                           |                |                |                |                   |                |                |
| Short-term investments                                   | 8              | 22             | 30             | 64                | 74             | 138            |
| Securities purchased under reverse repurchase agreements | 3,446          | 1,878          | 5,324          | 12                | 3,524          | 3,536          |
| Corporate debt   | 979            | 1,284          | 2,263          | 742               | 1,273          | 2,015          |
| Bonds  |                |                |                |                   |                |                |
| Governments  | 42,518         | 21,083         | 63,601         | 41,969            | 22,042         | 64,011         |
| Government corporations and other public administrations | 6,290          | 603            | 6,893          | 6,425             | 574            | 6,999          |
| Corporate sector   | 12,182         | 8,219          | 20,401         | 11,970            | 6,094          | 18,064         |
| Bond funds   | -              | 2,079          | 2,079          | -                 | 1,603          | 1,603          |
| <b>Total fixed-income securities</b>                     | <b>65,423</b>  | <b>35,168</b>  | <b>100,591</b> | <b>61,182</b>     | <b>35,184</b>  | <b>96,366</b>  |
| <b>Variable-income securities</b>                        |                |                |                |                   |                |                |
| Equities and convertible securities                      |                |                |                |                   |                |                |
| Public companies   | 25,165         | 82,563         | 107,728        | 30,322            | 86,863         | 117,185        |
| Private companies  | 2,982          | 16,082         | 19,064         | 3,317             | 16,001         | 19,318         |
| Hedge funds  | -              | 680            | 680            | -                 | 1,321          | 1,321          |
| <b>Total variable-income securities</b>                  | <b>28,147</b>  | <b>99,325</b>  | <b>127,472</b> | <b>33,639</b>     | <b>104,185</b> | <b>137,824</b> |
| <b>Interests in unconsolidated subsidiaries</b>          |                |                |                |                   |                |                |
| Investments in real estate holdings                      | 15,005         | 31,350         | 46,355         | 17,975            | 31,019         | 48,994         |
| Investments in real estate debt                          | 14,164         | 1,786          | 15,950         | 14,290            | 1,197          | 15,487         |
| Private equity investments                               | 4,249          | 29,272         | 33,521         | 3,945             | 27,972         | 31,917         |
| Infrastructure investments                               | 4,051          | 19,393         | 23,444         | 3,674             | 19,230         | 22,904         |
| Investments in fixed-income securities                   | 3,804          | 16,725         | 20,529         | 4,809             | 14,592         | 19,401         |
| Investments in hedge funds                               | -              | 3,779          | 3,779          | 77                | 4,345          | 4,422          |
| Stock market investments                                 | 959            | 1,349          | 2,308          | 1,039             | 2,230          | 3,269          |
| <b>Total interests in unconsolidated subsidiaries</b>    | <b>42,232</b>  | <b>103,654</b> | <b>145,886</b> | <b>45,809</b>     | <b>100,585</b> | <b>146,394</b> |
| <b>Derivative financial instruments (Note 4)</b>         | <b>35</b>      | <b>2,320</b>   | <b>2,355</b>   | <b>10</b>         | <b>1,745</b>   | <b>1,755</b>   |
| <b>Total investments</b>                                 | <b>136,935</b> | <b>240,467</b> | <b>377,402</b> | <b>140,768</b>    | <b>241,699</b> | <b>382,467</b> |

## b) Investment liabilities

The following table shows the fair values of investment liabilities. The geographic allocation of non-derivative financial liabilities is determined using the country of the issuer's principal place of business, while the allocation of derivative financial instruments is determined according to the currency in which the instrument will be settled:

|   | June 30, 2020 |              |               | December 31, 2019 |               |               |
|---|---------------|--------------|---------------|-------------------|---------------|---------------|
|   | Canada        | Foreign      | Fair value    | Canada            | Foreign       | Fair value    |
| <b>Investment liabilities</b>                     |               |              |               |                   |               |               |
| <b>Non-derivative financial liabilities</b>       |               |              |               |                   |               |               |
| Securities sold under repurchase agreements       | 14,294        | 5,481        | 19,775        | 15,131            | 8,396         | 23,527        |
| Securities sold short                             |               |              |               |                   |               |               |
| Equities  | 92            | 7            | 99            | 104               | 15            | 119           |
| Bonds   | 1,250         | 1,950        | 3,200         | 172               | 3,496         | 3,668         |
| Commercial paper payable                          | 5,618         | -            | 5,618         | 8,794             | -             | 8,794         |
| Loans payable                                     | 64            | 326          | 390           | 149               | 219           | 368           |
| Term notes payable                                | 18,348        | -            | 18,348        | 12,332            | -             | 12,332        |
| <b>Total non-derivative financial liabilities</b> | <b>39,666</b> | <b>7,764</b> | <b>47,430</b> | <b>36,682</b>     | <b>12,126</b> | <b>48,808</b> |
| <b>Derivative financial instruments (Note 4)</b>  | <b>30</b>     | <b>1,777</b> | <b>1,807</b>  | <b>27</b>         | <b>995</b>    | <b>1,022</b>  |
| <b>Total investment liabilities</b>               | <b>39,696</b> | <b>9,541</b> | <b>49,237</b> | <b>36,709</b>     | <b>13,121</b> | <b>49,830</b> |

## 4. DERIVATIVE FINANCIAL INSTRUMENTS

The following table shows the fair values and the notional amounts of the derivative financial instruments held by la Caisse:

|   | June 30, 2020 |              |                 | December 31, 2019 |              |                 |
|---|---------------|--------------|-----------------|-------------------|--------------|-----------------|
|   | Assets        | Fair value   | Notional amount | Assets            | Fair value   | Notional amount |
|   |               | Liabilities  |                 |                   | Liabilities  |                 |
| <b>Exchange markets</b>                       |               |              |                 |                   |              |                 |
| <b>Interest rate derivatives</b>              |               |              |                 |                   |              |                 |
| Futures contracts                             | -             | -            | 51,767          | -                 | -            | 69,325          |
| <b>Equity derivatives</b>                     |               |              |                 |                   |              |                 |
| Futures contracts                             | -             | -            | 15,898          | -                 | -            | 19,204          |
| Options                                       | 23            | -            | 969             | -                 | -            | -               |
| Warrants                                      | 2             | -            | 3               | 6                 | -            | 51              |
| <b>Commodity derivatives</b>                  |               |              |                 |                   |              |                 |
| Futures contracts                             | -             | -            | 754             | 2                 | 3            | 777             |
| <b>Total exchange markets</b>                 | <b>25</b>     | <b>-</b>     | <b>69,391</b>   | <b>8</b>          | <b>3</b>     | <b>89,357</b>   |
| <b>Over-the-counter markets</b>               |               |              |                 |                   |              |                 |
| <b>Interest rate derivatives</b>              |               |              |                 |                   |              |                 |
| Swaps   | 329           | -            | 2,155           | 177               | -            | 5,974           |
| Swaps settled through a clearing house        | -             | -            | 67,025          | -                 | -            | 80,525          |
| Forward contracts                             | 35            | 17           | 535             | 10                | 10           | 1,459           |
| Options                                       | 44            | 62           | 11,496          | 174               | 214          | 41,329          |
| <b>Currency derivatives</b>                   |               |              |                 |                   |              |                 |
| Swaps   | 49            | 153          | 7,511           | 62                | 53           | 5,492           |
| Forward contracts                             | 1,512         | 925          | 119,677         | 894               | 413          | 80,848          |
| Options                                       | 38            | 99           | 14,265          | 151               | 36           | 24,191          |
| <b>Credit default derivatives</b>             |               |              |                 |                   |              |                 |
| Swaps settled through a clearing house        | -             | -            | 36,602          | -                 | -            | 31,043          |
| Options                                       | 29            | -            | 11,231          | 3                 | -            | 4,742           |
| <b>Equity derivatives</b>                     |               |              |                 |                   |              |                 |
| Swaps   | 134           | 162          | 7,404           | 112               | 144          | 9,697           |
| Forward contracts                             | -             | 73           | 1,071           | -                 | -            | -               |
| Options                                       | 155           | 277          | 19,309          | 164               | 149          | 22,916          |
| Warrants                                      | 5             | -            | 10              | -                 | -            | 2               |
| <b>Commodity derivatives</b>                  |               |              |                 |                   |              |                 |
| Options                                       | -             | 39           | 2,052           | -                 | -            | -               |
| <b>Total over-the-counter markets</b>         | <b>2,330</b>  | <b>1,807</b> | <b>300,343</b>  | <b>1,747</b>      | <b>1,019</b> | <b>308,218</b>  |
| <b>Total derivative financial instruments</b> | <b>2,355</b>  | <b>1,807</b> | <b>369,734</b>  | <b>1,755</b>      | <b>1,022</b> | <b>397,575</b>  |

## 5. FAIR VALUE MEASUREMENT

### a) Policy, directive, protocols and procedures related to fair value measurement

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined for each financial instrument, which could be a stand-alone asset or liability (e.g., a share or bond) or a group of assets and liabilities (e.g., an ownership interest in a subsidiary or associate). Upon initial recognition, the best evidence of the fair value of a financial instrument is the transaction price, which is the fair value of the consideration received or given. Subsequently, the fair value of a financial instrument is obtained using quoted prices on active markets. When there are no quoted prices, fair value is determined using valuation techniques based on observable and unobservable inputs. La Caisse applies appropriate valuation techniques based on a financial instrument's characteristics, the availability of inputs, and the assumptions that would be used by market participants, focusing on maximizing the use of relevant observable inputs while minimizing the use of unobservable inputs.

The policy and directive as well as the protocols and procedures related to fair value measurement, as well as the fair value valuation techniques, are described in la Caisse's annual consolidated financial statements for the years ended December 31, 2019 and 2018. There have been no significant changes since that time. The fair value measurement policy, directive, protocols and procedures have been applied consistently to all the periods.

The main estimates and assumptions used to measure the fair value of financial instruments classified in Level 3 of the fair value hierarchy are subject to a high level of uncertainty caused by the COVID-19 pandemic. The fair value measurement of these financial instruments reflects the potential impacts of the current crisis and could fluctuate significantly. Given the uncertainties, the fair value range of the financial instruments could exceed the range shown in the sensitivity analysis in Note 5e.

### b) Fair value hierarchy

La Caisse's financial instruments at FVTPL are classified according to the below-described fair value hierarchy, based on the lowest level of significant input used in measuring fair value.

*Level 1:* The fair value calculation of the financial instrument is based on observable prices (unadjusted) in active markets that the entity can access at the measurement date for identical assets or liabilities.

*Level 2:* The fair value of the financial instrument is calculated using valuation techniques for which the significant inputs are observable, either directly or indirectly.

*Level 3:* The fair value of the financial instrument is calculated using valuation techniques for which the significant inputs are unobservable. This level includes financial instruments whose valuation is based on prices observed for similar financial instruments, substantially adjusted to reflect the characteristics specific to the financial instrument being measured and available market data.

## Fair value hierarchy (cont.)

Classification into the fair value hierarchy levels is determined upon initial measurement of the financial instrument and is reviewed on each subsequent measurement date. Transfers between levels of the fair value hierarchy are measured at fair value at the beginning of each fiscal year.

The fair value hierarchy levels of financial instruments are determined on a given date and are influenced by the market factors prevailing on that date. Consequently, the classifications by level can vary significantly from one period to the next.

The following tables show an allocation of the fair value of financial instruments into the three levels of the fair value hierarchy:

|  | June 30, 2020  |                |                |                |
|--|----------------|----------------|----------------|----------------|
|  | Level 1        | Level 2        | Level 3        | Total          |
| <b>Financial assets</b>  |                |                |                |                |
| Amounts receivable from transactions being settled                           | -              | 6,150          | -              | 6,150          |
| Advances to depositors   | -              | 236            | -              | 236            |
| Investment income, accrued and receivable                                    | -              | 1,225          | -              | 1,225          |
| Investments  |                |                |                |                |
| Cash equivalents   | -              | 1,098          | -              | 1,098          |
| Short-term investments   | -              | 30             | -              | 30             |
| Securities purchased under reverse repurchase agreements                     | -              | 5,324          | -              | 5,324          |
| Corporate debt   | -              | -              | 2,263          | 2,263          |
| Bonds  | 50,342         | 41,676         | 956            | 92,974         |
| Equities and convertible securities  |                |                |                |                |
| Public companies   | 107,080        | 510            | 138            | 107,728        |
| Private companies  | -              | 3,650          | 15,414         | 19,064         |
| Hedge funds  | -              | 650            | 30             | 680            |
| Interests in unconsolidated subsidiaries                                     |                |                |                |                |
| Investments in real estate holdings  | -              | 9,998          | 36,357         | 46,355         |
| Investments in real estate debt  | -              | 12,834         | 3,116          | 15,950         |
| Private equity investments   | -              | -              | 33,521         | 33,521         |
| Infrastructure investments   | -              | -              | 23,444         | 23,444         |
| Investments in fixed-income securities                                       | -              | 3,913          | 16,616         | 20,529         |
| Investments in hedge funds   | -              | 3,779          | -              | 3,779          |
| Stock market investments   | -              | 959            | 1,349          | 2,308          |
| Derivative financial instruments   | 24             | 2,331          | -              | 2,355          |
|  | <b>157,446</b> | <b>94,363</b>  | <b>133,204</b> | <b>385,013</b> |
| <b>Financial liabilities excluding net assets attributable to depositors</b> |                |                |                |                |
| Amounts payable on transactions being settled                                | -              | 3,622          | -              | 3,622          |
| Other financial liabilities  | -              | 1,353          | -              | 1,353          |
| Investment liabilities   |                |                |                |                |
| Securities sold under repurchase agreements                                  | -              | 19,775         | -              | 19,775         |
| Securities sold short  | 3,295          | -              | 4              | 3,299          |
| Commercial paper payable   | -              | 5,618          | -              | 5,618          |
| Loans payable  | -              | 390            | -              | 390            |
| Term notes payable   | -              | 18,348         | -              | 18,348         |
| Derivative financial instruments   | -              | 1,794          | 13             | 1,807          |
|  | <b>3,295</b>   | <b>50,900</b>  | <b>17</b>      | <b>54,212</b>  |
| <b>Net assets attributable to depositors</b>                                 |                |                |                |                |
| Demand deposits  | -              | 4,179          | -              | 4,179          |
| Term deposits  | -              | 6              | -              | 6              |
| Distributions payable to depositors  | -              | 1,579          | -              | 1,579          |
| Participation deposits   | -              | 327,199        | -              | 327,199        |
|  | <b>-</b>       | <b>332,963</b> | <b>-</b>       | <b>332,963</b> |

## Fair value hierarchy (cont.)

December 31, 2019

|  | Level 1 | Level 2 | Level 3 | Total   |
|--|---------|---------|---------|---------|
| <b>Financial assets</b>  |         |         |         |         |
| Amounts receivable from transactions being settled                           | -       | 6,223   | -       | 6,223   |
| Advances to depositors   | -       | 960     | -       | 960     |
| Investment income, accrued and receivable                                    | -       | 1,391   | -       | 1,391   |
| Investments  |         |         |         |         |
| Cash equivalents   | -       | 128     | -       | 128     |
| Short-term investments   | -       | 138     | -       | 138     |
| Securities purchased under reverse repurchase agreements                     | -       | 3,536   | -       | 3,536   |
| Corporate debt   | -       | -       | 2,015   | 2,015   |
| Bonds  | 63,550  | 26,409  | 718     | 90,677  |
| Equities and convertible securities  |         |         |         |         |
| Public companies   | 115,487 | 616     | 1,082   | 117,185 |
| Private companies  | -       | 2,722   | 16,596  | 19,318  |
| Hedge funds  | -       | 1,078   | 243     | 1,321   |
| Interests in unconsolidated subsidiaries                                     |         |         |         |         |
| Investments in real estate holdings  | -       | 9,304   | 39,690  | 48,994  |
| Investments in real estate debt  | -       | 12,386  | 3,101   | 15,487  |
| Private equity investments   | -       | -       | 31,917  | 31,917  |
| Infrastructure investments   | -       | -       | 22,904  | 22,904  |
| Investments in fixed-income securities                                       | -       | 3,273   | 16,128  | 19,401  |
| Investments in hedge funds   | -       | 4,422   | -       | 4,422   |
| Stock market investments   | -       | 1,039   | 2,230   | 3,269   |
| Derivative financial instruments   | 8       | 1,747   | -       | 1,755   |
|  | 179,045 | 75,372  | 136,624 | 391,041 |
| <b>Financial liabilities excluding net assets attributable to depositors</b> |         |         |         |         |
| Amounts payable on transactions being settled                                | -       | 1,537   | -       | 1,537   |
| Other financial liabilities  | -       | 1,143   | -       | 1,143   |
| Investment liabilities   |         |         |         |         |
| Securities sold under repurchase agreements                                  | -       | 23,527  | -       | 23,527  |
| Securities sold short  | 1,167   | 2,614   | 6       | 3,787   |
| Commercial paper payable   | -       | 8,794   | -       | 8,794   |
| Loans payable  | -       | 368     | -       | 368     |
| Term notes payable   | -       | 12,332  | -       | 12,332  |
| Derivative financial instruments   | 3       | 1,007   | 12      | 1,022   |
|  | 1,170   | 51,322  | 18      | 52,510  |
| <b>Net assets attributable to depositors</b>                                 |         |         |         |         |
| Demand deposits  | -       | 406     | -       | 406     |
| Term deposits  | -       | 6       | -       | 6       |
| Distributions payable to depositors  | -       | 2,961   | -       | 2,961   |
| Participation deposits   | -       | 336,736 | -       | 336,736 |
|  | -       | 340,109 | -       | 340,109 |

### c) Level 3: Reconciliation between opening and closing balances

For financial instruments classified in Level 3 of the hierarchy, reconciliations between the opening and closing balances as at June 30, 2020 and 2019 are as follows:

|   |   |   |           |         |             |           |   | 2020  |  |
|---|---|---|-----------|---------|-------------|-----------|---|---|--|
|   | Opening balance<br>(assets/(liabilities)) | Gains (losses)<br>recognized in<br>comprehensive<br>income <sup>2</sup> | Purchases | Sales   | Settlements | Transfers | Closing balance<br>(assets/(liabilities)) | Unrealized gains<br>(losses) on<br>financial<br>instruments<br>held at<br>period-end <sup>2 and 3</sup> |  |
| Corporate debt                                | 2,015                                     | 37  | 289       | -       | (78)        | -         | 2,263                                     | (22)  |  |
| Bonds   | 718                                       | (18)  | 350       | (88)    | (6)         | -         | 956                                       | (41)  |  |
| Equities and convertible securities           | 17,921                                    | (1,316)   | 443       | (550)   | -           | (916)     | 15,582                                    | (1,455)   |  |
| Interests in unconsolidated subsidiaries      | 115,970                                   | (5,788)   | 5,503     | (1,282) | -           | -         | 114,403                                   | (6,218)   |  |
| Derivative financial instruments <sup>1</sup> | (12)                                      | (1)   | -         | -       | -           | -         | (13)                                      | (1)   |  |
| Securities sold short                         | (6)                                       | 2   | -         | -       | -           | -         | (4)                                       | 4   |  |

#### Transfers between levels of the fair value hierarchy

As at June 30, 2020, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of \$14,493 million were transferred from Level 1 to Level 2 and \$1,046 million from Level 2 to Level 1. In addition, due to the loss of significant influence in an associate whose securities are listed, financial instruments with a value of \$916 million were transferred from Level 3 to Level 1.

|   |   |   |           |         |             |           |   | 2019  |  |
|---|---|---|-----------|---------|-------------|-----------|---|---|--|
|   | Opening balance<br>(assets/(liabilities)) | Gains (losses)<br>recognized in<br>comprehensive<br>income <sup>2</sup> | Purchases | Sales   | Settlements | Transfers | Closing balance<br>(assets/(liabilities)) | Unrealized gains<br>(losses) on<br>financial<br>instruments<br>held at<br>period-end <sup>2 and 3</sup> |  |
| Corporate debt                                | 2,073                                     | 1   | 130       | (58)    | (184)       | (169)     | 1,793                                     | 31  |  |
| Bonds   | 722                                       | 23  | 377       | (16)    | (6)         | -         | 1,100                                     | 58  |  |
| Equities and convertible securities           | 16,260                                    | (71)  | 2,743     | (1,285) | -           | (326)     | 17,321                                    | 272   |  |
| Interests in unconsolidated subsidiaries      | 97,473                                    | (1,741)   | 8,452     | (947)   | -           | -         | 103,237                                   | (1,044)   |  |
| Derivative financial instruments <sup>1</sup> | (20)                                      | (2)   | -         | -       | 10          | -         | (12)                                      | (2)   |  |
| Securities sold short                         | (8)                                       | 2   | -         | -       | -           | -         | (6)                                       | 1   |  |

<sup>1</sup> The assets and liabilities related to derivative financial instruments are presented on a net basis.

<sup>2</sup> Presented under "Net gains (losses) on financial instruments at fair value" in the Interim Consolidated Statements of Comprehensive Income. The gains (losses) recognized in comprehensive income include realized and unrealized foreign exchange gains (losses) on financial instruments.

<sup>3</sup> Includes the change in fair value resulting from measuring financial instruments denominated in their original currency in and excludes the amounts of gains (losses) resulting from translating financial instruments denominated in foreign currencies. Due to a change in presentation, an unrealized foreign exchange loss of \$1,227 million was removed from "Unrealized gains (losses) on financial instruments held at period-end" for the period ended June 30, 2019, given that this amount was already included in "Gains (losses) recognized in comprehensive income." This change in presentation did not have an impact on net income and comprehensive income attributable to depositors.

#### Transfers between levels of the fair value hierarchy

As at June 30, 2019, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of \$166 million were transferred from Level 2 to Level 1, \$164 million from Level 2 to Level 3, and \$659 million from Level 3 to Level 2.

**d) Level 3: Fair value measurement based on reasonably possible alternative assumptions**

The following tables show quantitative information on the primary valuation techniques and unobservable inputs for the main financial instruments classified in Level 3 of the fair value hierarchy that are subject to the sensitivity analysis in Note 5e as well as those that are excluded from the analysis:

|  | June 30, 2020  |                                  |                              |                          |
|--|----------------|----------------------------------|------------------------------|--------------------------|
|  | Fair value     | Valuation techniques             | Unobservable inputs          | Range (weighted average) |
| <b>Included in the sensitivity analysis</b>            |                |                                  |                              |                          |
| Corporate debt   | 1,929          | Discounted cash flows            | Credit spreads               | 0.9% to 4.1%<br>(2.1%)   |
|  |                |                                  | Discount rates               | 6.0% to 12.8%<br>(9.5%)  |
| Equities and convertible securities                    |                |                                  |                              |                          |
| Private equity investments                             | 4,903          | Comparable company multiples     | EBITDA multiples             | 7.3 to 15.5<br>(11.5)    |
| Infrastructure investments                             | 4,796          | Discounted cash flows            | Discount rates               | 6.0% to 13.3%<br>(9.7%)  |
| Interests in unconsolidated subsidiaries               |                |                                  |                              |                          |
| Investments in real estate holdings                    | 36,357         | Discounted cash flows            | Discount rates               | 4.4% to 13.5%<br>(6.4%)  |
|  |                |                                  | Credit spreads               | 0.0% to 9.5%<br>(2.2%)   |
|  |                | Capitalization of revenue        | Capitalization rates         | 2.4% to 10.5%<br>(5.3%)  |
|  |                | Net real estate assets           | Discounts to net asset value | 0.0% to 14.0%<br>(4.0%)  |
| Private equity investments                             | 14,332         | Comparable company multiples     | EBITDA multiples             | 6.3 to 15.0<br>(12.2)    |
| Infrastructure investments                             | 19,403         | Discounted cash flows            | Discount rates               | 6.0% to 14.3%<br>(9.4%)  |
| Investments in fixed-income securities                 | 11,391         | Discounted cash flows            | Discount rates               | 7.8%                     |
|  |                |                                  | Credit spreads               | 1.3% to 13.4%<br>(4.7%)  |
|  | 93,111         |                                  |                              |                          |
| <b>Excluded from the sensitivity analysis</b>          |                |                                  |                              |                          |
| Financial instruments <sup>1</sup>                     | 40,076         | Recent transactions <sup>2</sup> | n.a.                         | n.a.                     |
|  |                | Broker quotes <sup>3</sup>       | n.a.                         | n.a.                     |
|  |                | Net assets <sup>3</sup>          | n.a.                         | n.a.                     |
| <b>Net financial instruments classified in Level 3</b> | <b>133,187</b> |                                  |                              |                          |

n.a.: not applicable

<sup>1</sup> The fair value of the financial instruments presented in this item includes corporate debt, bonds, equities and convertible securities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.

<sup>2</sup> When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, la Caisse did not conduct a sensitivity analysis.

<sup>3</sup> When fair value is determined using broker quotes or net asset value, this value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

### Level 3: Fair value measurement based on reasonably possible alternative assumptions (cont.)

December 31, 2019

|  | Fair value | Valuation techniques             | Unobservable inputs          | Range (weighted average) |
|--|------------|----------------------------------|------------------------------|--------------------------|
| <b>Included in the sensitivity analysis</b>            |            |                                  |                              |                          |
| Corporate debt   | 1,713      | Discounted cash flows            | Credit spreads               | 0.4% to 2.4% (1.5%)      |
|  |            |                                  | Discount rates               | 6.0% to 9.3% (6.9%)      |
| <b>Equities and convertible securities</b>             |            |                                  |                              |                          |
| Private equity investments                             | 6,833      | Comparable company multiples     | EBITDA multiples             | 8.7 to 16.0 (11.7)       |
| Infrastructure investments                             | 5,311      | Discounted cash flows            | Discount rates               | 6.0% to 9.8% (8.7%)      |
| <b>Interests in unconsolidated subsidiaries</b>        |            |                                  |                              |                          |
| Investments in real estate holdings                    | 39,690     | Comparable company multiples     | Price-to-book value ratios   | 1.05                     |
|  |            | Discounted cash flows            | Discount rates               | 4.0% to 13.5% (6.4%)     |
|  |            |                                  | Credit spreads               | 0.0% to 9.8% (1.6%)      |
|  |            | Capitalization of revenue        | Capitalization rates         | 2.7% to 10.5% (5.3%)     |
|  |            | Net real estate assets           | Discounts to net asset value | 0.0% to 8.0% (2.3%)      |
| Private equity investments                             | 12,001     | Comparable company multiples     | EBITDA multiples             | 9.0 to 17.0 (12.4)       |
| Infrastructure investments                             | 16,983     | Discounted cash flows            | Discount rates               | 6.0% to 13.8% (9.2%)     |
| Investments in fixed-income securities                 | 9,894      | Discounted cash flows            | Discount rates               | 6.9%                     |
|  |            |                                  | Credit spreads               | 1.1% to 8.5% (3.6%)      |
|  | 92,425     |                                  |                              |                          |
| <b>Excluded from the sensitivity analysis</b>          |            |                                  |                              |                          |
| Financial instruments <sup>1</sup>                     | 44,181     | Recent transactions <sup>2</sup> | n.a.                         | n.a.                     |
|  |            | Broker quotes <sup>3</sup>       | n.a.                         | n.a.                     |
|  |            | Net assets <sup>3</sup>          | n.a.                         | n.a.                     |
| <b>Net financial instruments classified in Level 3</b> | 136,606    |                                  |                              |                          |

n.a.: not applicable

<sup>1</sup> The fair value of the financial instruments presented in this item includes corporate debt, bonds, equities and convertible securities, interests in unconsolidated subsidiaries, derivative financial instruments, and securities sold short.

<sup>2</sup> When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, la Caisse did not conduct a sensitivity analysis.

<sup>3</sup> When fair value is determined using broker quotes or net asset value, this value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

**e) Sensitivity analysis of fair value**

The following analysis shows the sensitivity of fair value measurements to reasonably possible alternative assumptions for the significant unobservable inputs shown in the tables preceding Note 5d. La Caisse identified reasonably possible alternative assumptions using its judgment and knowledge of the markets. The following table shows the increases and decreases in fair value that would result from these alternative assumptions for the main financial instruments classified in Level 3 of the fair value hierarchy that are subject to a sensitivity analysis:

|                           | June 30, 2020 |          | December 31, 2019 |          |
|---------------------------|---------------|----------|-------------------|----------|
|                           | Increase      | Decrease | Increase          | Decrease |
| Sensitivity of fair value | 6,779         | (5,825)  | 6,263             | (5,609)  |

There is a correlation between unobservable inputs and the determination of fair value. Therefore, an increase (decrease) in discount rates, credit spreads, capitalization rates and discounts to net asset value would result in a decrease (increase) in fair value. Furthermore, an increase (decrease) in EBITDA multiples and price-to-book value ratios would result in an increase (decrease) in fair value. There is no predictable correlation between unobservable inputs.

## 6. INVESTMENT RESULT BEFORE DISTRIBUTIONS TO DEPOSITORS

The following table shows the net investment income, net gains (losses) on financial instruments at FVTPL as well as operating expenses:

|   | Six-month period ended June 30,<br>2020 |                       |                | Six-month period ended June 30,<br>2019 |                       |               |
|---|---|-----------------------|----------------|---|-----------------------|---------------|
|   | Net investment<br>income                | Net<br>gains (losses) | Total          | Net investment<br>income                | Net<br>gains (losses) | Total         |
| <b>Cash management activities</b>                           | 6                                       | 1                     | 7              | 25                                      | (4)                   | 21            |
| <b>Investing activities</b>                                 |   |                       |                |   |                       |               |
| Short-term investments                                      | -                                       | 5                     | 5              | 1                                       | (6)                   | (5)           |
| Securities purchased under reverse repurchase agreements    | 46                                      | 205                   | 251            | 54                                      | (190)                 | (136)         |
| Corporate debt  | 49                                      | 37                    | 86             | 46                                      | 23                    | 69            |
| Bonds   | 1,244                                   | 5,620                 | 6,864          | 1,307                                   | 3,985                 | 5,292         |
| Equities and convertible securities                         | 1,920                                   | (10,323)              | (8,403)        | 2,241                                   | 11,064                | 13,305        |
| Interests in unconsolidated subsidiaries                    | 1,826                                   | (4,838)               | (3,012)        | 1,490                                   | (1,622)               | (132)         |
| Net derivative financial instruments                        | -                                       | (725)                 | (725)          | -                                       | 471                   | 471           |
| Other   | 2                                       | 52                    | 54             | 3                                       | (33)                  | (30)          |
|   | <b>5,093</b>                            | <b>(9,966)</b>        | <b>(4,873)</b> | <b>5,167</b>                            | <b>13,688</b>         | <b>18,855</b> |
| <b>Investment liability activities</b>                      |   |                       |                |   |                       |               |
| Securities sold under repurchase agreements                 | (116)                                   | (824)                 | (940)          | (159)                                   | 272                   | 113           |
| Securities sold short                                       | (22)                                    | (333)                 | (355)          | (29)                                    | (214)                 | (243)         |
| <b>Financing activities</b>                                 |   |                       |                |   |                       |               |
| Commercial paper payable                                    | -                                       | (352)                 | (352)          | -                                       | 132                   | 132           |
| Loans payable   | (2)                                     | (24)                  | (26)           | (2)                                     | 10                    | 8             |
| Term notes payable  | (211)                                   | (998)                 | (1,209)        | (203)                                   | 183                   | (20)          |
| <b>Other</b>  |   |                       |                |   |                       |               |
| External management fees                                    | (35)                                    | (30)                  | (65)           | (36)                                    | (20)                  | (56)          |
| Transaction costs   | -                                       | (110)                 | (110)          | -                                       | (102)                 | (102)         |
|   | <b>(386)</b>                            | <b>(2,671)</b>        | <b>(3,057)</b> | <b>(429)</b>                            | <b>261</b>            | <b>(168)</b>  |
|   | <b>4,707</b>                            | <b>(12,637)</b>       | <b>(7,930)</b> | <b>4,738</b>                            | <b>13,949</b>         | <b>18,687</b> |
| Operating expenses  |   |                       | (307)          |   |                       | (315)         |
| <b>Investment result before distributions to depositors</b> |   |                       | <b>(8,237)</b> |   |                       | <b>18,372</b> |

## 7. SEGMENT INFORMATION

La Caisse enables its depositors to allocate their funds to specialized portfolios that hold securities of the same type. These portfolios represent operating segments that have been grouped into three separate segments according to management approach, economic characteristics, and performance targets:

- **Fixed Income:** This segment's objective is to reduce the overall risk level of la Caisse's portfolio and match its depositors' assets and liabilities while providing a significant source of liquidity. This segment consists of the Rates, Credit, Short Term Investments, Long Term Bonds, and Real Return Bonds specialized portfolios.
- **Real Assets:** This segment's objective is to expose la Caisse to markets for which investment income is indexed to inflation and to partially hedge the inflation risk associated with the liabilities of several depositors. This segment consists of the Real Estate and Infrastructure specialized portfolios.
- **Equities:** This segment's objective is to increase the depositors' long-term target returns. This segment consists of the Equity Markets and Private Equity specialized portfolios.

The following table shows the allocation of net assets attributable to depositors according to each Caisse segment:

|  | June 30, 2020  | December 31, 2019 |
|--|----------------|-------------------|
| Fixed Income                                 | 101,669        | 102,890           |
| Real Assets                                  | 64,748         | 67,481            |
| Equities                                     | 160,674        | 167,117           |
| Other <sup>1</sup>                           | 5,872          | 2,621             |
| <b>Net assets attributable to depositors</b> | <b>332,963</b> | 340,109           |

The following table shows the allocation of the investment result before distributions to depositors for each Caisse segment:

|   | Six-month period<br>ended<br>June 30, 2020 | Six-month period<br>ended<br>June 30, 2019 |
|---|--|--|
| Fixed Income  | 3,972                                      | 6,432                                      |
| Real Assets   | (5,107)                                    | (931)                                      |
| Equities  | (8,365)                                    | 12,607                                     |
| Other <sup>1</sup>  | 1,263                                      | 264  |
| <b>Investment result before distributions to depositors</b> | <b>(8,237)</b>                             | 18,372                                     |

<sup>1</sup> The Other item includes the Active Overlay Strategies (wound up on January 1, 2020) and Asset Allocation specialized portfolios, cash activities, and the customized operations of individual funds, which consist of direct holdings of derivative financial instruments by the individual funds for the management of the desired exposure by each depositor.

## 8. RISK IDENTIFICATION AND MANAGEMENT

### Risk management policies, directives and procedures related to investment activities

La Caisse is responsible for managing deposits in accordance with service agreements and depositor investment policies, the investment policies for specialized portfolios and the integrated risk management policy. To do so, it has implemented various policies, directives, and procedures to oversee the management of the risks relating to its operations.

In addition to the risk management policies, directives and procedures related to the investment activities described in la Caisse's annual consolidated financial statements for the years ended December 31, 2019 and 2018, a description and quantification of the risks are presented in the following sections.

### Market risk

Market risk is the risk of financial loss arising from fluctuations in the fair value of financial instruments. Volatility in financial instrument prices stems from changes in market risk factors, in particular interest rates, credit spreads, exchange rates, share prices and commodity prices. La Caisse uses derivative financial instruments to manage market risks.

La Caisse manages all market risks according to an integrated approach for all specialized portfolios. The main factors contributing to risk, such as industry sector, geographic region and issuer, are taken into account. La Caisse's market risks are managed and calculated according to factors that can influence the fair value of investments and investment liabilities.

La Caisse measures its market risk using Value-at-Risk (VaR), which is based on a statistical estimate of the volatility of the fair value of each position and of correlations between market risk factors. VaR is a statistical estimate of the potential financial loss that could be incurred by la Caisse's actual portfolio, based on a predetermined confidence level and a given exposure period. The market VaR is estimated with a 95% confidence level over an exposure period of one year. To summarize, VaR indicates the level of loss that the actual portfolio of la Caisse could exceed in 5% of cases. La Caisse estimates VaR for each instrument held in its specialized portfolios and aggregates the information for la Caisse's actual portfolio.

The historical-simulation method is used to measure VaR. This method is described in la Caisse's annual consolidated financial statements for the years ended December 31, 2019 and 2018. Effective January 1, 2020, la Caisse revised its observation history of the risk factors used to calculate VaR. A risk factor observation history over a period from 2006 to date is now being used to assess the volatility of returns and the correlation between the performance of financial instruments rather than a fixed number of 3,000 days. In addition, the data used for certain categories of financial instruments to calculate VaR was also changed. The comparative VaR as at December 31, 2019 was recalculated to reflect these changes.

Two risk measures are calculated and analyzed:

- The absolute risk of the actual portfolio represents the total risk associated with the categories of financial instruments that make up la Caisse's actual portfolio.
- The absolute risk of the benchmark portfolio targeted by depositors represents the total risk of the benchmark indexes associated with the categories of financial instruments that make up la Caisse's benchmark portfolio.

The absolute risks of la Caisse's actual and benchmark portfolios are measured regularly and used to calculate the absolute risk ratio, which is subject to certain limitations. The absolute risk ratio is obtained by dividing the absolute risk of the actual portfolio by the absolute risk of the benchmark portfolio.

The absolute risk of the actual portfolio and the absolute risk of the benchmark portfolio, including the risk associated with the underlying investments of unconsolidated subsidiaries whose risk is managed by la Caisse, as a percentage of net assets, according to a 95% confidence level and an observation history over a period from 2006 to date, as well as the absolute risk ratio are as follows:

|               | June 30, 2020                         |  |                     | December 31, 2019                     |  |                     |
|---------------|---------------------------------------|--|---------------------|---------------------------------------|--|---------------------|
|               | Absolute risk of the actual portfolio | Absolute risk of the benchmark portfolio | Absolute risk ratio | Absolute risk of the actual portfolio | Absolute risk of the benchmark portfolio | Absolute risk ratio |
| Value at risk | 13.8%                                 | 13.7%                                    | 1.01                | 13.0%                                 | 13.1%                                    | 0.99                |

Moreover, when managing market risk, la Caisse uses stress tests that allow it to evaluate the consequences of specific circumstances on the returns of la Caisse's actual portfolio based on historical, hypothetical or risk factor sensitivity scenarios. Using various types of scenarios, stress tests measure the gains or losses in value of a financial instrument following a change in one or more often-related risk factors, such as share prices, interest rates, rate spreads, exchange rates, commodity prices and market volatility. The hypothetical scenarios are also continuously enriched to integrate new issues, such as the impact of the COVID-19 pandemic on the global economy.

## Market risk (cont.)

### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk is integrated into the VaR measurement.

La Caisse uses a dynamic management approach for the main currencies of developed countries. Dynamic management is used to protect certain specialized portfolios when the Canadian dollar appears to be significantly undervalued or overvalued compared to its equilibrium value according to the valuation models. Dynamic hedging should therefore be less frequent, but the duration of the hedge, being unforeseeable, may vary widely and last for a few weeks to several months. Certain specialized portfolios may therefore be partially hedged against foreign exchange risk.

To strategically manage currency risk, la Caisse uses currency derivatives to manage its exposure to the main currencies of developed countries according to hedging targets. For other currencies, a discretionary hedge may be implemented to manage the foreign currency exposures of the portfolios or of certain investments. Moreover, currency risk can be managed by way of natural hedging activities, including the financing of investments in the same currency.

The net exposure to foreign currencies takes into account the effects of currency derivatives, natural hedging and the underlying investments in currencies of unconsolidated subsidiaries whose currency risk is managed by la Caisse. La Caisse's net exposure to foreign currencies, as a percentage of net assets including purchases and cancellations of participation units of the specialized portfolios completed at the beginning of each month, is as follows:

|                 | June 30, 2020 | December 31, 2019 |
|-----------------|---------------|-------------------|
| Canadian dollar | 59%           | 50%               |
| U.S. dollar     | 15%           | 21%               |
| Euro            | 5%            | 7%                |
| Pound sterling  | 4%            | 4%                |
| Mexican peso    | 2%            | 2%                |
| Yen             | 1%            | 1%                |
| Other           | 14%           | 15%               |
|                 | 100%          | 100%              |

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk is integrated into the VaR measurement.

### Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors that affect all similar financial instruments traded on the market. This risk is integrated into the VaR measurement.

## Concentration risk

La Caisse analyzes overall concentration risk for the entire group of specialized portfolios it manages. The integrated risk management policy sets out exposure limits according to category of financial instrument and according to issuer for growth markets and for certain countries. Moreover, the investment policies of the specialized portfolios set out specific limits for each issuer, industry sector, and geographic region.

The concentration limit by issuer is 3% of la Caisse's total assets, with the exception of securities issued by the Canadian or U.S. governments or by their agencies and that feature an explicit guarantee or those issued by a Canadian province or territory of Canada or a ministry or agency thereof or by sovereign issuers rated AAA, which are not included in the concentration limit. Concentration by issuer is monitored monthly or upon initiation of a transaction requiring approval of the Investment-Risk Committee or the Board of Directors, as appropriate.

The following table shows the principal geographic concentrations as a percentage of total net exposure, established according to the country of the issuers' principal place of business, after the effects of certain derivative financial instruments and including the underlying investments in unconsolidated subsidiaries whose concentration risk is managed by la Caisse:

|                | June 30, 2020 | December 31, 2019 |
|----------------|---------------|-------------------|
| United States  | 37%           | 33%               |
| Canada         | 32%           | 34%               |
| Europe         | 13%           | 14%               |
| Growth markets | 13%           | 14%               |
| Other          | 5%            | 5%                |
|                | <b>100%</b>   | <b>100%</b>       |

The following table shows the principal industry sector concentrations as a percentage of total net exposure, established according to the industry sector in which the issuers operate, after the effects of certain derivative financial instruments and including the underlying investments in unconsolidated subsidiaries whose concentration risk is managed by la Caisse:

|  | June 30, 2020 | December 31, 2019 |
|--|---------------|-------------------|
| <b>Industry sector</b>   |               |                   |
| Real estate  | 15%           | 17%               |
| Industrials  | 11%           | 11%               |
| Financials   | 9%            | 10%               |
| Consumer discretionary   | 6%            | 5%                |
| Information technology   | 6%            | 6%                |
| Consumer staples   | 5%            | 4%                |
| Health care  | 5%            | 5%                |
| Utilities  | 5%            | 5%                |
| Real estate debt   | 4%            | 4%                |
| Energy   | 4%            | 4%                |
| Telecommunication services   | 4%            | 4%                |
| Materials  | 2%            | 2%                |
| Other  | 2%            | 3%                |
| <b>Government sector</b>   |               |                   |
| Government of the United States                                    | 8%            | 7%                |
| Government of Canada   | 6%            | 6%                |
| Government of Québec   | 3%            | 3%                |
| Government corporations and other public administrations in Québec | 2%            | 2%                |
| Other  | 3%            | 2%                |
|  | <b>100%</b>   | <b>100%</b>       |

## Credit risk

Credit risk is the possibility of incurring a loss in value should a borrower, endorser, or guarantor experience a deterioration in financial position, fail to meet an obligation to repay a loan or fail to meet any other financial commitment.

Maximum credit risk exposure is measured based on the fair value of financial instruments without taking into account guarantees or other credit enhancements. For the other items, the maximum exposure to credit risk is the total amount guaranteed or committed.

The following table shows the maximum exposure to credit risk:

|  | June 30, 2020  | December 31, 2019 |
|--|----------------|-------------------|
| Cash   | 1,225          | 994               |
| Amounts receivable from transactions being settled                       | 6,150          | 6,223             |
| Advances to depositors   | 236            | 960               |
| Investment income, accrued and receivable                                | 1,225          | 1,391             |
| Investments  |                |                   |
| Cash equivalents   | 1,098          | 128               |
| Fixed-income securities  | 100,591        | 96,366            |
| Interests in unconsolidated subsidiaries in the form of debt instruments | 29,502         | 28,189            |
| Derivative financial instruments   | 2,355          | 1,755             |
|  | <b>142,382</b> | 136,006           |
| <b>Other items</b>   |                |                   |
| Financial guarantees ( <i>Note 10</i> )                                  | 654            | 616               |
|  | <b>143,036</b> | 136,622           |

## Concentration of credit risk

A credit risk concentration analysis measures the fair value of all financial instruments related to a same issuer. The investment policy of the specialized portfolios sets out concentration limits according to credit rating. The credit risk analysis considers the probability of default and the recovery rate on debt securities held by la Caisse and monitors changes in the credit quality of issuers.

The following table shows the credit risk concentration according to the credit ratings of issuers of fixed-income securities and certain derivative financial instruments used to manage credit risk, as a percentage of the total exposure to credit concentration risk:

|                      | June 30, 2020 | December 31, 2019 |
|----------------------|---------------|-------------------|
| <b>Credit rating</b> |               |                   |
| AAA – AA             | 57%           | 64%               |
| A                    | 8%            | 5%                |
| BBB                  | 16%           | 11%               |
| BB or lower          | 15%           | 16%               |
| No credit rating     | 4%            | 4%                |
|                      | <b>100%</b>   | 100%              |

The credit ratings of securities issued or guaranteed by governments are obtained from recognized credit rating agencies. For corporate sector securities, credit ratings are determined using an internal rating process that monitors changes in the credit cycle annually when the necessary information is available. Otherwise, la Caisse uses recognized credit rating agencies.

## Liquidity risk

Liquidity risk is the possibility of la Caisse not always being able to honour its financial liability commitments without having to obtain funds at abnormally high prices or having to sell assets through forced liquidation. It is also the risk of la Caisse not being able to quickly sell investments without having a significant unfavourable effect on the price of the investment in question.

Liquidity is managed across all of la Caisse's cash activities. Compliance with the established rules is analyzed on a monthly basis, and the liquidity status is determined daily. Managers are responsible for evaluating the liquidity of the markets in which la Caisse obtains financing for its operations.

To ensure that sources of liquidity and potential liquidity requirements are properly aligned, la Caisse has a number of sources of liquidity in addition to its cash and cash equivalents, including receipt of investment income, the sale of bonds, sales under repurchase agreements, and liquid money market securities. In addition, la Caisse may issue commercial paper and term notes payable as well as a committed credit facility totalling US\$4 billion to meet its contractual commitments and financial obligations. As at June 30, 2020, la Caisse had close to \$49 billion in liquidity in the form of government bonds and money market securities (\$46 billion as at December 31, 2019).

Furthermore, to manage liquidity risk, la Caisse conducts simulations of scenarios over different horizons and examines events that could lead to a liquidity crisis. La Caisse rigorously and frequently monitors its potential liquidity needs and proactively ensures permanent access to stable and resilient sources of liquidity. La Caisse has a sufficient liquidity reserve to meet the needs and uncertainties caused by the COVID-19 pandemic.

An analysis of undiscounted contractual cash flows of financial liabilities, shown in the table below, is a component of liquidity and financing management. However, this by-maturity allocation is not necessarily representative of the manner in which la Caisse manages its liquidity risk and financing requirements.

The following tables show the maturities of the undiscounted contractual cash flows of non-derivative financial liabilities, derivative financial instruments and other items:

|   | June 30, 2020 |                  |                   |                   | Total     |
|---|---------------|------------------|-------------------|-------------------|-----------|
|   | On demand     | Less than 1 year | 1 year to 5 years | More than 5 years |           |
| <b>Non-derivative financial liabilities</b>   |               |                  |                   |                   |           |
| Amounts payable on transactions being settled | -             | (3,622)          | -                 | -                 | (3,622)   |
| Other financial liabilities                   | -             | (921)            | (67)              | (459)             | (1,447)   |
| Investment liabilities                        |               |                  |                   |                   |           |
| Securities sold under repurchase agreements   | -             | (19,809)         | -                 | -                 | (19,809)  |
| Securities sold short                         | -             | (3,299)          | -                 | -                 | (3,299)   |
| Commercial paper payable                      | -             | (5,621)          | -                 | -                 | (5,621)   |
| Loans payable                                 | -             | (406)            | -                 | -                 | (406)     |
| Term notes payable                            | -             | (4,118)          | (12,602)          | (2,986)           | (19,706)  |
| <b>Net assets attributable to depositors</b>  |               |                  |                   |                   |           |
| Demand and term deposits                      | (4,179)       | (6)              | -                 | -                 | (4,185)   |
| Distributions payable to depositors           | -             | (1,579)          | -                 | -                 | (1,579)   |
|   | (4,179)       | (39,381)         | (12,669)          | (3,445)           | (59,674)  |
| <b>Derivative financial instruments</b>       |               |                  |                   |                   |           |
| Derivative instruments with net settlement    | -             | (334)            | 130               | 209               | 5         |
| Derivative instruments with gross settlement  |               |                  |                   |                   |           |
| Contractual cash flows receivable             | -             | 132,298          | 4,211             | 1,218             | 137,727   |
| Contractual cash flows payable                | -             | (131,666)        | (4,261)           | (1,297)           | (137,224) |
|   | -             | 298              | 80                | 130               | 508       |
| <b>Other items</b>                            |               |                  |                   |                   |           |
| Commitments (Note 10)                         | (8)           | (24,715)         | (74)              | (416)             | (25,213)  |
| Financial guarantees (Note 10)                | -             | (173)            | (433)             | (48)              | (654)     |
|   | (8)           | (24,888)         | (507)             | (464)             | (25,867)  |
|   | (4,187)       | (63,971)         | (13,096)          | (3,779)           | (85,033)  |

## Liquidity risk (cont.)

December 31, 2019

|   | On demand | Less than<br>1 year | 1 year<br>to 5 years | More than<br>5 years | Total     |
|---|-----------|---------------------|----------------------|----------------------|-----------|
| <b>Non-derivative financial liabilities</b>         |           |                     |                      |                      |           |
| Amounts payable on transactions being settled       | -         | (1,537)             | -                    | -                    | (1,537)   |
| Other financial liabilities                         | -         | (677)               | (59)                 | (465)                | (1,201)   |
| <b>Investment liabilities</b>                       |           |                     |                      |                      |           |
| Securities sold under repurchase agreements         | -         | (23,577)            | -                    | -                    | (23,577)  |
| Securities sold short                               | -         | (3,787)             | -                    | -                    | (3,787)   |
| Commercial paper payable                            | -         | (8,822)             | -                    | -                    | (8,822)   |
| Loans payable                                       | -         | (368)               | -                    | -                    | (368)     |
| Term notes payable                                  | -         | (2,487)             | (8,648)              | (2,955)              | (14,090)  |
| <b>Net assets attributable to depositors</b>        |           |                     |                      |                      |           |
| Demand and term deposits                            | (406)     | (6)                 | -                    | -                    | (412)     |
| Distributions payable to depositors                 | -         | (2,961)             | -                    | -                    | (2,961)   |
|   | (406)     | (44,222)            | (8,707)              | (3,420)              | (56,755)  |
| <b>Derivative financial instruments</b>             |           |                     |                      |                      |           |
| Derivative instruments with net settlement          | -         | (57)                | 62                   | 109                  | 114       |
| <b>Derivative instruments with gross settlement</b> |           |                     |                      |                      |           |
| Contractual cash flows receivable                   | -         | 102,277             | 4,143                | 1,342                | 107,762   |
| Contractual cash flows payable                      | -         | (101,694)           | (4,102)              | (1,491)              | (107,287) |
|   | -         | 526                 | 103                  | (40)                 | 589       |
| <b>Other items</b>                                  |           |                     |                      |                      |           |
| Commitments (Note 10)                               | (9)       | (19,713)            | (74)                 | (411)                | (20,207)  |
| Financial guarantees (Note 10)                      | -         | (106)               | (305)                | (205)                | (616)     |
|   | (9)       | (19,819)            | (379)                | (616)                | (20,823)  |
|   | (415)     | (63,515)            | (8,983)              | (4,076)              | (76,989)  |

Moreover, concerning net assets attributable to depositors, the *Regulation respecting the terms and conditions of deposits, funds and portfolios of the Caisse* states that la Caisse may set monthly limits for cancelling participation units, i.e., a depositor is limited to a maximum reimbursement of all their participation units in all of la Caisse's specialized portfolios of \$50 million. Any participation units that are not cancelled given the maximum amount permitted is carried forward to the first day of the subsequent month and are cancelled as soon as the limit permits. The purpose of the limits is to ensure optimal management of la Caisse's overall liquidity. Moreover, substantially all depositors are required to invest with la Caisse in accordance with the Act or the respective applicable legislation.

## Liquidity risk (cont.)

### Financing-liquidity risk

The following tables show the main terms and conditions and interest rates of the investment liabilities related to la Caisse's financing activities:

|                          | <b>June 30, 2020</b> |                            |                    |               |
|--------------------------|----------------------|----------------------------|--------------------|---------------|
|                          | Currency             | Nominal value <sup>1</sup> | Maturity           | Interest rate |
| Loans payable            | USD                  | 406                        | Less than one year | 0.87%         |
|                          |                      | 406                        |                    |               |
| Commercial paper payable | CAD                  | 837                        | Less than one year | 0.64%         |
|                          | USD                  | 4,785                      | Less than one year | 0.99%         |
|                          |                      | 5,622                      |                    |               |
| Term notes payable       | CAD                  | 1,000                      | July 2020          | 4.60%         |
|                          | USD                  | 2,724                      | June 2021          | 2.13%         |
|                          | USD                  | 2,724                      | March 2022         | 2.75%         |
|                          | USD                  | 2,724                      | April 2023         | 1.00%         |
|                          | USD                  | 2,724                      | July 2024          | 3.15%         |
|                          | USD                  | 3,405                      | June 2025          | 0.88%         |
|                          | USD                  | 1,703                      | November 2039      | 5.60%         |
|                          |                      | 17,004                     |                    |               |

|                          | December 31, 2019 |                            |                    |               |
|--------------------------|-------------------|----------------------------|--------------------|---------------|
|                          | Currency          | Nominal value <sup>1</sup> | Maturity           | Interest rate |
| Loans payable            | USD               | 368                        | Less than one year | 2.28%         |
|                          |                   | 368                        |                    |               |
| Commercial paper payable | CAD               | 1,000                      | Less than one year | 1.77%         |
|                          | USD               | 7,823                      | Less than one year | 1.90%         |
|                          |                   | 8,823                      |                    |               |
| Term notes payable       | EUR               | 1,092                      | June 2020          | 3.50%         |
|                          | CAD               | 1,000                      | July 2020          | 4.60%         |
|                          | USD               | 2,594                      | June 2021          | 2.13%         |
|                          | USD               | 2,594                      | March 2022         | 2.75%         |
|                          | USD               | 2,594                      | July 2024          | 3.15%         |
|                          | USD               | 1,621                      | November 2039      | 5.60%         |
|                          |                   | 11,495                     |                    |               |

<sup>1</sup> The amounts shown are translated into Canadian dollars and represent amounts to be repaid at maturity.

Commercial paper payable is issued at fixed rates, with maturities not exceeding 12 months, guaranteed by la Caisse's assets. The nominal value for all outstanding commercial paper may never exceed CA\$3 billion and US\$10 billion in accordance with the limit prescribed in the commercial paper issuance information document.

Term notes payable are repayable at maturity and guaranteed by la Caisse's assets. Certain interest-bearing fixed-rate term notes have an optional prepayment clause at the option of the issuer.

Furthermore, la Caisse has a committed credit facility with a banking syndicate for an amount of CA\$5 billion, i.e., in two tranches of US\$2 billion that are renewable annually for terms of two and three years, respectively. The credit facility bears interest at a variable rate and is entirely secured, unconditionally and irrevocably, by la Caisse. As at June 30, 2020 and as at December 31, 2019, no amount had been drawn on this credit facility.

## 9. RELATED PARTY DISCLOSURES

### Related party transactions

La Caisse's primary related parties include unconsolidated subsidiaries, joint ventures, associates, and la Caisse's key management personnel.

La Caisse enters into various transactions with related parties. These transactions are concluded under the same conditions as those prevailing in the market with unrelated parties and are measured at fair value. Given the very nature of la Caisse's activities as an investment entity, it may make investments in several investment categories, including investments in unconsolidated subsidiaries, joint ventures and associates.

### Other related parties

La Caisse is governed by the Act, and the Government of Québec appoints the Board of Director members, at least two-thirds of whom must be independent. The Government of Québec also approves the appointment of the President and Chief Executive Officer. Consequently, la Caisse has availed itself of the exemption set out in IAS 24 – *Related Party Disclosures* regarding the disclosure of transactions with a related government and with any entities related to the related government. The transactions carried out with the Government of Québec and its related entities are investment activities involving bonds issued by or guaranteed by the government and are carried out under normal market conditions through external brokers.

## 10. COMMITMENTS AND FINANCIAL GUARANTEES

Given the nature of its activities, la Caisse enters into various investment purchase commitments that will be settled in the coming years in accordance with the terms and conditions in the related agreements.

For la Caisse, financial guarantees consist of providing guarantees, to financial institutions and corporations, on derivative financial instrument transactions, repayment of loans taken by companies in which it has an economic interest, and certain letters of credit of its subsidiaries. As part of certain investment transactions, la Caisse may also provide guarantees or issue letters of credit to third parties. The maturities of the commitments and financial guarantees are presented in Note 8.

The commitments and financial guarantees are detailed as follows:

|                                 | June 30, 2020 | December 31, 2019 |
|---------------------------------|---------------|-------------------|
| Investment purchase commitments | 24,703        | 19,702            |
| Commitments under leases        | 510           | 505               |
| Financial guarantees            | 654           | 616               |
|                                 | <b>25,867</b> | 20,823            |

### Litigation

In the normal course of business, la Caisse may be subject to legal action. Although la Caisse cannot predict the outcomes of any ongoing legal proceedings as at June 30, 2020, it has no reason to believe that the settlement of any one of these proceedings could have a material impact on its financial position.