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La Caisse publishes its 2018 Annual Report

The quality and resilience of la Caisse's portfolio generate performance superior to its index.

Montréal, April 16, 2019 – Caisse de dépôt et placement du Québec today released its annual report for the year ended December 31, 2018.

In addition to a detailed analysis of the financial results announced on February 21, 2018, the report provides a review of its activities. Below are the highlights:

TEN-YEAR PERFORMANCE

- Annualized return of 9.2%.
- Net assets grew from \$120.1 billion in 2009 to \$309.5 billion in 2018, with \$171.6 billion in net investment results.
- The proportion of assets in international markets increased from 36% in 2009 to 64% in 2018.

FIVE-YEAR PERFORMANCE

- Annualized return of 8.4% and net asset growth of \$109.4 billion from net investment results of \$98.7 billion and net deposits of \$10.7 billion.
- Each of the three asset classes contributed significantly to la Caisse's overall return, which exceeded its benchmark index. This difference represents \$16.7 billion in value added.
- The returns of the eight main clients ranged from 7.6% to 9.2%.

2018 PERFORMANCE

- Overall return of 4.2% in 2018, higher than the benchmark and representing \$5.3 billion in added value.
- Net assets increased \$11.0 billion due to net investment results of \$11.8 billion, offset by net depositor withdrawals of \$0.8 billion.
- The returns of the eight main clients ranged from 3.7% to 4.4%.

LA CAISSE'S IMPACT IN QUÉBEC

- Assets in Québec's private sector total \$44.3 billion, up \$11.8 billion in five years.
- Partner of over 775 companies, including some 685 SMEs.
- New investments and commitments of \$21.2 billion over five years, including \$7.3 billion in 2018.
- 40% of transactions in 2018 were in new economy sectors.
- Several concrete achievements under each pillar of la Caisse's strategy in Québec, including:

- Growth-creating projects: Beginning of construction on all branches of the REM; continued revitalization of downtown Montréal with the Projet Nouveau Centre (a \$1-billion investment).
- Growth and globalization: Investments in AddÉnergie, Ocean Group, Plusgrade and Transcontinental, in addition to the launch of *Cheffes de file*, an initiative to support the growth of companies owned by women.
- Innovation and the next generation: Investments in Breather and Hopper, and support for BFL Canada and Frank And Oak to implement technology solutions that support their growth.

GLOBALIZATION

- Globalization of la Caisse's activities, one of the pillars of its strategy, which is reflected in:
 - Diversifying assets on a global scale, with exposure to international markets representing 64% at the end of 2018, up around \$116 billion from December 31, 2013.
 - Higher annual returns of over 2%, which represent over \$25 billion in additional returns over five years.
 - Increased and beneficial exposure to the United States, increased investments in Asia Pacific and Latin America, including in infrastructure in Mexico and Colombia.
 - Strengthened approach to strategic partnerships in development and growth markets with the implementation of a dedicated team.

LESS-LIQUID ASSETS AND CREDIT

- Transactions valued at over \$31 billion were concluded as part of the strategy to increase our investments in less-liquid assets and credit:
 - In infrastructure, investments totalled \$5.8 billion, including increasing our stake in renewable energy leaders in North America and India.
 - In private equity, over \$9 billion deployed internationally, with major investments in sustainable industry in Europe and the United States, as well as in commercial real estate services in Canada.
 - In real estate, transaction volume totalled \$16.6 billion and portfolio repositioning accelerated with a significant increase in investment in the fast-growing industrial and logistics sector.
 - In credit, increased and diversified activities through loans for the construction of telecommunication towers in the United States, the acquisition of solar energy assets in Spain and optimizing the capital structure of a Québec insurance leader.

RISK MANAGEMENT

- In 2018, market risk was stable and slightly below that of the benchmark portfolio.
- During the year, several stress tests demonstrated the portfolio's resilience relative to the market under various scenarios.
- Market movements at the end of the year showed that the portfolio is as resilient as expected and that the strategy protected depositors' assets.

STEWARDSHIP INVESTING

- To accompany its Annual Report, la Caisse recently published its second Stewardship Investing Report, which sets out its vision and commitment to priority topics:
 - Climate Change: Strategy to address climate change that aims for a transition toward a low-carbon economy
 - Governance
 - Women in Business
 - International Taxation
 - Community Involvement
- With regard to the fight against climate change, la Caisse outperformed its target with the addition of \$10 billion in low-carbon assets in 2018, prompting it to raise the target for 2020.
- The portfolio's carbon intensity decreased 10% in 2018, which is on track to achieve the 25% target for 2025.
- The electronic version of the Stewardship Investing Report is available at https://www.cdpq.com/sites/default/files/medias/pdf/en/ra/id2018_rapport_investissement_durable_en.pdf

COMPENSATION

The principles forming the foundation of the compensation program for all Caisse employees, in Québec and in international offices, are the same:

Main objectives (page 88 of the Annual Report)

- Pay for performance by offering incentive compensation aligned with the returns delivered to depositors.
- Offer competitive compensation to attract, motivate and retain employees with experience and expertise that allow la Caisse to achieve its strategic objectives.
- Link the interests of management and depositors to focus their individual and team contributions on the long-term success of la Caisse.

Implementation and application

- Rigorous benchmarking of reference markets by a renowned independent firm, Willis Towers Watson, and studies on positions based outside of Canada by the firm McLagan.
- At the request of the Board of Directors, validation of the equitable application of the compensation program was led by an independent consulting firm, Hugessen Consulting, specialized in compensation in the pension fund universe.
- Review of each employee's performance under a rigorous evaluation process to determine incentive compensation.
- A component related to achieving carbon intensity reduction targets was added for the first time in 2018 as part of la Caisse's investment strategy to address climate change.

Mandatory co-investment thresholds

- To foster better alignment of employees' interests with la Caisse's long-term sustained success, a significant portion of total incentive compensation for management and senior professionals is deferred over a three-year period, in compliance with Canada Revenue Agency rules, which require disbursing this amount after this period.

The minimum thresholds must be deposited into a co-investment account for employees with direct influence on la Caisse's organizational and financial performance:

- At least 55% of the total incentive compensation of senior executives – or more than half of their incentive compensation – thereby strengthening the alignment of executives' interests with those of depositors and making this measure even more stringent than current industry practices.
 - 35% of total incentive compensation for vice-president and intermediate and senior-level investment employees.
 - 25% of total incentive compensation for other senior management and professionals.
- Amounts deferred in 2018 and to be disbursed in 2021 are at risk, as they vary upward or downward with la Caisse's average absolute overall return for the period.
 - This year, employees (including senior executives), as part of the incentive compensation program, deferred \$35.9 million until 2021. Employees of la Caisse's international offices deferred \$11 million to the co-investment portfolio.
 - Co-invested incentive compensation was disbursed in 2018, pursuant to program conditions and applicable tax rules. Amounts co-invested by the most highly compensated executives reporting to the Chief Executive Officer in 2015 and disbursed in 2018 are presented in Table 39 of page 97 of the 2018 Annual Report.

Incentive compensation

- Since 2016, performance has been measured over a five-year period, to further strengthen sustained performance over the long term.
- Including incentive compensation, total compensation for la Caisse's employees in 2018 was slightly below the median of reference markets for superior performance over five years, as the annualized return was 8.4%, which corresponds to \$16.7 billion of value added compared to the benchmark portfolio (page 90).
- Pursuant to la Caisse's strategy to deliver sustained performance over the long term, the following table provides the context in which 2018 incentive compensation was awarded to la Caisse's employees, compared to the cumulative value added, including a deferred portion, which fluctuates upward and downward based on future returns.
- Presenting total compensation awarded provides a better understanding of the alignment with la Caisse's performance.
- The increase in incentive compensation awarded from 2017 to 2018 mainly stems from sustained returns, increase in the number of investment professionals – particularly in international markets – and performance resulting from the global markets strategy.
- La Caisse's exposure to international markets now represents 64% of the portfolio, and generates beneficial returns for its depositors. Over five years, investments in international markets significantly stimulated returns – around 2.8% more annually – representing over \$25 billion.
- La Caisse also generated conclusive results over the last five years in Québec, with over \$21 billion in new investments and commitments during the period.

Year	Net Assets (as at December 31)	Annualized Return (5 years)	Cumulative Value Added (5 years)	Incentive Compensation Awarded – Québec	Incentive Compensation Awarded – International Subsidiaries	Total Incentive Compensation Awarded
2018	\$309.5 B	8.4%	\$16.7 B	\$106.8 M	\$36.7 M	\$143.5 M
2017	\$298.5 B	10.2%	\$12.2 B	\$100.3 M	\$21.4 M	\$121.7 M
2016	\$270.7 B	10.2%	\$12.3 B	\$91.0 M	\$18.5 M	\$109.5 M

Compensation for 2018 reflects sound management and tight control over expenses, as shown by the following:

- La Caisse’s operating expenses and external management fees were stable in 2018 compared to 2017, and at 22 cents per \$100 of average assets, represent a ratio that compares favourably to that of its industry.
- Around 90% of la Caisse’s assets are managed internally, representing an average saving of five times the cost of externally managing these assets.
- Each \$1,000 in value added generated over five years by la Caisse has been steady at a cost of less than \$0.04 in incentive compensation for employees since 2014.
- For each \$1,000 of five-year average return, the total compensation cost was stable at \$0.01 for each from 2014 and 2018.
- Senior executive compensation is an average of 45% lower than the maximum of reference markets (see tables on pages 94 and 100).

“In markets that are as demanding as they are uncertain, la Caisse’s steadfast strategy and solid portfolio once again generated solid returns for depositors and Quebecers. To deliver this performance, la Caisse needs to be able to rely on the best talent in a highly competitive market, here and internationally”, stated Robert Tessier, Chairman of the Board of Directors of la Caisse.

Compensation of the President and Chief Executive Officer

Base salary and direct compensation

- At his request, Mr. Sabia has received no salary increase since he was appointed in 2009. His base salary remained unchanged in 2017 and 2018.

Incentive compensation and co-investment

- In accordance with policies that emphasize achievement of la Caisse’s business objectives and its performance, the Board of Directors is of the opinion that “Mr. Sabia has continued to deliver remarkable performance and has greatly surpassed the objectives that were set for him.”
- Mr. Sabia received \$1,320,000 of his 2018 incentive compensation and chose to defer \$1,980,000 into the co-investment account. The value of this amount will be increased or decreased according to la Caisse’s average absolute return over the three-year period ending in 2021.

- Pursuant to Canada Revenue Agency rules, he was required to withdraw \$2,044,640 that was disclosed and co-invested in 2015, to which was added the return earned over the period (page 97).

Pension plan and severance pay

- When Mr. Sabia was appointed, he waived membership in any pension plan for the duration of his mandate – except for the mandatory plan under Retraite Québec rules for management personnel.
- He also waived any severance pay.

Comparisons to reference markets

- Details regarding the compensation of the President and Chief Executive Officer and the five most highly compensated executives are provided on pages 92 to 100 of the 2018 Annual Report.

The electronic version of the 2018 Annual Report and 2018 Annual Report – Additional Information are available at

- [2018 Annual Report](#)
- [Additional Information](#)

Please note that only the French version is currently available. The English version will be available shortly.

ABOUT CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

Caisse de dépôt et placement du Québec (CDPQ) is a long-term institutional investor that manages funds primarily for public and parapublic pension and insurance plans. As at December 31, 2018, it held CA\$309.5 billion in net assets. As one of Canada's leading institutional fund managers, CDPQ invests globally in major financial markets, private equity, infrastructure, real estate and private debt. For more information, visit cdpq.com, follow us on Twitter [@LaCDPQ](https://twitter.com/LaCDPQ) or consult our [Facebook](#) or [LinkedIn](#) pages.

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