

2017

Annual Report

Investing in Fundamental Values



Caisse de dépôt et placement
du Québec

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Investing in Fundamental Values

The world changes. Markets fluctuate. Uncertainty persists. More than ever, we need to be ready. Focused on our strategy to produce sustainable returns for our clients.

For us, that means targeting the long term. Building a resilient portfolio with diversified, quality assets. Working with promising companies. Partnering with the best co-investors. Demonstrating rigour, while thinking outside the box. Investing in innovation and real growth. Undertaking important projects. Being conscious of our impact and of the world that we will leave to future generations.

That's investing in fundamental values.

2017 Highlights

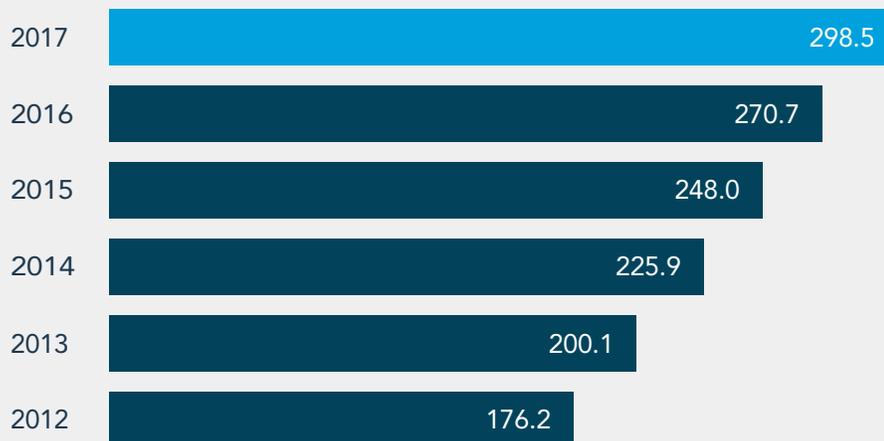
Net assets

as at December 31, 2017

\$298.5 B

CAISSE NET ASSETS FROM 2012 TO 2017

(in billions of dollars)



Results over five years

10.2%

ANNUALIZED RETURN

\$109.7 B

NET INVESTMENT RESULTS

2017 results

9.3%

RETURN

\$24.6 B

NET INVESTMENT RESULTS

AAA

**Highest credit
ratings reaffirmed**

The DBRS, Standard & Poor's and Moody's rating agencies have reaffirmed the credit ratings of la Caisse and CDP Financial with a stable outlook.

Global Footprint

We build long-term partnerships

in promising sectors throughout the world

\$192 B

CAISSE EXPOSURE TO GLOBAL MARKETS, UP \$109 BILLION SINCE THE END OF 2012

Some of our 2017 achievements



GECAS

Partnership with GE Capital Aviation Services to create a US\$2 billion global aircraft financing platform.



DATAMARS

Investment in this global leader in animal and textile tracking that is benefiting from growing demand for food traceability.



FIVES

Participation to support the growth of Fives, an industrial engineering firm based in France.



PIRAMAL

Strategic partnership between Ivanhoé Cambridge and Piramal Enterprises to invest in residential construction in India.

Thanks to our strategically located teams in North America, Europe, Asia Pacific and Latin America, we can execute key transactions **alongside some of the world's most respected partners.**

some of our 2017 achievements (continued)



SEBIA

Acquisition of a significant minority stake in this international medical diagnosis firm based in France.



MONOGRAM RESIDENTIAL TRUST

A \$1.6-billion investment with several partners including Greystar, to privatize this real estate investment trust which manages more than 12,000 residential units in the United States.



SUEZ WATER TECHNOLOGIES & SOLUTIONS

A US\$800-million investment for a 30% stake in this global water treatment solutions leader.



USI HOLDINGS

A joint acquisition with KKR of this leading insurance broker in the United States.

Rooted in Québec

We actively work with Québec's private sector,

as it is a powerful engine of economic growth



Some of our 2017 achievements



COUCHE-TARD

\$650 million for the purchase of the majority of Metro's shares in Couche-Tard.



BORALEX

A \$390-million financing to support the growth of this leader in renewable energy.



MINE CHAMPION

A \$135-million investment to restart the Bloom Lake Iron Ore Mine in the Fermont region.



SNC-LAVALIN

A \$1.9-billion investment to acquire WS Atkins, a U.K. company with 18,000 employees in the U.S., Middle East and Asia.

We lend our expertise and network to Québec companies **to support growth, globalization, innovation and the next generation.** And to create the leaders of tomorrow.



LIGHTSPEED

\$170 million to support innovation at this provider of cloud-based point-of-sale software for independent retailers and restaurants.



MAISON MANUVIE

\$220 million in partnership with Manuvie to build this class-AAA building, inaugurated in 2017 in downtown Montréal.



eSTRUCTURE

\$80 million alongside Canderel for the creation of a new platform of cloud data storage centres.



LA CAPITALE

\$150 million to support the growth and development of this important insurance mutual.

Behind Our Clients Are Quebecers

Our sustained returns and added value

generated by our active management
meet the needs of our depositors
and benefit all Quebecers

Our main depositors

<p><i>Finances</i> Québec </p> <p>Retirement Plans Sinking Fund</p>	<p><i>Retraite</i> Québec </p> <p>Québec Pension Plan Fund</p>	<p>RREGOP</p> <p>Government and Public Employees Retirement Plan</p>	<p> COMMISSION DE LA CONSTRUCTION DU QUÉBEC</p> <p>Supplemental Pension Plan for Employees of the Québec Construction Industry</p>
<p>CNESST</p> <p>Commission des normes, de l'équité, de la santé et de la sécurité du travail</p>	<p><i>Finances</i> Québec </p> <p>Generations Fund</p>	<p><i>Société de l'assurance automobile</i> Québec </p>	<p>RRPE</p> <p>Pension Plan of Management Personnel</p>

For our eight main clients,
we generated returns that vary between

8.7% and 11.5% | **8.0% and 10.9%**
OVER FIVE YEARS | IN 2017

**The clients that
entrust their funds
to la Caisse**
are primarily
pension funds
and insurance plans

TOGETHER THEY DISTRIBUTE
BENEFITS TO MORE THAN

**2 million
Quebecers**

For the complete list of our depositors, see page 26.

Results by Asset Class

We focus on quality assets

in all classes

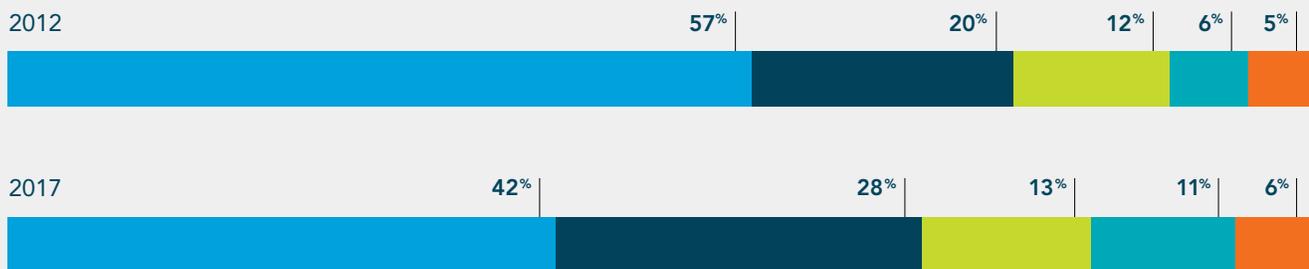
RESULTS BY ASSET CLASS

Five-year and one-year returns



GEOGRAPHIC EXPOSURE OF THE OVERALL PORTFOLIO

As at December 31



- Canada
- United States
- Europe
- Growth markets
- Other regions

Equities

\$149.5 B

NET ASSETS

Fixed Income

\$96.7 B

NET ASSETS

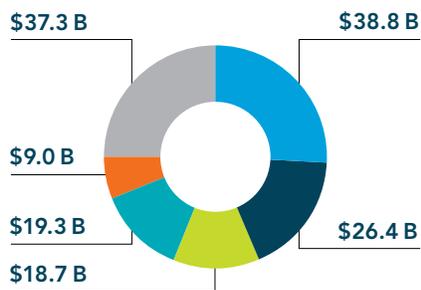
Real Assets

\$50.4 B

NET ASSETS

NET ASSETS BY PORTFOLIO AND MANDATE

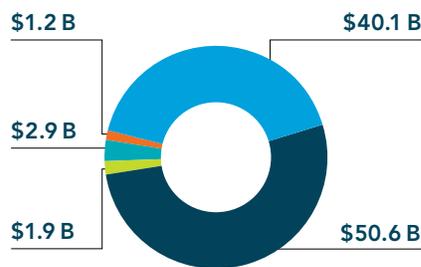
As at December 31, 2017



- Global Quality
- Canada
- Growth Markets
- Alternative Beta
- Other
- Private Equity

NET ASSETS BY PORTFOLIO

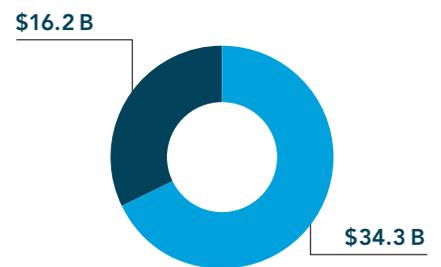
As at December 31, 2017



- Rates
- Credit
- Short Term Investments
- Long Term Bonds
- Real Return Bonds

NET ASSETS BY PORTFOLIO

As at December 31, 2017



- Real Estate
- Infrastructure

Note: Totals may vary due to rounding.

Our 2017 Achievements

La Caisse's main achievements during 2017 are aligned on priorities identified in our annual strategic planning.

Less-liquid assets and credit

Increase the allocation to less-liquid assets, including private equity, real estate, infrastructure, as well as credit

2017 ACHIEVEMENTS

- In Private Equity, more than \$9.4 billion of transactions, of which \$7.6 billion were at the international level. These included large investments in the U.S. financial and financial technology sectors and the European engineering and medical diagnostics industries.
- Real Estate investments of \$8.0 billion, including the launch of investment platforms in the logistics sectors in India and China, the privatization of a residential investment trust in the United States, the purchase of a prestigious New York office building and acquisition of a U.S. industrial real estate specialist.
- In Infrastructure, a large investment in Énergir as well as in companies that are active in Québec's renewable energy sector.
- In Fixed Income, asset diversification through an increase in higher-performing credit activities.
- Loans of more than \$3.5 billion to key sector leaders, including one to create a platform specializing in aircraft financing and rental, and another related to the acquisition of an engineering firm in the U.K.

Globalization

Pursue la Caisse's globalization strategy, through a targeted approach in growth markets

2017 ACHIEVEMENTS

- Asset diversification on a global scale, with a 58% exposure to international markets at the end of 2017, totalling \$192 billion.
- A \$6.5-billion increase in exposure to growth markets.
- First direct investment in Colombia in the electricity sector.
- Completion of key transactions alongside leading companies and partners by leveraging the expertise of our teams on the ground in the United States, Europe, Asia and Latin America, including:
 - KKR, for the acquisition of USI Holdings, a U.S. insurance broker that is highly active in the SME sector.
 - Hines and Natixis, for the construction of exceptional real estate complexes in Paris and Toronto.
 - Suez Water Technologies & Solutions, for a 30% stake in this global leader in water treatment solutions.

Climate change

Implement la Caisse's investment strategy to address climate change and contribute to the transition to a low-carbon economy

2017 ACHIEVEMENTS

- Adoption of an ambitious investment strategy to address climate change which seeks to:
 - Take climate issues into account in each investment decision.
 - Increase our investments in low carbon assets by more than \$8 billion over three years.
 - Reduce our carbon footprint per dollar invested by 25% by 2025.
- Several new transactions in the renewable energy sector, including investments in, and financing of wind farm and solar projects in Canada and the United States.

Impact in Québec

Maximize la Caisse's impact on the economy and companies based on the three pillars of our Québec strategy

2017 ACHIEVEMENTS

Growth and globalization

- Investment and support for about a dozen Québec companies in their acquisitions and global expansions, including SNC-Lavalin, Cogeco, Groupe Solmax and Eddyfi Technologies.

Growth-creating projects

- Several milestones were achieved for the Réseau express métropolitain (REM), including confirmation of the financial stakes of the Québec and Canadian governments.
- Development by Ivanhoé Cambridge of large real estate investment projects in Québec and Montréal, including several as part of its downtown Montréal revitalization plan.

- Financing of the Mont Sainte-Marguerite wind farm in the Chaudière-Appalaches region and large investments in Innergex and Boralex.

Innovation and the next generation

- Investments in innovative companies in promising sectors of the new economy such as Lightspeed, eStructure, Pivotal Payments and TrackTik.
- Commitments in two funds that seek to support Québec companies in the technology and artificial intelligence sectors.
- Creation of a \$75 million fund with Desjardins Group to support the growth and development of new financial technology companies.

Messages from the Chairman of the Board and the President and Chief Executive Officer



Message from the Chairman of the Board

The year 2017 was characterized by synchronized global growth and positive financial markets amidst an increasingly complex and risky geopolitical situation. In this environment, la Caisse has once again performed well and delivered results that were superior to depositors' long-term needs.

Our strategic focus, the foundations of which are stable, is adjusted each year to account for changing market conditions and the emergence of new risks as well as new opportunities.

La Caisse has undertaken numerous initiatives recently to continue delivering optimal returns and contribute to Québec's economic development.

In the past two years, teams responsible for investments in Québec were strengthened to bring in expertise that is better adapted to the new economy and to support the international ambitions of innovative and high-performing companies.

For private equity investments outside Québec, we focused efforts on recruiting high-calibre people able to develop long-term quality partnerships, contribute to direct investments and oversee investments to ensure they deliver expected results.

We also added fixed-income resources, not only to invest in corporate credit but also to invest on a worldwide scale and to diversify the sources of returns and gain exposure to more profitable market segments.

In public equities, we explored new ways to broaden our investment opportunities by targeting companies whose stock prices do not fully reflect their fundamental value and potential.

In the infrastructure portfolio, particular focus was placed on searching for opportunities in growth markets.

Ivanhoé Cambridge continued its push into growth markets, in addition to launching world-class projects in Paris and Toronto and inaugurating a new building in Montréal.

Further support was provided to the teams in each of the investment groups, with the opening of new offices in target economies: Mexico, India, China and Singapore, and the strengthening of the London, Paris and New York teams.

These developments led to an increase in la Caisse's internal resources, particularly during the past two years, to expand its capabilities. The Board is confident that, at the end of this phase, which will conclude soon, the organization will have the resources necessary to develop new partnerships, seize new opportunities and target new geographic regions.

In a world of transitioning markets and heightened geopolitical tensions, the Board believes that la Caisse has never been more ready to fulfill its double mandate and meet its depositors' expectations.

It is also worth highlighting the progress made in the development of the Réseau express métropolitain, a landmark project that will provide the Greater Montréal area with efficient and environmentally friendly public transportation infrastructure.

The Board wants to highlight the ambitious investment strategy adopted to do our part in the transition towards a low carbon economy. This initiative positions la Caisse as a global leader on this issue.

I also want to thank two people who have left our Board, Ouma Sananikone and Maryse Bertrand, and to welcome Ivana Bonnet-Zivcevic.

Lastly, before concluding, I must, once again, highlight the work and dedication of the entire Caisse team under Michael Sabia, who once again stood out for his exceptional leadership.

A handwritten signature in black ink, appearing to read 'R. Tessier'.

ROBERT TESSIER
Chairman of the Board

Message from the President and Chief Executive Officer

The current market environment can be summed up in a single word: paradoxical. For global investors, like la Caisse, navigating through it is going to be a challenging task.

After years of fairly modest growth, the global economy is now better synchronized than it has been in over a decade. This helps make growth more self-sustaining. Although there may be a few early signs of a pick-up in inflation, generally it remains weak. Business investment is slowly improving. Taken as a whole, we probably have some of the most favourable economic conditions that we have seen since the great recession.

But volatility has increased substantially. Why? Since the crisis, the world's key central banks have done everything in their power to sustain financial markets and to stimulate economic activity. And markets have grown used to this unerring support.

Now, the story is changing. For all the right reasons, central banks are normalizing monetary policies with a combination of interest rate hikes and the measured withdrawal of quantitative easing. To put it differently, the fundamental narrative of supportive monetary policy on which markets have relied is disappearing. This is a major change.

The result is a paradox: between growth on the one hand and weakened market confidence on the other. A paradox that renders the markets fragile – vulnerable to a range of exogenous factors. Things like the fear of a trade war or geopolitical risks. It all adds up to what is likely to be an extended period of volatility.

This is one of the reasons why over the last number of years, we have been working to build a more resilient portfolio of investments. Of course, we will never be immune to market fluctuations. But we can try to build a portfolio that is more robust and diversified – better able to cope with transitioning markets.

Capital is so plentiful today that it has become a pure “commodity.” The competition for high quality assets is intense. Going forward, returns will be lower. The investment environment is not going to get any easier. Against that backdrop, in my view, at la Caisse we need to try to differentiate ourselves as best we can. That means:

- Continuing to capitalize on the size of our assets. Even with close to \$300 billion in net assets, la Caisse's size is moderate, especially compared to giants from Norway (over US\$1 trillion) and Japan (some US\$1.5 trillion), but we are large enough to work with the best partners, have access to the best investment opportunities and remain highly competitive in executing key transactions.
- Being hyper-alert to our environment. Ready to move fast to seize opportunities and to adjust as markets evolve.
- Innovating and creating our own investment opportunities, with the right expertise and the right partners.
- Globalizing Québec's economy and contributing to its digital transformation, with a special emphasis on investing in a new generation of entrepreneurs.

Today, we need to think – and act – outside the box. That is the point of our business-owner mindset: distinguishing la Caisse from other investors through our determination to contribute to real and sustainable economic growth. In 2017, this perspective guided us in making a number of important investments with top quality partners, particularly in private equity, real estate and infrastructure.

Our contribution to the Québec economy is another distinctive feature. Throughout last year, we chose to back companies that innovate and perform at a high level, accompanying them as they expand into new markets. We also reached decisive milestones in the development of the Réseau express métropolitain, a new public transit system that will increase productivity and improve the lives of Montrealers.

Thinking differently is also why we adopted a new investment strategy to tackle the global challenge of climate change. The transition to a low carbon economy is already creating attractive investment opportunities – in renewable energy, sustainable transportation and high-efficiency real estate. The strategies and targets we set in 2017 will allow us to generate sustained performance for the long term.

To succeed going forward, of course, we will remain vigilant in the face of volatile markets. This will require greater agility and simplified processes. To be quicker, and more efficient.

La Caisse has evolved significantly in recent years. From Montréal to Singapore, Mexico and London, we have seasoned teams working hard to seize the best opportunities across a range of asset classes and markets. Teams determined to think differently about how we invest and contribute to the real economy. It is their talent and expertise, combined with the strength of our partners, that will allow us to invest differently and achieve solid, sustainable performance.



MICHAEL SABIA
President and Chief Executive Officer

Our Clients, the Depositors



Our Clients, the Depositors

The year 2017 was characterized by the enactment of significant changes to la Caisse's portfolio offering and by the continued execution of our strategic plan. These elements were the focus of discussions and work with our depositors throughout the year.

PRODUCTIVE COLLABORATION

La Caisse's depositors are at the core of our operations, offering them market expertise and insight to help them in their investment decisions. Our business model is based on collaboration, listening, transparency and the clear identification of each one's role and responsibilities. In 2017, teams from la Caisse and its depositors continued to hold regular discussions, notably with respect to investment policies, to determine how la Caisse's proposed strategic orientations could improve their risk-return profiles. Several depositors consequently made changes to their investment policies. Others are conducting analyses or plan to make changes in 2018.

CHANGES IN THE PORTFOLIO OFFERING

La Caisse and its teams continuously monitor underlying trends in the investing environment and, if necessary, they adjust the portfolio offering accordingly to meet depositors' needs and improve their risk-return profiles. These trends include:

- Lower expectations for long-term returns, particularly for fixed-income securities;
- Ongoing intense competition in several investment sectors, notably for less-liquid assets (real estate, infrastructure and private equity);
- An increasing global awareness of climate issues;
- Effects on the markets related to disruptive new technology.

Hard work carried out in 2016, which involved numerous discussions with depositors, resulted in significant changes to la Caisse's portfolio offering on January 1, 2017.

Thus, in the Fixed Income asset class, the Bonds and Real Estate Debt portfolios were closed on January 1, 2017, and their activities were reassigned to the following two new specialized portfolios:

- The Rates portfolio, which includes more traditional types of provincial and federal bonds and which constitutes the primary source of liquidity for la Caisse;
- The Credit portfolio, which includes activities related to corporate credit, real estate credit, government credit, sovereign credit in growth markets and specialty finance.

With this new structure, la Caisse continues to adapt its fixed income strategy to diversify its sources for returns and expand its credit activities. It therefore seeks increased exposure to market segments that offer a better risk-return profile.

In Equities, the Equity Markets portfolio also changed on January 1, 2017:

- An Alternative Beta component was added to the Growth Markets mandate. This component reduces the amount of traditional index management in these markets because the weight assigned to each security in the portfolio is based on various fundamental measures of the security rather than on its market capitalization;
- The Global Value mandate was created. It complements the Global Quality mandate while respecting our absolute return and long-term investor philosophy. This strategy favours securities that are attractive based on various fundamentals (book value, earnings, cash flows, etc.). It involves securities of companies that have faced short-term challenges but possess intrinsic quality and offer the potential for normalization over a complete cycle. The Global Value strategy employs a strong valuation discipline and a long-term horizon to benefit from these stocks returning to full value.

The consolidated asset allocation activities were also modified as of January 1, 2017. The changes sought to explicitly clarify their role, which is more focused on the management of the risk-return balance in the global portfolio.

La Caisse's currency management approach includes gradually de-hedging the Real Estate, Infrastructure, and Private Equity portfolios, as well as the implementation of a framework to dynamically manage the global portfolio's currency exposure.

Lastly, the ABTN portfolio was closed on June 1, 2017. Since January 2010, this portfolio has included all asset-backed term notes (ABTNs) held by la Caisse. Receipts were collected as the notes matured, which in turn liberated funds that were used to repay the ABTNs.

PORTFOLIOS OFFERED TO DEPOSITORS

La Caisse enables its depositors to allocate their funds to specialized portfolios that hold securities from the same asset class (see Table 2, p. 24). Most of these portfolios are managed actively. Each one is managed based on rules set out in an investment policy that specifies:

- the management approach;
- the investment universe and benchmark index;
- the target returns;
- the risk oversight.

In addition to its specialized portfolios, la Caisse provides overlay options to enable each depositor to customize its exposure to interest rates.

DEPOSITORS' INDIVIDUAL RETURNS

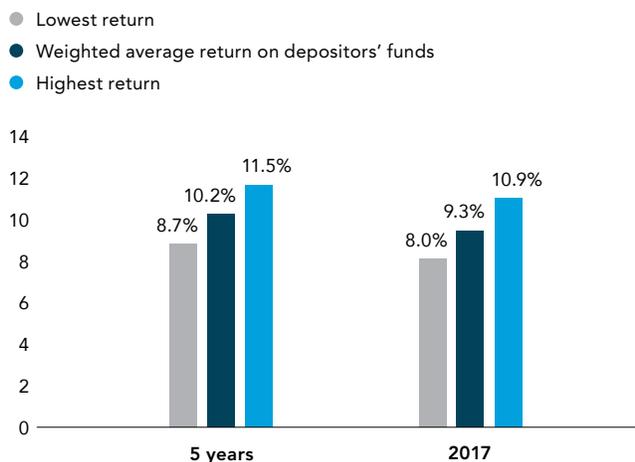
The decisions made with respect to the allocation of assets among the three major asset classes in the overall portfolio – Equities, Fixed Income and Real Assets – have a significant bearing on the returns of each depositor. With support from la Caisse, the depositors make these decisions based, most notably, on their target returns, risk tolerance and their investment horizon.

Over five years, the annualized returns of the eight principal depositors' funds ranged from 8.7% to 11.5%.

For 2017, depositors' returns varied between 8.0% and 10.9%.

FIGURE 1

RETURNS ON THE EIGHT PRINCIPAL DEPOSITORS' FUNDS



OUR CLIENTS, THE DEPOSITORS

CUSTOMIZED ADVISORY SERVICES

La Caisse offers its depositors advisory services to provide support for their investment policy decisions, particularly those related to the assets' long-term strategic target allocations. These services include:

- financial market analyses and economic outlooks;
- risk and return assumptions for the principal asset classes and specialized portfolios offered;
- simulated allocation of depositors' assets in various specialized portfolios to determine the optimal allocation of their benchmark portfolios, based on their needs and risk tolerance.

In recent years, la Caisse has improved the advisory services it offers by enhancing its ability to analyze its clients' long-term financial commitments. In 2017, several projects to analyze assets and liabilities were carried out in collaboration with certain depositors. These analyses ascertain the relevance of existing and proposed asset allocations as well as their potential impacts on the level of capitalization or the contributions required over the long term for the plan in question.

TABLE 2

SPECIALIZED PORTFOLIO OFFERING

(as at December 31, 2017)

	ACTIVELY MANAGED	INDEXED	OBJECTIVES
FIXED INCOME	Rates Credit	Short Term Investments Long Term Bonds Real Return Bonds	Reduce the portfolio's overall risk level Match depositors' assets and liabilities Important source of liquidity
REAL ASSETS	Real Estate Infrastructure		Have exposure to markets for which investment income is indexed to inflation Partially hedge the inflation risk associated with the liabilities of several depositors
EQUITIES	Equity Markets Private Equity		Increase depositors' long-term target returns
OTHER INVESTMENTS	Active Overlay Strategies Asset Allocation		Achieve diversification and complementarity of la Caisse's overall portfolio

THE EIGHT PRINCIPAL DEPOSITORS' FUNDS

REPRESENTED 96.3% OF NET ASSETS as at December 31, 2017

1 RETIREMENT PLANS SINKING FUND

\$78.5 B

NET ASSETS

- > Fund used by the Government of Québec to capitalize the employer's portion of retirement benefits of employees in the public and parapublic sectors

2 RETRAITE QUÉBEC

\$69.3 B

NET ASSETS

- > 4.1 million contributors
- > 2.0 million beneficiaries
- > \$13.4 billion in benefits paid annually

3 GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

\$68.5 B

NET ASSETS

- > 531,000 contributors
- > 260,000 retirees and 18,000 surviving spouses and orphans
- > \$5.4 billion in retirement benefits paid annually

4 SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY

\$22.4 B

NET ASSETS

- > 156,000 contributors
- > 92,000 retirees or surviving spouses
- > \$817 million in benefits paid annually

5 COMMISSION DES NORMES, DE L'ÉQUITÉ, DE LA SANTÉ ET DE LA SÉCURITÉ DU TRAVAIL

\$16.2 B

NET ASSETS

- > 225,000 contributing employers
- > 3.8 million workers covered
- > \$2.0 billion in benefits paid annually

6 GENERATIONS FUND

\$13.8 B

NET ASSETS

- > Fund used to repay Québec's debt

7 SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

\$11.9 B

NET ASSETS

- > 5.4 million driver's licence holders
- > 6.4 million registered vehicles
- > \$1 billion paid in compensation annually

8 PENSION PLAN OF MANAGEMENT PERSONNEL

\$6.9 B

NET ASSETS

- > 27,000 contributors
- > 30,000 retirees and 2,400 surviving spouses and orphans
- > \$1.3 billion in benefits paid annually

TABLE 3

LA CAISSE'S 40 DEPOSITORS – Comparison of net assets as at December 31, 2016, and as at December 31, 2017
(fair value as at December 31 – in millions of dollars)

	First deposit	Depositors' net assets			
		2017		2016	
		\$	%	\$	%
PENSION PLANS					
Retraite Québec	1966	69,282	23.2	62,243	23.0
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	22,389	7.5	20,694	7.6
Government and Public Employees Retirement Plan	1973	68,467	23.0	63,604	23.4
Pension Plan of Management Personnel	1973	6,871	2.3	11,012	4.1
Pension Plan for Federal Employees Transferred to Employment with the Government of Québec ¹	1977	262	0.1	250	0.1
Pension Plan of Elected Municipal Officers	1989	264	0.1	245	0.1
Retirement Plan for the Mayors and Councillors of Municipalities	2015	1	–	1	–
Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence	1990	588	0.2	539	0.2
Ministère des Finances, Government of Québec ²					
Retirement Plans Sinking Fund	1994	78,468	26.3	65,422	24.2
Superannuation Plan for the Members of the Sûreté du Québec – employers' fund	2009	654	0.2	613	0.2
Régime de retraite de l'Université du Québec	2004	549	0.2	431	0.2
Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	2005	387	0.1	316	0.1
Régime de retraite pour certains employés de la Commission scolaire de la Capitale	2006	33	–	34	–
Pension Plan of the Non-Teaching Staff of the Commission des écoles catholiques de Montréal	2007	197	0.1	202	0.1
Superannuation Plan for the Members of the Sûreté du Québec – participants' fund	2007	474	0.2	404	0.2
Régime de retraite des employés de la Ville de Laval	2007	347	0.1	338	0.1
Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges	2010	88	–	84	–
Fonds commun de placement des régimes de retraite de l'Université Laval	2012	267	0.1	247	0.1
Fiducie globale Ville de Magog	2012	69	–	64	–
Régime de retraite des employées et employés de la Ville de Sherbrooke	2012	42	–	38	–
Régime de retraite des agents de la paix en services correctionnels	2013	643	0.2	603	0.2
Régime complémentaire de retraite des employés réguliers de la Société de transport de Sherbrooke	2013	81	–	75	–
Régime de retraite de la Corporation de l'École Polytechnique	2014	58	–	53	–
Régime de retraite de la Ville de Terrebonne	2015	64	–	59	–
Régime de retraite des cadres de la Ville de Québec	2016	264	0.1	244	0.1
Régime de retraite des employés manuels de la Ville de Québec	2016	318	0.1	296	0.1
Régime de retraite des fonctionnaires de la Ville de Québec	2016	560	0.2	518	0.2
Régime de retraite du personnel professionnel de la Ville de Québec	2016	213	0.1	191	0.1
Régime de retraite des policiers et policières de la Ville de Québec	2016	453	0.2	419	0.2
Régime de retraite des pompiers de la Ville de Québec	2016	165	0.1	150	0.1
Régime de retraite des employés du Réseau de transport de la Capitale	2016	70	–	63	–
Régime de retraite des chauffeurs d'autobus de la Société de transport de Laval ³	2017	122	–	–	–
INSURANCE PLANS					
Régie des marchés agricoles et alimentaires du Québec	1967	11	–	10	–
La Financière agricole du Québec	1968	933	0.3	700	0.3
Autorité des marchés financiers	1969	843	0.3	791	0.3
Commission des normes, de l'équité, de la santé et de la sécurité du travail	1973	16,214	5.4	15,367	5.7
Société de l'assurance automobile du Québec	1978	11,924	4.0	11,306	4.2
Les Producteurs de bovins du Québec	1989	6	–	6	–
Survivor's Pension Plan	1997	460	0.2	432	0.2
Conseil de gestion de l'assurance parentale	2005	–	–	1	–
OTHER DEPOSITORS					
Office de la protection du consommateur	1992	155	0.1	141	0.1
Ministère des Finances, Government of Québec ²					
Generations Fund	2007	13,780	4.6	11,211	4.1
Accumulated Sick Leave Fund	2008	1,191	0.4	1,095	0.4
Territorial Information Fund	2011	155	–	114	–
Agence du revenu du Québec	2012	130	–	120	–
TOTAL		298,512	100.0	270,746	100.0

1. Previously called Special Funds.

2. The Ministère des Finances entrusts la Caisse with a total of five funds.

3. New depositor in 2017.

Management Report



Global Macroeconomic Environment

GENERALIZED ACCELERATION IN GLOBAL GROWTH DURING 2017

The years following the 2008-2009 financial crisis saw weak global growth and significant interregional divergence in both developed countries and growth markets. In developed economies, extremely accommodative monetary policies drove government bond yields to historically low levels and stimulated equity markets. Yet these policies have struggled to invigorate growth and inflation, to the point that excess capacity persists in some countries, and inflation is still far below their central banks' targets.

During 2017, the world economy posted its first synchronized acceleration in growth since the financial crisis, if we exclude the generalized economic rebound that occurred immediately after the crisis (see Figure 4, p. 30).

However, not all developed countries are at the same point in the economic cycle. While all economies sank into excess supply territory at the end of the financial crisis, several, including Spain, Italy and France, have not yet fully escaped, and inflation remains far below their central banks' targets. Other economies, such as Canada, the United States, Germany and the United Kingdom, have surplus demand, indicating that they are in or approaching overheating territory (see Figure 5, p. 30).

Growth market economies have also performed well, notably China, where rising growth was a surprise in 2017, and Brazil, which finally succeeded in emerging from its worst recession. It should be noted that the rise in commodity prices, the rebound in international trade and the depreciation of the U.S. dollar have spurred economic activity in growth markets.

GEOPOLITICAL RISKS WEIGH ON THE LONG-TERM OUTLOOK

Geopolitical tensions remain despite the rather positive global economy. Pressure from populist movements throughout the West and in some growth markets has increased, amidst a background of rising economic inequality and toughening military rhetoric (in North Korea, Syria and the Middle East). After the victory of Brexit and the election of Trump in the United States, as well as Duterte in the Philippines, the materialization of the populism risk increased in 2017 as these movements took power and began implementing their agendas. In the European Union, although France emerged strengthened from the defeat of the extreme right in the presidential elections, the German leadership was weakened following the September election of a fragmented parliament. In the United Kingdom, markets continued to worry over initial Brexit negotiations, which faced several obstacles. In the United States, President Trump continued to push his protectionist agenda in part by forcing Canada and Mexico to renegotiate NAFTA, and still no new agreement. In Asia, Chinese President Xi Jinping's strengthening hold over his party and the government raises growing uncertainties about Beijing's ability to implement the reforms needed to clean up the economy and Chinese businesses.

GLOBAL MACROECONOMIC ENVIRONMENT

THE U.S. ECONOMY IS OVERHEATING AND THE EURO ZONE IS SHOWING ENCOURAGING SIGNS

The U.S. economy has been one of the developed world's top performers over the past five years. Its growth sharply outpaced its potential growth rate, gradually narrowing the output gap to the point that near the end of 2015, the U.S. Federal Reserve (the Fed) decided to gradually tighten its monetary policy by raising its policy rate. The election of Donald Trump in November 2016 changed the paradigm in several respects. His commitment to stimulate the economy by scaling back banking and environmental regulations, and adopting a deficit-financed expansionist budgetary policy, led to several upward revisions in growth and inflation expectations. In 2017, the Fed quickened the pace of its key rate increases and announced that it would stop reinvesting the bonds it had been purchasing since the financial crisis in order to stimulate economic activity. The tax reform announced last December could push the U.S. economy further into overheated territory. This could prompt the Fed to hike its key rate even further. The reform will also put pressure on public finances, as it will not be offset by equivalent budgetary spending cuts.

During 2017, economic activity in the euro zone performed better than expected, recording its strongest growth since the financial crisis. The euro zone also enjoyed the benefits of a massive European Central Bank (ECB) asset-buying program, which drastically lowered government bond yields. The economy also enjoyed solid performance in trade due to accelerating global demand. As a result, the unemployment rate continued to decline, falling by one percentage point during 2017, and ending the year at 8.6%. That said, apart from Germany, the euro zone has not yet reached full employment and inflation remains below the ECB's target.

FIGURE 4

SYNCHRONIZED GLOBAL GROWTH IN 2017

(annual real GDP growth as a percentage)

- Growth markets
- World
- Developed economies

Source: IMF

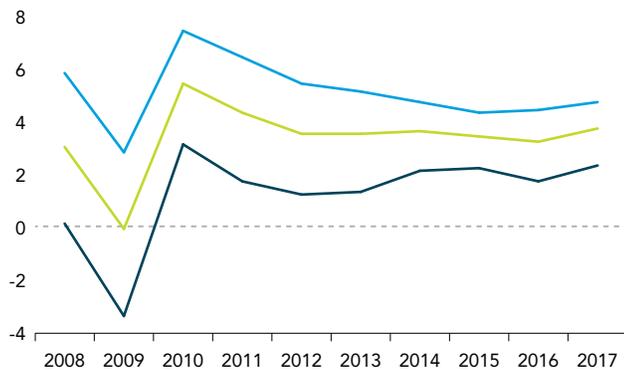


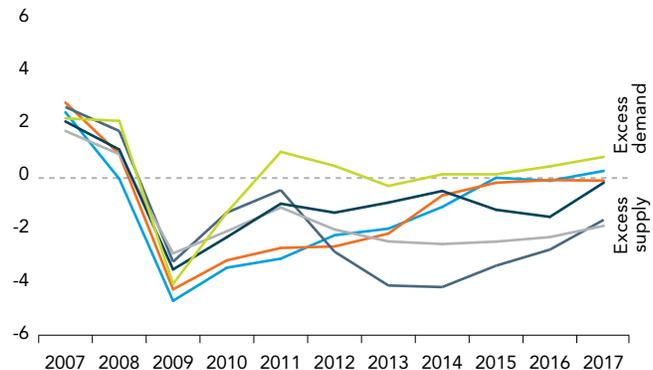
FIGURE 5

WIDE DIVERGENCE BETWEEN OUTPUT GAPS OF DEVELOPED COUNTRIES

(output gap as a percentage of potential GDP)

- United States
- Germany
- France
- Canada
- United Kingdom
- Italy

Source: IMF



GROWTH IN CANADA AND QUÉBEC ACCELERATED IN 2017, BUT SEVERAL CHALLENGES REMAIN

Despite weak growth in 2015, stemming mainly from a record drop in oil prices, the Canadian economy averaged growth above its potential over the past five years, as did Québec's economy. Growth in Canada and Québec accelerated during 2017, buoyed by consumption and residential investment, which were in turn driven by the strength of credit and the job market. This led analysts to increase their growth projections and prompted the Bank of Canada to raise its policy rate by 25 bps on two occasions.

That said, the Canadian and Québec economies face several challenges, notably with respect to the international competitiveness of businesses, household debt, and uncertain NAFTA renegotiations. Lastly, capacity constraints on oil pipeline shipments to the United States are hurting oil-producing provinces.

GROWTH MARKETS REBOUND

In recent years, growth markets have encountered weakening demand from developed countries, falling commodity prices, political turbulence in Brazil, and uncertainty caused by the U.S. starting to tighten monetary policy in 2015, for the first time since 2004. These factors all contributed to reducing the flow of capital into growth markets.

The global economy nevertheless rebounded in the second half of 2016. In 2017, growth markets took advantage of this momentum, due to the continuing and cumulative effects of a recovery in international trade, cyclical momentum in developed economies, a rebound in commodity prices and accommodative global monetary policies. This virtuous cycle materialized despite political uncertainties.

We are also seeing notable surprises in China, where growth accelerated to near 7%, due primarily to strong private consumption. In India, the economy suffered from the continuing effects of demonetization and the implementation of a goods and services tax. However, growth rebounded at the end of 2017 and should approach its potential rate of 7.5% in 2018. The launch of bank recapitalization should help to solve the problem of increasing unproductive credit and weakening investments. The Brazilian economy has finally extricated itself from the longest and deepest recession in its modern history, which lasted from mid-2014 to the end of 2016. This recovery should continue due to growing consumption and manufacturing activity. The budget situation remains the Brazilian authorities' biggest challenge: adoption of retirement reforms will be key to ensuring the country's long-term fiscal viability. In Mexico, even though economic activity slowed, its growth was higher than expected, due to solid exports and resilient private consumption, which offset falling investments stemming from persistent uncertainties on trade relations with the U.S.

Analysis of Overall Performance

For the year ended December 31, 2017, la Caisse delivered solid results for its depositors, exceeding their long-term needs. In addition to benefiting from the geographical and sector diversification of its assets, the overall portfolio generated value beyond market returns and provided long-term stability.

La Caisse continued to benefit from its strategy to generate reliable results for its depositors, year after year, to deliver good long-term performance. This strategy can be broken down into four priorities: increase weighting in less-liquid assets and credit, continue globalization activities, deploy the investment strategy to address climate change and maximize la Caisse's impact in Québec.

FIVE-YEAR RETURN

Over five years, la Caisse's overall portfolio generated \$109.7 billion of net investment results, increasing net assets to \$298.5 billion as at December 31, 2017 (see Table 6). The annualized weighted average return on depositors' funds was 10.2% due to consistent performance since 2013 (see Table 7, p. 33). This return outperformed by 1.1% its benchmark portfolio, which posted a return of 9.1%. This difference represents \$12.2 billion in added value.

In each asset class, all the portfolios contributed to the overall return. The overall portfolio benefited from diversification of fixed income activities, great stability of less-liquid assets and high returns in equity markets.

In fixed income, the portfolios saw gains from exposure to credit sectors and lower interest rates during most of the five-year period. They posted an annual average return of 3.7% and \$14.6 billion in net investment results. This return, which is 0.7% higher than the return of its benchmark index, created \$2.6 billion in added value. Over the last two years, la Caisse has continued to reposition its fixed income assets amidst conditions of low interest rates, despite a recent rise, and modest expectations on bond yields.

TABLE 6

NET ASSETS AND RETURNS IN RELATION TO BENCHMARK INDEXES

(for periods ended December 31, 2017)

Asset class	Net assets \$B	5 years			1 year		
		Net investment results \$M	Return %	Index %	Net investment results \$M	Return %	Index %
Fixed Income	96.7	14,587	3.7	3.0	3,181	3.5	2.8
Real Assets	50.4	18,920	11.0	11.3	3,979	8.7	9.0
Equities	149.5	72,444	14.3	12.5	17,556	13.6	13.3
Active Overlay Strategies	0.6	175	N/A	N/A	(125)	N/A	N/A
Asset Allocation	1.3	1,216	N/A	N/A	(399)	N/A	N/A
Total^{1,2}	298.5	109,665	10.2	9.1	24,596	9.3	9.2

1. The total includes customized overlay operations, cash activities and terminated activities.

2. See General Notes 3 and 6 of the Annual Report, on page 177.

Over five years, Real Assets generated an average annual return of 11.0% and net investment results of \$18.9 billion. Its two portfolios, Real Estate and Infrastructure, posted annualized returns of 11.3% and 10.3%, respectively, due to leading transactions and partnerships. With sharp competition for this type of asset, la Caisse draws on its various comparative advantages to seize the best investment opportunities. Thanks to its internal research teams, operational experts, network of partners and project development abilities, both in real estate and infrastructure, la Caisse makes direct, over-the-counter (OTC) investments using selective criteria that generate solid long-term returns.

The Equities asset class generated the highest performance with a 14.3% annualized return on five years. It surpassed its benchmark index by 1.8%, equal to \$8.9 billion of value added. This represents the largest source of value added for la Caisse and the most significant contribution to the overall return, which, at \$72.4 billion, represents two thirds of total net investment results.

The Equity Markets portfolios generated \$57.2 billion and an annualized return of 14.5%. This return, which was above its benchmark, reflects both the merits of the portfolio's strategy and strong growth in equity markets from 2013 to 2017. The strategy focuses on absolute return management, portfolio diversification, high-quality securities and rigorous selection of partners in growth markets. Over five years, the Private Equity portfolio added \$15.2 billion to net assets resulting from a high 13.4% annualized return. This performance reflects the growing share of direct investments in the portfolio and the judicious investment choices made by the Global Private Equity and Québec Private Equity teams.

2017 RETURN

In 2017, the weighted average return on depositors' funds was 9.3%, slightly above the benchmark portfolio (see Table 6, p. 32), representing net investment results of \$24.6 billion. This performance was achieved in an unusual market environment. On one hand, there was sustained and synchronized growth throughout the global economy and improved economic indicators. On the other hand, there were concerns over monetary policy changes to curb inflation and high geopolitical risks and tensions related to social inequality.

TABLE 7

CAISSE RETURNS

(for periods ended December 31 – as a percentage)

	Caisse overall return ¹
5 years (2013-2017)	10.2
2017	9.3
2016	7.6
2015	9.1
2014	12.0
2013	13.1

1. Weighted average return on depositors' funds.

ANALYSIS OF OVERALL PERFORMANCE

In this environment, la Caisse worked on constructing a more resilient portfolio, one that would be ready for markets in transition. La Caisse focuses on securities that provide stable and predictable returns to reduce the portfolio's sensitivity to extreme market swings. La Caisse's return in 2017 therefore reflects the good performance of markets

without necessarily fully capturing the surge in multiples for tech companies and high growth companies. Conversely, the overall portfolio is intended to provide greater resilience in volatile markets. Considering the year as a whole, all three of the major asset classes – Fixed Income, Real Assets and Equities – posted positive returns.

TABLE 8

COMPOSITION OF THE BENCHMARK PORTFOLIO AND CHANGES IN THE OVERALL PORTFOLIO
 (percentage of depositors' net assets)

	Benchmark portfolio				Overall portfolio	
	as at December 31, 2017 ¹			as at December 31, 2016 ¹	as at December 31, 2017	as at December 31, 2016
	Lower limit %	Benchmark portfolio %	Upper limit %	Benchmark portfolio %	%	%
Fixed Income						
Rates ²	8.8	13.5	19.8	–	13.4	–
Credit ²	11.3	16.0	22.5	–	17.0	–
Bonds ²	–	–	–	25.7	–	25.2
Real Estate Debt ²	–	–	–	4.3	–	4.3
Short Term Investments	0.2	1.2	8.7	1.1	0.6	2.3
Long Term Bonds	0.7	1.0	4.7	1.0	1.0	1.0
Real Return Bonds	0.3	0.4	2.2	0.4	0.4	0.4
Total		32.1		32.5	32.4	33.2
Real Assets						
Real Estate	8.3	12.0	14.7	12.0	11.5	11.8
Infrastructure	3.3	6.3	9.1	6.3	5.4	5.4
Total		18.3		18.3	16.9	17.2
Equities						
Equity Markets	26.1	37.6	45.5	37.3	37.6	37.5
Private Equity	8.6	12.0	15.0	11.9	12.5	11.3
Total		49.6		49.2	50.1	48.8
Other Investments						
Active Overlay Strategies	0.0	0.0	0.5	0.0	0.2	0.2
Asset Allocation	0.0	0.0	1.0	0.0	0.4	0.6
ABTN ³	–	–	–	N/A	–	0.0
Total		100.0		100.0	100.0	100.0

1. The benchmark portfolio and its upper and lower limits are the result of the weighted average of the depositors' respective benchmark portfolios.

2. On January 1, 2017, the Bond and Real Estate Debt portfolios were closed and their assets were transferred into the Rates and Credit portfolios.

3. On June 1, 2017, the ABTN portfolio was closed.

The Fixed Income asset class generated a 3.5% return. The new portfolio structure introduced on January 1, 2017 has produced concrete results in terms of both transactions and performance. Changes to the strategy aim to diversify activities by reducing exposure to the traditional bond market and by significantly increasing credit activities, including corporate credit, sovereign credit, real estate debt and specialty finance, market segments with more promising profiles.

The Real Assets portfolios provided a combined performance of 8.7%. In 2017, the attractiveness of real assets did not wane for a variety of reasons, including low interest rates, volatility in other asset classes, as well as stable cash flows and the partial protection against inflation they provide.

The Equities asset class posted a return of 13.6%, the best performance of the three asset classes. The Growth Markets and Alternative Beta mandates of the Equity Markets portfolio, as well as the Private Equity portfolio, performed particularly well, with returns of 28.4%, 14.7% and 13.0%, respectively. These performances took place in a particularly favourable market environment for stock exchanges around the world.

GEOGRAPHIC DIVERSIFICATION

In addition to investing in different asset classes, la Caisse invests around the world. This geographic diversification allows the institution to reduce the risk of its overall portfolio and seize attractive investment opportunities in various regions. By having local teams on the ground in the U.S., Europe, Asia Pacific and Latin America, la Caisse has been able to carry out key transactions alongside some of the world's most respected companies and partners.

Over the last five years, la Caisse has considerably diversified its geographic exposure, growing its global presence by \$109 billion to \$192 billion at the end of 2017. As at December 31, 2017, 58.0% of its exposure was outside Canada (see Table 9).

The U.S. represents a prime market for la Caisse, which now has 28.0% of its assets in this market, compared to 20.3% at the end of 2012. Europe is another major market where the institution's exposure increased in 2017, following exceptional investments carried out in the context of an economic upturn.

In growth markets, where la Caisse continues to make targeted investments, it has more than doubled its exposure, from \$15 billion in 2012 to over \$35 billion at the end of 2017, for total exposure of 10.7%. To invest in these countries, la Caisse's strategy involves partnering with investors and operators whose extensive knowledge of these markets complements its own expertise.

TABLE 9

GEOGRAPHIC EXPOSURE OF THE OVERALL PORTFOLIO

(as at December 31 – as a percentage)

	2017	2012
Canada	42.0	57.4
United States	28.0	20.3
Europe	13.5	11.7
Growth markets	10.7	5.7
Other regions	5.8	4.9
Total	100.0	100.0

ANALYSIS OF OVERALL PERFORMANCE

La Caisse targets countries with strong growth potential such as China, India, Brazil and Mexico, as well as Colombia, a country with a favourable growth outlook where the peace process is gathering momentum. An initial private direct investment was completed there in 2017 in the electricity sector.

La Caisse also remains very active in Québec and Canada, its home markets.

CURRENCY EXPOSURE AND FOREIGN EXCHANGE HEDGING

As at December 31, 2017, la Caisse's exposure to foreign currencies amounted to 49% of its total net assets, up sharply from 2013 due to the globalization of its activities.

All of the liquid portfolios, with the exception of certain fixed income securities, now have foreign exchange exposure. A gradual de-hedging of less-liquid portfolios began in 2016. Exposure to foreign currencies in 2017 was 12% greater than in 2016.

Over five years, exposure to foreign currencies had a positive impact on overall return. This is primarily due to the impact of the U.S. dollar's appreciation against the Canadian dollar for assets in the Equity Markets portfolios.

BENCHMARK PORTFOLIO

La Caisse's benchmark portfolio corresponds to the weighted average of the asset allocation decisions made by each of the depositors when their investment policies are established.

In 2017, the depositors reviewed the composition of their respective benchmark portfolios, and this had an impact on la Caisse's benchmark portfolio. As at December 31, 2017, the benchmark portfolio had higher weighting in the Equities asset class, as well as decreased weighting in the Fixed Income asset class, reflecting la Caisse's strategic directions (see Table 8, p. 34). The weighting of Real Assets was unchanged.

OVERALL PORTFOLIO

The composition of la Caisse's overall portfolio reflects decisions made by the depositors about their benchmark portfolios and by la Caisse in relation to the upper and lower limits set for each specialized portfolio. Table 8 on page 34 presents changes in the composition of the overall portfolio as at December 31, 2017.

Analysis of Performance by Asset Class

For the five-year period, all of the portfolios comprising la Caisse's overall portfolio generated positive returns. In 2017, each of the three main asset classes – Fixed Income, Real Assets and Equities – contributed significantly to the overall return.

Fixed Income

5 PORTFOLIOS

Rates
Credit
Short Term Investments
Long Term Bonds
Real Return Bonds

\$96.7 B

NET ASSETS

32.4%

OF LA CAISSE'S
OVERALL PORTFOLIO

3.7%

FIVE-YEAR
ANNUALIZED RETURN

All the figures in this section
are detailed in Table 17 (p. 50).

RATES

Five-year return

This portfolio was created on January 1, 2017, following a reorganization of the Bonds and Real Estate Debt portfolios. It comprises two main activities: interest rate management and sovereign credit. Detailed information on the composition of this portfolio is presented on page 38.

2017 Return

This portfolio posted a 1.8% return and \$665 million of net investment results, mainly due to good performance of provincial bonds. The stronger Canadian economy, stimulated by sustained job creation throughout the year, resulted in narrower credit spreads on provincial bonds, and this benefited the portfolio. However, higher federal rates weighed against the portfolio, making the current return the top contributor to its return.

As can be seen in Table 10 FTSE TMX Canada Bond Index Returns, provincial bonds is the issuer category that stood out in 2017. This was due to the lower long-term rates on these securities. Once again, corporate bonds performed well, offering good performance due to sustained demand among investors for credit instruments. Federal government bonds were flat, remaining close to zero. The FTSE TMX Canada Universe Index was therefore only 2.5% in 2017, due to the gradual rise in interest rates since the end of 2016. Over five years, the index posted a 3.0% return.

TABLE 10

FTSE TMX CANADA BOND INDEX RETURNS (as a percentage)

FTSE TMX Canada bond indexes	2017				2016				5 years			
	Short-term	Medium-term	Long-term	Total	Short-term	Medium-term	Long-term	Total	Short-term	Medium-term	Long-term	Total
Federal	(0.6)	(0.7)	2.7	0.1	0.1	(0.1)	(0.8)	0.0	1.1	2.1	2.8	1.8
Provincial	0.1	1.3	8.0	4.3	0.9	1.5	2.3	1.8	1.8	3.3	5.0	3.8
Québec	0.2	1.4	8.2	4.3	1.1	1.6	2.6	2.0	1.9	3.5	5.4	4.1
Corporate	1.0	2.6	8.8	3.4	2.3	4.3	6.4	3.7	2.4	4.2	5.7	3.6
Universe	0.1	1.0	7.0	2.5	1.0	1.6	2.5	1.7	1.7	3.1	4.6	3.0

ANALYSIS OF PERFORMANCE BY ASSET CLASS

CREDIT

Five-year return

This portfolio was created on January 1, 2017, following a reorganization of the Bonds and Real Estate Debt portfolios. The portfolio is actively managed, with investment activities grouped into four main mandates: Corporate Credit, Real Estate Debt, Specialty Finance and Sovereign Credit.

2017 return

In 2017, the government and corporate bond markets benefited from narrowing credit spreads due to:

- Investor demand for risky assets;
- Favourable global economic conditions;
- Improved corporate earnings.

These conditions led to strong first-year performance for the portfolio's four mandates, which collectively generated a 5.1% return and \$2.3 billion in net investment results.

The Specialty Finance mandate, which includes project financing, posted an excellent year due to the current return on securities in the portfolio and narrower credit spreads. Sovereign credit benefited from strong performance by growth market securities, particularly those in Brazil, stimulated by falling rates. During the year, la Caisse continued to deploy in debt in these markets, with increased investments in Colombia, India, Malaysia and Indonesia.

Other factors that proved beneficial to the portfolio include, in corporate credit, the strategy of increasing exposure to U.S. financial securities and, in real estate debt, lower mortgage rates and the high current income in this asset class.

RATES PORTFOLIO

COMPOSITION

- More traditional government bonds with excellent credit quality:
 - Governments of Canada and other developed countries
 - Governments of Canadian provinces

ADVANTAGES

- Low risk level and protection of the overall portfolio
 - Main source of la Caisse's liquidity
 - Diversification
 - Source of current yield
 - Potential to match assets with the long-term financial commitments of depositors
-

The managers also completed innovative transactions that contributed to the portfolio's success, including:

- GECAS: commitment of US\$2.0 billion over four years to create an aircraft leasing and financing platform alongside GE Capital Aviation Services, a world-leading aircraft leasing company;
- SNC-Lavalin: an investment of \$1.5 billion in the form of a loan secured by the value and cash flows of SNC-Lavalin's interest in the Highway 407 ETR project, in order to finance the acquisition of WS Atkins, a leading British engineering firm (total investment: \$1.9 billion);
- Potentia Renewables: \$107 million in debt financing provided to enable Potentia, Canada's largest independent rooftop solar power producer, to expand in the clean energy sector and invest in new projects.

SHORT TERM INVESTMENTS

Consisting of liquid short-term investments on the Canadian money market, this indexed portfolio posted results reflecting the low interest rates that have prevailed over the last few years. Over five years, the portfolio generated a 0.8% annualized return and \$218 million in net investment results. In 2017, it posted a 0.6% return.

LONG TERM BONDS

Consisting mostly of long-term provincial bonds, this portfolio is managed using an index-style approach. Consequently, not all of the index's securities are held in the portfolio, but the selected securities replicate the index's various risk factors such as duration, distribution along the curve or exposure per issuer.

Over five years, the portfolio posted a 5.0% annualized return that added \$561 million to net assets. This performance was due to the yield to maturity of the securities and narrowing credit spreads. In 2017, the portfolio generated an 8.0% return, attributable to the good performance of provincial bonds due to lower long-term rates on provincial bonds.

REAL RETURN BONDS

The goal of this indexed portfolio is to provide protection against increases in inflation in Canada. It posted annualized returns of 1.0% over five years and 0.8% in 2017, and contributed \$24 million to net assets.

CREDIT PORTFOLIO

COMPOSITION

- Expanded universe of instruments with features of fixed income securities according to the mandate:
 - Corporate Credit: quality or high-yield bonds (public companies) and direct or syndicated loans
 - Real Estate Debt: mortgage and commercial construction loans, mostly senior, on office buildings, shopping centres and industrial and residential buildings
 - Specialty Finance: debt, hybrid or equity securities with certain features of debt instruments, and project financing
 - Sovereign Credit: a focus on sovereign and quasi-sovereign securities from growth markets

ADVANTAGES

- Market segments featuring better performance and a return that is superior to the traditional bond market
 - Diversified sources of value
 - Potential to match assets with the long-term financial commitments of depositors
 - In real estate debt, low credit risk due to a cautious underwriting approach and the quality of the assets
-

ANALYSIS OF PERFORMANCE BY ASSET CLASS

Real Assets

2 PORTFOLIOS

Real Estate
Infrastructure

\$50.4 B

NET ASSETS

16.9%

OF LA CAISSE'S
OVERALL PORTFOLIO

11.0%

FIVE-YEAR
ANNUALIZED RETURN

All the figures in this section
are detailed in Table 17 (p. 50).

REAL ESTATE

Five-year return

This portfolio is managed by la Caisse's real estate subsidiary, Ivanhoé Cambridge, whose approach focuses on developing strategic relationships with partners and creating investment platforms to seize quality opportunities around the world. Over the last five years, Ivanhoé Cambridge has repositioned its real estate portfolio to increase its exposure in international markets and invest in key assets in targeted cities. In addition to acquiring numerous quality properties and companies, the managers launched large-scale development projects and strategically divested assets.

Since 2013, real estate has posted an annualized return of 11.3%, or net investment results of \$13.6 billion. North American assets made a significant contribution to performance due to strong appreciation over the period in shopping centres, office buildings and residential properties. The significant added value of the Equities, funds and financing asset class also made a strong contribution to performance. Less favourable factors included the depreciation of the Brazilian currency and the industrial and logistics sector's low weight in the portfolio.

Figures 11 and 12 on page 41 describe the geographic and sectoral changes made in the portfolio over the last five years.

REAL ESTATE PORTFOLIO

COMPOSITION

- Quality buildings and portfolios or companies, mostly located in key cities around the world
- Investments in equities and debt, primarily in shopping centres and in office, residential, industrial and logistics buildings

ADVANTAGES

- Source of current return
- Attractive risk-return profile and significant cash flows
- Diversification of the risk in la Caisse's overall portfolio due to a lower correlation between the assets held and global markets
- Some long-term capital protection against inflation due to lease indexing

2017 return

The portfolio generated an 8.0% return and \$2.5 billion of net investment results. This performance is due to higher valuations on certain Ivanhoé Cambridge projects, which benefited the return, and by the Equities, funds and financing category, which added considerable value. Shopping centres in Brazil also provided solid returns.

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

- Following the signing of two major leases, in partnership with Hines, construction began on two exceptional complexes:
 - DUO, a large project located in the 13th arrondissement of Paris and designed by Ateliers Jean Nouvel. The project features a hotel and office building to house the future headquarters of Natixis, which is also a co-owner;
 - CIBC Square, CIBC's new global headquarters, located on Bay Street in downtown Toronto, a project that will require an investment of close to \$2 billion jointly with Hines, following an agreement with Metrolinx to acquire the land;
- Evergreen Industrial Properties: acquisition of this promising company specialized in industrial real estate, which owns and operates a portfolio of close to 150 properties in 18 U.S. markets;
- LOGOS: launch of three new logistics investment vehicles in Asia Pacific: in India, alongside QuadReal Property Group and Assetz (US\$800 million); in China, where a third vehicle will target four regions (up to US\$830 million); and in Indonesia and Singapore, alongside the CPP Investment Board (approximately US\$750 million);
- 85 Broad Street: acquisition of this prestigious office building in Manhattan for close to \$900 million;
- Monogram Residential Trust: a \$1.6 billion investment with partners, including Greystar, to privatize this U.S. real estate investment trust, which manages more than 12,000 residential rental units in the U.S.

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

FIGURE 11

GEOGRAPHIC EXPOSURE – REAL ESTATE (as a percentage)

- December 31, 2012
- December 31, 2017

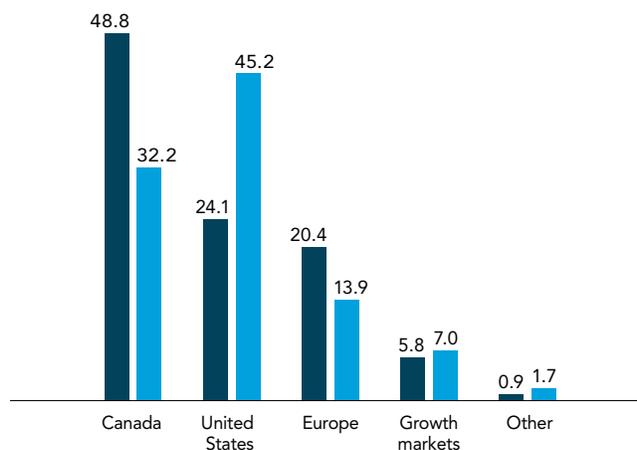
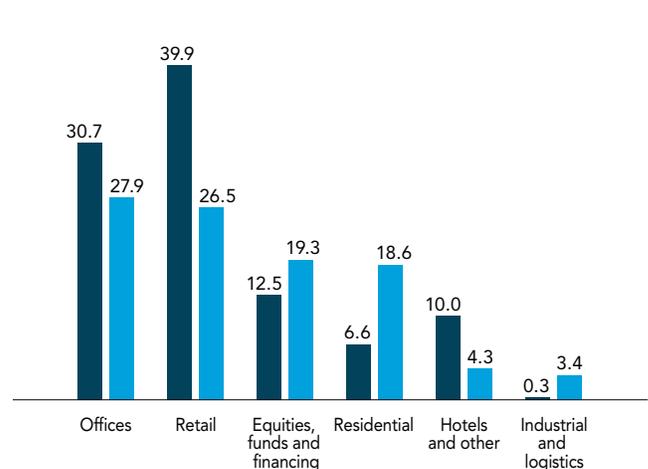


FIGURE 12

SECTORAL EXPOSURE – REAL ESTATE (as a percentage)

- December 31, 2012
- December 31, 2017



ANALYSIS OF PERFORMANCE BY ASSET CLASS

INFRASTRUCTURE

Five-year return

Since 2013, infrastructure generated an annualized return of 10.3% and net investment results of \$5.4 billion. This performance can be attributed to the high current yield of companies within the portfolio, especially those that operate with regulated and contracted assets. Appreciating asset values also contributed significantly to the return.

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

Figures 13 and 14 on page 43 describe the geographic and sectoral changes made in the portfolio over the last five years.

2017 return

The portfolio's current return accounts for more than half of the total 10.1% return, adding \$1.4 billion to net assets. The higher value of the assets was also due to good performance by the investments combined with investors' attraction to the infrastructure sector. Both factors lower the average discount rate of the portfolio. All types of infrastructure, but in particular regulated assets and economic infrastructure, contributed to the return.

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

- Boralex: acquisition of a 17.3% stake in this leader in renewable energy in Canada and France;
- Énergir: A \$70-million investment in this innovative Québec company with diversified activities.

INFRASTRUCTURE PORTFOLIO

COMPOSITION

- Interests in companies that operate various infrastructure (ports, airports, highways, wind farms, electricity, gas and oil transmission and distribution networks, water distribution networks, and passenger transportation systems)
- Quality companies with low risk profiles that are less sensitive to changing economic conditions

ADVANTAGES

- Stable and predictable revenues over the long term
 - Steady cash flows and a better risk-return profile than other asset classes due to the regulatory frameworks governing many sectors
 - Some long-term capital protection against inflation
-

It is also worth noting that the sale of a stake in South East Water generated an advantageous return.

In addition, several milestones were achieved for the Réseau express métropolitain (REM), a fully automated electric transit system for the Greater Montréal Area, including confirmation of investments by the governments of Québec and Canada. In early 2018, CDPQ Infra, a subsidiary of la Caisse, announced the REM's winning construction consortia, as well as its route and budget.

FIGURE 13

GEOGRAPHIC EXPOSURE – INFRASTRUCTURE
(as a percentage)

- December 31, 2012
- December 31, 2017

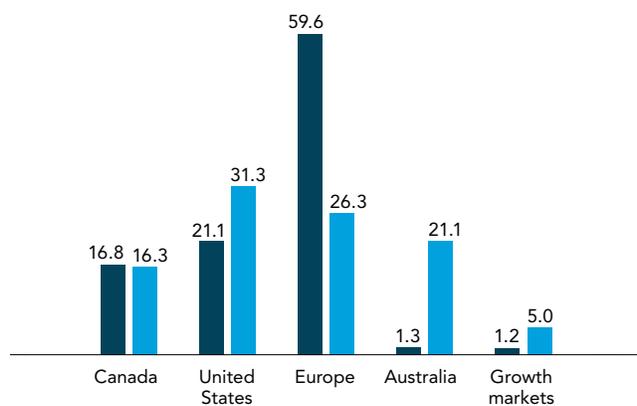
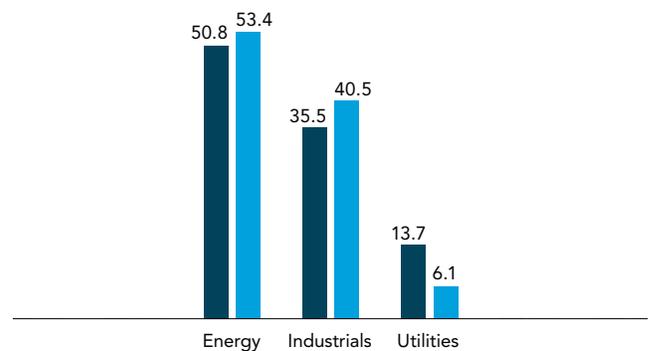


FIGURE 14

SECTORAL EXPOSURE – INFRASTRUCTURE¹
(as a percentage)

- December 31, 2012
- December 31, 2017



1. Sector composition was modified in 2017.

ANALYSIS OF PERFORMANCE BY ASSET CLASS

Equities

2 PORTFOLIOS
Equity Markets
Private Equity

\$149.5 B

NET ASSETS

50.1%

OF LA CAISSE'S
OVERALL PORTFOLIO

14.3%

FIVE-YEAR ANNUALIZED
RETURN

All the figures in this section are detailed in Table 17 (p. 50).

EQUITY MARKETS

Five-year return

The Equity Markets portfolios generated an annualized return of 14.5% over five years, with net investment results of \$57.2 billion. They contributed over half of the results generated by la Caisse's portfolios taken as a whole.

This performance took place in favourable market conditions. From 2013 to 2017, the world's equity markets posted strong returns, particularly over the last two years (see Figure 15). Despite relatively flat corporate earnings during the period, the main benchmark indexes enjoyed sustained investor confidence prompted by synchronized acceleration of worldwide growth. However, index performance differed from one year to the next due to changing market conditions.

Over five years, the portfolios outperformed their benchmark indexes by 1.8%, adding \$6.8 billion in value. This demonstrates the benefits of the absolute-return approach adopted by la Caisse to manage its Equity Markets portfolios. In addition, the portfolios benefited from large positions taken in companies incorporated in the U.S., which posted better results for the period, as the U.S. economy consolidated, more jobs were created and the U.S. dollar appreciated in value.

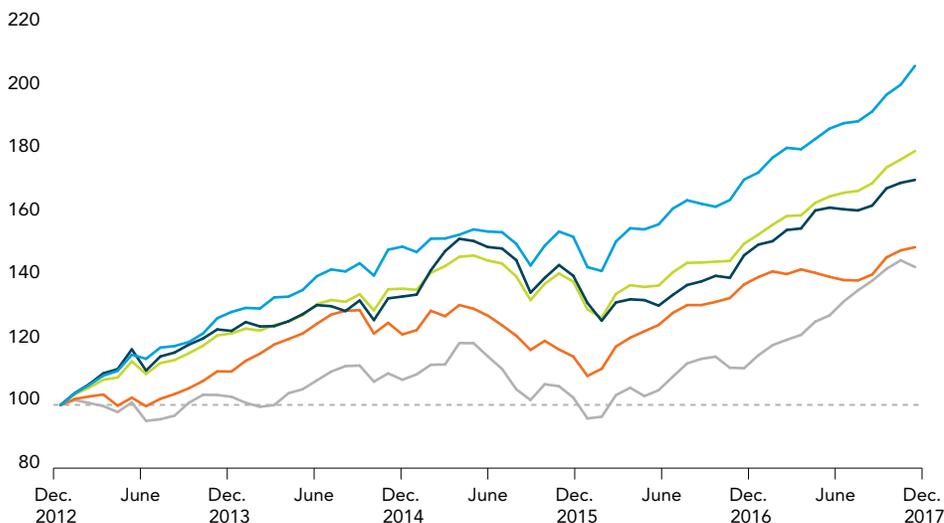
FIGURE 15

EQUITY MARKETS PERFORMANCE 2013-2017

(December 31, 2012 = 100, in local currencies)

- S&P 500
- MSCI EAFE
- MSCI ACWI
- S&P/TSX
- MSCI EM

Source: Rimes



2017 return

The portfolio generated a return of 13.7%, which added \$13.6 billion to net assets. This performance was obtained in an environment where equity market returns in local currencies were up overall in 2017. Favourable economic indicators in many regions drove the MSCI ACWI Index to record levels. The strong growth in equity markets was mainly due to the markets in Asia, the U.S. and continental Europe.

Even though the emphasis on high-quality securities has been profitable in the long term, the portfolio was at a disadvantage in 2017 since it was less exposed to large U.S. and Chinese companies in the information technology sector, which posted exceptional growth in 2017.

GLOBAL QUALITY MANDATE**Five-year return**

This mandate is a pillar of la Caisse's absolute-return strategy and the largest in the Equity Markets portfolio. Since its inception in 2013, it has delivered net investment results of \$17.2 billion. With an annualized return of 16.8%, the mandate outpaced its benchmark index by 3.1%. It is less volatile than the market in general, capturing almost all the market increases, but only a fraction of market lows. The mandate makes the largest contribution to value added in

the Equity Markets portfolios, with a \$2.3 billion contribution, or more than a third of the total value added produced by the seven mandates. The good performance by the Global Quality mandate over five years validates the benefits of la Caisse's absolute management approach and the work it has invested in building a strong portfolio that targets resiliency to a variety of scenarios and economic environments.

This performance is especially attributable to the solid returns on the securities of companies incorporated in the U.S. Both over five years and in 2017, the Health Care, Consumer Staples and Information Technology sectors made large contributions to the return. The mandate also benefited from security selection in the Industrials and Financials sectors, and from the strength of the U.S. dollar against the Canadian dollar.

2017 return

Net investment results were \$3.4 billion, resulting from a 9.5% return, which is consistent with the more defensive nature of the investments. Accordingly, there is less exposure to growth market securities and U.S. and Chinese Internet giants, which soared in 2017. Many sectors nonetheless posted returns greater than 10%, including Health Care, Industrials and Consumer Staples.

GLOBAL QUALITY MANDATE

COMPOSITION

- Securities in high-quality companies, exposed to global economic growth, traded on the stock exchanges of the countries included in the MSCI ACWI Index (United States, Canada, Europe, Australasia, the Far East and emerging markets)
- Highly profitable and stable companies that have strong fundamentals over time and demonstrate a conservative use of financial leverage

ADVANTAGES

- Risk-adjusted return exceeding that of public equities over a long-term horizon
 - Geographic diversification
 - Protection against inflation over the long term
 - Investments that are less sensitive to market fluctuations, and provide higher liquidity during periods of market turmoil
-

ANALYSIS OF PERFORMANCE BY ASSET CLASS

CANADA MANDATE

Five-year return

Managed solely through an absolute-return approach since 2015, this mandate generated a 10.9% annualized return compared to 9.4% for its benchmark index. It created \$1.6 billion of value added on net investment results of \$12.0 billion. Overweighting in securities of Québec-based companies was beneficial to the mandate. Of note, the strong performance of companies with a significant presence in the U.S., including Alimentation Couche-Tard, CGI and CN, underscore the strategy's success in capitalizing on that country's robust economy. The Financials, Consumer Discretionary and Consumer Staples sectors made the greatest contributions to return. The Materials sector and oil-related securities suffered the effects of falling prices around the world.

2017 return

With a 7.9% return, the mandate produced net investment results of \$1.9 billion. The Financials sector stood out again in 2017, turning in the strongest performance, including the banking segment which benefited from stronger growth in the Canadian economy. The economy's strong performance also favoured the Consumer Discretionary sector, which was a major contributor to the return due to the performance of securities such as Dollarama and Gildan.

GROWTH MARKETS MANDATE

Five-year return

This mandate generated net investment results of \$7.4 billion and an annualized return of 10.3%. It outperformed its benchmark by 1.2%, generating \$835 million in value added. The performance was driven by excellent returns in the main Asian stock markets. The mandate benefited from its active management component, which is handled by external managers. With their expertise, they have added substantial value since 2013, primarily in China, but also in India, even during market downturns. Rigorous selection of partners is a pillar of la Caisse's globalization strategy.

CANADA MANDATE

COMPOSITION

- Securities of publicly listed Canadian corporations, with an emphasis on the construction of a quality, concentrated portfolio that reflects distinctive aspects of the Canadian universe
- Businesses that are exposed to growth, with demonstrated fundamentals and competitive advantages that allow them to withstand market fluctuations
- The mandate is 33% composed of Québec companies, compared to 15.6% for the S&P/TSX Index

ADVANTAGES

- Long-term return exceeding that of fixed-income securities
 - Protection against inflation over the long term
-

GROWTH MARKETS MANDATE

COMPOSITION

- Growth market securities traded on the stock exchanges of countries mainly in the MSCI EM Index (emerging markets)
- Class A shares listed on the Shanghai and Shenzhen stock exchanges

ADVANTAGES

- Return exceeding those of the equity markets of developed countries over the long term
 - Geographic diversification
 - Significant absolute return management component of the mandate implemented alongside well-established local partners that have deep knowledge of the target markets
-

2017 return

At 28.4%, this mandate posted the best return in the Equity Markets portfolio in 2017. This high performance was due to investors' renewed confidence in growth markets. It was also attributable to the exceptional performance of the Chinese and South Korean markets, which were boosted by the Information Technology sector, and the judicious selection of securities by la Caisse's external managers. Their local knowledge continued to make a difference, in particular in Class A Chinese shares (listed on the Shanghai and Shenzhen stock exchanges). The Financials, Information Technology and Consumer Discretionary sectors accounted for two thirds of the return.

It should be noted that since January 1, 2017, part of the mandate's index management activities has been replaced by a new alternative beta component.

ALTERNATIVE BETA MANDATE**Five-year return**

This mandate was created in 2016. It adopts a strategy that consists of establishing a weighting based on various fundamentals (sales, cash flows, dividends, etc.) rather than on market capitalization.

2017 return

In 2017, the mandate returned 14.7% for net investment results of \$2.7 billion. All the regions covered by the mandate posted strong performances, which was especially true for

continental Europe, where improved economic indicators drove a stock market rally. As such, shares of companies incorporated there generated more than one third of the return and were boosted by the strength of the euro. The largest contributions to the mandate's performance were made by the Information Technology and Industrials sectors.

PRIVATE EQUITY**Five-year return**

La Caisse's strategy to increase its direct investments and decrease the proportion of its investments in funds proved profitable over five years. Direct investments, which now account for close to three quarters of the portfolio's activities, outperformed the funds. However, the funds also delivered a high return, in addition to being a source of several direct co-investment opportunities in recent years. Together, these two activities generated \$15.2 billion in net investment results over five years, and an annualized return of 13.4%. With value added of \$2.1 billion, the portfolio outperformed its benchmark by 1.8%.

2017 return

The portfolio generated a return of 13.0%, adding \$4.0 billion to net assets. In 2017, most of the return stems from direct investments. The strong performance of Québec companies made a significant contribution.

Most of the portfolio's assets are in Canada, the U.S. and Europe, as can be seen in Figure 16 on page 48.

ALTERNATIVE BETA MANDATE

COMPOSITION

- Securities in the developed markets included in the MSCI World Index, excluding Canada

ADVANTAGES

- Reduced exposure to securities the market values highly regardless of their fundamental values
 - Investments evenly distributed among the sectors to avoid overconcentration in particular sector
-

ANALYSIS OF PERFORMANCE BY ASSET CLASS

During the year, the managers made major private equity investments totalling over \$7.6 billion in leading international businesses, including:

- SUEZ Water Technologies & Solutions: a US\$800 million investment for a 30% stake in this world leader in water treatment solutions;
- USI Holdings: joint acquisition with KKR, valued at US\$4.3 billion, of one of the largest insurance brokerage and consulting companies in the U.S. SME market;
- Sebia: acquisition, in partnership with CVC StratOps and Thetys, of a significant minority stake in this French medical diagnostics company with international operations;
- Datamars: acquisition of a significant stake in this global leader in animal and textiles tracking;
- AvidXchange: US\$100 million investment in this automated bill payment and accounts payable solutions leader, expanding la Caisse's presence in the FinTech industry.
- Cogeco Communications: investment of \$395 million to help the company's U.S. subsidiary, Atlantic Broadband, acquire a U.S. company and reach over 230,000 new homes (total investment by la Caisse of \$585 million);
- Groupe Solmax: investment in this manufacturer of geosynthetic products for its acquisition of a major U.S. competitor, allowing it to become the global leader in its industry;
- Eddyfi Technologies: investment of \$36.5 million in this industrial inspection equipment and software developer, for acquisitions in the United Kingdom;
- Osisko Gold Royalties: investment of \$200 million to finance the purchase of a portfolio of mining royalties from Orion Mine Finance, including royalties from a mine in Chile.

In Québec, 2017 proved to be an exceptional year for private equity, with investments of close to \$2.0 billion. La Caisse continued to focus on a central component of its strategy by helping several Québec companies complete acquisitions and expand globally, including:

La Caisse also pursued its focus on innovation and the next generation, another pillar of its strategy. Investments completed in 2017 include Lightspeed, eStructure, Pivotal Payments and TrackTik, as well as commitments in two funds— Real Ventures IV and Novacap TMT V – that invest in emerging companies in the technology, artificial intelligence and new media industries.

PRIVATE EQUITY PORTFOLIO

COMPOSITION

- Direct, OTC stakes in both private companies and listed companies
- Companies active in all sectors of the economy, especially high-quality companies with stable, predictable revenue streams
- Stakes in high-performing investment funds
- Assets invested in Québec represent close to one third of the portfolio

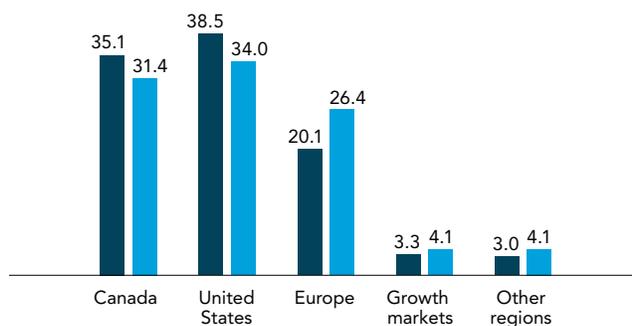
ADVANTAGES

- Expected long-term returns that exceed those of the stock markets
- Focus on quality partnerships and on long-term value creation, in particular by growth opportunities and improved operational efficiency

FIGURE 16

GEOGRAPHIC EXPOSURE – PRIVATE EQUITY (as a percentage)

- December 31, 2012
- December 31, 2017



The Private Equity teams also worked with the Equity Markets teams to complete a major investment in Alimentation Couche-Tard, so that it could repurchase a block of Class A shares held by Metro.

OTHER INVESTMENTS

ACTIVE OVERLAY STRATEGIES

The Active Overlay Strategies portfolio consists of non-capitalized investment activities with an absolute-return objective. Since its creation on January 1, 2014, it has generated net investment results of \$175 million, primarily due to the strong performance of external funds held in the portfolio and of tactical management activities. These two components nevertheless posted negative returns in 2017.

ASSET ALLOCATION

Five-year results

Asset allocation activities generated net investment results of \$1.2 billion over five years. This performance was due to a major contribution made by asset allocation operations on liquid markets, which profited mainly from positions on the U.S. dollar.

In contrast, asset allocation operations related to less liquid assets were unfavourable due to the opportunity cost associated with an underweighting of the less-liquid portfolios compared to the weighting of the benchmark portfolio. Measures were taken to mitigate this cost.

2017 results

The portfolio posted negative results in 2017. This retreat is attributable to the overall defensive positioning of asset allocation operations, which aim to reduce the risk in la Caisse's overall portfolio. The portfolio nevertheless benefited from non-directional strategies, which improve the risk-return profile of the overall portfolio through relatively favourable positions on rates, credit and the equity markets.

RETURNS BY SPECIALIZED PORTFOLIO

Table 17 on page 50 presents the returns of the specialized portfolios and mandates in relation to their benchmark indexes for the five-year and one-year periods ended December 31, 2017.

ACTIVE OVERLAY STRATEGIES PORTFOLIO

COMPOSITION

- Non-capitalized portfolio
- Investments in external funds
- Internally managed positions on financial markets, mainly in the form of financial instruments that are liquid and transparent

ADVANTAGES

- Moderate risk-return profile
 - Possibility of generating returns above those of bonds with less risk than with equity markets
 - Diversification
 - Low correlation with equity markets
-

ASSET ALLOCATION PORTFOLIO

COMPOSITION

- Non-capitalized portfolio
- Positions on financial markets, mainly in the form of financial instruments that are liquid and transparent

ADVANTAGES

- Calibration of the risk-return profile of la Caisse's overall portfolio
 - Enhancement of the overall portfolio's return
 - Exposure to asset classes that diversify the overall portfolio
-

TABLE 17

SPECIALIZED PORTFOLIO RETURNS IN RELATION TO BENCHMARK INDEXES

(for periods ended December 31, 2017)

Specialized portfolio	Net assets \$B	5 years			1 year		
		Net investment results \$M	Return %	Index %	Net investment results \$M	Return %	Index ⁸ %
Fixed Income							
Rates	40.1	665	N/A	N/A	665	1.8	1.4
Credit	50.6	2,261	N/A	N/A	2,261	5.1	4.0
Short Term Investments	1.9	218	0.8	0.7	22	0.6	0.6
Long Term Bonds	2.9	561	5.0	5.0	223	8.0	7.6
Real Return Bonds	1.2	24	1.0	0.9	10	0.8	0.7
Total¹	96.7	14,587	3.7	3.0	3,181	3.5	2.8
Real Assets							
Real Estate	34.3	13,567	11.3	11.4	2,539	8.0	8.2
Infrastructure	16.2	5,353	10.3	11.6	1,440	10.1	10.5
Total	50.4	18,920	11.0	11.3	3,979	8.7	9.0
Equities							
Global Quality mandate ²	38.8	17,164	16.8	13.6	3,369	9.5	13.5
Canada mandate ³	26.4	11,966	10.9	9.4	1,903	7.9	9.9
Growth Markets mandate ⁴	18.7	7,376	10.3	9.1	4,343	28.4	25.2
Alternative Beta mandate	19.3	3,481	N/A	N/A	2,676	14.7	14.6
Equity Markets ⁵	112.2	57,222	14.5	12.6	13,557	13.7	14.2
Private Equity	37.3	15,222	13.4	11.5	3,999	13.0	10.5
Total	149.5	72,444	14.3	12.5	17,556	13.6	13.3
Other							
Active Overlay Strategies	0.6	175	N/A	N/A	(125)	N/A	N/A
Asset Allocation ⁶	1.3	1,216	N/A	N/A	(399)	N/A	N/A
Total⁷	298.5	109,665	10.2	9.1	24,596	9.3	9.2

1. Includes the five-year returns for closed Fixed Income portfolios.

2. Includes the Global Quality portfolio history before 2016.

3. Includes the Canada portfolio history before 2016.

4. Includes the Emerging Markets Equity portfolio history before 2016.

5. Includes the activities of the Relationship Investing and Strategic mandate's over two years and the Global Value mandate over one year, and the five-year returns of the closed Equity Markets portfolios.

6. Results include the specialized portfolio and overlay operations.

7. The total includes the customized overlay operations, cash activities and terminated activities.

8. The indexes are detailed in the Tables of Returns section of the Additional Information.

Risk Management

RISK MANAGEMENT AT LA CAISSE

Given the uncertain global geopolitical environment and high market valuations, la Caisse did not take on more risk in 2017. Its level of financial risk therefore remained relatively unchanged from 2016. This vigilance allowed the institution to generate a sound return, while being prepared to confront a significant correction in the financial markets. The Risk Management group continues to play a key role in balancing investment risk and return by proposing rigorous frameworks and effective measurement tools.

Highlights

1

In 2017, the level of market risk of the overall portfolio was essentially unchanged from 2016.

2

The Risk Management group continued to support investment activities through its constructive influence over the teams and through active participation in investment committees.

3

A methodology to calculate the carbon footprint based on best practices and is related to la Caisse's investment strategy to address climate change, was developed in 2017.

CHANGES IN RISK MEASUREMENT

Risk management is an integral part of la Caisse's activities, both in its portfolio management and its business processes. Over the last few years, its teams have developed a sound risk culture and undertaken many initiatives that have allowed it to raise its risk management to an advanced level. La Caisse continued working along these lines in 2017 as it sought to establish, through the deployment of its strategic directions, the best possible matching of risk-return for its investments.

In managing its risks, la Caisse takes into account global economic conditions, changes in financial markets, and sectoral and geographic concentrations in the portfolio. During the year, its teams identified a number of risks to monitor, some of which will need continued monitoring in 2018:

- The central banks' normalization process and adjustments to monetary policies;
- A possible correction in valuations should markets turn risk-averse;
- Evolving protectionism around the world and, more specifically, in the United States, as well as uncertainty surrounding NAFTA renegotiations;
- Geopolitical tensions between the U.S. and Iran, North Korea and China;
- The ongoing Brexit negotiations and continued instability in Europe, despite better economic performance;
- Tensions related to social inequalities around the world and the rise of populist movements;
- An ongoing competitiveness issue in Canada, the appreciation of the Canadian dollar, changes in the oil sector and household debt.

RISK MANAGEMENT

Market risk

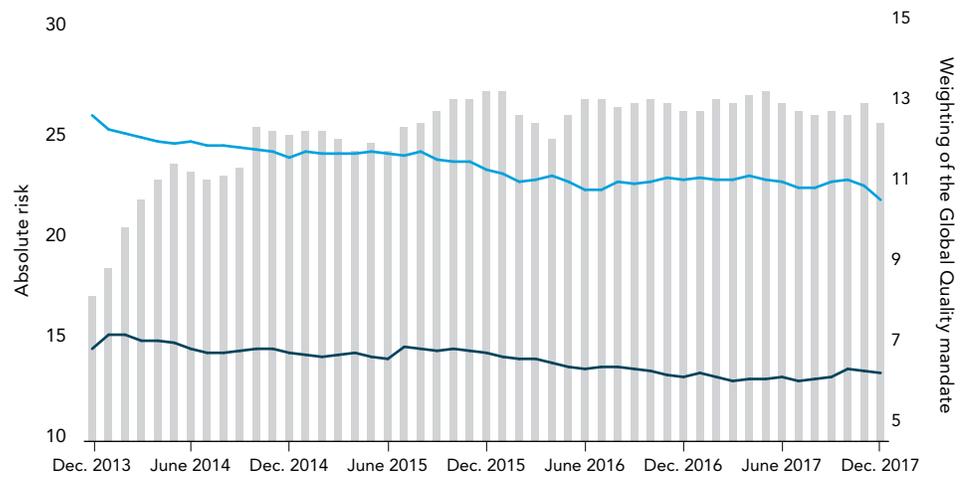
During 2017, the methodology used to calculate value at risk (VaR) was changed to better meet la Caisse’s needs and orientations, and to allow for better use of risk data in asset allocation. The main changes made to the method for assessing market risk are as follows:

- Increasing the historical data used from 2,500 days to 3,000 days to maintain statistical data on periods of volatility;
- Extending the measurement horizon from one week to one month to better capture correlations between asset classes;
- Reviewing the process for historical interest rate simulations in a low-rate environment to reduce the impact of rate reductions;

FIGURE 18

IMPACT OF THE GLOBAL QUALITY MANDATE’S WEIGHTING ON CHANGES IN ABSOLUTE RISK¹
(as a percentage)

- Absolute risk – Equities
- Absolute risk – Caisse
- Weighting – Global Quality mandate

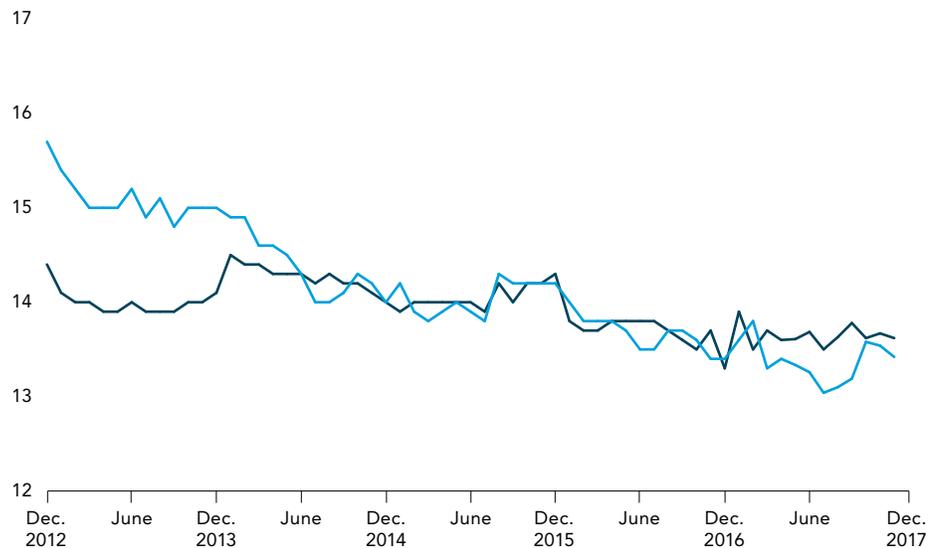


1. The risk figures preceding July 2017 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2017.

FIGURE 19

CAISSE ABSOLUTE RISK AND BENCHMARK PORTFOLIO RISK¹
(as a percentage)

- Caisse absolute risk
- Benchmark portfolio risk



1. The risk figures preceding July 2017 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2017.

- Reducing the confidence level, from 99% to 95%, to facilitate the use of data in asset allocation.

From the end of 2012 to the end of 2017, the level of market risk in la Caisse's overall portfolio fell considerably, in part due to:

- La Caisse's adoption of an absolute-return management;
- The Global Quality strategy (see Figure 18, p. 52);
- Increased exposure to foreign currencies;
- Shorter maturities in the ABTN portfolio, which was closed in 2017.

Figure 19, on page 52, shows changes over five years in the absolute risk of the overall portfolio compared with its benchmark portfolio. It is noteworthy that the risk of the overall portfolio was higher than that of the benchmark as at December 31, 2012, but they moved closer together over the period, to a level just slightly lower as at December 31, 2017, to 13.4% compared to 13.6%. In 2017, the lower risk level of the overall portfolio was mainly due to a defensive positioning in asset allocations for much of the year.

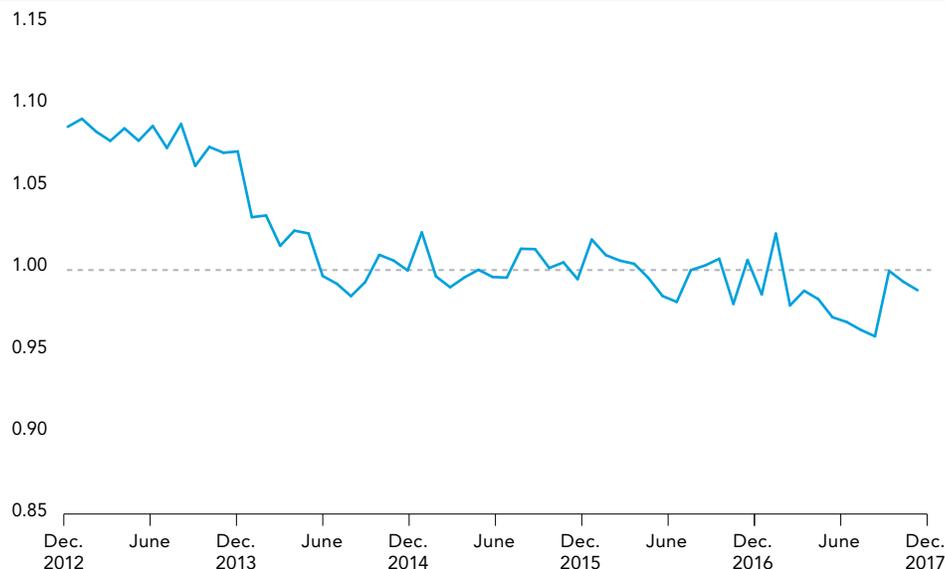
The reduction in la Caisse's absolute risk over the five-year period resulted in a lower absolute risk ratio for the overall portfolio compared to the absolute risk of its benchmark portfolio, as shown in Figure 20. Note that la Caisse employs this ratio to establish the absolute risk limit used to manage market risk. As at December 31, 2017, the absolute risk ratio was 0.99. A level of 1.00 indicates that the risk-taking to generate the value added is identical to that of the benchmark portfolio.

Market risk was unchanged from 2016 despite higher absolute risk in Fixed Income and Real Assets. This reflects la Caisse's strategic orientations (see Table 21, page 54). La Caisse repositioned its Fixed Income portfolios by significantly increasing credit activities, including corporate credit, sovereign credit and specialty finance, which represent some of the better-performing but riskier market segments. For Real Assets, the change was due to changes in portfolio diversification and exposure to foreign currencies. However, absolute risk declined in the Equities asset class.

FIGURE 20

ABSOLUTE RISK RATIO¹

● Absolute risk ratio



1. The risk figures preceding July 2017 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2017.

RISK MANAGEMENT

Credit risk

Deployment in the various mandates of the Credit portfolio led to higher credit risk in 2017, stemming from greater exposure to high-yield debt securities and to debt in growth markets. In addition to the market risk measures used to monitor credit risk, la Caisse employs potential capital losses, a measure that incorporates probabilities of default, correlations and recovery assumptions.

In addition, a committee consisting of members of the risk and investment teams reviews the fundamental analyses of the investment proposals to establish an internal credit rating. The ratings are reviewed on a regular basis and the committee closely monitors changes, including differences with the agency ratings. In 2017, the committee reviewed 155 issuers. In addition to traditional measures, the analyses and monitoring of investment proposals take into account many factors, including ESG (environmental, social and governance) factors.

Concentration risk

Despite increasingly large positions taken in certain investments, the overall portfolio's concentration risk was relatively unchanged in 2017, as la Caisse mitigates this risk through greater geographic and sectoral diversification.

Counterparty risk

Counterparty risk diminished compared to 2016, due to a decline in foreign currency hedging products. To limit this risk, la Caisse monitors a series of financial indicators on a daily basis for each of its counterparties to assess their financial soundness. Changes in the credit quality of counterparties were analyzed throughout the year to hold this risk at a low level (see Table 22).

Liquidity risk

In 2017, la Caisse maintained an adequate level of liquidity, up from 2016. As part of its new approach to liquidity management, it determines its needs to build a reserve consisting of primary liquid assets that can be used immediately without any loss of value, and secondary liquid

TABLE 21

MARKET RISK – ABSOLUTE¹ (as a percentage as at December 31)

Asset class	2017	2016
Fixed Income	5.8	5.1
Real Assets	18.9	18.0
Equities	22.0	23.0
Other investments	0.4	0.4
Overall	13.4	13.4

1. The figures as at December 31, 2016 were adjusted to reflect changes to the risk calculation methodology.

TABLE 22

EXPOSURE TO COUNTERPARTY RISK¹ (as at December 31 – in millions of dollars)

	2017	2016	2015	2014	2013
Gross exposure without offsetting effect	537.3	872.8	741.7	1,059.7	1,918.1
Net exposure under ISDA agreements ²	39.4	81.2	5.4	61.8	97.5

1. Over-the-counter derivatives with and by the real estate subsidiaries are excluded.

2. Net exposure under ISDA agreements is gross exposure less offsetting of amounts at risk and exchange of collateral.

assets that are slightly less liquid but can nevertheless be quickly converted into cash. These securities are resilient even during sharp market downturns. In this way, la Caisse annually establishes a minimum threshold of liquidity to maintain in the reserve in order to:

- Meet its potential commitments as well as those of its depositors;
- Rebalance the overall portfolio;
- Maintain the desired flexibility in the event of a crisis, including to take advantage of attractive investment opportunities.

The situation is monitored on a daily basis, and adjustments are made to the reserve based on various criteria. As at December 31, 2017, la Caisse had a sufficient liquidity reserve to meet its potential commitments, even in the event of a major market correction (see Note 12 in the Consolidated Financial Statements, page 154).

REVIEW OF OVERSIGHT AND PROCESSES

In 2017, la Caisse undertook various initiatives intended to strengthen its risk management frameworks and processes, while providing guidelines on how to apply the approach (see Note 12 of the Consolidated Financial Statements, page 154).

Influence of the Risk function on investment

Risk Management plays a key role in investment activities. This was apparent in several ways, including:

- An active presence on many committees, including the Investment-Risk Management Committee, the Investment-Risk Committee, the Operational Risk Committee, the Currency Committee, the Research Committee and the investment committees;
- The integration of business unit risk managers into the activities of each investment team. These resources are dedicated to specific asset classes and serve as bridges between these groups and the other members of the risk management team, providing support to the portfolio managers for optimal management of their risks and helping balance risk and return.

Strategic planning of investments and monitoring of strategic risks

When the annual strategic plan is developed, the strategies proposed by the investment groups are thoroughly analyzed to clearly identify the stakes and determine the potential impacts of new initiatives on la Caisse's risk. These analyses, which include market and liquidity crisis scenarios, play a significant role in setting the institution's strategic priorities.

Focus on cross-functional risk management

In 2017, many analyses were conducted of both emerging risks and cross-functional matters that could affect all la Caisse's portfolios, including U.S. taxation, NAFTA renegotiations, the energy sector and the transformation of the global economic model. New tools were also developed to better analyze and more easily monitor these risks.

Mitigation of operational risks

Operational risks may arise from transactional activities, growth and the globalization of la Caisse's activities, as well as from transformations undertaken within the organization to attain strategic objectives. The Operational Risk Committee measures and evaluates these risks and undertakes various actions to mitigate them. In 2017, this work included:

- An update of the operational risk map;
- An evaluation of reputational risk for all the portfolio's direct investments;
- The development of a guide on the investment process for new employees;
- Clarification of the rules to follow for background checks;
- An analysis of the risk of fraud in investment activities;
- Operational reviews of external management partners.

RISK MANAGEMENT

New asset class oversight and monitoring

During the year, la Caisse reviewed certain investment policies to take into account orientations adopted as part of its strategic planning and to implement frameworks that would reflect its risk tolerance. The reviews covered:

- **Less-liquid Assets:** changes to the investment policies of the Private Equity and Infrastructure portfolios, as well as the integrated risk management policies of the Ivanhoé Cambridge and Otéra Capital subsidiaries;
- **Fixed Income:** structuring of the frameworks for the new Rates and Credit specialized portfolios, and those of the four mandates of the Credit portfolio. Establishment of new governance for the activities of the two portfolios and new committees;
- **Equity Markets:** establishment of the new management mandate for the Global Value portfolio and the definition of its upper and lower limits;
- **Growth Markets:** rigorous monitoring of geopolitical risks, an update of the dashboard and preparation of files on the key countries and main currencies, as well as market intelligence notes on various issues. The teams also reviewed and assessed the risk premiums associated with these markets and the investment proposals, incorporating various factors such as a country's growth potential, valuation levels, volatility and risks.

IMPROVED RISK MANAGEMENT METHODOLOGIES AND TOOLS

La Caisse continued to refine its quantitative analysis methodologies and tools to better monitor risks. Several teams benefited for the improvements in 2017, including:

- **Fixed Income:** development of portfolio construction and environment monitoring tools, as well as indicators for evaluating the credit cycle. Establishment of a new methodology for measuring rate risk;
- **Private Equity:** development of a risk grid for a deeper analysis of investment proposals and to refine the institution's understanding of the proposals in terms of their risk-return;

- **Asset Allocation:** development of tools for monitoring portfolio activities and integrating risk analyses for each new strategy;
- **Active Overlay Strategies:** identification of risk measures that complement the current methodology in order to have an aggregate view of portfolio activities, external funds and tactical management activities.

Risk measurement

As mentioned above, the methodology used to calculate VaR changed in 2017. As a complement to market VaR, various stress tests were performed to quantify the potential impacts on the overall portfolio of certain market events. This testing enriches the range of scenarios developed to support investment decision-making.

In addition, la Caisse has established a proof of concept for a new measure of long-term risk based on the key factors that define risk for each business. This tool provides a complementary view of VaR in risk management. It incorporates more of the risks specific to each investment and allows factoring fundamental risk, in addition to providing a comprehensive view of the portfolio.

Measurement of climate risk

In 2017, la Caisse set the targets and determined the means to adopt to make a constructive contribution to the transition toward a low-carbon economy. A methodology based on best practices and evaluated by an external and independent auditor was developed to measure the carbon footprint of the institution's investments. This work led to the establishment of a diagnostic for all the investment activities and the calculation of the overall carbon footprint to set a comprehensive GHG reduction target per dollar invested. For more information, see the Climate Change section in the Stewardship Investing Report.

Compliance

The compliance activities of la Caisse include oversight to ensure adherence to the depositors' investment policies and the portfolios' investment policies, as well as to the Code of Ethics and Professional Conduct.

Highlights

1

Compliance programs were applied throughout the year to ensure compliance with depositors' investment policies, the specialized portfolios' investment policies and management mandates.

2

Various activities were maintained to raise employee awareness of the Code of Ethics and Professional Conduct.

INVESTMENT POLICIES

Programs are in place to certify compliance with depositors' investment policies and portfolio investment policies. In 2017, certificates of compliance with these policies were issued to depositors on June 30 and December 31. In addition, programs to ensure the compliance of activities in the specialized portfolios and management mandates were maintained.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

Compliance with the Code of Ethics and Professional Conduct for Officers and Employees is essential. At the beginning of each year, all employees must complete a declaration on compliance with the Code and provide information with respect to the holdings in their personal portfolios. They are also obliged to report any situation where they have reason to believe that there has been a breach of the Code or any other Caisse policy.

In 2017, la Caisse carried out several activities to heighten employee awareness of various aspects of the Code. In addition, interactive vignettes with specific themes or addressing ethical questions were published on the employee intranet throughout the year to provide examples of how to handle situations involving ethics and professional conduct. The system for pre-approving personal transactions is accessible to all employees, including employees in international offices. The Code of Ethics and Professional Conduct was also adapted for each international office based on local regulations. Lastly, la Caisse adopted a Policy on Harassment and Misconduct in 2017. Its purpose is to maintain the highest standards for professional conduct and respect in the workplace. It also sets out the process for handling potential policy violations.

The Code of Ethics and Professional Conduct for Officers and Employees is available on la Caisse's website (www.cdpq.com), in the Governance section.

COMPLIANCE

ACCESS TO INFORMATION

La Caisse processes requests for access to documents in accordance with the Act respecting access to documents held by public bodies and the protection of personal information (the Access Act). In 2017, la Caisse processed 37 requests for access to documents, including 26 for la Caisse and 11 for CDPQ Infra. All of the requests were handled within the legally prescribed time limit. Of these 37 requests, 14 were accepted, 15 were accepted in part, one was referred to another entity and 7 were declined. The requests received concerned issues such as severance pay and overtime, travel expenses, the number of employees and the payroll, amounts spent on donations and sponsorships, information projects and resources, disciplinary actions against employees, travel, cyberattacks, IT contracts, the Réseau express métropolitain (REM) and several other subjects of an administrative or budgetary nature. No request was subject to an application for review by the Commission d'accès à l'information. Responses to requests for access are available on la Caisse's website.

Lastly, in accordance with the Regulation respecting the distribution of information and the protection of personal information, la Caisse publicly posts on its website the specific information covered by this regulation: leases, training contracts, advertising and promotion contracts, mobile telecommunications contracts, training expenses, total travel expenses, and the CEO's travel expenses, official expenses and executive vehicle expenses.

CYBERSECURITY

Cybersecurity is an ongoing concern for la Caisse, which takes every precaution necessary to counter the potential risk to its activities. In 2017, it reviewed and strengthened all its information security management processes, including cybersecurity. It also organized a meeting and communication campaign for employees to highlight the importance of this issue and to equip them to more easily detect potential threats.

LANGUAGE POLICY

La Caisse complies with the requirements of the Charter of the French Language and its language Policy, which stipulates French as the everyday language of work for all employees in its offices in Québec. La Caisse considers the quality and use of French in its spoken and written communications to be of paramount importance.

To that end, la Caisse provides its employees with various tools that contribute to correct French usage, as well as a number of reference works, including a lexicon that it compiled to define terms specific to its investing activities.

In 2017, articles on the proper use of expressions and idioms were published regularly on the employee intranet. The articles also encouraged employees to use the tools and references available on the website of the Office québécois de la langue française, as well as other language tools available to them.

Various other initiatives were also undertaken, including a quiz and articles on the quality and use of French. In addition, the fourth annual Dictée de la Caisse was held in December 2017 as part of the initiatives to make employees more acutely aware of the quality of French in the workplace.

COMPLAINT MANAGEMENT

La Caisse has designated M^e Ginette Depelteau, Senior Vice-President, Compliance and Responsible Investment, to receive complaints and analyze them with all due attention. Complaints may be addressed to her by phone (514 847-5901), fax (514 281-9334) or email (gestiondesplaintes@cdpq.com).

La Caisse in Québec



La Caisse's Achievements in Québec

Sustained Support for Québec's Economic Growth Drivers

Guided by the three pillars of our strategy, we seek to foster the emergence and growth of strong Québec companies, and to implement projects and initiatives that make sustainable contributions to Québec's economic vitality.



\$42.5 B

TOTAL ASSETS IN THE QUÉBEC PRIVATE SECTOR, REPRESENTING $\frac{2}{3}$ OF ITS \$63.4B IN ASSETS IN QUÉBEC

+750

NUMBER OF LA CAISSE'S PARTNERS – INCLUDING MORE THAN 650 SMEs

\$6.7 B

NEW INVESTMENTS AND COMMITMENTS IN 2017

+50%

INCREASE IN INVESTMENTS IN THE QUÉBEC PRIVATE SECTOR OVER FIVE YEARS

GROWTH AND GLOBALIZATION

We finance and support Québec companies of all sizes in their growth and expansion, **in Québec and internationally.**

50

INTERNATIONAL ACQUISITIONS

completed by companies in our portfolio over two years



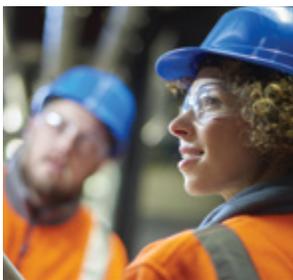
EDDYFI

\$36.5 million invested in this leader in advanced inspection systems to finance acquisitions in the United Kingdom



GROUPE SOLMAX

Investment for an acquisition in Texas to create a world leader in polyethylene geomembranes



SNC-LAVALIN

\$1.9 billion for the acquisition of WS Atkins, one of the largest British engineering firms



GLUTENBERG HOLDING

\$2.5 million to fuel the U.S. expansion of this beer and spirits producer



OSISKO GOLD ROYALTIES

\$200 million for the acquisition of a portfolio of precious metals assets located in Chile



COGECO

Financing for an acquisition in the U.S. that will help the company reach 230,000 new homes (investment: \$585 million)

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

GROWTH-CREATING PROJECTS

The projects we undertake, particularly in **real estate** and **infrastructure**, produce solid returns and generate concrete benefits for the **Québec economy**.

\$4 B
OF QUÉBEC CONTENT FOR THE REM PROJECT

We focus on promising sectors in the new economy such as artificial intelligence, new media, sustainable mobility and green technology.



INNERGEX

\$150 million for the acquisition of Alterra Power, a company that is active in Canada, the United States and Iceland



BORALEX

\$390 million to foster the growth of this renewable energy producer



REM

Owner-operator of this public transit network in Greater Montréal, the largest built in Québec in 50 years



PVM ESPLANADE

\$200 million to revitalize this space as a major public gathering place in downtown Montréal



QUARTIER QB

Construction of this mixed-use real estate complex at the heart of Québec City's Cité-Universitaire district



EATON CENTRE

\$200 million to upgrade one of Québec's most visited shopping destinations

INNOVATION AND THE NEXT GENERATION

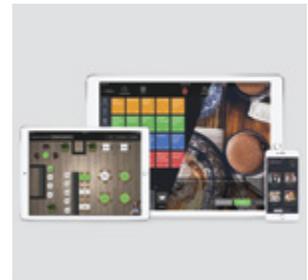
We put a special emphasis on developing **ecosystems** to **work with SMEs** that will succeed in the new economy and promote the vitality of **entrepreneurship**.

We focus on promising sectors in the new economy such as **artificial intelligence, new media, sustainable mobility and green technology.**



TRACKTIK

\$7 million alongside iNovia to accelerate the development of its workforce management platform and to help it grow in new markets



LIGHTSPEED

\$170 million for the development of point-of-sales and cloud-based business solutions and international expansion



REAL VENTURES IV

A \$15-million stake in this fund that helps technology startups grow



PIVOTAL PAYMENTS

Large stake in this payment processing and merchant services solutions specialist



eSTRUXTURE

\$80 million alongside Canderel to foster the creation of a platform of cloud data storage centres



GELPAC

In the context of a business transfer, an investment in this Québec packaging manufacturer

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

A TANGIBLE CONTRIBUTION TO QUÉBEC'S ECONOMIC GROWTH

La Caisse plays a leading role in the Québec economy. In this market, our activities contribute to stimulating economic growth through investments and through working actively with the private sector, particularly with innovative companies and on growth-creating projects that contribute to strengthening Québec's economy.

La Caisse's role in Québec has evolved significantly over time. In recent years, we have focused primarily on the private sector, which is the main driver of Québec's economy. Our presence in this sector today represents \$42.5 billion, an increase of 50% over the past five years. La Caisse focuses on three major priorities that maximize our impact in Québec: growth and globalization, growth-creating projects and lastly, innovation and the next generation. As such, we actively work with Québec companies to foster their expansion projects at home and internationally. We design and develop large real estate and infrastructure projects, work with SMEs that stand out in the new economy and contribute to entrepreneurial vitality through a series of initiatives to promote entrepreneurship.

During 2017, la Caisse's three-pillar approach led to \$6.7 billion in new investments and commitments, an exceptional level. This brings our total investments and commitments over the last five years to \$17.5 billion.

We leverage our strategic advantages to optimize our impact in Québec. These include the expertise of our teams in many sectors, including real estate and infrastructure, our business relationships in Québec and around the world, our offices in nine countries and our network of local and international partner companies. La Caisse's accomplishments extend far beyond the dollars we invest. The Réseau express métropolitain (REM) project, which achieved key milestones in 2017, provides a concrete example. The same applies to the plan for downtown Montréal, which led to the inauguration of Maison Manuvie, the transformation of the Fairmont The Queen Elizabeth as well as the launch of development projects at Place Ville Marie Esplanade and Montréal Eaton Centre.

**AS AT DECEMBER 31, 2017,
LA CAISSE'S ASSETS IN QUÉBEC
TOTALLED \$63.4 BILLION.
MORE THAN TWO THIRDS
OF THIS AMOUNT, OR
\$42.5 BILLION, WAS INVESTED
IN THE PRIVATE SECTOR.**

TABLE 23

ASSETS AND COMMITMENTS IN QUÉBEC – PRIVATE EQUITY AND INFRASTRUCTURE (as at December 31 – in millions of dollars)

	2017			2016		
	Assets	Undisbursed commitments	Assets and undisbursed commitments	Assets	Undisbursed commitments	Assets and undisbursed commitments
Small and medium-sized businesses	1,958	686	2,644	1,354	643	1,997
Large businesses	10,231	961	11,192	8,067	614	8,681
Total	12,189	1,647	13,836	9,421	1,257	10,678

LONG-TERM PARTNER OF QUÉBEC COMPANIES

La Caisse seeks to foster the emergence and growth of strong Québec companies able to compete with the best in their industries and in global markets. We create long-term partnerships with them. To foster all stages of their development, we create customized financing solutions that meet their needs.

WORKING WITH QUÉBEC COMPANIES OF ALL SIZES

The unique know-how of the teams at la Caisse is harnessed to foster Québec companies' growth, globalization, innovation and succession projects. During 2017, la Caisse backed the expansion projects of companies of varying sizes, including Cogeco, Eddyfi Technologies, Groupe Solmax, Glutenberg Holding, Osisko Gold Royalties and SNC-Lavalin. It also financed the projects of innovative companies such as Lightspeed, eStructure, Pivotal Payments and TrackTik.

INVESTMENT ACTIVITIES – PRIVATE EQUITY AND INFRASTRUCTURE

In 2017, la Caisse's total Private Equity and Infrastructure assets reached \$12.2 billion (see Table 23, p. 64).

Private Equity investments include direct investments in private companies as well as shares of publicly traded companies from initial public offerings or large transactions.

La Caisse also invests in publicly traded Québec companies with a market capitalization of less than \$1.5 billion. This commitment helps stimulate Québec's equity market and the growth of these companies.

Table 24 presents la Caisse's 10 main Private Equity and Infrastructure investments in Québec.

Presence in the private sector

La Caisse's presence in the private sector focuses on five areas:

- Private equity
- Equity market investments
- Loan financing
- Infrastructure investments
- Real estate investments

TABLE 24

TOP 10 QUÉBEC INVESTMENTS – PRIVATE EQUITY AND INFRASTRUCTURE (as at December 31, 2017)

Alimentation Couche-Tard
 Boralex
 CAMSO
 CGI Group
 Lightspeed
 McInnis Cement
 Osisko Gold Royalties
 Quebecor
 Trenchap (Énergir, previously Gaz Métro)
 WSP Global Group

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

INVESTMENT ACTIVITIES – EQUITY MARKETS

As at December 31, 2017, la Caisse's investments in Québec publicly traded equities totalled \$9.7 billion (see Table 25). The 10 main positions in this category are listed in Table 26.

In la Caisse's Equity Markets portfolio, Québec securities accounted for 33% of the Canada mandate's assets as at December 31, 2017. This is more than double the weighting of these securities in the overall S&P/TSX index, of which only 15.6% were Québec companies during that period.

PARTNERSHIPS WITH FUNDS TO FUEL THE GROWTH OF SMEs

La Caisse has formed partnerships with a variety of Québec funds over the years. This approach enables it to fuel the growth of more companies of various sizes. It also provides la Caisse with a pipeline of promising companies that it may invest in directly in the future.

La Caisse's teams thus analyzed companies that partner funds invested in and regularly tracked their progress, thereby identifying potential direct investments. During 2017, this strategy generated two such investment opportunities. The first was an investment in TrackTik, which owns a security workforce management platform. The second was a reinvestment in Lightspeed, which offers cloud-based and point-of-sale solutions for independent retailers and restaurants. These companies were identified through the iNovia Capital, a partner of la Caisse for the last few years. During 2016, la Caisse also directly invested in Hopper, whose mobile app analyzes and predicts the price of airplane tickets. Hopper was part of Brightspark Ventures' portfolio.

La Caisse has also partnered with Capital régional et coopératif Desjardins in the Capital croissance PME (CCPME) fund, which provides Québec SMEs with financing for their growth projects. This fund addresses the needs of small companies and focuses on the development of companies located in Québec's regions. Since its creation in 2010, the fund has authorized \$448.4 million of investments in 375 SMEs, of which 80% are located outside Montréal and outside the Québec City region. In 2017, the fund invested a total of \$74.2 million in 79 companies.

TABLE 25

**QUÉBEC ASSETS IN THE
EQUITY MARKETS PORTFOLIO**
(as at December 31 – in millions of dollars)

	2017	2016
Total – Equity Markets	9,741	8,472

TABLE 26

**TOP 10 QUÉBEC POSITIONS –
EQUITY MARKETS**
(as at December 31, 2017)

Alimentation Couche-Tard
Canadian National Railway Company
CGI Group
Dollarama
Gildan Activewear
Industrial Alliance, Insurance and Financial Services
Power Corporation of Canada
Saputo
SNC-Lavalin Group
Stella-Jones

INNOVATION CAPITAL

On the innovation front, la Caisse concludes long-term partnerships with several well-established funds that invest in Québec. This approach seeks to help more SME technology startups successfully navigate the early stages of their development. During 2017 la Caisse concluded several new commitments, including:

- \$75 million in Novacap TMT V, the largest private Canadian fund focused on the technology, media and telecommunications sector;
- \$20 million in two Real Ventures funds which target the artificial intelligence sector;
- \$15 million in Lumira Capital IV, which invests in emerging pharmaceutical, biotechnology, medical services, healthcare and life sciences companies.

La Caisse also partnered with Desjardins Group to create an investment fund solely focused on financial technology (FinTech) and finance-related artificial intelligence. This venture capital fund will have \$75 million to fuel the growth and development of new FinTech companies in Québec and Canada. The creation of the new Fintech fund, at la Caisse's initiative, follows the launch of Fonds Espace CDPQ in 2016, which will invest \$50 million in innovative Québec SMEs seeking international expansion. This fund is also partners with Innovexport, a startup fund that finances companies emerging from incubators and accelerators across Québec.

La Caisse has also had an ongoing partnership with Teralys Capital since its inception in 2009. Teralys invests in and develops specialized venture capital funds in the information technology, life sciences and green technology sectors. Through its various funds and direct investments, Teralys invested a total of \$225.5 million in 57 Québec companies in 2017.

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

A LEADER IN QUÉBEC REAL ESTATE

La Caisse has two well-established real estate subsidiaries, Ivanhoé Cambridge and Otéra Capital, through which it plays a leading role in Québec's real estate sector. The cities they are active in, as well as Québec as a whole, enjoy significant benefits generated by their investments and activities.

As at December 31, 2017, la Caisse's real estate assets in Québec, as detailed in Table 27, totalled \$10.8 billion. The 10 major investments in this sector are listed in Table 28 on page 69.

IVANHOÉ CAMBRIDGE

Ivanhoé Cambridge, a world-class real estate company, is a major leader in its sector in Québec. As at December 31, 2017, it owned 29 buildings in Québec valued at \$6.5 billion. These included eight shopping centres, nine office buildings, three luxury hotels and two residential complexes. Its portfolio of Québec shopping centres and office buildings totals 12.3 million square feet (1.1 million square metres).

During the year, Ivanhoé Cambridge achieved key milestones in its plan for downtown Montréal, by inaugurating two major projects:

- Maison Manuvie, a class-AAA office building which houses the Québec head office of Manulife and will provide rental space for EY and Boralex;
- Fairmont The Queen Elizabeth hotel, which reopened following a more than \$140-million renovation to innovatively transform the hotel experience and to renew the lustre which made it famous around the world.

As part of its plan for Montréal, Ivanhoé Cambridge also began major projects to upgrade two of the city's iconic locations:

- \$200 million to revitalize the Esplanade and improve commercial offering at Place Ville Marie;
- \$200 million to upgrade the Montréal Eaton Centre, a project that will also involve merging Complexe Les Ailes under the brand of this most-visited shopping destination in Québec.

In Québec City, Ivanhoé Cambridge continued work to modernize and redesign access to Place Ste-Foy and launched the third and final phase of the Quartier QB residential complex, following the completion of phase two. Once finished, the project will offer more than 680 rental units.

OTÉRA CAPITAL

Otéra Capital, one of Canada's leading mortgage lenders, is very active in Québec, where it managed assets totalling \$4.3 billion as at December 31, 2017. Otéra finances some 275 commercial buildings in 13 regions. During 2017, the company granted more than 55 new loans and refinancings.

TABLE 27

REAL ESTATE ASSETS AND COMMITMENTS IN QUÉBEC

(as at December 31 – in millions of dollars)

	2017			2016		
	Assets	Undisbursed commitments	Assets and undisbursed commitments	Assets	Undisbursed commitments	Assets and undisbursed commitments
Shopping centres	3,162	231	3,393	3,235	98	3,333
Offices	4,675	213	4,888	4,631	195	4,826
Multiresidential	780	474	1,254	612	297	909
Other	2,213	63	2,276	2,047	118	2,165
Total	10,830	981	11,811	10,525	708	11,233

INNOVATING TO DEVELOP PUBLIC INFRASTRUCTURE PROJECTS

Created in 2015 as a unique model to finance and complete public infrastructure projects, la Caisse's subsidiary, CDPQ Infra, is responsible for the development and operation of Réseau express métropolitain (REM), its first public transportation project.

The REM is one of the world's largest automated transit networks and the largest public transit project in Québec in 50 years. The network will connect downtown Montréal, university hubs, the South Shore, the North Shore, the West Island and the Montréal-Trudeau Airport through a new, fully automated electric light rail transit (LRT) system. The route will cover 67 km, have 26 stations and will provide greater frequency depending on the time of day and location, which will facilitate daily travel. It will operate 20 hours a day, seven days a week and will be connected to Montréal's three main Metro lines.

KEY MILESTONES ACHIEVED IN 2017

Several key milestones were achieved during 2017 in this innovative project. At the start of the year, the Bureau d'audiences publiques sur l'environnement (BAPE) tabled its report. This was followed by the environmental decree in May. At the end of March, CDPQ Infra also received a \$1.28-billion commitment from the Québec government which will become a shareholder in the project. In June, the federal government also committed to \$1.28 billion in financing.

In September, the National Assembly of Québec adopted Bill No. 137, an Act Respecting the Réseau électrique métropolitain.

These steps, coupled with rigorous analysis of the qualified consortia's proposals and of the choice of the winning consortia of the infrastructure's engineering, procurement and construction contract and the contract related to the supply of rolling stock, systems and operation and maintenance, led to a confirmation of the route and the financial structure as well as the official announcement of the start of construction in 2018.

CONSIDERABLE BENEFITS

In February 2018, less than two years after it was officially announced, the REM became a reality. Construction will begin in the spring of 2018, while the first tests will be conducted at the end of 2020 and initial operations of the first branch will begin in summer 2021.

TABLE 28

TOP 10 QUÉBEC INVESTMENTS – REAL ESTATE

(as at December 31, 2017)

Montréal Eaton Centre, Montréal
 Édifice Jacques-Parizeau, Montréal
 Fairmont Le Château Frontenac, Québec City
 Fairmont The Queen Elizabeth, Montréal
 Fairview Pointe-Claire, Pointe-Claire
 Galeries d'Anjou, Montréal
 Laurier Québec, Québec City
 Le 1000 De La Gauchetière, Montréal
 Place Ste-Foy, Québec City
 Place Ville Marie, Montréal

A growth-creating project

The REM project will generate considerable economic benefits for Québec. These include:

- **\$4 billion** of Québec content;
- **34,000 jobs** created during construction;
- **\$2 billion** in salaries paid;
- **1,000 permanent jobs** created.

The REM will also foster a centre of expertise in the greater metropolitan area related to the operation and maintenance of automated electric transit infrastructure.

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

AN ESSENTIAL FINANCING ROLE IN QUÉBEC

La Caisse plays an essential role in financing in Québec. We participate in numerous private sector growth projects which directly impact Québec's economic growth.

In recent years, la Caisse has been very active in the private financing market and is continuing to increase its activities in this sector. Businesses are the primary engines of Québec's economy, and financing them creates a double benefit: it generates attractive long-term returns and fosters domestic economic activity.

La Caisse has had long-term partnerships with several Québec private and publicly traded companies and facilitated their local and international development. During 2017, la Caisse backed growth projects at La Capitale, Cogeco, Innergex and Lemay, an architecture firm. La Caisse also financed SNC-Lavalin's expansion through a \$1.5 billion loan, guaranteed by the company's interest in Highway 407 ETR.

In 2017, during a period when interest rates remained low despite a recent recovery, and fixed-income returns were projected to be modest, la Caisse continued to reduce its exposure to bonds from developed countries as part of its global investment strategy. This resulted in reducing its positions in the Québec public sector, in favour of increased private sector activity. La Caisse nevertheless remains a key holder of Québec government, municipal, crown corporation and para-governmental organization bonds.

As at December 31, 2017, la Caisse's total holdings of private and public-sector bonds totalled \$30.6 billion, as detailed in Table 29.

TABLE 29

ASSETS IN QUÉBEC – CORPORATE SECURITIES AND BONDS (as at December 31 – in billions of dollars)

	2017	2016
Private sector: corporate securities	9.7	8.5
Québec public sector		
Government of Québec	14.8	16.1
Hydro-Québec	5.0	4.5
Other crown corporations	0.9	1.1
Municipalities and para-governmental corporations	0.2	0.2
Subtotal	20.9	21.9
Total	30.6	30.4

ESPACE CDPQ: INVESTMENTS AND DEVELOPMENT FOR ENTREPRENEURS

Espace CDPQ is unique in Québec. This investment and development hub brings together partners and stakeholders around a common objective: to accelerate the growth and globalization of Québec SMEs. This initiative by la Caisse combines networks, expertise and resources to benefit Québec businesses.

Espace CDPQ, which has been located at Place Ville Marie since its establishment in 2016, finalized its expansion in 2017. Today it houses 16 partners active in SME financing and development under one roof to promote collaboration. Its financing component combines 11 complementary, multi-sectoral investment organizations, including the Fonds Espace CDPQ, a \$50-million fund set up by la Caisse. Its development component is strengthened through the presence of five organizations dedicated to the development and training for growing companies. Together, the network includes more than 1,200 companies of all sizes and sectors and provides bridges to more than 170 countries. Espace CDPQ, through its activities, also represents a source of potential investments for la Caisse.

A HUB THAT SPURS NUMEROUS ACTIVITIES

During the first quarter of 2017 work on the second phase of Espace CDPQ was completed and the remaining tenants were able to move in, bringing the occupancy rate to 100%. This network thus generated considerable activity during 2017.

Espace CDPQ partners completed more than 100 investments and reinvestments during the year. These included two investments from Fonds Espace CDPQ: the first provided \$2.5 million to fuel the expansion of Glutenberg Holding, a producer and distributor of beer and spirits, and the second was an investment in Poka, a young company that offers innovative communication and web-training solutions for manufacturers. In addition, the Brightspark Ventures fund made an investment in Classcraft, a Sherbrooke company whose platform makes teaching techniques more fun. This deal resulted from a connection made at an activity organized by an Espace CDPQ partner.

The development and training organizations worked with close to 400 entrepreneurs, intrapreneurs and companies through a network of more than 150 mentors. Several business development activities were also organized during the year. These included some 3,500 business meetings and 60 major events on topics ranging from growth to internationalization to innovation. The events acted as networking opportunities for stakeholders from Espace CDPQ and the Québec entrepreneurial ecosystem.

The 16 tenant partners at Espace CDPQ include 11 investors – iNovia Capital, Anges Québec, Anges Québec Capital, Fonds Espace CDPQ, OTEAF, Panache, XPND Capital, Brightspark Ventures, Clearspring Capital, Whitestar Capital and Real Ventures – as well as five development and training organizations – Réseau QG 100, École d'Entrepreneurship de Beauce, Initiative Intrapreneuriale, Réseau Capital and Univalor. This community is the driving force of a synergy that is beneficial to the growth and internationalization of promising Québec companies.



LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

INSPIRE A STRONG ENTREPRENEURIAL CULTURE IN QUÉBEC

To build sustainable growth in the Québec economy, it is essential to empower the next generation of companies, helping them reach their full potential. This is why la Caisse created partnerships aimed at launching concrete initiatives to promote entrepreneurship.

DEVENIR ENTREPRENEUR

Devenir entrepreneur is an entrepreneurship awareness initiative that has grown continuously since its launch in the fall of 2015 by la Caisse, Desjardins Group and National Bank. The campaign has seen considerable success during a time when Quebecers' intentions to undertake entrepreneurial activities have tripled since 2009 and reached 40% among those under the age of 35. More than 150 entrepreneurs have contributed to the content since its launch, thus providing inspiring role models and helping to dispel entrepreneurship-related myths. The Devenir entrepreneur web platform has attracted more than 500,000 visitors during the past two years and inspired a community of close to 40,000 social media subscribers.

During 2017, Devenir entrepreneur continued to deploy its messaging on various platforms throughout the province. These included videos and posters in 37 CEGEPs, 12 universities, the Montréal Metro as well as on columns and bus shelters in Québec City and Montréal. A new web series was also launched titled *The right questions*, in which a dozen or so entrepreneurs answer questions related to roadblocks that potential entrepreneurs may face.

ENTREPRENDRE C'EST APPRENDRE

The "Entreprendre c'est apprendre" toolbox, which was designed to promote entrepreneurial-oriented educational activities, enabled numerous elementary and high school teachers to help students learn through entrepreneurship. During 2017, 27 entrepreneurial-related projects and pedagogical tools were featured in schools throughout Québec. This brought the number of projects undertaken since the initiative began to 73. All of the projects are made available to teachers and published on the entreprendrecestapprendre.com site.

The second edition of the Semaine des entrepreneurs à l'école, which was conducted in partnership with OSEntreprendre, also saw considerable success, in part by spreading its activities to the 17 Québec regions. More than 260 entrepreneurs took part alongside more than 11,000 students aged 12 to 17 years old and 200 teachers from 155 schools.

GETTING YOUNG PEOPLE EXCITED ABOUT ENTRENEURSHIP

Two other partnerships that seek to inspire youth from all of Québec's regions to go into business for themselves are worthy of mention. The Défi Jeunes d'Affaires, which is led by Fusion Jeunesse, seeks to show daily life in a company in a sector that youth are passionate about. During 2017, 1,279 students in 21 schools participated in the second edition of this initiative. In addition, the Grande journée des petits entrepreneurs, which is now in its fourth edition, inspired 4,200 youth aged between 5 and 12 to launch a company for a day. During its first edition in 2014, this initiative attracted 300 participants.

A PORTRAIT OF FEMALE ENTREPRENEURSHIP

The Québec Entrepreneurship Index, which has been published by la Caisse since 2011 and produced in partnership with the National Bank – HEC Montréal Institute for Entrepreneurship (NBIE) and Leger, evaluates major indicators of the entrepreneurial chain. During 2017, the index completed one of the largest studies ever conducted on female entrepreneurship in Québec.

A LEADER IN QUÉBEC'S FINANCIAL INDUSTRY

Through the very nature of our operations, we play a major role in Québec's financial industry. We also facilitate the emergence of new financial leadership by developing a pool of qualified experts.

Over the years, la Caisse has developed partnerships with large universities in Québec to meet the needs of the financial sector. This collaboration involves funding for research chairs and the creation of training programs. For example, la Caisse and l'Université Laval created l'Académie de la relève entrepreneuriale CDPQ, whose initial cohort graduated in December 2017. The objective of this one-year training program is to develop high-level entrepreneurial competencies in students and graduates of Université Laval who have started a company with strong growth potential.

The following are more examples of la Caisse's collaboration with the university community:

- The CDPQ-HEC Montréal Going Global Program;
- The Caisse de dépôt et placement du Québec Portfolio Management Chair at École des sciences de la gestion at Université du Québec à Montréal (ESG UQAM);
- Trading floor – ESG UQAM;
- The Caisse de dépôt et placement du Québec Research Chair in Actuarial Management of Asset Risks at Université Laval;
- Study on responsible investment at Université de Sherbrooke;
- Study on responsible investment at Concordia University;
- Research on responsible investment at Polytechnique Montréal;
- Investment funds – Fondation de l'Université du Québec à Rimouski;
- Centre of Excellence – Carrefour d'entrepreneuriat et d'innovation – Université du Québec à Trois-Rivières;

- Académie de la relève entrepreneuriale – Université Laval;
- Entrepreneurship in culture, media and entertainment program – HEC Montréal;
- Sustainable Investment Professional Certification Program at the John Molson School of Business at Concordia University.

Each year la Caisse also employs numerous students as part of its internship program for jobs in finance and other key sectors. During 2017, la Caisse hired 120 students over the year for internships ranging from four to eight months.

COLLABORATION WITH THE FINANCIAL SECTOR

La Caisse plays an active role in Finance Montréal, an organization that aims to strengthen Québec's financial sector. For example, it helped establish the International Pension Conference of Montréal, whose fifth edition was held in Montréal in 2017 and dealt with the worldwide challenges and solutions related to retirement.

A LARGE NETWORK OF SUPPLIERS

La Caisse and its subsidiaries use the services of many Québec companies while conducting their activities. This includes the support of more than 2,000 suppliers that have a business establishment in Québec. During 2017, la Caisse and its subsidiaries increased their spending in Québec by about \$100 million to more than \$900 million.

As stipulated in its Policy on Contracts for the Acquisition or Leasing of Goods and Services, la Caisse favours Québec suppliers, provided they satisfy its cost and quality criteria.

Stewardship Investing



Stewardship Investing

We strive to act as a responsible investor

In 2018, we will publish our first Stewardship Investing Report, which will set out our vision and commitments in several areas.

Our stewardship investing commitments



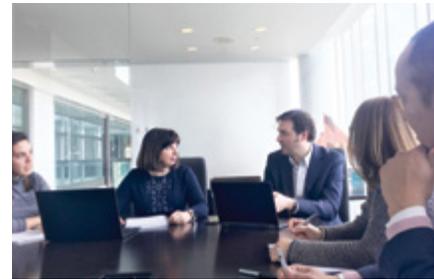
CLIMATE CHANGE

New investment strategy to address climate change



WOMEN IN BUSINESS

Measures to increase the number of women in business



GOVERNANCE

Dialogue with companies and exercise of our voting rights



INTERNATIONAL TAXATION

New statement on international taxation



INVESTMENT PROCESS

Integration of ESG factors in all our investment decisions



SOCIAL INVOLVEMENT

Philanthropic activities and 2017 Sustainable Development Plan

We intend to exercise **strong leadership** in stewardship investing in the financial community and with our peers.

Participation in various international initiatives



Among the first institutional investors to integrate these six United Nations principles.



Involvement in this international organization that works with investors and companies to build strong leadership.



Participation in this initiative targeting a minimum of 30% women on Boards of Directors.



Membership in this organization whose mission is to promote effective standards of corporate governance.

Reports of the Board of Directors and Board Committees



Board of Directors' Report

Highlights

1

Reviewed and confirmed the strategic priorities for the investment groups and the administrative groups at la Caisse.

2

Approved the investment strategy to address climate change.

3

Approved investment proposals under the Board's authority, paying particular attention to the impact of each one on the level and concentration of risk of the specialized portfolio in question and of la Caisse's overall portfolio.

THE BOARD OF DIRECTORS

MANDATE

The mandate of the Board of Directors includes ensuring that la Caisse is managed in compliance with the provisions of its incorporating Act and regulations, and that it takes the necessary steps to attain the objectives stated in its mission.

For a full description of the mandate of the Board of Directors, consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION

As at December 31, 2017, the Board consisted of 13 members out of a maximum of 15. Of these 13 members, the mandates of 5 independent members were renewed by the Government of Québec, after consulting with the Board: Elisabetta Bigsby, Patricia Curadeau-Grou, Gilles Godbout, François Joly and François R. Roy. The Government of Québec also confirmed the appointment of Ivana Bonnet-Zivcevic, President and Chief Executive Officer of Crédit Agricole CIB in Italy, as an independent member, replacing Ouma Sananikone, whose mandate ended on December 5, 2017.

DIRECTOR COMPENSATION

The compensation of la Caisse's directors is determined by an order-in-council of the Government of Québec. Their compensation for 2017 is provided in Table 31 on page 81. The directors are also entitled to be reimbursed for their travel and living expenses.

COMPENSATION OF THE CHAIRMAN OF THE BOARD

The annual compensation of the Chairman of the Board is set at \$195,000 by an order-in-council of the Government of Québec. The Chairman of the Board is also entitled to be reimbursed for representation expenses related to the duties of his position, to a maximum of \$15,000 per year.

TABLE 30

DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2017¹

Directors	Board of Directors		Audit Committee	Investment and Risk Management Committee		Human Resources Committee		Governance and Ethics Committee
	6 reg.	10 spec.		6 reg.	6 reg.	7 spec.	7 reg.	
Maryse Bertrand	3/3	2/3	4/4	3/3	2/3	4/4	1/1	2/2
Elisabetta Bigsby	6	9	–	–	–	7	2	–
Ivana Bonnet-Zivcevic	1/1	–	–	–	–	1/1	–	–
Bertrand Cesvet	6	10	–	–	–	6	2	–
Patricia Curadeau-Grou	5	9/9	–	5	7	–	–	–
Michel Després	5	9	–	–	–	–	–	–
Rita Dionne-Marsolais	–	1/1	–	–	–	–	–	–
Gilles Godbout	6	10	5	6	7	–	–	–
François Joly	6	9	6	6	6	–	–	–
Jean La Couture	6	9/9	–	6	7	–	–	–
Diane Lemieux	6	9	–	–	–	–	–	–
Wendy Murdock	6	9	–	6	7	–	–	1/1
François R. Roy	6	10	6	–	–	–	–	5
Michael Sabia	6	10	–	–	–	–	–	–
Ouma Sananikone	5/5	8	–	–	–	6/6	2	4/4
Robert Tessier	6	10	–	–	–	7	2	5

1. Directors justify their absences from regular meetings of a Committee or the Board to la Caisse's Secretariat. During 2017, directors were not able to attend certain meetings, due mainly to health reasons or to obligations related to family or work commitments or due to our potential conflict of interest management rules.

TABLE 31

COMPENSATION PAID TO INDEPENDENT DIRECTORS UNDER ORDER-IN-COUNCIL¹

(in dollars)

Directors	Annual compensation	Compensation as Committee Chair	Attendance fees	Total compensation
Maryse Bertrand	7,084	–	17,565	24,649
Elisabetta Bigsby	19,202	5,878	19,403	44,483
Bertrand Cesvet	19,125	–	19,403	38,528
Patricia Curadeau-Grou	19,138	–	20,730	39,868
Rita Dionne-Marsolais	1,105	–	369	1,474
Gilles Godbout	19,164	–	19,451	38,615
François Joly ²	19,267	5,878	29,948	55,093
Jean La Couture	19,202	5,878	23,385	48,465
Wendy Murdock	19,124	–	24,270	43,394
François R. Roy	19,164	1,043	22,493	42,700
Ouma Sananikone	17,637	4,836	20,715	43,188
Total				420,457

1. In accordance with the terms of the Order-in-Council:

- The compensation includes an increase.
- The attendance fee for each special Board or Committee meeting of short duration, held by conference call, is half of the attendance fee allowed for a regular meeting.
- Members who are retired from the public sector receive total reduced compensation.

2. This director received attendance fees for attending Audit Committee meetings of la Caisse's real estate subsidiaries.

BOARD OF DIRECTORS' REPORT

ACTIVITY REPORT

Strategic directions

In 2017, la Caisse's strategic directions were in line with the ones previously adopted by the Board. These orientations are intended to generate stable returns, while remaining focused, among other things, on increased absolute-return management, investing in assets tied to the real economy, the impact in Québec, and an increased footprint in global markets, particularly in growth markets by working with the best partners. To achieve these objectives, it was established that la Caisse must, in particular, increase investments in less-liquid assets and credit, continue to globalize, implement its investment strategy to address climate change and maximize its impact in Québec while maintaining a reasonable level of risk-taking based on the environment and depositors' needs.

Accordingly, the Board:

- regularly monitored the results and risks associated with the strategies, at each step in their deployment;
- alongside senior management, reviewed various economic and financial scenarios that could have an impact on how la Caisse's strategy evolves;
- reviewed and approved, in line with the previous plan, the strategic priorities for 2017 of each investment group, including the real estate subsidiaries and CDPQ Infra, and of each administrative group.

The Board also adopted la Caisse's business plan and annual budget and received regular progress reports from senior management.

Financial results, internal controls and management systems

With assistance from the Audit Committee, the Board fulfilled its responsibilities with respect to financial results and internal controls, notably by:

- reviewing the quarterly financial statements and approving the consolidated financial statements as at June 30 and December 31;
- evaluating the integrity of all controls applied to data used to prepare the financial statements and related notes;

- reviewing the returns of the investment units and approving the news releases announcing the annual financial results and the semi-annual update;
- reviewing and approving la Caisse's annual report;
- approving the revision of the Investment Valuation Policy;
- monitoring progress in technology projects to upgrade financial information systems and their security;
- reviewing and approving delegations of authority.

See the Report of the Audit Committee on page 84 for more information on the responsibilities discharged by the Committee and the Board.

Investment and risk management

Assisted by the Investment and Risk Management Committee, the Board ensured that an effective and rigorous risk management framework and the related processes were applied throughout the year. As such, the Board:

- approved, on the Committee's recommendation, investment proposals under its authority, taking into account, among other things, the impact of each one on the level and concentration of risk of the specialized portfolio in question and of la Caisse's overall portfolio;
- approved changes to the investment policies of certain specialized portfolios;
- monitored the foreign currency management and hedging plan;
- approved limits on market risk and the objectives for la Caisse's overall portfolio and for each of the specialized portfolios and major mandates, as well as the limits placed on the use of derivative financial instruments and the limits on overall concentration at la Caisse;
- approved liquidity risk oversight and ensured that la Caisse's overall strategy for managing this risk was followed;
- reviewed all information management security processes, including matters of cybersecurity.

For all the activities of the Board and the Investment and Risk Management Committee, see the Report of the Investment and Risk Management Committee on page 104.

Corporate governance

The Board met in the absence of members of senior management and held discussions with the President and Chief Executive Officer in the absence of other members of senior management. It also received an activity report from each committee at each meeting, so that it could review and express an opinion on their recommendations. In addition, on the recommendation of the Governance and Ethics Committee, the Board:

- evaluated its own operations and that of its committees as well as the performance of each chair;
- reviewed the composition of its committees;
- approved the expertise and experience profile of each of its independent members;
- approved the Policy on Harassment and Misconduct.

The Board also approved the investment strategy to address climate change.

See the Report of the Governance and Ethics Committee on page 87 for more information on the responsibilities discharged by Committee and the Board regarding governance and ethics.

Supervision of senior management and human resources management

The Board proceeded to appoint, with the approval of the Government of Québec, Michael Sabia as President and Chief Executive Officer, for a mandate concluding in 2021. With assistance from the Human Resources Committee, the Board also approved the President and Chief Executive Officer's detailed objectives for 2017 and reviewed his performance based on objectives set at the beginning of the year.

Furthermore, the Board reviewed the President and Chief Executive Officer's performance evaluations of senior management and reviewed the succession plans for them and for the President and Chief Executive Officer. It approved the salary conditions and the level of incentive compensation to be paid to senior management and, more generally, to all employees.

On the Committee's recommendation, the Board approved the appointment of M^e Kim Thomassin as Executive Vice-President, Legal Affairs and Secretariat. It also reviewed the appointment by the subsidiaries of Anita M. George as Executive Vice-President, Growth Markets, CDPQ India, and of Stéphane Etroy as Executive Vice-President and Head of Private Equity, CDPQ London. Following the departure of Roland Lescure as Chief Investment Officer, the Board approved having the President and Chief Executive Officer take on his responsibilities on an interim basis. In addition, responsibility for all equity markets was delegated to Jean-Luc Gravel, Executive Vice-President, Equity Markets.

See the Report of the Human Resources Committee on page 89 for more information on the responsibilities discharged by the Committee and the Board.

Report of the Audit Committee

Highlights

1

Reviewed and monitored preparation of the financial statements.

2

Revised the Investment Valuation Policy.

3

Monitored and analyzed the effects of all activities to ensure optimal use of resources.

THE AUDIT COMMITTEE

MANDATE

The Audit Committee sees that the financial statements accurately reflect la Caisse's financial position. It also ensures, among other things, that la Caisse has adequate and effective internal control mechanisms and a risk management process.

For a full description of the Audit Committee's mandate, consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2017)

The composition of the Committee was reviewed in 2017.

The Committee consisted of three independent members, including professionals with accounting or financial expertise as well as the experience and knowledge required to read and understand financial statements and to fulfill their roles properly.

- Chair: François Joly (guest member at meetings of the investment and Risk Management Committee)
- Members: Gilles Godbout and François R. Roy

The Chairman of the Board attends the Committee meetings.

ACTIVITY REPORT

Number of meetings in 2017: 6

Financial reporting

In 2017, the Committee fulfilled its financial reporting responsibilities, which included the following:

- Reviewed various aspects of the financial statements with the Finance group and the co-auditors, the Auditor General of Québec and EY, including:
 - the process used to prepare financial statements;
 - the valuation of investments;
 - treasury items, including liquidity, leverage and financing;
 - the confirmation that an audit of returns had been performed by an external firm to ensure that their calculation and presentation comply with industry standards.

- Reviewed the report on the financial certification process that enables the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer to certify publicly that the disclosure controls and procedures and the internal financial reporting controls are adequate and effective.
- Recommended that the Board adopt the financial statements as at June 30 and December 31.
- Reviewed preparatory work on the Annual Report and the news releases announcing la Caisse's financial results.
- Arranged for the Chair of the Audit Committee to attend meetings of the real estate subsidiaries' audit committees and reviewed the committees' annual activity reports.
- Discussed the audit report with the co-auditors following their year-end audit.
- Reviewed the quarterly financial statements, budget monitoring reports, operating expenses and year-end budget estimates.
- Discussed with the co-auditors their plan for auditing la Caisse's financial statements and their internal quality control procedures.
- Monitored the External Auditor Independence Policy and approved EY's audit fees.
- Held regular discussions with the Executive Vice-President and Chief Financial Officer without the presence of other members of senior management.
- Met regularly with the co-auditors to discuss various aspects of their mandate without the presence of senior management.

Internal Audit

In 2017, the Committee carried out the following activities with the Internal Audit group:

- Reviewed and approved the 2017-2019 internal audit Plan.
- Reviewed and approved the Internal Audit Charter.
- Reviewed Internal Audit's progress reports prepared under the Internal Audit Plan to address such matters as internal control mechanisms, risk management processes and optimal use of resources.
- Monitored the implementation of Internal Audit's recommendations by Caisse senior management.
- Reviewed status reports on internal audits at the real estate subsidiaries.
- Reviewed the results of the institution's continuous audit program.
- Ensured that the Internal Audit team was able to act independently from Caisse senior management.
- Evaluated the compliance of the Internal Audit function according to International Standards for the Professional Practice of Internal Auditing.
- Held periodic discussions with the Vice-President, Internal Audit, without the presence of senior management.

REPORT OF THE AUDIT COMMITTEE

Internal controls and plan for the optimal use of resources

The Committee reviewed many aspects of internal controls and optimal use of resources in 2017. It carried out the following activities:

- Reviewed the plan to ensure optimal use of resources and monitored and analyzed the effects of all the activities implemented under the plan.
- Reviewed the results from work to assess the design and effectiveness of internal financial reporting controls and disclosure controls and procedures, including those of the real estate subsidiaries.
- Revised and recommend to the Board an update to the Investment Valuation Policy.
- Monitored technological projects to update financial reporting systems.
- Monitored international tax management activities.
- Reviewed the results of the evaluation carried out by members, addressing the effectiveness of the Committee operations.
- Reviewed and recommended to the Board changes in delegations of authority.

Risk management

The Investment and Risk Management Committee helped the Audit Committee fulfill its duty to implement a risk management process. The Committee therefore carried out the following activities to monitor all investment and risk management work:

- Reviewed the Internal Audit group's report on the effectiveness and efficiency of risk governance.
- Discussed with the officer in charge of Legal Affairs:
 - reports on compliance with the Act respecting the Caisse, depositors' investment policies and the specialized portfolios' investment policies;
 - reports on legal proceedings involving la Caisse or its real estate subsidiaries.
- Received copies of the Investment and Risk Management Committee's minutes of meetings.
- Arranged for the Chair of the Audit Committee to attend the meetings of the investment and Risk Management Committee.

USE OF EXTERNAL EXPERTS

The Audit Committee did not use the services of external experts in 2017. It nevertheless endorsed senior management's use of external firms for an independent review of the fair value of certain investments.

Report of the Governance and Ethics Committee

Highlights

1

Revised the Policy on Harassment and Misconduct and recommended it to the Board.

2

Revised the program to integrate new directors.

GOVERNANCE AND ETHICS COMMITTEE

MANDATE

The Committee ensures that la Caisse adheres to the highest standards of governance and ethics. For a full description of the Governance and Ethics Committee's mandate, consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2017)

The composition of the Committee was reviewed in 2017.

It consisted of three independent members:

- Chair: François R. Roy
- Members: Wendy Murdock and Robert Tessier

ACTIVITY REPORT

Number of meetings in 2017: 5

Composition of the Board and its committees

- Reviewed the composition of the Board and recommended the renewal of the mandates of two independent members as well as the appointment of an independent member.
- Reviewed the composition of its committees and made a recommendation to the Board.

Activities of the Board and its committees

- Reviewed the performance evaluation process used for the Board, its chairman, the committees and their chairs, including directors' self-assessments; analyzed the results and made recommendations to improve certain processes, as necessary.
- Reviewed an orientation program for new directors designed to ensure the harmonious and swift integration of new members onto the Board of Directors.
- Reviewed, in cooperation with the Human Resources Committee, the skills and experience profiles of independent directors and made recommendations to the Board.
- Obtained assurance that the Board had all the information and time required to analyze issues affecting la Caisse.

REPORT OF THE GOVERNANCE AND ETHICS COMMITTEE

- Maintained a program involving presentations and discussions outside the formal framework of Board meetings, to allow directors to discuss matters among themselves and with senior management.
- Verified throughout the year that discussion sessions are held in each committee and by the Board without the presence of senior management.
- Reviewed the rules on declarations of interests, verified that the declarations complied with the provisions in effect, and transmitted the declarations to the authorities designated under the Act respecting the Caisse.
- Reviewed reports on transactions involving securities of companies that have ties with Caisse directors.

Rules of ethics and professional conduct

Regarding rules of ethics and professional conduct, the Committee's activities included the following:

- Reviewed the Policy on Harassment and Misconduct and recommended it to the Board.
- Reviewed the Code of Ethics and Professional Conduct applicable to officers and employees of la Caisse and reviewed the report on how the rules on ethics and professional conduct were being applied at la Caisse.
- Reviewed the rules of ethics applied by la Caisse to manage legal constraints related to its shareholding in public companies.

Caisse

- Reviewed the report on donations and sponsorships provided by la Caisse during the year and reviewed the annual budget for such activities.
- Reviewed the report on the institution's exercise of its voting rights in companies in which it is a shareholder.
- Reviewed the process for appointing members to the Boards of Directors of certain private and public companies in which la Caisse invests.
- Reviewed the report on responsible investment activities.
- Reviewed the report on the governance of private and public organizations.

USE OF EXTERNAL EXPERTS

The Governance and Ethics Committee did not use the services of external experts in 2017.

Report of the Human Resources Committee

Highlights

1

Annual review of total compensation and the different compensation parameters.

2

Review of the different management indicators including the succession development plan.

HUMAN RESOURCES COMMITTEE

MANDATE

The mandate of the Human Resources Committee is to review the orientations and strategies used by la Caisse to manage its human resources, including performance evaluation, succession planning and executive compensation, as well as its general human resources practices. For a full description of the mandate of the Human Resources Committee, please consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2017)

The Committee is composed of four independent members:

- Chair: Elisabetta Bigsby
- Members: Bertrand Cesvet, Robert Tessier and Ivana Bonnet-Zivcevic who is replacing Ouma Sananikone, whose mandate expired on December 5, 2017.

ACTIVITY REPORT

Number of meetings in 2017: 9

President and Chief Executive Officer

The Committee reviewed Mr. Sabia's objectives for 2017 as President and Chief Executive Officer and recommended that the Board of Directors approve them. Furthermore, the Committee reviewed the performance evaluation and total compensation conditions for the President and Chief Executive Officer and recommended them to the Board of Directors for approval.

Senior executives

The Committee reviewed the performance evaluation and total compensation determination for senior executives and recommended both to the Board for approval.

The Committee also reviewed the nomination by the subsidiaries of Anita M. George, to the position of Executive Vice-President, Growth Markets, CDPQ India and of Stéphane Etroy, to the position of Executive Vice-President and Head of Private Equity, CDPQ London.

REPORT OF THE HUMAN RESOURCES COMMITTEE

Key strategies and policies for integrated talent management

During 2017, the Committee discussed several key strategies and policies for integrated talent management. To that end, among other things, the Committee:

- Reviewed various management indicators, including those related to performance management and gender diversity at la Caisse, as well as indicators related to development plans regarding succession planning, high-potential employees and leadership;
- Reviewed the methodology and establishment of target returns in the incentive compensation program;
- Discussed the positioning of total compensation with respect to the performance culture, the business strategy, target returns and benchmark indexes, and talent management strategy at la Caisse, as well as in relation to the reference markets, and approved the total compensation structure of la Caisse and certain subsidiaries.

Committee operations

The Committee reviewed the results of the evaluation carried out by members, addressing the effectiveness of the Committee operations.

Use of external experts

In implementing the incentive compensation program, the Committee and the Board used the services of Hugessen Consulting, an independent consulting firm recognized for its expertise in the compensation of pension fund personnel. The Committee takes Hugessen Consulting's recommendations into account but makes its own decisions, which may be based on information other than the firm's recommendations.

COMPENSATION POLICY

Committee's work on compensation

During 2017, the Committee, with advice from Hugessen Consulting, ensured that the Compensation Policy adopted in 2010 met its strategic objectives of paying for long-term performance, offering competitive compensation and linking the interests of officers and depositors. The Committee reviewed how la Caisse's compensation policy was applied; it analyzed the proposed performance incentive compensation and proposals for implementation of co-investment and ensured that the proposals were aligned with compensation policy and market practices.

Accordingly, the Committee notably analyzed the amount of incentive compensation to be paid under the incentive compensation program and recommended it to the Board for approval.

Moreover, the Committee received an update on compensation market trends with regard to salary reviews. It also discussed the salary conditions of la Caisse's employees for 2018, and recommended them to the Board for approval.

Framework

La Caisse's compensation policy was adopted in accordance with Schedule A of the regulation governing the internal management of la Caisse (the Internal Bylaw). This schedule was revised by government order-in-council in 1996 and:

- defines the maximum levels of total employee compensation and the reference markets;
- states that the data reflecting the reference-market profile must be compiled by a recognized independent firm through an annual survey and must be administered and analyzed according to a methodology and rules generally accepted in the field;
- stipulates that la Caisse's payroll must not exceed 100% of the salary-scale midpoint.

Reference markets and compensation levels¹

For the position of President and Chief Executive Officer, the reference market consists of a sample of the seven largest Canadian pension funds, as listed in Table 36 on page 97. For this position, total compensation must be between the median and third quartile (75th percentile) of the reference market, depending on whether la Caisse's performance has been average or superior.

For investment-related positions, the Canadian institutional investment market serves as the reference. A representative sample must include institutions, insurance companies, trust companies, pension funds, investment advisors, brokerage firms and fund managers or their counterparts in similar industries. The current sample comprises the 44 organizations listed in Table 38 on page 98. For these positions, total compensation must fall below the upper decile (90th percentile) of the reference market. For the executive vice-presidents in investment roles, a reduced sample of that described above is used. It groups together 15 firms whose assets under management are greater than \$20 billion. The list is provided in Table 37 on page 97.

For non-investment positions, the Québec market serves as the reference, and must notably include public-sector jobs. It therefore contains a representative sample of large public- and private-sector Québec firms and financial-sector companies. The current sample comprises the 51 organizations listed in Table 39 on page 98. For these positions, total compensation must be within the third quartile (75th percentile) of the reference market.

In 2017, la Caisse retained the services of Willis Towers Watson for benchmarking of its reference markets. Several criteria are used to select companies in the reference markets, in particular: size, industry sector, as well as companies that recruit talent with profiles similar to those sought after by la Caisse, that offer innovative and diversified investment products and types, that are recognized for having best practices in human resources, whose culture is aligned with performance and that contributes to Willis Towers Watson's databank.

Strategic objectives of the Compensation Policy

La Caisse must rely on highly skilled employees to fulfill its mission, which is to receive moneys on deposit as provided by law and manage them with a view to achieving an optimal return on capital within the framework of depositors' investment policies, while at the same time contributing to Québec's economic development.

1. For compensation purposes, the first quartile ranges from the 1st to the 25th percentile, the second quartile from the 26th to the 50th percentile, the third quartile from the 51st to the 75th percentile and the fourth quartile from the 76th to the 100th percentile.

REPORT OF THE HUMAN RESOURCES COMMITTEE

The total compensation policy therefore has the following three objectives:

1. **Pay for performance:** incentive compensation aligned with the returns delivered to depositors. This goal has four key components:
 - Long-term focus: to compensate consistent performance over several years.
 - Risk-return balance: encourage measured risk-taking conducive to sustainable, long-term returns for depositors, while taking into account their risk tolerance.
 - Overall evaluation: to strike a balance between individual contribution, portfolio performance or achievement of business plans, and Caisse performance.
 - Emphasis on la Caisse's overall perspective: to place greater emphasis on employees' contributions to la Caisse's strategic priorities and overall performance, with a greater weighting on leadership and desired behaviours.
2. **Offer competitive compensation:** to attract, motivate and retain employees with experience and expertise that allow la Caisse to achieve its strategic objectives, within the guidelines in the Internal Bylaw, as described above.
3. **Link the interests of officers and depositors:** to ensure that their individual and team efforts are conducive to la Caisse's long-term success.

La Caisse's incentive compensation policy complies with the Principles for Sound Compensation Practices issued by the Financial Stability Forum (FSF) and endorsed by the G20 nations: effective compensation governance; alignment of compensation with long-term, measured risk-taking; and regular review of compensation practices.

Components of total compensation

La Caisse's employees receive total compensation based on four components:

1. Base salary
2. Incentive compensation
3. Pension plan
4. Benefits

Base salary

Under the Internal Bylaw, the average base salary must not exceed the salary-scale midpoint. Within these parameters, annual base salaries are set according to the salary conditions prevailing on the reference markets.

Each year, the Human Resources Committee submits the payroll budget to the Board for approval.

FIGURE 32

PERFORMANCE INCENTIVE COMPONENTS

BASED ON ACHIEVEMENT OF INDIVIDUAL OBJECTIVES	→	Individual contribution
BASED ON ACHIEVEMENT OF BUSINESS OBJECTIVES OR RETURNS ON THE SPECIALIZED PORTFOLIOS OF EACH UNIT	→	Portfolio return or business plan achievement
BASED ON ACHIEVEMENT OF LA CAISSE'S TARGET RETURNS	→	Caisse overall return

For 2017, the Board of Directors approved the following recommendations made by la Caisse's senior management:

- maintain 2017 salary scales close to the median of the reference markets, as measured by recognized external firms;
- grant a merit increase budget, which is at the median of the market increase forecasts.

Incentive compensation

In the investment industry, incentive compensation is an essential part of the total compensation package for employees working in the sector because it aligns financial incentives with clients' performance objectives.

Incentive compensation at la Caisse serves to recognize performance, attainment of objectives and contribution to the achievement of strategic orientations. Incentive compensation is an important part of total compensation, so it directly influences the total compensation level and its position relative to the reference market.

Performance is measured over a period of five years. This five-year horizon reinforces a sustained performance and is consistent with the long-term investment strategy.

This incentive compensation program, introduced in 2010, recognizes consistent performance with incentive compensation and requires employees concerned to defer a portion of this incentive compensation into a co-investment account over a three-year period (see page 94). This mechanism continues to link the interests of officers to those of depositors by varying these amounts according to the absolute return generated for depositors.

Components of performance incentive compensation

Performance incentive compensation is never guaranteed; it depends on evaluations of performance criteria as established by the incentive compensation program. Accordingly, employees receive performance incentive compensation based on the three components outlined in Figure 32 (see page 92).

Regarding the second component, namely the return on the specialized portfolios, the objective of all the portfolios is to outperform their benchmark indexes. The three less-liquid portfolios, namely Real Estate, Infrastructure and Private Equity, as well as the Public Equity portfolio, also have an absolute-return target.

Results since 2013

Since 2013, la Caisse has had many accomplishments, which have been detailed in previous sections of this report. The Human Resources Committee wishes to highlight some of these achievements, specifically:

- Over the past five years, la Caisse has made investments and commitments in Québec totalling \$17.5 billion, bringing total assets to \$63.4 billion at the end of 2017. La Caisse has focused particularly on Québec's private sector, which is a driver of the economy, evidenced by its total assets of \$42.5 billion, up 50% over five years. In 2017, la Caisse focused its activities on three main priorities: growth and globalization; growth-creating projects; and innovation and the next generation. Its new commitments and investments reached a record \$6.7 billion.
- During the five-year period from 2013 and 2017, la Caisse generated a 10.2% annualized return and \$109.7 billion of net investment results. This performance represents \$12.2 billion in added-value compared to the benchmark index.

TABLE 33

POSITIONING OF TOTAL COMPENSATION BY POSITION TYPE

Position type	Maximum total compensation under the Bylaw ¹	Average positioning of the total compensation paid in 2017 relative to the reference markets under the Bylaw
Investment positions	90th percentile	Between the 36th and 78th percentile and, on average, at the 51st percentile
Non-investment positions	75th percentile	

1. Maximum total compensation refers to percentile positions found in Schedule A (revised by government order-in-council in 1996) of the Internal Bylaw.

REPORT OF THE HUMAN RESOURCES COMMITTEE

- In 2017, la Caisse generated a 9.3% return, representing \$24.6 billion in net investment results. This performance is slightly higher than its benchmark portfolio’s performance.
- In fixed-income, la Caisse repositioned its portfolio by increasing its credit activities, including its exposure to bonds from growth markets and U.S. corporate credit. In the less-liquid assets category, la Caisse continued to deploy significant capital around the world by completing leading private equity, real estate and infrastructure transactions and partnerships. The continued globalization strategy translated into \$192 billion of exposure to global markets at the end of 2017.
- La Caisse also implemented an ambitious strategy to address climate change, which targets an \$8-billion increase in investments over three years in low carbon assets, and a reduction of its carbon footprint by 25% per dollar invested by 2025.

Performance incentive compensation for 2017

Taking into account incentive compensation paid and deferred, employees’ total compensation in 2017 was at the median of the reference markets for a superior performance over five years.

More specifically, a study by Willis Towers Watson showed that the employees’ total compensation ranked between the 36th and 78th percentiles (where the 100th percentile represents the highest compensation in the market) of the reference markets, depending on the position type, the specific performance of the portfolios and the compensation paid for these positions (see Table 33, page 93).

The opinion presented by Hugessen Consulting to la Caisse’s Board of Directors stated:

“We reviewed la Caisse’s returns and benchmark indexes for 2017, as well as the factors that contributed to its return, and we are satisfied with them. We can confirm, among other things, that the value-added calculations, the 2017 return multiples, the 2013-2017 average return multiples and the 2017 incentive compensation multiples are consistent with la Caisse’s incentive compensation program. In our opinion, the total amount of incentive compensation awarded under the program in 2017 is reasonable in the prevailing market conditions and given la Caisse’s performance in 2013, 2014, 2015, 2016 and 2017.”

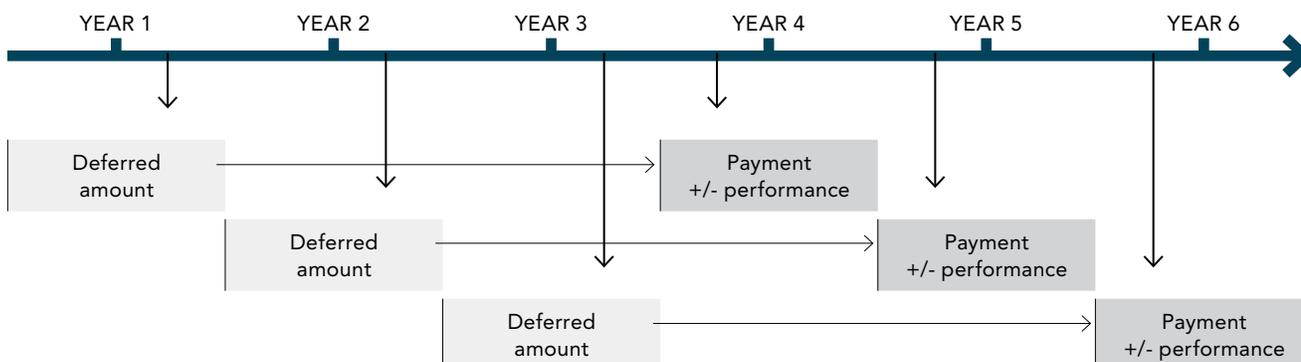
Co-investment: deferred performance incentive compensation

The purpose of co-investment is to better align the interests of those employees with the most influence on la Caisse’s financial and organizational performance with the interests of depositors over the long term. The value of the deferred and co-invested performance incentive will vary – upward or downward – along with la Caisse’s average absolute overall return during the incentive deferral period.

At the end of each three-year period, the deferred amount, plus or minus the average return credited for the period, will be paid to each participant as a deferred incentive payment with restrictions. Figure 34 illustrates this mechanism.

FIGURE 34

DEFERRED AND CO-INVESTED PERFORMANCE INCENTIVES



Senior executives have three years to contribute at least the equivalent of their base salary to the co-investment account.

For the President and Chief Executive Officer, as well as senior executives, the minimum threshold of the total incentive compensation that must be deferred in a co-investment account is 55%. For all vice-presidents and senior vice-presidents, as well as for intermediate and senior investment employees, the minimum threshold is 35%. Lastly, for managers and high-level professionals, the minimum threshold is 25%.

La Caisse offers such employees the option of deferring and co-investing an additional portion of their incentive compensation into the co-investment account. This voluntary participation increased the deferred and co-invested amounts in 2017 by more than 16%.

Pension plan

Depending on their positions, all employees are members and contribute to one of two defined-benefit pension plans: the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). In addition, managers and professionals in strategic positions participate in the Régime additionnel de retraite (RAR) and senior executives participate in the Supplemental Pension Plan for Designated Officers (SPPDO). Under these two plans, they are entitled, as of the normal age of retirement, to receive a total annual pension equal to 2% of their eligible earnings for each year or fractional year of plan membership, taking into account the annual tax limits imposed by the Canada Revenue Agency for each year they were not RAR or SPPDO members.

Some senior executives will have additional years of services recognized under the SPPDO, depending on the circumstances of their promotion or hiring.

Benefits

Employees enjoy a range of competitive benefits, including group insurance (such as medical, dental and life insurance). Moreover, senior executives benefit from perquisites that

mainly cover the costs associated with car allowances. La Caisse also requires senior executives to undergo annual health checkups.

Review of the President and Chief Executive Officer's performance and total compensation

Performance review

At the beginning of 2017, the Committee recommended to the Board for review and approval a series of non-financial individual objectives proposed by the President and Chief Executive Officer. A series of major business objectives aimed to achieve targets aligned with la Caisse's strategy and business plan.

- A first major objective consisted of pursuing the implementation of la Caisse's investment strategy, by creating and seizing opportunities that improve overall performance, while developing solid new partnerships to support the business plan.
- A second objective consisted of continuing the globalization of la Caisse by expanding its presence and exposure, notably in growth markets, while maximizing la Caisse's impact on Québec companies.
- A third objective consisted of developing an investment strategy to address climate change and initiating its deployment throughout the world.
- A fourth objective consisted of investing in the development of talent by focusing on organizational culture and promoting internal mobility.

Following an evaluation of these objectives, the Board determined that the President and Chief Executive Officer had surpassed the objectives that he had been given at the beginning of the year and that his remarkable performance continued to greatly exceed expectations in 2017.

Review of total compensation

The compensation and the other employment conditions of the President and Chief Executive Officer are based on parameters set by the government after consultation with the Board of Directors.

REPORT OF THE HUMAN RESOURCES COMMITTEE

In accordance with his request, Mr. Sabia has received no salary increase since he was appointed in 2009. In 2017, Mr. Sabia's base salary remained unchanged at \$500,000.

In 2017, Mr. Sabia received his deferred incentive compensation amount for 2014. The amount of this deferred incentive compensation totalled \$1,848,918 and included the return credited since 2014.

The President and Chief Executive Officer's annual incentive compensation was determined on the basis of the same three components as 2016, presented in Figure 35 on page 96.

Like all other members of senior management covered by the incentive compensation program, the President and Chief Executive Officer is required to defer a minimum of 55% of his incentive compensation in a co-investment account.

This year, the component linked to la Caisse's overall return corresponds to the return over the five-year period from 2013 to 2017. The annualized return for this period is 10.2%, with \$12.2 billion of value added in relation to the benchmark portfolio.

This return represents a superior performance over five years.

As for the component based on the organization's objectives, in the past five years under Mr. Sabia's leadership, la Caisse:

- Built a more resilient overall portfolio that can cope with markets in transition, while mitigating the risks;

- Increased exposure to global markets and transactions in less-liquid assets and credit markets;
- Concluded major investments and commitments in Québec;
- Developed an investment strategy to address climate change and initiated its deployment;
- Pursued the implementation of growth-creating projects such as Réseau express métropolitain and business initiatives with Québec companies to foster their growth and internationalization.

In conclusion, Michael Sabia's unifying leadership inspired a shared vision among la Caisse's teams. These motivated teams strived to work even harder and were able to rigorously execute their business priorities in a collaborative environment. As such, the Committee and the Board believe that Mr. Sabia has, once again this year, delivered remarkable performance and has surpassed the objectives that were set for him.

Despite a performance that the Board considers superior to that of 2016, Mr. Sabia requested for his incentive compensation to be the same as in 2016. Therefore, the Board of Directors paid to Mr. Sabia \$1,160,000 of incentive compensation and he elected to defer an amount of \$1,740,000 into the co-investment account. In 2020, Mr. Sabia will be eligible to receive the deferred incentive compensation related to this amount, increased or decreased according to la Caisse's average absolute return over the three-year period, between 2018 and 2020.

FIGURE 35

PERFORMANCE INCENTIVE COMPONENTS OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

CAISSE OVERALL RETURN	→	Based on the level of attainment of la Caisse's return objectives
ACHIEVEMENT OF THE ORGANIZATION'S OBJECTIVES	→	Based on the level of attainment of the organization's objectives
INDIVIDUAL CONTRIBUTION	→	Based on the level of attainment of individual objectives

The other employment conditions to which Mr. Sabia is entitled are aligned with la Caisse's policies and comply with the parameters set out in the Internal Bylaw. He received \$40,000 in annual perquisites and is a member of la Caisse's Employee Group Insurance Plan.

When he was appointed in 2009, Mr. Sabia waived membership in any pension plan. He also waived any severance pay, regardless of cause. Even so, given that membership in the basic pension plan is mandatory under the provisions of the Pension Plan of Management Personnel (under Retraite Québec rules), Mr. Sabia is obliged to be a member despite his waiver. In 2017, contributions to the mandatory basic plan represented an annual cost to la Caisse of \$21,902.

Compensation of the President and Chief Executive Officer and the five most highly compensated executives for 2015-2017

La Caisse's Board of Directors recognizes the importance of qualified leadership and firmly believes that the policies and programs it has endorsed make it possible to:

- offer competitive compensation in a market where competition for talent is intense and where la Caisse must compete globally to generate the expected returns;
- achieve the strategic objectives that enable la Caisse to fulfill its mission.

Pursuant to the Act respecting the Caisse de dépôt et placement du Québec, la Caisse discloses below, for itself and its wholly owned subsidiaries, the compensation of the President and Chief Executive Officer as well as that of the five most highly compensated executives reporting directly to him (see Table 40, p. 99).

TABLE 36

REFERENCE MARKET – PRESIDENT AND CHIEF EXECUTIVE OFFICER

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> • Alberta Investment Management Corporation (AIMCo) • British Columbia Investment Management Corporation (bcIMC) | <ul style="list-style-type: none"> • CPP Investment Board • Healthcare of Ontario Pension Plan (HOOPP) • Ontario Municipal Employees Retirement System (OMERS) | <ul style="list-style-type: none"> • Ontario Teachers' Pension Plan (OTPP) • The Public Sector Pension Investment Board (PSP Investments) |
|---|---|---|

TABLE 37

REFERENCE MARKET – INVESTMENT EXECUTIVE VICE-PRESIDENT POSITIONS

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Addenda Capital • Alberta Investment Management Corporation (AIMCo) • British Columbia Investment Management Corporation (bcIMC) • Canada Post Pension Plan • CPP Investment Board • Desjardins Global Asset Management | <ul style="list-style-type: none"> • Greystone Managed Investments • Healthcare of Ontario Pension Plan (HOOPP) • Hydro-Québec Pension Plan • Mawer Investment Management • Ontario Municipal Employees Retirement System (OMERS) | <ul style="list-style-type: none"> • Ontario Teachers' Pension Plan (OTPP) • Sun Life Financial • The Public Sector Pension Investments Board (PSP Investments) • Workplace Safety and Insurance Board (Ontario) |
|--|--|--|

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TABLE 38

REFERENCE MARKET – INVESTMENT POSITIONS

- | | | |
|--|---|--|
| <ul style="list-style-type: none"> • Addenda Capital • Air Canada Pension Plan • Alberta Investment Management Corporation (AIMCo) • Alberta Teachers' Retirement Fund Board • ATB Financial • British Columbia Investment Management Corporation (bcIMC) • Canada Post Pension Plan • Canadian Broadcasting Corporation Pension Plan • Canadian Western Bank • CN Investment Division • Connor, Clark & Lunn Financial Group • CPP Investment Board • Desjardins Global Asset Management • Empire Life • Export Development Canada | <ul style="list-style-type: none"> • FÉRIQUE Management • Fondation CSN • Fonds de Solidarité FTQ • Greystone Managed Investments • Halifax Regional Municipality Pension Plan • Healthcare of Ontario Pension Plan (HOOPP) • Hydro-Québec Pension Plan • iA Financial Group • Insurance Corporation of British Columbia • Intact Investment Management • Mawer Investment Management • MD Financial Management • Ontario Municipal Employees Retirement System (OMERS) • Ontario Teachers' Pension Plan (OTPP) • OPSEU Pension Trust • Optimum Group | <ul style="list-style-type: none"> • Régime de retraite de la Société de Transport de Montréal • Richardson GMP • Sun Life Financial • Telus Pension Plan • The Canadian Medical Protective Association • The Civil Service Superannuation Board • The Great-West Life Assurance Company • The Public Sector Pension Investment Board (PSP Investments) • Triasima • University of Toronto Asset Management Corporation • Vestcor Investment Management Corporation • Workers' Compensation Board of Alberta • Workplace Safety and Insurance Board (Ontario) |
|--|---|--|

TABLE 39

REFERENCE MARKET – NON-INVESTMENT POSITIONS

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> • AbbVie Canada • Addenda Capital • Agropur Dairy Cooperative • Air Canada • Bank of Montreal • Bell Canada • Bombardier • Bombardier Aerospace • Bombardier Transportation • Broadridge Financial Solutions • Canadian Broadcasting Corporation • Canadian National Railway Company • CGI Group • CIBC Mellon • CN Investment Division • COGECO • Desjardins Group | <ul style="list-style-type: none"> • Énergir • Fonds de Solidarité FTQ • Great-West Lifeco • Home Capital Group • Hydro-Québec • IBM Canada • Intact Financial Corporation • Intact Investment Management • Keurig Canada • Kruger • Laurentian Bank • Loto-Québec • Manulife Financial • MasterCard Canada • Molson Coors Canada • Northbridge Financial Corporation • Pfizer Canada • Power Corporation of Canada | <ul style="list-style-type: none"> • Quebecor • Resolute Forest Products • Rio Tinto Alcan • Royal Bank of Canada • Saputo • SNC-Lavalin • SSQ Financial Group • Telus • Tembec • The Public Sector Pension Investment Board (PSP Investments) • TMX Group • Transat A.T. • Transcontinental • UAP • VIA Rail Canada • Yellow Pages Group |
|---|---|---|

TABLE 40

SUMMARY OF THE COMPENSATION OF THE PRESIDENT AND CEO
AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2015-2017

Name and main position	Year	Base salary (\$) A	Incentive compensation paid for the year ¹ (\$) B	Other compensation (\$) C	Direct compensation paid for the year (\$) D=A+B+C	Co-investment reported previously and paid in the year ² (\$) E		Direct compensation paid (D) plus Co-investment paid (E) ³ (\$)
						Initial co-investment (\$)	Impact of la Caisse's return (\$)	
Michael Sabia President and CEO	2017	500,000	1,160,000	40,000	1,700,000	1,500,000	348,918	3,548,918
	2016	500,000	1,160,000	40,000	1,700,000	900,000	221,723	2,821,723
	2015	500,000	1,122,000	40,000	1,662,000	700,000	239,020	2,601,020
Macky Tall Executive Vice-President, Infrastructure and President and CEO, CDPQ Infra	2017	445,000	978,700	30,000	1,453,700	535,000	124,448	2,113,148
	2016	420,000	940,000	30,000	1,390,000	350,000	86,225	1,826,225
	2015	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Christian Dubé Executive Vice-President, Québec	2017	435,000	641,200	30,000	1,106,200	181,000	42,102	1,329,302
	2016	415,000	574,000	30,000	1,019,000	0	0	1,019,000
	2015	415,000	540,000	30,000	985,000	0	0	985,000
Claude Bergeron Executive Vice-President and Chief Risk Officer	2017	400,000	352,000	30,000	782,000	355,000	82,577	1,219,577
	2016	400,000	405,000	30,000	835,000	310,750	76,556	1,222,306
	2015	375,000	248,000	30,000	653,000	267,500	91,340	1,011,840
Maarika Paul Executive Vice-President and Chief Financial Officer	2017	400,000	200,000	30,000	630,000	325,000	75,599	1,030,599
	2016	400,000	188,000	30,000	618,000	424,000	104,456	1,146,456
	2015	375,000	97,500	30,000	502,500	214,000	73,072	789,572
Kim Thomassin Executive Vice-President, Legal Affairs and Secretariat ⁴	2017	367,000	140,000	202,500	709,500	0		709,500
	2016	N/A	N/A	N/A	N/A	N/A		N/A
	2015	N/A	N/A	N/A	N/A	N/A		N/A

- As mentioned on page 95 of this Annual Report, under the incentive compensation program, executives must defer a minimum of 55% of their calculated incentive compensation into a co-investment account. Deferred incentive compensation for the year is presented in Table 41 of this Annual Report.
- Details of the amounts deferred or paid in respect of co-investment are presented in Table 41 of this Annual Report.
- The value of annual paid total compensation does not include the value of the pension plan. The value of the pension plan is presented in Table 42 of this Annual Report.
- Kim Thomassin receives lump sum instalments until 2019 as compensation for amounts she had to forfeit when she was hired. This amount is \$175,000 for 2017.

REPORT OF THE HUMAN RESOURCES COMMITTEE

TABLE 41

SUMMARY OF THE DEFERRED AND CO-INVESTED COMPENSATION OF THE PRESIDENT AND CEO AND OF THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2014-2017

Name and main position	Fiscal year	Deferred and co-invested compensation ¹ (\$)	Cumulative return at the time of payment (\$)	Co-invested compensation paid in 2017 ² (\$)
Michael Sabia President and CEO	2017	1,740,000		
	2016	1,740,000		
	2015	1,683,000		
	2014	1,500,000	348,918	1,848,918
Macky Tall Executive Vice-President, Infrastructure and President and CEO, CDPQ Infra	2017	746,300		
	2016	760,000		
	2015	315,000		
	2014	535,000	124,448	659,448
Christian Dubé Executive Vice-President, Québec	2017	883,800		
	2016	926,000		
	2015	660,000		
	2014	181,000	42,102	223,102
Claude Bergeron Executive Vice-President and Chief Risk Officer	2017	528,000		
	2016	495,000		
	2015	372,000		
	2014	355,000	82,577	437,577
Maarika Paul Executive Vice-President and Chief Financial Officer	2017	700,000		
	2016	587,000		
	2015	552,500		
	2014	325,000	75,599	400,599
Kim Thomassin Executive Vice-President, Legal Affairs and Secretariat	2017	560,000		
	2016	N/A		
	2015	N/A		
	2014	N/A	N/A	N/A

1. The amounts appearing in the table refer to the portion of the incentive compensation from previous years and the current year, which is deferred over a three-year period.
2. Co-invested compensation paid corresponds to the sum of the deferred compensation and the return earned during the three-year period. The returns earned correspond to the weighted average return on la Caisse's depositors' funds expressed as a percentage, as published by la Caisse for each of its fiscal years and each of its six-month periods, compounded over a three-year period.

TABLE 42

**PENSION SUMMARY OF THE PRESIDENT AND CEO
AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES**

Name and main position	Years of credited service ¹	Annual benefits payable ² (\$)		Accrued obligation at start of year ³ (\$)	Change due to compensatory items ⁴ (\$)	Change due to non-compensatory items ⁵ (\$)	Accrued obligation at year-end ³ (\$)
		At year-end	At age 65				
Michael Sabia President and CEO ⁶	8.8	25,700	27,900	0	0,	0,	0
Macky Tall Executive Vice-President, Infrastructure, and President and CEO, CDPQ Infra	13.5	87,300	226,800	692,200	93,500	175,000	960,700
Christian Dubé Executive Vice-President, Québec	3.3	57,300	108,100	626,800	287,100	61,500	975,400
Claude Bergeron Executive Vice-President and Chief Risk Officer	37.2	291,800	350,100	2,385,200	93,600	335,400	2,814,200
Maarika Paul Executive Vice-President and Chief Financial Officer	6.6	155,200	282,400	1,760,900	89,900	284,800	2,135,600
Kim Thomassin Executive Vice-President, Legal Affairs and Secretariat	0.9	11,100	239,100	0	136,500	21,500	158,000

1. This is the number of years of credited service in the basic plan.

2. Annual benefits equal the amount of pension payable under the basic plan and the supplemental plan at year-end or at age 65.

3. The obligations do not include those of the basic plan because employer and employee contributions are remitted to Retraite Québec, which assumes the liability for the benefits. La Caisse's contribution was \$21,902 per executive in 2017.

4. The change due to compensatory items includes the annual cost of pension benefits, base salary changes in relation to the salary increase assumption used, plan changes or the award of additional years of service.

5. The change due to non-compensatory items includes amounts attributable to the interest accrued on the obligation at the beginning of the year, actuarial gains and losses associated with non-compensatory items and changes in actuarial assumptions.

6. When Mr. Sabia was appointed in 2009, he waived membership in any pension plan. Under Retraite Québec rules, however, membership in the Pension Plan of Management Personnel is mandatory, as described on its website at <https://www.retraitequebec.gouv.qc.ca/fr/publications/rrsp/rrpe/Pages/rrpe.aspx>.

REPORT OF THE HUMAN RESOURCES COMMITTEE

TABLE 43

SUMMARY OF SEVERANCE PAY FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Precipitating event	Theoretical amount payable (\$)
Michael Sabia President and CEO ¹	Contract termination	0
Macky Tall Executive Vice-President, Infrastructure, and President and CEO, CDPQ Infra ²	Non-voluntary termination	890,000
Christian Dubé Executive Vice-President, Québec ³	Non-voluntary termination	870,000
Claude Bergeron Executive Vice-President and Chief Risk Officer ⁴	Non-voluntary termination	910,000
Maarika Paul Executive Vice-President and Chief Financial Officer ⁵	Non-voluntary termination	995,000
Kim Thomassin Executive Vice-President, Legal Affairs and Secretariat ⁶	Non-voluntary termination	800,000

1. When Mr. Sabia was appointed in 2009, he waived any severance plan, regardless of cause.

2. In the event of dismissal, this executive's employment contract does not provide any particular condition. His severance pay was therefore evaluated using la Caisse's reference framework, which provides severance pay equal to 24 months of his annual base salary.

3. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to 24 months of his annual base salary.

4. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to his annual base salary, increased by an amount equivalent to his annual target incentive compensation and the annual amount related to perquisites.

5. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to 15 months of her annual base salary, increased by an amount equivalent to 15 months of her annual target incentive compensation, up to a maximum of \$995,000.

6. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to 24 months of her annual base salary.

TABLE 44

REFERENCE MARKETS AND CAISSE DIRECT COMPENSATION IN 2017 FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES^{1,5}

Main position	Reference markets Direct compensation paid		Caisse
	Maximum compensation based on reference market ² (\$)	For a superior performance based on reference market ³ (\$)	Direct compensation paid in 2017 ⁴ (\$)
President and CEO	5,550,000	4,162,500	3,548,918
Executive Vice-President, Infrastructure and President and CEO, CDPQ Infra	3,216,000	2,412,000	2,113,148
Executive Vice-President, Québec	3,063,000	2,297,300	1,329,302
Executive Vice-President and Chief Risk Officer	1,777,000	1,332,800	1,219,577
Executive Vice-President and Chief Financial Officer	1,402,000	1,051,500	1,030,599
Executive Vice-President, Legal Affairs and Secretariat	1,338,000	1,003,500	709,500

1. The direct compensation paid in 2017 is aligned with the principle of “earned” compensation, as defined under the Income Tax Act as compensation that is “paid in cash and taxable”.
2. As stipulated in the Internal Bylaw, potential direct compensation at the 75th percentile of the respective reference markets was used for the President and Chief Executive Officer and non-investment positions. The 90th percentile of the reference market was used for investment positions. These theoretical amounts exclude the value of pension plans but include the value of perquisites and long-term compensation.
3. Direct compensation paid by the reference markets for a superior performance corresponds to about 75% of the maximum direct compensation presented in Column A, which is the maximum compensation provided by the Internal Bylaw.
4. These amounts reflect the direct compensation paid in 2017 (Table 40, last column). This compensation was paid for a 10.2% five-year annualized return (2013 to 2017), equivalent to a superior performance.
5. Willis Towers Watson, Compensation of the President and Chief Executive Officer Study and Compensation of Executive Committee Members Study, Caisse de dépôt et placement du Québec, 2017.

Report of the Investment and Risk Management Committee

Highlights

1

Reviewed and recommended to the Board changes to the Integrated Risk Management Policy.

2

Reviewed investment policies for certain specialized portfolios and recommended changes to the Board.

THE INVESTMENT AND RISK MANAGEMENT COMMITTEE

The Board of Directors established the Investment and Risk Management Committee to help the Audit Committee fulfill its duty to implement a risk management process.

MANDATE

The Committee's mandate is to ensure that risk management policies are in place with the objective of achieving an optimal risk-return relationship. For a complete description of the Committee's mandate, consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2017)

The Committee's composition was reviewed in 2017.

It consisted of four independent members:

- Chair: Jean La Couture
- Members: Patricia Curadeau-Grou, Gilles Godbout and Wendy Murdock
- Guest member: François Joly, Chair of the Audit Committee.

The Chairman of the Board attends the Committee's meetings.

ACTIVITY REPORT

Number of meetings in 2017: 13

The Committee introduced various mechanisms to provide the Audit Committee and the Board with the necessary assurance regarding the implementation of a risk management process. The Committee:

- provided a report on its activities to the Board after each meeting;
- made copies of its minutes available to the Audit Committee and the Board;
- invited the Chair of the Audit Committee to attend each meeting.

Risk management guidelines and policies

In 2017, the Committee fulfilled its responsibilities in ways that included the following:

- Reviewed accountability reports on the 2017-2020 strategy for the specialized portfolios as well as the changes in the portfolio and the retrospective analysis of 2017.
- Reviewed the investment policies of certain specialized portfolios and recommended changes to the Board of Directors.
- Revised and recommended to the Board market risk limits and objectives for la Caisse's overall portfolio and for each of the specialized portfolios, as well as major mandates and concentration limits for la Caisse's overall portfolio.
- Reviewed and recommended to the Board changes to the Integrated Risk Management Policy, to reflect changes to methodology and to the limits of certain specialized portfolios.
- Reviewed la Caisse's orientations for Specialty Finance, Asset Allocation and Currency Management mandates.
- Reviewed the oversight and use of derivative financial instruments.
- Reviewed and recommended to the Board the oversight of liquidity risk and monitored la Caisse's global strategy for managing this risk.
- Reviewed the framework for managing exposure to la Caisse's investment partners, including the implementation of a partner rating system.
- Reviewed the processes used to award mandates to external managers.
- Reviewed and discussed the report of the Operational Risk Internal Committee.

- Reviewed, at each Committee meeting, risk-return reports for la Caisse as a whole, including the overall portfolio's positioning with respect to risk levels, the benchmark portfolio and strategic orientations.

- Reviewed the Risk group's business plan.

Investment proposals

- Reviewed and recommended investment proposals under the Board's authority, considering the analysis submitted by the team responsible for the transaction, the project's risk analysis and, more specifically, its impact on the risk level and concentration of the specialized portfolio concerned and la Caisse's overall portfolio, as well as the investment's compliance with the risk oversight policies and guidelines.
- Discussed the risk-return relationship for each investment proposal submitted to the Committee.
- Received follow-up reports on investment proposals authorized by the Board as well as investments that were authorized by la Caisse's senior management but did not come under the Board's purview.

Depositors

- Analyzed the certificates of compliance with the depositors' investment policies and the specialized portfolios' investment policies.

USE OF THE SERVICES OF EXTERNAL EXPERTS

The Investment and Risk Management Committee did not use the services of external experts in 2017.

Board of Directors and Executive Committee



Organizational Structure

La Caisse’s Board of Directors consists of the Chairman, the President and Chief Executive Officer, depositors’ representatives and independent members. The Act respecting the Caisse stipulates that at least two thirds of the directors, including the Chairman, must be independent.

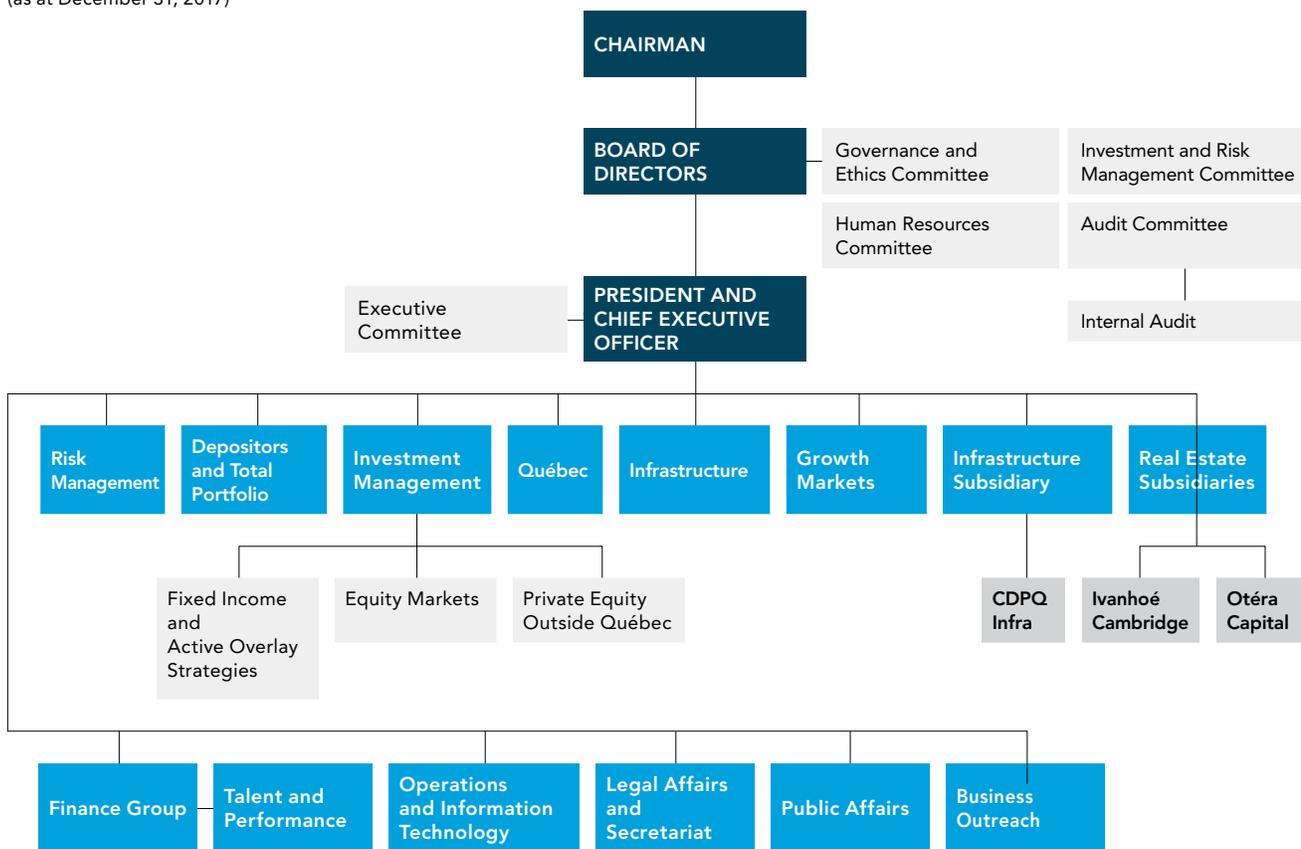
The Executive Committee is composed of the President and Chief Executive Officer and senior officers from la Caisse’s various units. As at December 31, 2017, la Caisse employed 1,093 employees in all of its offices. Of this number, 999 employees were located in its offices in Québec. To support its globalization strategy and generate

promising investment opportunities, la Caisse also opened offices in several countries over the past few years. As at December 31, 2017, 94 employees work in these international offices.

La Caisse also has real estate subsidiaries, Ivanhoé Cambridge and Otéra Capital, that had some 1,400 employees at the end of 2017, and an infrastructure subsidiary, CDPQ Infra, which acts as owner-operator of infrastructure projects and had some 30 employees at the end of 2017. These subsidiaries are overseen by their own Boards of Directors (see Figure 45).

FIGURE 45

ORGANIZATIONAL STRUCTURE
(as at December 31, 2017)



REAL ESTATE AND INFRASTRUCTURE SUBSIDIARIES

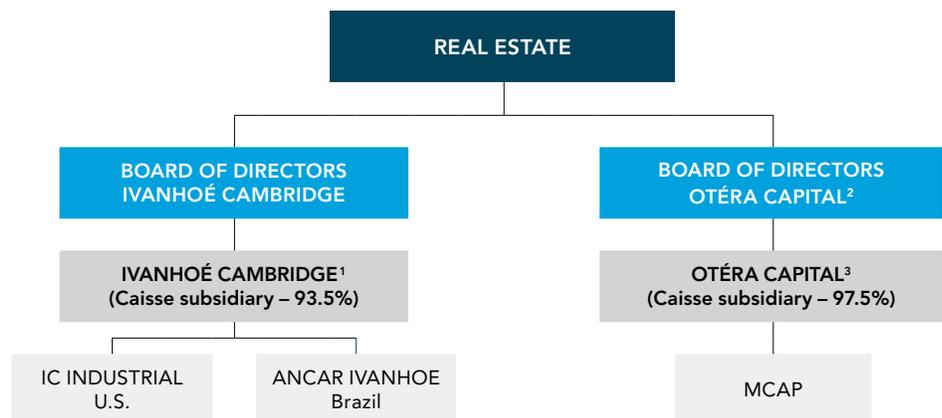
Real estate investments, which take the form of equities and debt, involve primarily shopping centres, office buildings, residential, industrial and logistics properties in key cities worldwide. The holdings are divided into two sectors: Real Estate and Real Estate Debt. The Real Estate sector consists of the assets of Ivanhoé Cambridge, a global real estate industry leader. The Real Estate Debt sector consists of the holdings of Otéra Capital, one of the largest commercial real estate financing companies in Canada.

Figure 46 presents the organizational structure of the real estate operations. More information on the real estate subsidiaries can be found at www.ivanhoecambridge.com and www.oteracapital.com

The infrastructure subsidiary established in 2015, CDPQ Infra aims to effectively and efficiently carry out major public infrastructure projects. Figure 47 presents the organizational structure of CDPQ Infra. More information on CDPQ Infra's operations can be found at www.cdpqinfra.com.

FIGURE 46

ORGANIZATIONAL STRUCTURE – REAL ESTATE SUBSIDIARIES (as at December 31, 2017)



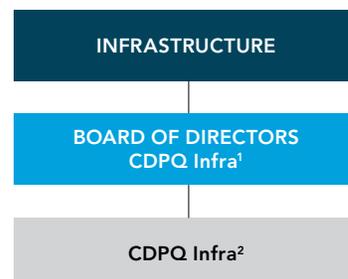
1. Daniel Fournier, Chairman and Chief Executive Officer, Ivanhoé Cambridge.

2. Sylvain Fortier, Chairman of the Board, Otéra Capital.

3. Alfonso Graceffa, President and Chief Executive Officer, Otéra Capital.

FIGURE 47

ORGANIZATIONAL STRUCTURE – INFRASTRUCTURE SUBSIDIARY (as at December 31, 2017)



1. Michael Sabia, Chairman of the Board.

2. Macky Tall, President and Chief Executive Officer; Jean-Marc Arbaud, Deputy Managing Director.

Board of Directors^{1,2}

ROBERT TESSIER

Chairman of the Board of Directors
Committees: Governance and Ethics /
Human Resources
Member since March 2009

ELISABETTA BIGSBY

Corporate Director
Committee: Human Resources (Chair)
Member since November 2009

IVANA BONNET-ZIVCEVIC³

President and Chief Executive Officer
Crédit Agricole CIB in Italy
Committee: Human Resources
Member since December 2017

BERTRAND CESVET

Chief Executive Officer and Senior Partner
Sid Lee
Committee: Human Resources
Member since April 2015

PATRICIA CURADEAU-GROU

Corporate Director
Committee: Investment and Risk Management
Member since October 2013

MICHEL DESPRÉS

President and Chief Executive Officer
Retraite Québec
Member since March 2016

GILLES GODBOUT

Corporate Director
Committees: Investment and Risk Management / Audit
Member since January 2013

FRANÇOIS JOLY

Corporate Director
Committees: Audit (Chair) / Investment
and Risk Management (Guest Member)
Member since March 2013

JEAN LA COUTURE

President, Huis Clos Ltée
Committee: Investment and
Risk Management (Chair)
Member since January 2013

DIANE LEMIEUX

President and Chief Executive Officer
Commission de la construction du Québec
Member since December 2014

WENDY MURDOCK

Corporate Director
Committees: Investment and Risk Management /
Governance and Ethics
Member since March 2016

FRANÇOIS R. ROY

Corporate Director
Committees: Governance and Ethics (Chair) / Audit
Member since December 2009

MICHAEL SABIA

President and Chief Executive Officer
Caisse de dépôt et placement du Québec
Member since March 2009

1. Rita Dionne-Marsolais was replaced by Maryse Bertrand in 2017.
2. Maryse Bertrand sat on the Board of Directors from January to June 2017.
3. Ouma Sananikone was replaced by Ivana Bonnet-Zivcevic in 2017.

Executive Committee¹

CLAUDE BERGERON

Executive Vice-President
and Chief Risk Officer

MICHÈLE BOISVERT

Executive Vice-President
Business Outreach

ANI CASTONGUAY

Senior Vice-President
Public Affairs

MARC CORMIER

Executive Vice-President
Fixed Income and
Active Overlay Strategies

CHRISTIAN DUBÉ

Executive Vice-President
Québec

STÉPHANE ETROY

Executive Vice-President
and Head of Private Equity
CDPQ London

ANITA M. GEORGE

Executive Vice-President
Growth Markets
CDPQ India

JEAN-LUC GRAVEL

Executive Vice-President
Equity Markets

JEAN MICHEL

Executive Vice-President
Depositors and Total Portfolio

PIERRE MIRON

Executive Vice-President
and Chief Operations and IT Officer

MAARIKA PAUL

Executive Vice-President
and Chief Financial Officer

MICHAEL SABIA

President and Chief Executive Officer

OONA STOCK

Executive Vice-President
Talent and Performance

MACKY TALL

Executive Vice-President, Infrastructure
and President and Chief Executive Officer,
CDPQ Infra

KIM THOMASSIN

Executive Vice-President
Legal Affairs and Secretariat

1. Macky Tall was appointed Head, Liquid Markets and Réseau express métropolitain (REM) in March 2018.
Maxime Aucoin was appointment Executive Vice-President, Investment Strategies and Innovation in March 2018.
Jean Michel stepped down from his position in March 2018.

Financial Report



Change in Assets

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Net assets attributable to depositors grew from \$176.2 billion as at December 31, 2012 to \$298.5 billion as at December 31, 2017, an increase of \$122.3 billion over five years. This growth was primarily due to net investment results of \$109.7 billion, in addition to depositors' net contributions of \$12.6 billion (see Table 51, p. 115).

During 2017, net assets attributable to depositors increased by \$27.8 billion to \$298.5 billion, compared to \$270.7 billion as at December 31, 2016. This increase was due to \$24.6 billion of net investment results and \$3.2 billion in depositors' net contributions.

TOTAL ASSETS

As at December 31, 2017, total assets reached \$337.2 billion, compared to \$315.9 billion at the end of 2016 (see Table 48). This \$21.3 billion increase was due to the reinvestment of investment income, net realized gains and depositors' contributions. The liabilities to total assets ratio decreased to 11% as at December 31, 2017, compared to 14% as at December 31, 2016. La Caisse's liabilities consist

primarily of securities sold under repurchase agreements and the financing programs of its subsidiary, CDP Financial, which are used to finance investments.

ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION

La Caisse and its subsidiaries administer and manage assets entrusted to them by clients and on their behalf. These assets are not included in la Caisse's Consolidated Statement of Financial Position. La Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and transferred mortgages.

As at December 31, 2017, la Caisse's assets under management and administered assets totalled \$86.0 billion, up \$7.7 billion from one year earlier (see Table 49).

This growth came primarily from the portfolio administered by MCAP, a subsidiary of Otéra Capital. This company administers more than \$63.2 billion of Canadian residential, commercial and construction mortgages.

TABLE 48

FINANCIAL INFORMATION – FINANCIAL POSITION (as at December 31 – in millions of dollars)

	2017	2016
ASSETS		
Investments	331,050	308,875
Other assets	6,100	6,984
Total assets	337,150	315,859
LIABILITIES		
Investment liabilities	35,845	42,890
Other liabilities	2,793	2,223
Total liabilities excluding net assets attributable to depositors	38,638	45,113
Net assets attributable to depositors	298,512	270,746

TABLE 49

FINANCIAL INFORMATION – TOTAL ASSETS UNDER MANAGEMENT (as at December 31 – in millions of dollars)

	2017	2016
Total assets	337,150	315,859
Assets under management	20,349	18,569
Assets under administration	65,636	59,723
Assets under management and assets under administration	85,985	78,292
Total assets under management	423,135	394,151

NET INVESTMENT RESULTS

Over five years, net investment results amounted to \$109.7 billion. The Equities asset class contributed the most, generating \$72.4 billion of net investment results, including \$57.2 billion from Equity Markets and \$15.2 billion from Private Equity. In addition, Fixed Income and Real Assets contributed \$14.6 billion and \$18.9 billion, respectively.

In 2017, net investment results of \$24.6 billion came mainly from the Equities (\$17.6 billion), Real Assets (\$4.0 billion), and Fixed Income (\$3.2 billion) asset classes (see Table 50).

NET CONTRIBUTIONS BY DEPOSITORS

Total net contributions by depositors as at December 31, 2017 were \$3.2 billion, mainly due to contributions made by the Retirement Plans Sinking Fund and the Generations Fund.

TABLE 50

FINANCIAL INFORMATION – RESULTS BEFORE DISTRIBUTIONS TO DEPOSITORS

(as at December 31 – in millions of dollars)

	2017	2016
Net investment income	8,926	9,063
Operating expenses	(536)	(463)
Net income	8,390	8,600
Net realized gains	9,822	9,556
Net unrealized gains	6,384	261
Net gains on financial instruments at fair value	16,206	9,817
Net investment results before distributions to depositors	24,596	18,417

TABLE 51

FINANCIAL INFORMATION – SUMMARY OF CHANGES IN NET ASSETS ATTRIBUTABLE TO DEPOSITORS

(for the period from 2013 to 2017 – in billions of dollars)

	2017	2016	2015	2014	2013	5 years
Net assets attributable to depositors, beginning of year	270.7	248.0	225.9	200.1	176.2	176.2
Net investment results before distributions to depositors	24.6	18.4	20.1	23.8	22.8	109.7
Net contributions by depositors	3.2	4.3	2.0	2.0	1.1	12.6
Net assets attributable to depositors, end of year	298.5	270.7	248.0	225.9	200.1	298.5

Analysis of Operating Expenses and External Management Fees

Operating expenses represent portfolio management and administration costs. External management fees are amounts paid to institutional fund managers, active in the stock markets, to manage funds belonging to la Caisse.

For fiscal 2017, operating expenses totalled \$536 million, compared to \$463 million in 2016. This increase is due to the continued execution of an investment strategy focused on globalization, transactions and partnerships in less-liquid assets, in particular private equity and infrastructure, as well as credit and specialty finance activities, which required the acquisition of new expertise.

Execution of the globalization strategy required the hiring of talented professionals in global markets and in targeted sectors such as private equity and credit. Over five years, la Caisse has deployed over \$43 billion in new capital in global markets. Collaboration with teams in our international offices made it possible for la Caisse to complete many key transactions, including USI Holdings in the U.S., Fives, Sebia and Suez in Europe, Edelweiss and Kotak Mahindra Bank in India, and an investment platform for infrastructure projects in Mexico.

External management fees totalled \$86 million, up \$48 million from 2016, mainly due to an increase in the value of the investments managed externally in certain markets and their good performance.

Operating expenses and external management fees amounted to \$622 million in 2017, compared to \$501 million in 2016. This amount represents 22 cents per \$100 of average net assets, a level that compares favourably with the industry (see Figure 52).

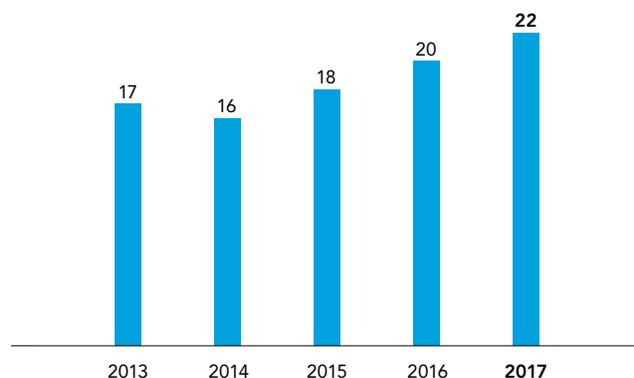
Over the last five years, operating expenses and external management fees grew at an average annual rate of 1 cent per \$100 of average net assets, in line with the execution of the strategies indicated above and the increase in externally managed funds.

OPERATIONAL EFFICIENCY

La Caisse periodically reviews its procedures to maintain tight control over its operating expenses. It aims to maintain operating expenses at a level that, taking into account its investment mix, is comparable to that of institutional fund managers of the same size with similar operations. La Caisse has been benchmarking its costs by asset class for many years.

FIGURE 52

OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES EXPRESSED PER \$100 OF DEPOSITORS' AVERAGE NET ASSETS
(for periods ended December 31 – in cents)



CDP Financial

CDP Financial is a wholly-owned subsidiary of la Caisse. Its transactions are designed to optimize the cost of financing the operations of la Caisse and its subsidiaries, to diversify their sources of financing and to match financed assets in terms of currencies and interest rates. To achieve its objectives, it has two financing programs on the local and international institutional markets: short-term borrowing and long-term borrowing.

SHORT-TERM BORROWING

As at December 31, 2017, short-term financing totalled \$4.6 billion, with \$1 billion on the Canadian market and USD 2.9 billion on the U.S. market. In 2017, the average maturity of the borrowings on the Canadian market was 78 days, and transactions totalled \$4.4 billion. On the U.S. market, it was 135 days, and transactions totalled USD 7.9 billion.

TERM BORROWING

As at December 31, 2017, the fair value of CDP Financial's outstanding term notes totalled \$9.2 billion, compared to \$9.6 billion at the end of 2016 (see Figure 53). The \$0.4 billion decrease from 2016 is in large part due to the depreciation of the U.S. dollar relative to the Canadian dollar.

CREDIT FACILITY

During the year ended December 31, 2017, CDP Financial contracted a credit facility with an authorized maximum amount of USD 4 billion with a banking syndicate formed of 10 financial institutions. This credit facility is fully guaranteed, unconditionally and irrevocably, by la Caisse. As at December 31, 2017, no amounts had been drawn on this credit facility.

BREAKDOWN BY CURRENCY

The financing can be broken down as follows: Debt instruments issued in U.S. dollars represent 76%, while 15% are issued in Canadian dollars and 9% are issued in euros.

CREDIT RATING AGENCIES REAFFIRM LA CAISSE'S FINANCIAL STRENGTH

Dominion Bond Rating Services (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's (S&P) reaffirmed their investment-grade credit ratings with a stable outlook in 2017 (see Table 54). The credit ratings of CDP Financial and la Caisse were published in July, August and September 2017.

FIGURE 53

BREAKDOWN OF LIABILITIES – CDP FINANCIAL
(fair market value as at December 31 – in billions of dollars)

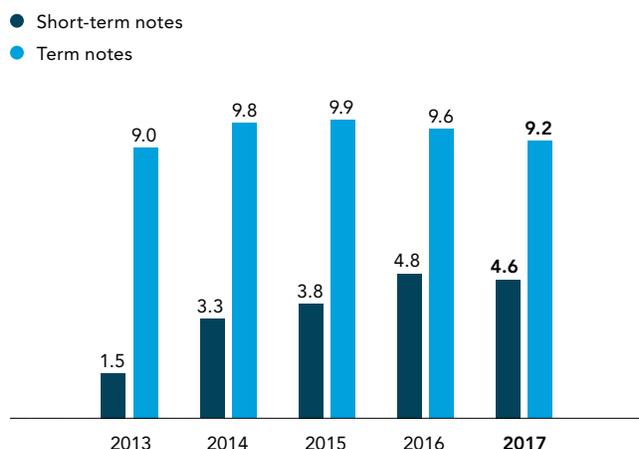


TABLE 54

CREDIT RATINGS

	Short-term	Long-term
DBRS	R-1 (high)	AAA
Moody's	Prime-1 (Aaa)	Aaa
S&P	A-1 + A-1 (HIGH)	AAA

Significant Accounting Principles

SIGNIFICANT ACCOUNTING PRINCIPLES

La Caisse's 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. Net assets attributable to depositors presented in the Consolidated Statement of Financial Position reflect the combined net value of the accounts of each of the depositors of la Caisse. Note 2 to the Audited Consolidated Financial Statements as at December 31, 2017 describes the significant accounting policies used by la Caisse.

FINANCIAL REPORTING

The consolidated financial statements of la Caisse are presented in accordance with the prevailing accounting standards, namely International Financial Reporting Standards (IFRS), as stipulated in the Act respecting the Caisse de dépôt et placement du Québec. Accounting policies have been applied consistently for all years presented.

EXTERNAL AUDIT

In accordance with the Act respecting the Caisse, the co-auditors audited all of la Caisse's accounting records and issued an unqualified auditors' report for each of the 70 financial statements.

Significant IFRS accounting standards applicable to the consolidated financial statements of la Caisse

Investment entities

Under IFRS 10, Consolidated Financial Statements, the subsidiaries that constitute an investment for an investment entity must be presented and measured at fair value. Accordingly, la Caisse, qualified as an investment entity, does not consolidate its subsidiaries, particularly its real estate, real estate debt, private equity, infrastructure and fixed income subsidiaries. Valuation of these investments is based on a corporate valuation technique in accordance with IFRS.

Fair value measurement

IFRS 13, Fair Value Measurement, provides a single source of guidelines for all fair value measurements. 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. The main techniques for measuring la Caisse's liquid and less-liquid investments, including measuring la Caisse's non-consolidated subsidiaries, are described in Note 7 to the Consolidated Financial Statements on page 142.

Financial measures

As part of issuing certain information included in the annual Report, la Caisse uses and presents both measures in accordance with IFRS and other financial measures inconsistent with IFRS. La Caisse is of the opinion that these measures provide relevant information, complementary to the analysis of its financial reporting (see General Notes 3 and 6 on page 177).

Adoption of new IFRS

The amendments to IAS 7, Statement of Cash Flows, enable users of financial statements to evaluate changes in liabilities arising from financing activities. These new amendments have been applied since January 1, 2017. Their impact is limited to the presentation of supplementary information.

New IFRS

IFRS 9, Financial Instruments, covers the classification and measurement of financial assets and liabilities and the impairment of financial assets and hedge accounting.

During fiscal 2017, la Caisse analyzed the impact of adopting IFRS 9. In addition, la Caisse validated the accounting positions it has completed to date with the co-auditors. Adopting the standard is not expected to have any impact, i.e. for the fiscal year beginning January 1, 2018, since financial instruments will continue to be measured at fair value through profit or loss.

The adoption of IFRS 9 will lead to changes in disclosures. La Caisse will adjust the disclosures made in financial statements and the related control processes, as required.

Fair Value Measurement

FAIR VALUE MEASUREMENT POLICY

Investment valuation is a process whereby a fair value is assigned to each of la Caisse's investments with a view to preparing the consolidated financial statements. Measurement of investments at fair value is performed periodically in accordance with la Caisse's investment valuation policy, which is approved by the Board of Directors. An update to the Policy to define the roles and responsibilities of the Finance Group for developing, maintaining and complying with the Policy on Private Investments was reviewed and approved in 2017. This comprehensive policy is further supported by the valuation directive and protocols that indicate the valuation methodology to be applied for each type of investment. The policy, directive and protocols also dictate governance of the valuation and reporting processes. The implementation of the policy is the responsibility of the Valuation Committee, which reports to the Executive Committee. The Valuation Committee approves the directive, compliance with the policy, and the fair value of la Caisse's investments semi-annually. Accordingly, the Valuation Committee recommends these fair values to the Audit Committee. The policy complies with the standards and practices of Canadian and international valuation bodies.

Under the policy, when fair value is determined by external valuers or third parties, the Valuation Committee verifies the qualifications, experience and independence of these parties. It also reviews the valuation techniques, the significant inputs used in calculating fair value, and the results and conclusions to ensure that they are in compliance with recognized valuation standards.

In addition, to ensure the reasonableness of the fair value determined, la Caisse may perform back-testing, compare the established fair value with values of comparable transactions, and use external valuers.

Co-auditors have access to all valuation files as part of the audit of the year-end consolidated financial statements.

CONCEPTUAL FRAMEWORK

International Financial Reporting Standards (IFRS) define fair value and provide guidelines on measurement and disclosures related to fair value. Entities are required to maximize the use of relevant observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value must be established by assuming that the investments are available for sale, that is, that the fair value of investments corresponds to an exit price at the date of the financial statements. The purpose of the accounting standards is to define a single conceptual framework that can be used in all situations requiring fair value measurement.

La Caisse considers that International Financial Reporting Standards constitute a coherent framework for fair value measurement. Nevertheless, these restrictive standards do not take into account the fact that, in accordance with the very long-term investment horizon adopted by its main depositors, la Caisse has the means and intends to hold certain investments until their optimal value is attained.

As such, the fair value established as at December 31, 2017 for investments in less-liquid markets, such as real estate assets, real estate debt, speciality finance, private equity and infrastructure, reflects the general volatility of the financial markets, and this may differ from the economic value of long-term investments.

Note 7 to the Consolidated Financial Statements, on page 142, describes fair value measurement techniques.

Consolidated Financial Statements



Management's Responsibility for Consolidated Financial Reporting

Preparation and presentation of the consolidated financial statements of la Caisse de dépôt et placement du Québec ("la Caisse") are the responsibility of management. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and incorporated into the *CPA Canada Handbook*. We ensure that the financial data in the Annual Report are consistent with those in the consolidated financial statements.

The consolidated financial statements include amounts based on management's best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial information, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, financial information disclosure controls and procedures, and internal control over financial information. La Caisse's internal control mechanism is based, among other things, on a clear definition of responsibilities; effective allocation of duties and delegation of powers; competent resources; appropriate procedures, information systems, tools and practices; relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities; control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of la Caisse's objectives; and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place with regards to operations, assets and records. Moreover, la Caisse's internal audit group audits the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the consolidated financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which la Caisse is subject, including the *Act respecting the Caisse de dépôt et placement du Québec*.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of la Caisse, as necessary.

The Auditor General of Québec and Ernst & Young LLP (the "co-auditors") have audited the consolidated financial statements of la Caisse as at December 31, 2017 and for the year then ended and their report covers the nature and scope of the audit and expresses their opinion. The co-auditors have unrestricted access to the Audit Committee to discuss any matter relating to their audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the consolidated financial statements and the Annual Report.

The Board of Directors has approved the consolidated financial statements as at December 31, 2017 and for the year then ended. It is assisted in its responsibilities by the Audit Committee, of which all members are independent directors. This Committee meets with management and the co-auditors, examines the consolidated financial statements and recommends their approval to the Board of Directors.



MICHAEL SABIA

President and Chief Executive Officer

Montréal, February 20, 2018



MAARIKA PAUL, FCPA, FCA, CBV, ICD.D

Executive Vice-President and
Chief Financial Officer

Independent Auditors' Report

To the National Assembly

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of la Caisse de dépôt et placement du Québec, which comprise the Consolidated Statement of Financial Position as at December 31, 2017 and the Consolidated Statements of Comprehensive Income, Changes in Net Assets Attributable to Depositors and Cash Flows for the year then ended, as well as a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of la Caisse de dépôt et placement du Québec as at December 31, 2017 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Report on other legal and regulatory requirements

As required by the *Auditor General Act* (CQLR, chapter V-5.01), we report that, in our opinion, the accounting standards have been applied on a basis consistent with that of the preceding year.

Auditor General of Québec,



Guylaine Leclerc, FCPA auditor, FCA

Montréal, February 20, 2018

Ernst & Young LLP



¹ CPA auditor, CA, public accountancy permit no. A112431

Montréal, February 20, 2018

Consolidated Statement of Financial Position

As at December 31, 2017

(in millions of Canadian dollars)	2017	2016
ASSETS		
Cash	947	651
Amounts receivable from transactions being settled	2,447	3,898
Advances to depositors	1,056	1,068
Investment income, accrued and receivable	1,395	1,173
Other assets	255	194
Investments (Note 4)	331,050	308,875
Total assets	337,150	315,859
LIABILITIES		
Amounts payable on transactions being settled	2,102	1,687
Other financial liabilities	691	536
Investment liabilities (Note 4)	35,845	42,890
Total liabilities excluding net assets attributable to depositors	38,638	45,113
Net assets attributable to depositors	298,512	270,746

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

On behalf of the Board of Directors,



MICHAEL SABIA



FRANÇOIS JOLY

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017

(in millions of Canadian dollars)	2017	2016
Investment income (Note 9)	9,576	9,682
Investment expense (Note 9)	(650)	(619)
Net investment income (Note 9)	8,926	9,063
Operating expenses (Note 11)	(536)	(463)
Net income	8,390	8,600
Net realized gains (Note 10)	9,822	9,556
Net unrealized gains (Note 10)	6,384	261
Net gains on financial instruments at fair value	16,206	9,817
Net investment result before distributions to depositors (Note 10)	24,596	18,417
Distributions to depositors	(9,844)	(11,783)
Comprehensive income attributable to depositors	14,752	6,634

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

Consolidated Statement of Changes in Net Assets Attributable to Depositors

For the year ended December 31, 2017

(in millions of Canadian dollars)	Demand deposits	Term deposits	Distributions payable to depositors	Participation deposits	Net assets attributable to depositors
Balance as at December 31, 2015	530	5	2,118	245,372	248,025
Attributions and distributions					
Comprehensive income attributable to depositors	–	–	–	6,634	6,634
Distributions to depositors	12,528	–	(745)	–	11,783
Participation deposits					
Issuance of participation deposit units	(17,312)	–	–	17,312	–
Cancellation of participation deposit units	679	–	–	(679)	–
Net deposits					
Net change in term deposits	(1)	1	–	–	–
Net contributions by depositors	4,304	–	–	–	4,304
BALANCE AS AT DECEMBER 31, 2016	728	6	1,373	268,639	270,746
Attributions and distributions					
Comprehensive income attributable to depositors	–	–	–	14,752	14,752
Distributions to depositors	9,242	–	602	–	9,844
Participation deposits					
Issuance of participation deposit units	(19,484)	–	–	19,484	–
Cancellation of participation deposit units	6,432	–	–	(6,432)	–
Net deposits					
Net contributions by depositors	3,170	–	–	–	3,170
BALANCE AS AT DECEMBER 31, 2017	88	6	1,975	296,443	298,512

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(in millions of Canadian dollars)	2017	2016
Cash flows from operating activities		
Comprehensive income attributable to depositors	14,752	6,634
Adjustments for:		
Unrealized net gains on commercial paper, term notes and loans payable	(487)	(371)
Amortization of commercial paper and term notes payable	4	12
Distributions to depositors	9,844	11,783
Net changes in operating assets and liabilities		
Amounts receivable from transactions being settled	1,451	(2,610)
Advances to depositors	12	(292)
Investment income, accrued and receivable	(222)	53
Other assets	(61)	68
Investments	(23,415)	(23,035)
Amounts payable on transactions being settled	415	463
Other financial liabilities	155	7
Investment liabilities	(6,587)	1,065
	(4,139)	(6,223)
Cash flows from financing activities		
Net change in commercial paper payable	270	(1,725)
Issuance of commercial paper payable	7,663	6,421
Repayment of commercial paper payable	(8,084)	(3,625)
Net change in loans payable	176	74
Net contributions by depositors	3,170	4,304
	3,195	5,449
Net decrease in cash and cash equivalents	(944)	(774)
Cash and cash equivalents at the beginning of the year	1,891	2,665
Cash and cash equivalents at the end of the year	947	1,891
Cash and cash equivalents comprise:		
Cash	947	651
Investments		
Securities purchased under reverse repurchase agreements	–	1,240
	947	1,891
Supplemental information on cash flows from operating activities		
Interest and dividends received	9,787	10,130
Interest paid	(539)	(574)

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

Notes to the Consolidated Financial Statements

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

01

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, 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.

CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared for the purposes of presenting la Caisse's financial position, financial performance and cash flows. La Caisse's 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 consolidated financial statements, all intercompany transactions and balances have been eliminated.

The investing activities of the depositors in la Caisse's various specialized portfolios are concluded through the participation deposit units of individual funds.

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.

INDIVIDUAL FUNDS

The individual funds consist mainly of diversified investments in specialized portfolios. Each individual fund is dedicated to a single depositor who invests in the participation deposits of individual funds.

The individual funds of depositors are as follows:

- Fund 300:** Québec Pension Plan Fund, administered by Retraite Québec
- Fund 301:** Government and Public Employees Retirement Plan, administered by Retraite Québec
- Fund 302:** Pension Plan of Management Personnel, administered by Retraite Québec
- Fund 303:** Special Plans Fund, administered by Retraite Québec
- Fund 305:** Pension Plan of Elected Municipal Officers (PEMO), administered by Retraite Québec
- Fund 306:** Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Volet à prestations déterminées, administered by the Comité de retraite
- Fund 307:** Fonds d'assurance automobile du Québec, administered by the Société de l'assurance automobile du Québec
- Fund 310:** Régime de retraite des chauffeurs d'autobus de la Société de transport de Laval, administered by the Comité de retraite (created January 1, 2017)
- Fund 311:** Supplemental Pension Plan for Employees of the Québec Construction Industry – General Account, administered by the Commission de la construction du Québec
- Fund 312:** Supplemental Pension Plan for Employees of the Québec Construction Industry – Retirees Account, administered by the Commission de la construction du Québec
- Fund 313:** Supplemental Pension Plan for Employees of the Québec Construction Industry – Supplementary Account, administered by the Commission de la construction du Québec
- Fund 314:** Deposit Insurance Fund, administered by the Autorité des marchés financiers
- Fund 315:** Dedicated account, administered by La Financière agricole du Québec
- Fund 316:** Retirement Plans Sinking Fund – RREGOP (RPSF-RREGOP), administered by the ministère des Finances, Government of Québec

CONSTITUTION AND NATURE OF OPERATIONS (cont.)

- Fund 317:** Retirement Plans Sinking Fund – PPMP (RPSF-PPMP), administered by the ministère des Finances, Government of Québec
- Fund 318:** Retirement Plans Sinking Fund – Others (RPSF-Others), administered by the ministère des Finances, Government of Québec
- Fund 326:** Crop Insurance Fund, administered by La Financière agricole du Québec
- Fund 328:** Survivor's Pension Plan, administered by the Secrétariat du Conseil du trésor
- Fund 329:** Fonds d'assurance-garantie, administered by the Régie des marchés agricoles et alimentaires du Québec
- Fund 330:** Fonds de la santé et de la sécurité du travail, administered by the Commission des normes, de l'équité, de la santé et de la sécurité du travail
- Fund 331:** Régime de retraite des employés du Réseau de Transport de la Capitale, administered by the Comité de retraite (created January 1, 2017)
- Fund 332:** Fonds des cautionnements des agents de voyages – cautionnements individuels, administered by the Office de la protection du consommateur
- Fund 333:** Compensation Fund for Customers of Travel Agents, administered by the Office de la protection du consommateur
- Fund 335:** Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2020, administered by the Comité de retraite
- Fund 336:** Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2030, administered by the Comité de retraite
- Fund 337:** Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2040, administered by the Comité de retraite
- Fund 338:** Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2050, administered by the Comité de retraite
- Fund 339:** Fonds d'indemnisation des services financiers, administered by the Autorité des marchés financiers
- Fund 340:** Régimes de retraite de la Ville de Terrebonne, administered by the Comité de retraite conjoint des Régimes de retraite de la Ville de Terrebonne
- Fund 342:** Régime de retraite de l'Université du Québec, administered by the Comité de retraite du Régime de retraite de l'Université du Québec
- Fund 343:** Parental Insurance Fund, administered by the Conseil de gestion de l'assurance parentale (inactive since June 1, 2017)
- Fund 344:** Réserve administered by La Financière agricole du Québec (created January 1, 2016)
- Fund 347:** Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec, administered by the Investment Committee
- Fund 351:** Generations Fund, administered by the ministère des Finances, Government of Québec
- Fund 353:** Superannuation Plan for the Members of the Sûreté du Québec – Participants' Fund (SPMSQ-part.), administered by Retraite Québec
- Fund 354:** Superannuation Plan for the Members of the Sûreté du Québec – Employers' Fund (SPMSQ-empl.), administered by the ministère des Finances, Government of Québec
- Fund 361:** Pension Plan of the non-teaching Staff of the Commission des écoles catholiques de Montréal, administered by the Secrétariat du Conseil du trésor
- Fund 362:** Régime de retraite pour certains employés de la Commission scolaire de la Capitale, administered by the Secrétariat du Conseil du trésor
- Fund 363:** Régime de retraite des employés de la Ville de Laval, administered by the Comité de retraite
- Fund 367:** Territorial Information Fund, administered by the ministère des Finances, Government of Québec
- Fund 368:** Education and Good Governance Fund – Capitalized Fund (EGGF-CF), administered by the Autorité des marchés financiers
- Fund 369:** Accumulated Sick Leave Fund, administered by the ministère des Finances, Government of Québec
- Fund 371:** Accumulated Sick Leave Fund – ARQ, administered by the Agence du revenu du Québec
- Fund 372:** Fonds commun de placement des régimes de retraite de l'Université Laval, administered by the Comités de retraite

CONSTITUTION AND NATURE OF OPERATIONS (cont.)

- Fund 373:** Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges, administered by Retraite Québec
- Fund 374:** Fiducie globale Ville de Magog, administered by the Comité de retraite mixte
- Fund 376:** Régime de retraite des employées et employés de la Ville de Sherbrooke, administered by the Comité de retraite des employées et employés de la Ville de Sherbrooke
- Fund 378:** Pension Plan of Peace Officers in Correctional Services – Employees’ Contribution Fund administered by Retraite Québec
- Fund 383:** Régime complémentaire de retraite des employés réguliers de la Société de transport de Sherbrooke, administered by the Comité de retraite
- Fund 384:** Régime de retraite des cadres de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)
- Fund 385:** Régime de retraite des employés manuels de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)
- Fund 386:** Régime de retraite des fonctionnaires de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)
- Fund 387:** Régime de retraite du personnel professionnel de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)
- Fund 388:** Régime de retraite des policiers et policières de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)
- Fund 389:** Régime de retraite des pompiers de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)
- Fund 393:** Régime de retraite de la Corporation de l’École Polytechnique, administered by the Comité de retraite
- Fund 395:** Retirement Plan for the Mayors and Councillors of Municipalities, administered by Retraite Québec

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);
- Rates (765)¹;
- Credit (766)¹;
- Long Term Bonds (764);
- Real Return Bonds (762);
- Infrastructure (782);
- Real Estate (710);
- Equity Markets (737);
- Private Equity (780);
- Asset Allocation (771);
- ABTN (772)²;
- Active Overlay Strategies (773).

1. As part of its strategic investment planning (SIP), la Caisse recommended that changes be made to the group of specialized portfolios offered to depositors. Consequently, on January 1, 2017, all of the financial assets and liabilities of the Bonds (760) and the Real Estate Debt (750) specialized portfolios were acquired at fair value by two new specialized portfolios, i.e., the Rates (765) and Credit (766) specialized portfolios. This transaction among specialized portfolios did not have any impact on consolidated net assets or on comprehensive income attributable to depositors.

2. On June 1, 2017, the ABTN (772) specialized portfolio was closed following collection on the portfolio’s Master Asset Vehicle 1 (MAV 1) securities.

02

SIGNIFICANT ACCOUNTING POLICIES

ADOPTION OF NEW IFRS

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 7 – *Statement of Cash Flows*. The amendments include disclosure requirements that will enable financial statement users to evaluate changes in liabilities arising from financing activities. These new amendments were applied on January 1, 2017, and their impact is limited to a presentation of supplementary information in Note 18.

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the IASB. The accounting policies described below have been applied consistently to all reporting periods presented.

PRESENTATION AND MEASUREMENT BASIS

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

La Caisse's Consolidated Statement of Financial Position is presented based on liquidity.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements of la Caisse were approved by the Board of Directors on February 20, 2018.

FUNCTIONAL AND PRESENTATION CURRENCY

La Caisse's consolidated financial statements are presented in Canadian dollars, which is the functional currency.

FOREIGN CURRENCY TRANSLATION

Financial assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the reporting date. Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date.

Translation differences on investments and investment liabilities at fair value are presented under "Net unrealized gains" in the Consolidated Statement of Comprehensive Income. When an investment is sold or investment liability settled, the gain or loss on foreign currency translation is presented under "Net realized gains" in the Consolidated Statement of Comprehensive Income. Translation differences on other monetary financial assets and liabilities are included under "Net gains on financial instruments at fair value" in the Consolidated Statement of Comprehensive Income.

USE OF JUDGMENTS AND ESTIMATES

In preparing la Caisse's consolidated financial statements in accordance with IFRS, management must make judgments, estimates and assumptions that affect the application of the significant accounting policies described below and the amounts reported in the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income.

JUDGMENT

Qualification as an investment entity

Judgment is required when qualifying la Caisse as an investment entity. La Caisse meets the three mandatory criteria of the IFRS 10 definition: 1) Obtain funds from one or more depositors; 2) Commit to its depositors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and 3) Measure and evaluate the performance of its investments on a fair value basis.

IFRS 10 also suggests four typical characteristics be considered in assessing whether an entity qualifies as an investment entity: 1) Have more than one investment; 2) Have more than one depositor; 3) Have investors that are not related parties; and 4) Have ownership interests in the form of equity or similar interests. La Caisse does not satisfy the third typical characteristic of an investment entity because la Caisse and the depositors are related. However, la Caisse nonetheless qualifies as an investment entity, as management believes that having depositors related to the investment entity does not compromise la Caisse's mission of investing for returns from capital appreciation, investment income, or both, for its depositors.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fair value hierarchy of financial instruments

Management must use judgment in determining the significance of each input used when establishing the classification into the fair value hierarchy, as explained in Note 7.

Interests in entities

Management must use judgment in determining whether la Caisse has control, joint control or significant influence over certain entities, as explained in Note 17, and over the holding of interests in structured entities. Judgment on the relationship between la Caisse and any entity in which la Caisse holds an interest is exercised upon initial investment and must be reassessed when facts and circumstances indicate that there are one or more changes to the elements of control.

La Caisse holds interests in a structured entity when voting or similar rights are not the dominant factor in deciding who controls the entity.

La Caisse controls a subsidiary, including a structured entity, only if the IFRS 10 criteria are met: 1) It has decision-making authority regarding the entity's relevant activities; 2) It has exposure or rights to variable returns from its involvement with the entity; and 3) It has the ability to use its power to affect the amount of the returns. When management determines decision-making authority, several factors are taken into account, including the existence and effect of actual and potential voting rights held by la Caisse that are exercisable, the holding of instruments that are convertible into voting shares, the existence of contractual agreements through which the relevant activities of the entity can be directed, as well as other circumstances that affect decision-making.

La Caisse has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the entity. It is deemed to have significant influence when it holds 20% or more of the voting rights of an entity but does not have control or joint control. La Caisse has joint control over a joint venture when there is a contractual or implicit arrangement whereby decisions about relevant activities require the unanimous consent of the parties sharing control and when these parties have rights to the net assets of the arrangement.

ESTIMATES AND ASSUMPTIONS

The main estimates and assumptions, which are presented in Note 7, involve the fair value measurement of investments and investment liabilities classified in Level 3 of the fair value hierarchy. Actual values may differ from the estimated values.

FINANCIAL INSTRUMENTS

La Caisse's financial instruments include cash, amounts receivable from transactions being settled, advances to depositors, accrued and receivable investment income, investments, amounts payable on transactions being settled, other financial liabilities, investment liabilities and net assets attributable to depositors.

CLASSIFICATION AND MEASUREMENT

Financial instruments are classified by category based on their nature and characteristics. Management determines classification upon initial recognition, which is the acquisition date. All of la Caisse's financial instruments are designated at fair value through profit or loss and measured at fair value, except for derivative financial instruments and securities sold short, which must be classified as held for trading and are measured at fair value. Management elected to designate all other financial instruments at fair value through profit or loss given that these instruments are managed and their performance evaluated on a fair value basis.

Financial instruments are initially and subsequently recognized at fair value. Changes in the fair value of financial instruments are presented under "Net unrealized gains" in the Consolidated Statement of Comprehensive Income. Investment income and investment expense are presented under "Net investment income" in the Consolidated Statement of Comprehensive Income.

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. 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 financial instruments is obtained using quoted prices in 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 valuation techniques are applied consistently. Fair value information is provided in Note 7.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash

Cash is the cash deposited with recognized financial institutions and bears interest at market rates.

Investments

Investments include cash equivalents, fixed-income securities, variable-income securities, interests in unconsolidated subsidiaries and derivative financial instruments.

Cash equivalents include securities purchased under reverse repurchase agreements. These securities meet the definition of cash equivalents because they are used for cash management purposes, are readily convertible into a known amount of cash, have negligible risk of fair value changes and have initial maturities of three months or less. These financial instruments bear interest at market rates.

Fixed-income securities include short-term investments, securities purchased under reverse repurchase agreements, corporate receivables, bonds and asset-backed term notes (ABTNs). Purchases and sales of fixed-income securities are recorded at the transaction date.

Variable-income securities are comprised of the equities and convertible securities of public companies, private companies including investment funds, private investment funds and infrastructure funds, and hedge funds. Purchases and sales of equities, convertible securities and hedge funds are recorded at the transaction date, whereas purchases and sales of private investment funds and infrastructure funds are recorded at the settlement date.

Interests in unconsolidated subsidiaries represent la Caisse's investment in controlled entities that are not consolidated under IFRS 10. La Caisse's investment in these entities may be in the form of equity instruments or debt instruments.

Investment liabilities

Investment liabilities include securities sold under repurchase agreements, securities sold short, commercial paper payable, loans payable, term notes payable and derivative financial instruments.

Securities sold short are commitments made by la Caisse to purchase securities from third parties to cover its positions. La Caisse may short-sell equities and bonds.

Derivative financial instruments

In managing its investments, la Caisse conducts transactions involving various derivative financial instruments for discretionary purposes or to manage the risks associated with exchange rate, interest rate and market fluctuations. Derivative financial instruments whose fair value is favourable are presented under "Investments" in the Consolidated Statement of Financial Position, while those whose fair value is unfavourable are presented under "Investment liabilities" in the Consolidated Statement of Financial Position.

Transactions being settled

Transactions with counterparties for the sale or purchase of securities that have not yet been settled at the reporting date are presented respectively under "Amounts receivable from transactions being settled" and "Amounts payable on transactions being settled" in the Consolidated Statement of Financial Position.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

La Caisse derecognizes financial assets when all of the contractual rights to the assets have expired or when the contractual rights to receive the cash flows from the financial assets have been transferred and when la Caisse has transferred substantially all of the risks and rewards of the financial asset such that it no longer retains control over the asset. If la Caisse considers that it retains substantially all of the risks and rewards of a transferred financial asset, that asset is not derecognized from the Consolidated Statement of Financial Position and, if appropriate, a corresponding financial liability is recorded. Financial assets that have been transferred but not derecognized are presented in Note 14. Financial liabilities are derecognized when the related obligation is discharged, cancelled or expired.

Securities purchased under reverse repurchase agreements and sold under repurchase agreements

La Caisse enters into transactions to purchase and sell securities, i.e., short-term investments and bonds, that it agrees to resell to or repurchase from the counterparty at a future date.

The purchased securities are not recognized in the Consolidated Statement of Financial Position because the counterparty retains the risks and rewards of the securities. The cash amounts disbursed are derecognized, and a corresponding asset is recorded in investments under "Securities purchased under reverse repurchase agreements."

The sold securities are not derecognized from the Consolidated Statement of Financial Position because la Caisse retains the risks and rewards of the securities. The cash amounts received are recognized, and a corresponding liability is recorded in investment liabilities under "Securities sold under repurchase agreements."

The difference between the purchase price and the resale price as well as the difference between the sale price and the repurchase price are respectively recorded as interest income and interest expense calculated using the effective interest method and are presented under "Investment income" and "Investment expense" in the Consolidated Statement of Comprehensive Income.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

Lending and borrowing of securities

La Caisse conducts securities lending and borrowing transactions involving equities. These transactions are generally guaranteed by the securities received from the counterparties or pledged by la Caisse, respectively. Loaned securities are not derecognized from, and borrowed securities are not recognized in, the Consolidated Statement of Financial Position because la Caisse or the counterparty, respectively, retains the risks and rewards of the securities. Income and expenses resulting from securities lending and borrowing transactions are presented under "Investment income" and "Investment expense," respectively, in the Consolidated Statement of Comprehensive Income.

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Net assets attributable to depositors consist of demand deposits, term deposits, distributions payable to depositors and participation deposits.

Demand deposits and term deposits

Demand deposits bear interest at a variable rate and are repayable on demand. Term deposits bear interest at a fixed or variable rate and are repayable at maturity. Demand deposits and term deposits represent la Caisse's indebtedness towards the depositors in accordance with the *Regulation respecting the terms and conditions of deposits, funds and portfolios of the Caisse de dépôt et placement du Québec* (Regulation).

Distributions payable to depositors

Under the Regulation, distributions payable to depositors represent the net income or net loss arising from the specialized portfolios as well as the net realized gains or losses upon cancellation of the participation units of specialized portfolios held by the individual funds that are recorded at the end of the month and that are paid into the demand deposit accounts of depositors at the beginning of the following month. Distributions may also be made through the issuance of participation deposit units of individual funds.

Participation deposits

Participation deposits are expressed in participation units for each individual fund. Each participation unit gives the holder an interest in the fund's net assets. The per-unit value of the net assets is determined by dividing the individual fund's net assets by the number of outstanding units. Depositors can purchase or cancel participation deposit units at that value at the beginning of each month. The difference between the proceeds of cancellation and the carrying value at issuance is recovered in the depositor's demand deposit account. In addition, holders of participation deposit units are entitled to receive distributions. Participation deposit units are financial instruments defined as depositor's equity in the Regulation and are subordinate to all other categories of financial liabilities.

NET INCOME

DIVIDEND AND INTEREST INCOME AND EXPENSE

Dividend income is recognized when la Caisse obtains the right to the dividend, generally on the ex-dividend date. Distributions from funds are recognized as revenue on the settlement date. Dividend expense from equities sold short is recorded when the shareholders obtain the right to the dividend.

Interest income and expense are recorded using the effective interest method. Interest income and expense include the amortization of the premium or discount.

Dividend and interest income and expense are presented, respectively, under "Investment income" and "Investment expense" in the Consolidated Statement of Comprehensive Income.

EXTERNAL MANAGEMENT FEES

External management fees are amounts paid to external financial institutions, mainly institutional fund managers active in international stock markets, for the management of funds owned by la Caisse. The base fees and performance-related fees of external managers are presented under "Investment expense" and "Net realized gains," respectively, in the Consolidated Statement of Comprehensive Income.

INCOME TAX

Under federal and provincial income tax legislation, la Caisse is exempt from income tax in Canada. Income from foreign affiliates is subject to withholding taxes in certain countries. Withholding taxes are presented under "Net investment income" in the Consolidated Statement of Comprehensive Income.

OPERATING EXPENSES

Operating expenses consist of all the expenses incurred to manage and administer la Caisse's investments and are presented separately in the Consolidated Statement of Comprehensive Income.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE

When investments are sold, the realized gains and losses are determined on a first in, first out basis. Gains and losses realized on investments represent the difference between net realizable value and acquisition cost. Gains and losses realized on investment liabilities represent the difference between settlement value and value at initial recognition. Gains and losses realized on derivative financial instruments represent the payments and receipts on these financial instruments. Realized gains and losses are presented under “Net realized gains” in the Consolidated Statement of Comprehensive Income. Transaction costs directly attributable to the acquisition, sale and issuance of a financial instrument are presented under “Net realized gains” in the Consolidated Statement of Comprehensive Income. Transaction costs include commissions, stock exchange fees as well as professional and legal fees related to investing and financing activities.

Unrealized gains and losses include the net changes in the fair value of investments and investment liabilities for the year as well as the reversal of prior-year unrealized gains and losses that were realized during the year. Unrealized gains and losses are presented under “Net unrealized gains” in the Consolidated Statement of Comprehensive Income.

DISTRIBUTIONS TO DEPOSITORS

Under the Regulation, distributions to depositors consist of the annual net income or loss from the specialized portfolios as well as the net gains or losses realized on the cancellation of participation units of the specialized portfolios held by the individual funds. Distributions to depositors are recorded as finance costs and presented separately in the Consolidated Statement of Comprehensive Income.

03

NEW IFRS STANDARDS

ISSUED BUT NOT YET EFFECTIVE

IFRS 15 – Revenue from Contracts with Customers: Effective Date – January 1, 2018

In May 2014, the IASB issued a new standard, IFRS 15 – *Revenue from Contracts with Customers*, which will replace the current revenue recognition standards and interpretations. IFRS 15 provides a single comprehensive model to use when recognizing revenue arising from contracts with customers. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. This new standard is to be applied retrospectively as of its effective date. No impact is expected upon adoption, as interest income and dividends from financial instruments are excluded from the scope of IFRS 15.

IFRS 9 – Financial Instruments: Effective Date – January 1, 2018

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which will replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities as well as the impairment of financial assets and hedge accounting.

IFRS 9 provides a single model for financial asset classification and measurement that is based on contractual cash flow characteristics and on the business model for holding financial assets. With respect to measuring financial liabilities designated at fair value through profit or loss, the standard prescribes that fair value changes attributable to an entity’s own credit risk be accounted for in other comprehensive income unless such a treatment would create or increase an accounting mismatch in net income.

IFRS 9 also introduces a new impairment model for financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. As for the new hedge accounting model, it provides better alignment of hedge accounting with risk management activities.

The IASB has authorized early adoption of these new requirements. In general, this new standard is to be applied retrospectively as of its effective date. While the financial instrument accounting policy will be revised such that financial instruments are classified in accordance with IFRS 9, adoption of the standard is not expected to have any impact, as the financial instruments will continue to be measured at fair value through profit or loss.

IFRS 16 – Leases: Effective Date – January 1, 2019

In December 2015, the IASB issued a new standard, IFRS 16 – *Leases*, which will replace the current standard and interpretations on lease accounting. IFRS 16 establishes a single lease accounting model for lessees. Under this model, lessees recognize most leases on the Consolidated Statement of Financial Position. This new standard is to be applied retrospectively as of its effective date. The impact of adopting this standard is being examined.

04

INVESTMENTS AND INVESTMENT LIABILITIES

A) INVESTMENTS

The following tables present the fair values and costs of the investments. The geographic allocation is determined according to the country of the issuer's principal place of business. The 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:

	December 31, 2017			
	Canada	Foreign	Fair value	Cost
Investments				
Fixed-income securities				
Short-term investments	118	158	276	277
Securities purchased under reverse repurchase agreements	4,583	5,705	10,288	10,362
Corporate receivables	655	521	1,176	1,210
Bonds				
Governments	49,490	6,058	55,548	55,813
Government corporations and other public administrations	5,996	440	6,436	6,162
Corporate sector	12,260	6,320	18,580	18,238
Bond funds	–	1,551	1,551	1,502
Total fixed-income securities	73,102	20,753	93,855	93,564
Variable-income securities				
Equities and convertible securities				
Public companies	32,020	83,434	115,454	89,784
Private companies	3,332	11,863	15,195	12,742
Hedge funds	–	2,322	2,322	1,729
Total variable-income securities	35,352	97,619	132,971	104,255
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	17,518	26,210	43,728	25,194
Investments in real estate debt	11,991	–	11,991	11,682
Private equity investments	3,951	15,794	19,745	15,451
Infrastructure investments	1,138	10,301	11,439	9,373
Investments in fixed-income securities	3,405	6,696	10,101	10,124
Other investments	1,046	5,471	6,517	6,101
Total interests in unconsolidated subsidiaries	39,049	64,472	103,521	77,925
Derivative financial instruments (Note 6)	3	700	703	126
Total investments	147,506	183,544	331,050	275,870

INVESTMENTS AND INVESTMENT LIABILITIES (cont.)

	December 31, 2016			
	Canada	Foreign	Fair value	Cost
Investments				
Cash equivalents				
Securities purchased under reverse repurchase agreements	998	242	1,240	1,240
Total cash equivalents	998	242	1,240	1,240
Fixed-income securities				
Short-term investments	649	157	806	821
Securities purchased under reverse repurchase agreements	5,895	3,597	9,492	9,504
Corporate receivables	1,280	1,212	2,492	2,393
Bonds				
Governments	46,704	6,925	53,629	53,945
Government corporations and other public administrations	5,488	748	6,236	5,927
Corporate sector	11,410	6,612	18,022	17,328
Bond funds	–	1,292	1,292	1,000
ABTNs	3,970	–	3,970	4,057
Total fixed-income securities	75,396	20,543	95,939	94,975
Variable-income securities				
Equities and convertible securities				
Public companies	31,569	76,980	108,549	87,435
Private companies	1,898	11,395	13,293	11,721
Hedge funds	–	2,467	2,467	1,656
Total variable-income securities	33,467	90,842	124,309	100,812
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	18,292	23,055	41,347	23,316
Investments in real estate debt	11,559	–	11,559	11,223
Private equity investments	3,053	10,453	13,506	10,124
Infrastructure investments	1,121	10,379	11,500	9,533
Investments in fixed-income securities	762	3,279	4,041	3,923
Other investments	118	4,220	4,338	3,934
Total interests in unconsolidated subsidiaries	34,905	51,386	86,291	62,053
Derivative financial instruments (Note 6)	4	1,092	1,096	37
Total investments	144,770	164,105	308,875	259,117

EQUITIES IN GROWTH MARKETS

La Caisse has Qualified Foreign Institutional Investor status and obtained an investment quota to access the Chinese capital markets. Although la Caisse has a long-term investment strategy, it must meet the conditions set by the regulatory authorities in the event of a repatriation of invested capital. As at December 31, 2017, the fair value of investments in securities in China amount to \$2,466 million (\$1,353 million as at December 31, 2016).

INVESTMENTS AND INVESTMENT LIABILITIES (cont.)**B) INVESTMENT LIABILITIES**

The following tables present the fair values and costs of the 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:

	December 31, 2017			
	Canada	Foreign	Fair value	Cost
Investment liabilities				
Non-derivative financial liabilities				
Securities sold under repurchase agreements	12,430	3,542	15,972	16,060
Securities sold short				
Equities	384	224	608	451
Bonds	291	4,197	4,488	4,587
Commercial paper payable	4,556	–	4,556	4,601
Loans payable	129	235	364	366
Term notes payable	9,198	–	9,198	7,297
Total non-derivative financial liabilities	26,988	8,198	35,186	33,362
Derivative financial instruments (Note 6)	36	623	659	81
Total investment liabilities	27,024	8,821	35,845	33,443

	December 31, 2016			
	Canada	Foreign	Fair value	Cost
Investment liabilities				
Non-derivative financial liabilities				
Securities sold under repurchase agreements	15,548	6,007	21,555	21,568
Securities sold short				
Equities	321	9	330	241
Bonds	1,088	4,258	5,346	5,456
Commercial paper payable	4,813	–	4,813	4,750
Loans payable	–	189	189	190
Term notes payable	9,574	–	9,574	7,295
Total non-derivative financial liabilities	31,344	10,463	41,807	39,500
Derivative financial instruments (Note 6)	73	1,010	1,083	26
Total investment liabilities	31,417	11,473	42,890	39,526

05

ALLOCATION OF NET ASSETS ATTRIBUTABLE TO DEPOSITORS

The following table presents the allocation of net assets attributable to depositors according to la Caisse's total specialized portfolios offering:

	December 31, 2017	December 31, 2016
Fixed income		
Short Term Investments	1,892	6,157
Bonds ¹	–	68,075
Real Estate Debt ¹	–	11,553
Rates ¹	40,065	–
Credit ¹	50,645	–
Long Term Bonds	2,935	2,640
Real Return Bonds	1,187	1,087
	96,724	89,512
Real assets		
Infrastructure	16,177	14,640
Real Estate	34,260	31,721
	50,437	46,361
Equities		
Equity Markets	112,179	101,272
Private Equity	37,332	30,387
	149,511	131,659
Absolute return activities		
Asset Allocation	1,356	1,370
ABTN ²	–	241
Active Overlay Strategies	563	626
	1,919	2,237
Customized strategies of individual funds ³ and cash activities	(79)	977
Net assets attributable to depositors	298,512	270,746

1. On January 1, 2017, all of the financial assets and liabilities of the Bonds (760) and the Real Estate Debt (750) specialized portfolios were acquired at fair value by two new specialized portfolios, i.e., the Rates (765) and Credit (766) specialized portfolios.

2. On June 1, 2017, the ABTN (772) specialized portfolio was closed following collection on the portfolio's MAV 1 securities.

3. The customized strategies consist of direct holdings of derivative financial instruments by the individual funds for the customized management of the desired exposure by each depositor.

06

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates according to an underlying item, which require very little or no initial investment and are settled at a future date. The underlying item may be of a financial nature (interest rate, foreign currency or stock market security or index) or may be a commodity (precious metal, produce or oil). Certain derivative financial instruments are settled through clearing houses. La Caisse uses, among others, the derivative financial instruments described below.

Forward contracts are commitments that enable the purchase or sale of an underlying item, the quantity and price of which are determined in the contract, which includes a predetermined maturity date. Forward contracts have customized terms and conditions negotiated directly between the parties on the over-the-counter market. Futures contracts have terms and conditions determined by an exchange market.

Options are contracts traded on over-the-counter or exchange markets and that give the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity at a strike price stipulated in advance, either at a determined future date or at any time before a specified maturity date.

Swaps are derivatives traded on over-the-counter markets whereby two parties agree to exchange a series of cash flows according to predetermined conditions that include a notional amount, payment dates and a term to maturity.

Warrants are contracts traded on over-the-counter or exchange markets that enable the purchase of an underlying item, the price of which is determined in the contract, which includes a predetermined maturity date.

The notional amount is the amount to which a rate or price is applied to determine the amounts of cash flows to be exchanged periodically.

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

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

	December 31, 2017			December 31, 2016		
	Fair value		Notional amount	Fair value		Notional amount
	Assets	Liabilities		Assets	Liabilities	
Exchange markets						
Interest rate derivatives						
Futures contracts	–	–	119,618	–	–	67,694
Equity derivatives						
Futures contracts	–	–	22,909	–	–	14,518
Options	58	11	6,079	–	–	93
Warrants	3	–	10	5	–	19
Commodity derivatives						
Futures contracts	1	1	1,034	1	1	156
Options	1	–	27	6	1	275
Total exchange markets	63	12	149,677	12	2	82,755
Over-the-counter markets						
Interest rate derivatives						
Swaps	95	–	1,606	161	–	1,703
Swaps settled through a clearing house	–	–	49,951	–	–	52,067
Forward contracts	–	6	1,497	–	–	–
Options	2	–	18,794	–	–	–
Currency derivatives						
Swaps	5	38	662	94	64	1,192
Forward contracts ¹	288	329	41,189	605	674	66,169
Options	21	43	5,928	49	42	2,326
Credit default derivatives						
Swaps settled through a clearing house	–	–	11,642	–	–	2,548
Equity derivatives						
Swaps	197	213	15,420	175	301	11,530
Options	32	18	4,301	–	–	–
Warrants	–	–	9	–	–	3
Total over-the-counter markets	640	647	150,999	1,084	1,081	137,538
Total derivative financial instruments	703	659	300,676	1,096	1,083	220,293

1. When foreign exchange risk management transactions involve simultaneous use of the U.S. dollar and other currencies, the notional amount is presented on a gross basis. As at December 31, 2017, contracts involving simultaneous use of the U.S. dollar and other currencies total \$3,223 million (\$12,959 million as at December 31, 2016).

07

FAIR VALUE MEASUREMENT

A) POLICIES, DIRECTIVES, PROTOCOLS AND PROCEDURES RELATED TO FAIR VALUE MEASUREMENT

La Caisse's valuation procedures are governed by the Caisse Investment Valuation Policy, which is approved by the Board of Directors. This general policy is further supported by the valuation directive and the protocols that stipulate the valuation methodology for each type of investment held by la Caisse. The policy, directive and protocols also establish governance for the valuation and reporting process. Application of the policy is the responsibility of the Valuation Committee, which reports to the Executive Committee and is supported by a valuation team. The Valuation Committee approves compliance with the policy and the fair values on a semi-annual basis. Subsequently, the Valuation Committee recommends the fair values to the Audit Committee. For valuations of private investments, consisting of private equity investments and infrastructure investments as well as specialty finance, the policy provides for an external review, over a period of three years, of substantially all the fair value of these investments. An external review includes a valuation by independent valuers or an observation of comparable transactions in the market.

The policy also includes directives to be followed when using prices from external sources such as broker quotes and net asset values provided by external administrators of the funds or general partners.

When fair value is determined by external valuers or third parties, the Valuation Committee verifies the qualifications, experience and independence of these parties. It also reviews the valuation techniques, the significant inputs used in calculating fair value, and the results and conclusions to ensure that they are in compliance with recognized valuation standards.

In addition, to ensure the reasonableness of the fair value determined, la Caisse may conduct backtesting, compare the established fair value with values of comparable transactions, including the values of comparable public companies, and rely on the services of external valuers.

B) FAIR VALUE VALUATION TECHNIQUES

The following paragraphs describe the main valuation techniques used to measure la Caisse's financial instruments;

SHORT-TERM INVESTMENTS, SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS, SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, LOANS PAYABLE AND TERM NOTES PAYABLE

The fair value of these financial assets and liabilities is determined using a discounted cash flow technique that primarily uses observable inputs such as the interest rate curves and credit spreads that make up the discount rates.

CORPORATE RECEIVABLES

The fair value of corporate receivables is determined using a discounted cash flow technique that primarily uses observable and unobservable inputs such as the interest rate curves and credit spreads that make up the discount rates.

BONDS

The fair value of bonds, with the exception of bond funds, is determined using prices published by brokers in active markets for identical or similar instruments. The fair value of bonds that have no published prices is determined using either a discounted cash flow technique or broker quotes. Discounted future cash flow valuations use observable and unobservable inputs such as the interest rate curves and credit spreads that make up the discount rates. La Caisse may also use information about recent transactions carried out in the market for valuations of private company bonds.

ABTNs

As at December 31, 2017, la Caisse no longer holds any MAV 1 ABTNs following collection on the underlying securities of the ABTN (772) specialized portfolio on June 1, 2017. As at December 31, 2016, the fair value of the MAV 1 ABTNs is determined using the settlement amount received in January 2017, while the fair value of the other ABTNs is determined primarily using external valuations received from the administrator of the trusts and broker quotes produced by recognized financial models.

EQUITIES AND CONVERTIBLE SECURITIES

Public companies

The fair value of equities and convertible securities of public companies is determined based on closing prices observed on major stock exchanges, which represent the active market.

FAIR VALUE MEASUREMENT (cont.)

Private companies

The fair value of equities of private equity investment companies, with the exception of private investment funds, is primarily determined according to the comparable company multiples technique. La Caisse identifies comparable companies based on their industry, size, financial position and strategy and calculates an appropriate multiple for each comparable company identified. This technique uses observable and unobservable inputs such as earnings before interest, taxes, depreciation and amortization (EBITDA) multiples and price-to-book value ratios.

The fair value of equities of private infrastructure investment companies, with the exception of infrastructure investment funds, is primarily determined using a discounted cash flow technique. This technique uses observable and unobservable inputs such as discount rates that take into account the risk associated with the investment as well as future cash flows.

La Caisse may also use information about recent transactions carried out in the market for valuations of private equity investments and infrastructure investments.

Certain valuations of private companies are reviewed semi-annually by an independent external firm.

FUNDS

The fair value of bond funds, hedge funds, investment funds, private investment funds and infrastructure investment funds is determined using the net assets provided by the administrator or by the general partner, unless there is an indication that the fair value differs from the value of the net assets provided. La Caisse ensures that the valuation techniques used by the fund's administrator or general partner to determine the fair value of the net assets are in compliance with IFRS. Furthermore, the fair value of the net assets is adjusted to reflect purchases and sales of fund units between the fund's financial statement date and the valuation date when there are securities of publicly listed companies where the closing price is adjusted to the quoted price of the underlyings or when there are other indications requiring judgment to be made.

INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

The fair value of la Caisse's interests in various unconsolidated subsidiaries is determined using an enterprise valuation technique.

Investments in real estate holdings

The fair value resulting from the enterprise valuation technique is determined using a commonly used method, i.e., the comparable company multiples method, which is supported by observable and unobservable inputs such as the price-to-book value ratio. This value is determined annually by an independent external firm. Enterprise value attributed to equity instruments reflects, among other things, the fair value of the assets and liabilities held directly by these subsidiaries, which include investment property, other real estate investments, liabilities associated with investment property, as well as the fair value resulting from the quality of the portfolio and the integrated management of the platform of these subsidiaries.

The fair value of interests in the form of debt instruments in these subsidiaries is determined using a discounted cash flow technique, which is supported mainly by observable inputs such as the interest rates and credit spreads that make up the discount rates.

The fair value of investment property, which is measured according to the highest and best use, is determined and certified semi-annually by external, recognized and independent chartered real estate appraisers. Valuations are carried out in compliance with the valuation standards in effect in each market. The valuation techniques used are based primarily on two recognized methodologies, namely, the discounted cash flow technique and the capitalization of future cash flows. These techniques use observable and unobservable inputs such as lease terms and conditions, operating expenses, residual value and rates of return, discount rates and capitalization rates. Values observed for comparable transactions are used to determine the representative fair value range and support the fair value determined. The fair values of real estate investment funds and of public company equities included in other real estate investments are determined, respectively, based on the fair value provided by the general partner or the administrator and on the closing price observed on major stock exchanges. The fair value of financial liabilities associated with investment property is determined based on the discounted cash flow technique. This technique uses observable and unobservable inputs such as the interest rates and credit spreads that make up the discount rates.

Investments in real estate debt

Enterprise value reflects the fair value of the assets held directly by these subsidiaries, which primarily include commercial mortgages. The fair value of interests in the form of equity instruments in these subsidiaries corresponds to the net assets in the audited financial statements.

The fair value of interests in the form of debt instruments in these subsidiaries is determined using the discounted cash flow technique. This valuation primarily uses observable inputs such as the interest rates and credit spreads that make up the discount rates.

The fair value of commercial mortgages is determined using the discounted cash flow technique and are divided into risk categories, according to the loan-to-value ratio, for which an appropriate discount rate is determined. Commercial mortgage valuations are reviewed annually by an independent external firm.

FAIR VALUE MEASUREMENT (cont.)

Private equity investments, infrastructure investments, fixed-income security investments and other investments

Enterprise value reflects the fair value of assets held directly by these subsidiaries, which includes bonds, corporate receivables, equities of private companies, equities of public companies as well as funds whose valuation techniques are described above.

The fair value of interests in specialty finance activities included in fixed-income security investments is determined using an enterprise valuation technique. The valuation techniques used are based primarily on discounted cash flows and on the discounted residual value of assets determined by an independent external valuator. This technique uses observable and unobservable inputs.

La Caisse may also use information about recent transactions carried out in the market for valuations of these financial assets.

SECURITIES SOLD SHORT

The fair value of bonds and equities that are sold short is determined using the fair value of the security that is sold short. The techniques for valuing these securities have been described above.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is determined according to the type of derivative financial instrument. The fair value of derivative financial instruments traded on exchange markets and settled through a clearing house is determined, respectively, using the prices on major stock exchanges representing the active market and clearing house prices. The fair value of derivative financial instruments traded on over-the-counter markets is determined using recognized and commonly used valuation techniques such as the discounted cash flow technique or other financial models. These techniques require the development and use of assumptions that take into account observable and unobservable inputs such as the interest rate curves and credit spreads that make up the discount rates as well as foreign exchange rate curves, prices of the underlying, and volatility.

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Demand deposits

The fair value of demand deposits is determined based on their nominal value, as they are repayable at any time at the option of the issuer without penalty.

Term deposits and distributions payable to depositors

The fair value of term deposits and distributions payable to depositors is determined using the discounted cash flow technique. This valuation technique mainly uses observable inputs such as the interest rate curves and credit spreads that make up the discount rates.

Participation deposits

The fair value of depositor participation deposits stems from a valuation of all the financial assets and liabilities held by la Caisse.

C) FAIR VALUE HIERARCHY

La Caisse's financial instruments at fair value through profit or loss 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 quoted 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 MEASUREMENT (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 following tables present an allocation of the fair value of financial instruments into the three levels of the fair value hierarchy:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts receivable from transactions being settled	–	2,447	–	2,447
Advances to depositors	–	1,056	–	1,056
Investment income, accrued and receivable	–	1,395	–	1,395
Investments				
Short-term investments	–	276	–	276
Securities purchased under reverse repurchase agreements	–	10,288	–	10,288
Corporate receivables	–	522	654	1,176
Bonds	–	80,612	1,503	82,115
Equities and convertible securities				
Public companies	114,643	811	–	115,454
Private companies	–	279	14,916	15,195
Hedge funds	–	1,920	402	2,322
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	9,327	34,401	43,728
Investments in real estate debt	–	9,649	2,342	11,991
Private equity investments	–	169	19,576	19,745
Infrastructure investments	–	–	11,439	11,439
Investments in fixed-income securities	–	5,535	4,566	10,101
Other investments	–	4,935	1,582	6,517
Derivative financial instruments	59	642	2	703
	114,702	129,863	91,383	335,948
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	2,102	–	2,102
Other financial liabilities	–	691	–	691
Investment liabilities				
Securities sold under repurchase agreements	–	15,972	–	15,972
Securities sold short	602	4,488	6	5,096
Commercial paper payable	–	4,556	–	4,556
Loans payable	–	364	–	364
Term notes payable	–	9,198	–	9,198
Derivative financial instruments	12	617	30	659
	614	37,988	36	38,638
Net assets attributable to depositors				
Demand deposits	–	88	–	88
Term deposits	–	6	–	6
Distributions payable to depositors	–	1,975	–	1,975
Participation deposits	–	296,443	–	296,443
	–	298,512	–	298,512

TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY

During the year ended December 31, 2017, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of \$217 million were transferred from Level 1 to Level 2, of \$12 million from Level 2 to Level 1, of \$2,130 million from Level 2 to Level 3 and of \$395 million from Level 3 to Level 2.

FAIR VALUE MEASUREMENT (cont.)

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts receivable from transactions being settled	–	3,898	–	3,898
Advances to depositors	–	1,068	–	1,068
Investment income, accrued and receivable	–	1,173	–	1,173
Investments				
Cash equivalents	–	1,240	–	1,240
Short-term investments	–	806	–	806
Securities purchased under reverse repurchase agreements	–	9,492	–	9,492
Corporate receivables	–	2,484	8	2,492
Bonds	–	77,804	1,375	79,179
ABTNs	–	–	3,970	3,970
Equities and convertible securities				
Public companies	108,134	415	–	108,549
Private companies	–	187	13,106	13,293
Hedge funds	–	1,957	510	2,467
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	9,540	31,807	41,347
Investments in real estate debt	–	9,285	2,274	11,559
Private equity investments	–	383	13,123	13,506
Infrastructure investments	–	–	11,500	11,500
Investments in fixed-income securities	–	3,869	172	4,041
Other investments	–	3,219	1,119	4,338
Derivative financial instruments	2	1,094	–	1,096
	108,136	127,914	78,964	315,014
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	1,687	–	1,687
Other financial liabilities	–	536	–	536
Investment liabilities				
Securities sold under repurchase agreements	–	21,555	–	21,555
Securities sold short	321	5,346	9	5,676
Commercial paper payable	–	4,813	–	4,813
Loans payable	–	189	–	189
Term notes payable	–	9,574	–	9,574
Derivative financial instruments	1	1,010	72	1,083
	322	44,710	81	45,113
Net assets attributable to depositors				
Demand deposits	–	728	–	728
Term deposits	–	6	–	6
Distributions payable to depositors	–	1,373	–	1,373
Participation deposits	–	268,639	–	268,639
	–	270,746	–	270,746

TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY

During the year ended December 31, 2016, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of \$200 million were transferred from Level 3 to Level 2 and of \$683 million from Level 2 to Level 3.

FAIR VALUE MEASUREMENT (cont.)**D) 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 December 31, 2017 and as at December 31, 2016 are as follows:

								2017	
	Opening balance (assets / liabilities)	Gains (losses) recognized in compre- hensive income ²	Purchases	Sales	Settlements	Transfers	Closing balance (assets / liabilities)	Unrealized gains (losses) on financial instruments held at year-end ³	
Corporate receivables	8	12	351	(24)	(8)	315	654	13	
Bonds	1,375	(28)	289	(38)	(103)	8	1,503	(27)	
ABTNs	3,970	9	–	–	(3,979)	–	–	–	
Equities and convertible securities	13,616	683	4,347	(2,933)	–	(395)	15,318	954	
Interests in unconsolidated subsidiaries	59,995	3,748	15,011	(6,653)	–	1,805	73,906	3,884	
Derivative financial instruments ¹	(72)	(2)	–	(2)	46	2	(28)	(1)	
Securities sold short	(9)	1	2	–	–	–	(6)	2	

								2016	
	Opening balance (assets / liabilities)	Gains (losses) recognized in compre- hensive income ²	Purchases	Sales	Settlements	Transfers	Closing balance (assets / liabilities)	Unrealized gains (losses) on financial instruments held at year-end ³	
Short-term investments	2	2	–	(4)	–	–	–	–	
Corporate receivables	8	1	5	(6)	–	–	8	1	
Bonds	1,217	(13)	286	(5)	(110)	–	1,375	(9)	
ABTNs	4,612	40	–	–	(682)	–	3,970	(87)	
Equities and convertible securities	14,035	(85)	1,854	(2,421)	–	233	13,616	(368)	
Interests in unconsolidated subsidiaries	49,449	1,295	12,274	(3,273)	–	250	59,995	1,281	
Derivative financial instruments ¹	(49)	(23)	–	–	–	–	(72)	(23)	
Securities sold short	(21)	4	312	(304)	–	–	(9)	11	

1. Assets and liabilities related to derivative financial instruments are presented on a net basis.
2. Presented under "Net realized gains" and "Net unrealized gains" in the Consolidated Statement of Comprehensive Income.
3. Presented under "Net unrealized gains" in the Consolidated Statement of Comprehensive Income.

E) LEVEL 3: FAIR VALUE MEASUREMENT BASED ON REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS

In certain cases, the assumptions used in the valuation techniques are based on unobservable inputs or observable inputs adjusted significantly to reflect the characteristics specific to the financial instrument being measured. While la Caisse considers its fair value measurements to be appropriate, the use of reasonably possible alternative assumptions could result in different fair values. For a given measurement date, it is possible that other market participants could measure a same financial instrument at a different fair value, with the valuation techniques and inputs used by these market participants still meeting the definition of fair value. The fact that different fair value measurements exist reflects the judgment, estimates and assumptions applied as well as the uncertainty involved in determining the fair value of these financial instruments.

FAIR VALUE MEASUREMENT (cont.)

The following tables present 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 7f as well as those that are excluded from the analysis:

				December 31, 2017
	Fair value	Valuation techniques	Unobservable inputs	Range (weighted average)
Subject to the sensitivity analysis				
Corporate receivables	654	Discounted cash flows	Credit spreads	1.1% to 2.5% (2.0%)
Bonds	834	Discounted cash flows	Discount rates	8.0%
Equities of private companies				
Private equity investments	3,258	Comparable company multiples	EBITDA multiples	7.5 to 11.5 (9.6)
Infrastructure investments	3,318	Discounted cash flows	Discount rates	6.0% to 11.9% (10.5%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	34,401	Comparable company multiples	Price-to-book value ratios	1.06
		Discounted cash flows	Discount rates	4.8% to 13.3% (6.4%)
			Credit spreads	0.0% to 10.5% (1.7%)
		Capitalization of cash flows	Capitalization rates	4.1% to 11.6% (5.3%)
Private equity investments	7,353	Comparable company multiples	EBITDA multiples	7.5 to 13.0 (11.0)
Infrastructure investments	10,620	Discounted cash flows	Discount rates	6.8% to 12.5% (8.8%)
		Comparable company multiples	EBITDA multiples	10.8
Investments in fixed-income securities	3,404	Discounted cash flows	Credit spreads	1.0% to 9.2% (4.5%)
	63,842			
Excluded from the sensitivity analysis				
Financial instruments ¹	27,505	Recent transactions ²	n.a.	n.a.
		Broker quotes ³	n.a.	n.a.
		Net asset value ³	n.a.	n.a.
Net financial instruments classified in Level 3	91,347			

n.a.: not applicable

- The fair value of the financial instruments presented in this item includes bonds, equities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.
- 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.
- 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.

FAIR VALUE MEASUREMENT (cont.)

				December 31, 2016
	Fair value	Valuation techniques	Unobservable inputs	Range (weighted average)
Subject to the sensitivity analysis				
Bonds	864	Discounted cash flows	Discount rates	8.3% to 8.5% (8.4%)
Equities of private companies				
Private equity investments	2,137	Comparable company multiples	EBITDA multiples	5.4 to 11.1 (8.5)
Infrastructure investments	2,152	Discounted cash flows	Discount rates	6.5% to 13.0% (10.5%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	31,807	Comparable company multiples	Price-to-book value ratios	1.06
		Discounted cash flows	Discount rates	4.9% to 14.0% (6.5%)
			Credit spreads	0.0% to 12.5% (1.9%)
		Capitalization of cash flows	Capitalization rates	4.1% to 11.3% (5.3%)
Private equity investments	5,345	Comparable company multiples	EBITDA multiples	6.5 to 11.0 (9.7)
Infrastructure investments	10,145	Discounted cash flows	Discount rates	8.0% to 13.6% (8.9%)
	52,450			
Excluded from the sensitivity analysis				
Financial instruments ¹	26,433	Recent transactions ²	n.a.	n.a.
		Broker quotes ³	n.a.	n.a.
		Net asset value ³	n.a.	n.a.
Net financial instruments classified in Level 3				
	78,883			

n.a.: not applicable

- The fair value of the financial instruments presented in this item includes corporate receivables, bonds, ABTNs, equities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.
- 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.
- 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.

FAIR VALUE MEASUREMENT (cont.)

F) 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 presented in the preceding tables of Note 7e. La Caisse identified reasonably possible alternative assumptions using its judgment and knowledge of the markets. The following table shows the increase and decrease 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:

	December 31, 2017		December 31, 2016	
	Increase	Decrease	Increase	Decrease
Sensitivity of fair value	4,153	(3,871)	3,508	(3,118)

As at December 31, 2017, the fair value sensitivity analysis above shows an increase in fair value of \$2,445 million (\$2,255 million as at December 31, 2016) and a decrease in fair value of \$2,236 million (\$2,043 million as at December 31, 2016) attributable to investments in real estate holdings.

A correlation between unobservable inputs and the determination of fair value exists. Therefore, an increase (decrease) in discount rates, credit spreads and capitalization rates 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.

08

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset and a financial liability must be offset in the Consolidated Statement of Financial Position when La Caisse has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the financial asset and settle the financial liability simultaneously with the counterparty. La Caisse has a legally enforceable right of set-off when this right is exercisable in the normal course of business and in the event of default, insolvency or bankruptcy.

Amounts receivable from and amounts payable on transactions being settled, securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and derivative financial instruments traded on over-the-counter markets in accordance with agreements of the *International Swaps and Derivatives Association* (ISDA) are subject to master netting agreements that do not meet the criteria for offsetting in the Consolidated Statement of Financial Position as they give a right of set-off that is enforceable only in the event of default, insolvency or bankruptcy.

Derivative financial instruments traded on exchange markets as well as those settled by clearing houses through brokers satisfy offsetting criteria.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont.)

The following tables present information about financial assets and liabilities that are offset and not offset in the Consolidated Statement of Financial Position and that are subject to master netting agreements or similar arrangements:

December 31, 2017						
	Gross amounts recognized	Amounts offset	Net amounts presented in the Consolidated Statement of Financial Position ¹	Amounts subject to master netting agreements	Collateral received/ pledged ²	Net amounts
Financial assets						
Amounts receivable from transactions being settled	2,447	–	2,447	(670)	–	1,777
Securities purchased under reverse repurchase agreements	10,288	–	10,288	(5,508)	(4,763)	17
Derivative financial instruments ³	753	(26)	727	(426)	(128)	173
	13,488	(26)	13,462	(6,604)	(4,891)	1,967
Financial liabilities						
Amounts payable on transactions being settled	2,102	–	2,102	(1,458)	–	644
Securities sold under repurchase agreements	15,972	–	15,972	(4,720)	(11,246)	6
Derivative financial instruments ³	697	(26)	671	(426)	(212)	33
	18,771	(26)	18,745	(6,604)	(11,458)	683

December 31, 2016						
	Gross amounts recognized	Amounts offset	Net amounts presented in the Consolidated Statement of Financial Position ¹	Amounts subject to master netting agreements	Collateral received/ pledged ²	Net amounts
Financial assets						
Amounts receivable from transactions being settled	3,898	–	3,898	(1,263)	–	2,635
Securities purchased under reverse repurchase agreements	10,732	–	10,732	(6,902)	(3,826)	4
Derivative financial instruments ³	1,113	(1)	1,112	(641)	(168)	303
	15,743	(1)	15,742	(8,806)	(3,994)	2,942
Financial liabilities						
Amounts payable on transactions being settled	1,687	–	1,687	(1,263)	–	424
Securities sold under repurchase agreements	21,555	–	21,555	(6,902)	(14,650)	3
Derivative financial instruments ³	1,094	(1)	1,093	(641)	(339)	113
	24,336	(1)	24,335	(8,806)	(14,989)	540

1. Net amounts presented in the Consolidated Statement of Financial Position or in Notes 4a and 4b.

2. The financial collateral received or pledged cannot include a net amount per counterparty of less than zero. The total amounts of financial collateral received or pledged are presented in Note 15.

3. The amounts presented in this item include amounts receivable and payable related to derivative financial instruments presented, respectively, under "Investment income, accrued and receivable" and "Other financial liabilities".

09

NET INVESTMENT INCOME

The following table presents the investment income and expense of the financial instruments at fair value through profit or loss:

	2017			2016		
	Dividend income (expense)	Interest income (expense)	Net investment income	Dividend income (expense)	Interest income (expense)	Net investment income
Cash management activities	–	17	17	–	10	10
Investing activities						
Short-term investments	–	15	15	–	16	16
Securities purchased under reverse repurchase agreements	–	43	43	–	30	30
Corporate receivables		51	51	–	90	90
Bonds		2,102	2,102	–	1,874	1,874
ABTNs		5	5	–	134	134
Equities and convertible securities	4,226	7	4,233	4,081	15	4,096
Interests in unconsolidated subsidiaries	2,204	839	3,043	2,557	833	3,390
	6,430	3,079	9,509	6,638	3,002	9,640
Other			67			42
Total investment income			9,576			9,682
Investment liability activities						
Securities sold under repurchase agreements	–	(115)	(115)	–	(94)	(94)
Securities sold short	(17)	(48)	(65)	(23)	(69)	(92)
Financing activities						
Commercial paper payable	–	(58)	(58)	–	(34)	(34)
Loans payable	–	(2)	(2)	–	–	–
Term notes payable	–	(356)	(356)	–	(364)	(364)
	(17)	(579)	(596)	(23)	(561)	(584)
Other expenses						
External management fees			(54)			(35)
Total investment expense			(650)			(619)
Net investment income			8,926			9,063

10

NET INVESTMENT RESULT BEFORE DISTRIBUTIONS TO DEPOSITORS

The following table presents the net investment income, net realized gains (losses) and net unrealized gains (losses) on financial instruments at fair value through profit or loss as well as operating expenses:

	2017				2016			
	Net investment income (Note 9)	Net realized gains (losses)	Net unrealized gains (losses)	Total	Net investment Income (Note 9)	Net realized gains (losses)	Net unrealized gains (losses)	Total
Cash management activities	17	4	–	21	10	(7)	–	3
Investing activities								
Short-term investments	15	(28)	14	1	16	(2)	(6)	8
Securities purchased under reverse repurchase agreements	43	(177)	(62)	(196)	30	61	(18)	73
Corporate receivables	51	(23)	(133)	(105)	90	45	(94)	41
Bonds	2,102	158	(579)	1,681	1,874	1,693	(2,056)	1,511
ABTNs	5	(78)	87	14	134	(4)	48	178
Equities and convertible securities	4,233	7,763	5,219	17,215	4,096	8,473	(977)	11,592
Interests in unconsolidated subsidiaries	3,043	1,549	1,358	5,950	3,390	147	878	4,415
Net derivative financial instruments	–	(2)	(3)	(5)	–	31	1,416	1,447
Other	67	(55)	–	12	42	(176)	–	(134)
	9,576	9,111	5,901	24,588	9,682	10,261	(809)	19,134
Investment liability activities								
Securities sold under repurchase agreements	(115)	443	75	403	(94)	(38)	21	(111)
Securities sold short	(65)	279	(79)	135	(92)	(600)	678	(14)
Financing activities								
Commercial paper payable	(58)	150	108	200	(34)	61	43	70
Loans payable	(2)	10	1	9	–	12	1	13
Term notes payable	(356)	–	378	22	(364)	–	327	(37)
Other								
External management fees	(54)	(32)	–	(86)	(35)	(3)	–	(38)
Transaction costs	–	(139)	–	(139)	–	(137)	–	(137)
	(650)	711	483	544	(619)	(705)	1,070	(254)
	8,926	9,822	6,384	25,132	9,063	9,556	261	18,880
Operating expenses (Note 11)				(536)				(463)
Net investment result before distributions to depositors				24,596				18,417

11

OPERATING EXPENSES

The following table presents the operating expenses:

	2017	2016
Salaries and employee benefits	331	284
Information technology and professional services	64	53
Maintenance, equipment and amortization	54	50
Data services and subscriptions	21	18
Rent	18	16
Other expenses	32	27
	520	448
Safekeeping of securities	16	15
	536	463

12

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, la Caisse has implemented various policies, directives and procedures to oversee the management of the risks relating to its operations.

The integrated risk management policy is adopted by la Caisse's Board of Directors. The purpose of this policy is to promote rigorous risk management culture and practices that help la Caisse carry out its mission on behalf of its depositors. The integrated risk management policy defines market risk, concentration risk, credit risk, the counterparty risk associated with derivative financial instruments, and financing-liquidity risk.

Specifically, this policy aims to:

- Establish the guiding principles that support la Caisse's integrated risk management framework and promote a sound risk management culture at all levels of the organization;
- Set out the risk management model and governance structure;
- Define the roles and responsibilities of stakeholders;
- Establish oversight of the main risks to which la Caisse is exposed.

La Caisse's governance and risk management are based on the following twelve guiding principles:

- A risk tolerance framework;
- The roles of the Board of Directors and senior executives;
- A client-centric approach that focuses on the needs of depositors;
- A long-term investment strategy;
- Liquidity and financing management;
- In-depth knowledge of assets and markets;
- Independent functions and stakeholder accountability;
- Collaboration for comprehensive risk management;
- Operational excellence;
- Use of derivative financial instruments and counterparty risk management;
- Oversight of new investment activities and new financial instruments;
- A responsible investment framework.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

The levels of control and parties responsible for risk management governance are as follows:

1. Investment groups have the primary responsibility for managing the risks related to their operations;
2. Independent teams and internal committees are responsible for supporting investment group employees and setting appropriate control mechanisms;
3. The Board of Directors and its committees ensure a management framework is adopted, and the Internal Audit group ensures execution and compliance with the established risk management framework.

The integrated risk management policy sets out risk limits and authorization levels for la Caisse as a whole as well as limits applicable to cross-functional activities. In addition, la Caisse develops and periodically reviews the specialized portfolio investment policies that are designed to oversee the work of the specialized portfolio managers. A separate investment policy sets out investment strategy, management style, eligible investments, target returns, benchmark index, as well as concentration and risk limits.

Furthermore, each investment group must adopt an investment strategy. SIP seeks to strengthen the decision-making process by achieving a better matching of return to risk when choosing investments. SIP sets future directions, strengthens the collaboration and information sharing processes required to make strategic investment decisions and ensures a better alignment between the directions and strategies. The SIP process is conducted annually and includes the following steps: 1) Diagnostic and strategic directions; 2) Strategic plans; 3) Review and approval and 4) Execution and accountability. Investment plans are presented to the Investment-Risk Committee (IRC) for approval and are communicated to the Executive Committee and Board of Directors.

La Caisse is exposed to various financial risks. Detailed information regarding these risks is 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 based mainly on the assumption that the future will be similar to the past. It requires that historical data series on all the risk factors needed to estimate the returns on financial instruments be available. In the absence of historical data, alternative methods are used.

The calculation results obtained by applying this methodology do not make it possible to estimate the amount of loss, based on a specific event, that would be incurred by la Caisse's portfolio if this event re-occurred. For example, if future conditions and market risk factors were substantially different from past economic conditions, actual losses could differ substantially from estimated losses. Moreover, these estimates at a given date do not take into account all possible losses resulting from exceptional market events or losses that could arise over and above the 95% confidence level. Consequently, in light of these limitations, the losses for la Caisse's actual portfolio could exceed the estimates.

A history of 3,000 days of observation of risk factors is used to measure the volatility of returns and the correlation between the return of financial instruments. Moreover, due to the methodology, the effects on the portfolio of the worst events seen over a one-month horizon are repeated several times during the year.

In 2017, la Caisse revised its method for calculating VaR as well as its history of 2,500 days of observation. A history of 3,000 days of observation of risk factors is now used to measure the volatility of returns and the correlation between the return of financial instruments, and a 95% confidence level is used instead of a 99% confidence level. Moreover, with this new methodology, the effects on the portfolio of the worst events seen over a one-month horizon, rather than a one-week horizon, are repeated several times during the year. The comparative VaR as at December 31, 2016 was recalculated to reflect these changes.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

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 a history of 3,000 days, are as follows:

	December 31, 2017			December 31, 2016		
	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	13.4	13.6	0.99	13.4	13.4	1.00

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 financial instrument impairment 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.

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 compared to its equilibrium value according to the valuation models. Dynamic hedging should therefore be infrequent, but the duration of the hedge, being unforeseeable, may vary widely and last from a few weeks to several months. Certain specialized portfolios may therefore be partially hedged against foreign exchange risk.

When managing currency risk, la Caisse uses derivative financial instruments to manage its exposure to currencies. 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 derivative financial instruments, 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:

	December 31, 2017 %	December 31, 2016 %
Canadian dollar	51	63
U.S. dollar	23	17
Euro	7	4
Pound sterling	3	2
Yen	2	2
Australian dollar	2	1
Other	12	11
	100	100

RISK IDENTIFICATION AND MANAGEMENT (cont.)

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 that it manages. The integrated risk management policy sets out exposure limits according to category of financial instrument, 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 governments of Canada, Québec or other Canadian provinces or territories, as well as by their ministries and agencies, which are not subject to concentration limits. Sovereign issuers rated AAA are also excluded from this concentration limit. Concentration by issuer is monitored monthly or upon initiation of a transaction requiring approval of the IRC or the Board of Directors, as appropriate.

The following table presents 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:

	December 31, 2017 %	December 31, 2016 %
Canada	42	41
United States	28	31
Europe	13	13
Growth markets	11	10
Other	6	5
	100	100

RISK IDENTIFICATION AND MANAGEMENT (cont.)

The following table presents 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:

	December 31, 2017 %	December 31, 2016 %
Industry sector		
Real estate	18	18
Financials	10	10
Industrials	9	8
Consumer discretionary	7	6
Information technology	6	6
Energy	5	6
Consumer staples	5	5
Utilities	4	5
Real estate debt	4	4
Health care	4	4
Materials	3	2
Telecommunication services	2	2
Other	3	3
Government sector		
Government of Canada	8	7
Government of Québec	5	5
Government corporations and other public administrations in Québec	2	2
Other	5	7
	100	100

RISK IDENTIFICATION AND MANAGEMENT (cont.)**CREDIT RISK**

Credit risk is the possibility of incurring a loss in value should a borrower, endorser, or guarantor experience a deterioration its 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 presents the maximum exposure to credit risk:

	December 31, 2017	December 31, 2016
Cash	947	651
Amounts receivable from transactions being settled	2,447	3,898
Advances to depositors	1,056	1,068
Investment income, accrued and receivable	1,395	1,173
Investments		
Cash equivalents	–	1,240
Fixed-income securities	93,855	95,939
Interests in unconsolidated subsidiaries in the form of debt instruments	22,159	22,518
Derivative financial instruments	703	1,096
	122,562	127,583
Other items		
Guarantees (Note 19)	1,178	757
ABTN funding facility (Note 19)	–	6,167
	1,178	6,924
	123,740	134,507

La Caisse enters into master netting agreements (Note 8), receives guarantees (Note 15) and may also use derivative financial instruments such as credit default swaps, to reduce its total credit risk exposure.

In addition, to manage credit risk, la Caisse closely monitors changes in the credit cycle of issuers and uses a credit VaR to calculate the potential financial loss related to possible changes in the credit quality of issuers of fixed-income securities.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

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 presents 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:

	December 31, 2017 %	December 31, 2016 %
Credit rating		
AAA – AA	37	43
A	34	37
BBB	11	9
BB or lower	14	8
No credit rating	4	3
	100	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.

COUNTERPARTY RISK RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

Certain over-the-counter derivative financial instruments give rise to counterparty risk because they are negotiated by contract without being traded or settled through a clearing house. Counterparty risk related to derivative financial instruments is the credit risk created by current or potential exposures arising from derivative financial instrument transactions where the counterparty becomes unable to honour the terms of the contracts.

To limit its exposure to the counterparty risk arising from transactions involving over-the-counter derivative financial instruments, la Caisse carries out transactions with financial institutions in accordance with management's criteria regarding the quality of the issuer. Moreover, la Caisse enters into legal agreements based on ISDA standards under which it benefits from the compensating effects between at-risk amounts and the collateral exchanged in order to limit its net exposure to this risk.

This risk is measured by counterparty, pursuant to the applicable legal agreement, from which it is possible to calculate the net exposure created by all of the over-the-counter derivative financial instruments and collateral exchanged. Actual exposure to counterparty risk is measured on a daily basis, whereas potential exposure to counterparty risk is measured on a monthly basis.

As at December 31, 2017, the legal agreements and the collateral received helped reduce exposure to the counterparty risk of over-the-counter derivative financial instruments. The maximum exposure to this risk is \$138 million (\$244 million as at December 31, 2016) related to 29 counterparties (31 counterparties as at December 31, 2016).

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 on 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 resort to a credit facility, issue commercial paper and term notes payable to meet its contractual commitments and financial obligations. As at December 31, 2017, la Caisse has close to \$47 billion in liquidity (\$43 billion as at December 31, 2016).

Furthermore, to manage liquidity risk, la Caisse conducts simulations of scenarios over different horizons and examines events that could lead to a liquidity crisis.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

An analysis of undiscounted contractual cash flows of financial liabilities, presented 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 present the maturities of the undiscounted contractual cash flows of non-derivative financial liabilities, derivative financial instruments and other items:

	December 31, 2017				
	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts payable on transactions being settled	–	(2,102)	–	–	(2,102)
Other financial liabilities	–	(576)	–	–	(576)
Investment liabilities					
Securities sold under repurchase agreements	–	(15,977)	–	–	(15,977)
Securities sold short	–	(654)	(3,043)	(1,842)	(5,539)
Commercial paper payable	–	(4,567)	–	–	(4,567)
Loans payable	–	(364)	–	–	(364)
Term notes payable	–	(348)	(5,298)	(5,499)	(11,145)
Net assets attributable to depositors					
Demand and term deposits	(88)	(6)	–	–	(94)
Distributions payable to depositors	–	(1,975)	–	–	(1,975)
	(88)	(26,569)	(8,341)	(7,341)	(42,339)
Derivative financial instruments					
Derivative instruments with net settlement	–	(1,400)	(1)	75	(1,326)
Derivative instruments with gross settlement					
Contractual cash flows receivable	–	44,289	213	594	45,096
Contractual cash flows payable	–	(44,330)	(228)	(605)	(45,163)
	–	(1,441)	(16)	64	(1,393)
Other items					
Commitments (Note 19)	(50)	(19,296)	(124)	(386)	(19,856)
Guarantees (Note 19)	–	(36)	(7)	(1,135)	(1,178)
	(50)	(19,332)	(131)	(1,521)	(21,034)
	(138)	(47,342)	(8,488)	(8,798)	(64,766)

RISK IDENTIFICATION AND MANAGEMENT (cont.)

	December 31, 2016				
	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts payable on transactions being settled	–	(1,687)	–	–	(1,687)
Other financial liabilities	–	(408)	–	–	(408)
Investment liabilities					
Securities sold under repurchase agreements	–	(21,563)	–	–	(21,563)
Securities sold short	–	(418)	(2,047)	(4,088)	(6,553)
Commercial paper payable	–	(4,822)	–	–	(4,822)
Loans payable	–	(189)	–	–	(189)
Term notes payable	–	(364)	(5,578)	(5,457)	(11,399)
Net assets attributable to depositors					
Demand and term deposits	(728)	(6)	–	–	(734)
Distributions payable to depositors	–	(1,373)	–	–	(1,373)
	(728)	(30,830)	(7,625)	(9,545)	(48,728)
Derivative financial instruments					
Derivative instruments with net settlement	–	(29)	12	83	66
Derivative instruments with gross settlement					
Contractual cash flows receivable	–	67,923	300	1,062	69,285
Contractual cash flows payable	–	(68,000)	(287)	(1,038)	(69,325)
	–	(106)	25	107	26
Other items					
Commitments (Note 19)	(61)	(15,843)	(355)	(49)	(16,308)
Guarantees (Note 19)	–	–	(7)	(750)	(757)
ABTN funding facility (Note 19)	–	(6,167)	–	–	(6,167)
	(61)	(22,010)	(362)	(799)	(23,232)
	(789)	(52,946)	(7,962)	(10,237)	(71,934)

Moreover, concerning net assets attributable to holders of participation deposits, the Regulation sets 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 \$15 million plus the proceeds of \$2 million multiplied by the number of months that have elapsed since receipt of the notice of withdrawal. 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.

RISK IDENTIFICATION AND MANAGEMENT (cont.)**FINANCING-LIQUIDITY RISK**

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

				December 31, 2017
	Currency	Nominal value ¹	Maturity	Effective interest rate %
Loans payable	USD	364	Less than one year	1.37
		364		
Commercial paper payable	CAD	1,000	Less than one year	1.12
	USD	3,571	Less than one year	1.53
		4,571		
Term notes payable	USD	2,193	November 2019	4.40
	EUR	1,128	June 2020	3.50
	CAD	1,000	July 2020	4.60
	USD	2,506	July 2024	3.15
	USD	1,566	November 2039	5.60
		8,393		

				December 31, 2016
	Currency	Nominal value ¹	Maturity	Effective interest rate %
Loans payable	USD	189	Less than one year	0.62
		189		
Commercial paper payable	CAD	1,000	Less than one year	0.65
	USD	3,822	Less than one year	1.12
		4,822		
Term notes payable	USD	2,347	November 2019	4.40
	EUR	1,061	June 2020	3.50
	CAD	1,000	July 2020	4.60
	USD	2,682	July 2024	3.15
	USD	1,676	November 2039	5.60
		8,766		

1. The reported amounts have been converted into Canadian dollars.

Loans payable are repayable at maturity.

Commercial paper payable is issued at a discount, at fixed rates, with maturities not exceeding 12 months. The nominal value for all outstanding commercial paper may never exceed CA\$3 billion and US\$5 billion in accordance with the limit prescribed in the commercial paper issuance information document.

Term notes payable are issued at a discount, or at par, and are repayable at maturity and secured by la Caisse's assets. Certain interest-bearing fixed-rate term notes have an optional prepayment clause at the option of the issuer.

Furthermore, during the year ended December 31, 2017, la Caisse arranged a CA\$5 billion credit facility in two tranches of US\$2 billion that are renewable after two and three years, respectively. The credit facility bears interest at a variable rate and is entirely secured, fully and unconditionally, by la Caisse. As at December 31, 2017, no amount has been drawn on this credit facility.

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CAPITAL MANAGEMENT

La Caisse defines its capital as net assets attributable to depositors. La Caisse's capital may fluctuate according to depositor demands for cancellation and issuance of participation deposit units and for deposits and withdrawals of demand and term deposits. La Caisse's capital management objective is to invest contributions and deposits in the best interests of the depositors in accordance with the Act in order to achieve an optimal return while respecting the depositor investment policies.

La Caisse is not subject to external capital requirements.

Furthermore, la Caisse's objective is to maintain its AAA credit rating to ensure access to capital markets at the best cost through its CDP Financial Inc. subsidiary. Consequently, the Board of Directors has limited the amount of notes that la Caisse may issue on capital markets to 10% of its net assets attributable to depositors, to which is added the fair value of outstanding notes (adjusted net assets).

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FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

La Caisse enters into securities lending and borrowing transactions as well as securities repurchase agreements whereby it transfers financial assets to counterparties. The transferred securities do not meet derecognition criteria since la Caisse retains most of the risks such as credit risk, interest rate risk, currency risk, and price risk, as well as most of the related rewards such as cash flows.

The following table presents the fair values of the financial assets transferred but not derecognized from the Consolidated Statement of Financial Position as well as the fair values of the associated liabilities:

	December 31, 2017	December 31, 2016
Financial assets transferred but not derecognized		
Bonds	16,143	21,717
Equities	9,935	6,314
	26,078	28,031
Associated financial liabilities		
Loans payable ¹	239	189
Securities sold under repurchase agreements	15,972	21,555
	16,211	21,744

1. The amount presented corresponds to cash received as collateral on securities lending transactions.

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GUARANTEES

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of business, la Caisse pledges financial assets as collateral for transactions involving securities borrowings, securities sold under repurchase agreements and derivative financial instruments. The counterparties are authorized, by way of legal contract or market practices, to either sell or repledge these securities as collateral. On certain conditions, la Caisse may have to pledge additional collateral if the pledged securities lose value.

The following table presents the fair value of collateral pledged by la Caisse according to transaction type:

	December 31, 2017	December 31, 2016
Securities borrowing	157	81
Securities sold under repurchase agreements	15,986	21,636
Exchange-traded derivative financial instruments	1,092	810
Over-the-counter derivative financial instruments	648	1,097
	17,883	23,624

FINANCIAL ASSETS RECEIVED AS COLLATERAL

La Caisse receives financial assets as collateral for transactions involving securities lending, securities purchased under reverse repurchase agreements and derivative financial instruments. If the fair value of the collateral received decreases, la Caisse may, in certain cases, request additional collateral. La Caisse is authorized to sell or repledge as collateral certain securities in the absence of default by the counterparty. However, no security received as collateral was sold or repledged as collateral for the years ended December 31, 2017 and 2016.

The following table presents the fair value of collateral received by la Caisse according to transaction type:

	December 31, 2017	December 31, 2016
Securities lending	9,740	6,481
Securities purchased under reverse repurchase agreements	9,496	10,787
Over-the-counter derivative financial instruments	40	125
	19,276	17,393

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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. These bonds are included in the "Governments" and "Government corporations and other public administrations" bond categories of Note 4a. In addition, la Caisse discloses information on the Government Sector category in the "Government of Québec" and "Government corporations and other public administrations in Québec" items of Note 12.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

La Caisse's key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly. These persons are the members of the Board of Directors, the President and Chief Executive Officer, and key members of the Executive Committee.

The following table presents the compensation of la Caisse's key management personnel:

	2017	2016
Salaries and other short-term employee benefits	8	9
Post-employment benefits	1	2
Other long-term employee benefits	6	6
	15	17

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INTERESTS IN OTHER ENTITIES**SUBSIDIARIES****CONSOLIDATED SUBSIDIARY**

CDP Financial Inc. is a wholly owned subsidiary that issues debt securities in order to finance la Caisse's investments at an optimal financing cost.

UNCONSOLIDATED SUBSIDIARIES

The subsidiaries presented in this category are entities controlled by la Caisse either directly or indirectly through subsidiaries in accordance with the criteria in IFRS 10.

INTERMEDIATE SUBSIDIARIES

As part of certain investment activities, la Caisse may use intermediate subsidiaries whose sole purpose is to hold investments for la Caisse. They are therefore not included in the information presented in the following tables, while the main underlying ownership interests in subsidiaries, joint ventures, associates and non-controlled structured entities are presented.

INTERESTS IN OTHER ENTITIES (cont.)

The following table presents the ownership interests held in the main consolidated and unconsolidated subsidiaries as at December 31, 2017 as well as the comparative ownership interests as at December 31, 2016:

	Principal place of business	December 31, 2017 Ownership interest %	December 31, 2016 Ownership interest %
Consolidated subsidiary			
CDP Financial Inc	Canada	100.0	100.0
Unconsolidated subsidiaries			
Real estate debt			
Otéra Capital Inc ¹	Canada	97.5	97.5
Energy			
Trencap LP (Énergir) ²	Canada	64.7	59.6
Hedge funds			
AIM Quantitative Global SF II Ltd	United States ⁸	100.0	100.0
AlphaQuest Original Ltd	United States ⁸	100.0	100.0
CDP WTN Diversified Strategy Fund Limited	United Kingdom ⁸	100.0	100.0
Dorsal Capital Partners LP	United States	–	100.0
Ionic Pamli Global Credit Strategies Fund	United States ⁸	100.0	100.0
JMFFO Ltd	United States ⁸	100.0	–
Kildonan Quebec Fund Ltd	United States ⁸	100.0	–
Newport Mount Royal Opportunity Fund Ltd	United States ⁸	100.0	100.0
Private investment funds			
Apollo Hercules Partners LP	United States ⁸	97.6	97.6
EC Partners LP	Singapore	100.0	–
GSO Churchill Partners LP	United States ⁸	98.0	98.0
GSO Churchill Partners II LP	United States ⁸	98.0	98.0
KKR-CDP Partners LP	United States ⁸	90.1	90.1
Real estate – Ivanhoé Cambridge Group			
Careit Canada DCR GP	Canada	93.5	93.4
Careit Canada GP	Canada	93.5	93.4
IC Australia Trust	Australia	93.5	93.4
IC Investments US G.P.	Canada	93.5	93.4
IC Investments Mexico G.P.	Canada	93.5	93.4
Ivanhoé Cambridge Inc	Canada	93.5	93.4
SITQ E.U., LP	Canada	93.4	93.3
SITQ International Inc	Canada	–	93.4
Industrials			
CDPQ Infra Inc	Canada	100.0	100.0
Einn Volant Aircraft Leasing Holdings Ltd	Ireland	90.5	–
Patina Rail LLP ³	United Kingdom	75.0	75.0
Trust No. 2431 ⁴	Mexico	43.0	51.0
Materials			
Beaudier Ciment Inc (Ciment McInnis Inc) ⁵	Canada	58.9	51.6
Services			
Datamars SA ⁶	Switzerland	65.1	–
Utilities and other services			
CDP (SEW) Fund LP ⁷	United Kingdom ⁹	–	75.0

1. Otéra Capital Inc owns 78.1% of MCAP Commercial LP.

2. Trencap LP owns 61.1% of Noverco Inc, which owns 100.0% of Énergir Inc. (formerly Gaz Métro Inc), which owns 71.0% of Énergir LP (formerly Gaz Métro Limited Partnership).

3. Patina Rail LLP owns 40.0% of Eurostar International Limited.

4. La Caisse exercises control through a majority of the members of the Board of Directors. Trust No. 2431 owns 49.0% of ICA Operadora de Vias Terrestres, S.A.P.I. de C.V.

5. Beaudier Ciment Inc owns 65.5% of Ciment McInnis Inc.

6. The voting rights represented 55.5% as at December 31, 2017.

7. CDP (SEW) Fund LP owns 50.0% of HDK (UK) Holdings Limited, which owns 100.0% of South East Water Ltd as at December 31, 2016.

8. Constituted in the Cayman Islands in accordance with the limited partner structure.

9. Constituted in Canada.

INTERESTS IN OTHER ENTITIES (cont.)**JOINT VENTURES**

The following table presents the ownership interests held in the main joint ventures as at December 31, 2017 as well as the comparative ownership interests as at December 31, 2016:

		December 31, 2017	December 31, 2016
	Principal place of business	Ownership interest %	Ownership interest %
Consumer discretionary			
MED ParentCo LP	United States	47.7	47.7
Energy			
HEF HoldCo II, Inc	United States	33.3	33.3
Southern Star Acquisition Corporation	United States	50.0	50.0
Financials			
USI Advantage Corp ¹	United States	26.0	–
Industrials			
DP World Canada Investment Inc	Canada	45.0	–

1. The voting rights represented 50.0% as at December 31, 2017.

INTERESTS IN OTHER ENTITIES (cont.)**ASSOCIATES**

The following table presents the ownership interests held in the main associates as at December 31, 2017 as well as the comparative ownership interests as at December 31, 2016:

		December 31, 2017	December 31, 2016
	Principal place of business	Ownership interest %	Ownership interest %
Consumer discretionary			
Quebecor Media Inc ¹	Canada	18.5	18.9
SGU Holdings LP	United States ⁴	46.7	46.7
Energy			
Azure Power Global Ltd	India ⁵	21.0	20.7
Corex Resources Ltd	Canada	49.5	44.9
Fluxys SA	Belgium	20.0	20.0
Interconnector UK Ltd	United Kingdom	33.5	33.5
IPALCO Enterprises, Inc	United States	30.0	30.9
London Array Ltd, London Array Unincorporated JV	United Kingdom	25.0	25.0
NSW Electricity Networks Assets Holding Trust (TransGrid)	Australia	22.5	22.5
NSW Electricity Networks Operations Holding Trust (TransGrid)	Australia	22.5	22.5
Suez Water Technologies and Solutions SA	France	30.0	–
Finance			
Catalina Holdings (Bermuda) Ltd	United States ⁶	29.9	29.9
Greenstone Ltd	Australia	30.0	30.0
Industrials			
Airport Holding Kft	Hungary	21.2	21.2
Alix Partners LLP	United States	21.0	–
CAMSO Inc ²	Canada	19.5	19.5
Groupe Keolis SAS	France	30.0	30.0
IPL Inc	Canada	22.2	–
IPL Plastics Plc	Ireland	26.6	–
Lightspeed POS Inc	Canada	44.6	–
QPH Hold Trust, QPH Hold Co PTY Limited (Port of Brisbane)	Australia	26.7	26.7
Sedgwick Inc	United States	29.2	29.2
TVS Logistics Services	India	38.2	–
Health care			
Groupe Solmax Inc	Canada	30.0	–
Image Networks Holdings Pty Ltd	Australia	30.0	30.0
Sam Topco SAS ³	France	49.1	–
Real estate services			
Groupe Foncia	France	29.1	29.1
Rail transport			
Bombardier Transportation (Investment) UK Limited	Germany ⁷	30.0	30.0

1. La Caisse has significant influence over this company since it has 20.0% of the voting rights.

2. La Caisse has significant influence over this company since it has 22.2% of the voting rights.

3. As at December 31, 2107, the voting rights represent 20.0%.

4. Constituted in Canada.

5. Constituted in Mauritius.

6. Constituted in Bermuda in accordance with the limited partner structure.

7. Constituted in the United Kingdom.

INTERESTS IN OTHER ENTITIES (cont.)

NON-CONTROLLED STRUCTURED ENTITIES

La Caisse holds interests in non-controlled structured entities, the majority of which represent private investment funds or limited partnerships. The interests held by la Caisse do not give it power over the relevant activities of these entities, as control is established by contractual agreement in favour, generally, of a general partner or administrator. The maximum exposure to loss attributable to the various interests held in the main non-controlled structured entities is limited to the fair value of the investment held by la Caisse, i.e., \$23,517 million in 261 companies as at December 31, 2017 (\$26,270 million in 282 companies as at December 31, 2016).

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RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table presents changes in liabilities arising from financing activities, including non-cash changes:

	January 1, 2017	Cash flows from financing activities	Non-cash changes			December 31, 2017
			Change in foreign exchange	Change in fair value	Other	
Loans payable	189	176	(1)	–	–	364
Commercial paper payable	4,813	(151)	(106)	(2)	2	4,556
Term notes payable	9,574	–	(372)	(6)	2	9,198
	14,576	25	(479)	(8)	4	14,118

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COMMITMENTS AND CONTINGENCIES

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

For la Caisse, guarantees consist of providing guarantees, to financial institutions and companies, 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 are presented in Note 12.

The commitments and guarantees are detailed as follows:

	December 31, 2017	December 31, 2016
Investment purchase commitments	19,314	16,097
Commitments under operating leases	542	211
Guarantees	1,178	757
ABTN funding facility ¹	–	6,167
	21,034	23,232

1. The commitment related to the MAV 1 funding facility for the ABTN (772) specialized portfolio expired before maturity following collections on all the credit default swaps.

LITIGATION

In the normal course of business, la Caisse may be subject to legal actions. Although la Caisse cannot predict the outcomes of any ongoing legal proceedings as at December 31, 2017, it has no reason to believe that the settlement of one of these proceedings could have a material impact on its financial position.

20 SUPPLEMENTARY INFORMATION

The following tables present the financial information of the specialized portfolios:

	SHORT-TERM INVESTMENTS (740)	BONDS (760) ¹	REAL ESTATE DEBT (750) ¹	RATES (765) ¹	CREDIT (766) ¹	LONG-TERM BONDS (764)		
	2017	2016	2016	2016	2017	2017	2017	2016
Statement of financial position								
Assets								
Investments	1,892	6,157	100,599	11,654	59,599	67,532	3,697	3,299
Other financial assets	–	–	3,680	162	1,500	739	34	694
Total assets	1,892	6,157	104,279	11,816	61,099	68,271	3,731	3,993
Liabilities								
Investment liabilities	–	–	34,685	55	20,541	16,693	793	670
Other financial liabilities	–	3	1,627	225	546	1,505	9	690
Total liabilities excluding net assets attributable to holders of participation units	–	3	36,312	280	21,087	18,198	802	1,360
Net assets attributable to holders of participation units	1,892	6,154	67,967	11,536	40,012	50,073	2,929	2,633

Statement of comprehensive income

	2017	2016	2016	2016	2017	2017	2017	2016
Investment income	22	27	1,995	207	904	2,057	83	73
Investment expense	–	–	(277)	–	(185)	(292)	–	–
Net investment income	22	27	1,718	207	719	1,765	83	73
Operating expenses	–	–	(67)	(1)	(19)	(67)	(1)	(1)
Net income	22	27	1,651	206	700	1,698	82	72
Net realized gains (losses)	–	–	1,363	(54)	76	618	37	191
Net unrealized gains (losses)	–	–	(1,099)	130	(111)	(55)	104	(230)
Net gains (losses) on financial instruments at fair value	–	–	264	76	(35)	563	141	(39)
Net investment result before distributions to (recoveries from) holders of participation units	22	27	1,915	282	665	2,261	223	33
(Distributions) recoveries	(22)	(27)	(1,651)	(206)	(700)	(1,698)	(82)	(72)
Comprehensive income attributable to holders of participation units	–	–	264	76	(35)	563	141	(39)

Statement of changes in net assets attributable to holders of participation units

	2017	2016	2016	2016	2017	2017	2017	2016
Balance at beginning of the year	6,154	4,583	67,708	11,088	36,817	42,686	2,633	2,384
Participation units								
Units issued	2,926	7,105	7,021	2,136	5,684	7,964	356	503
Units cancelled	(7,188)	(5,534)	(7,026)	(1,764)	(2,454)	(1,140)	(201)	(215)
Net change in participation units for the year	(4,262)	1,571	(5)	372	3,230	6,824	155	288
Comprehensive income attributable to holders of participation units	–	–	264	76	(35)	563	141	(39)
Balance at end of the year	1,892	6,154	67,967	11,536	40,012	50,073	2,929	2,633

1. On January 1, 2017, all of the financial assets and liabilities of the Bonds (760) and the Real Estate Debt (750) specialized portfolios were acquired at fair value by two new specialized portfolios, i.e., the Rates (765) and Credit (766) specialized portfolios.

SUPPLEMENTARY INFORMATION (cont.)

Statement of financial position	REAL RETURN BONDS (762)		INFRASTRUCTURE (782)		REAL ESTATE (710)		EQUITY MARKETS (737)	
	2017	2016	2017	2016	2017	2016	2017	2016
Assets								
Investments	1,199	1,135	16,236	14,603	34,401	31,807	111,125	100,843
Other financial assets	2	2	15	93	4	27	4,214	3,958
Total assets	1,201	1,137	16,251	14,696	34,405	31,834	115,339	104,801
Liabilities								
Investment liabilities	10	–	50	46	30	72	2,841	2,724
Other financial liabilities	6	52	227	87	111	38	537	1,037
Total liabilities excluding net assets attributable to holders of participation units	16	52	277	133	141	110	3,378	3,761
Net assets attributable to holders of participation units	1,185	1,085	15,974	14,563	34,264	31,724	111,961	101,040

Statement of comprehensive income

	2017	2016	2017	2016	2017	2016	2017	2016
Investment income	23	21	762	671	190	1,511	2,669	2,487
Investment expense	–	–	(4)	(11)	–	–	(81)	(52)
Net investment income	23	21	758	660	190	1,511	2,588	2,435
Operating expenses	–	(1)	(74)	(64)	(14)	(10)	(135)	(117)
Net income	23	20	684	596	176	1,501	2,453	2,318
Net realized gains (losses)	3	13	245	466	1,434	228	6,319	7,041
Net unrealized gains (losses)	(16)	(3)	511	356	929	1,237	4,785	(669)
Net gains (losses) on financial instruments at fair value	(13)	10	756	822	2,363	1,465	11,104	6,372
Net investment result before distributions to (recoveries from) holders of participation units	10	30	1,440	1,418	2,539	2,966	13,557	8,690
(Distributions) recoveries	(23)	(20)	(684)	(596)	(176)	(1,501)	(2,453)	(2,318)
Comprehensive income attributable to holders of participation units	(13)	10	756	822	2,363	1,465	11,104	6,372

Statement of changes in net assets attributable to holders of participation units

	2017	2016	2017	2016	2017	2016	2017	2016
Balance at beginning of the year	1,085	1,089	14,563	12,548	31,724	26,954	101,040	91,266
Participation units								
Units issued	154	91	1,741	2,736	1,222	3,633	7,945	10,024
Units cancelled	(41)	(105)	(1,086)	(1,543)	(1,045)	(328)	(8,128)	(6,622)
Net change in participation units for the year	113	(14)	655	1,193	177	3,305	(183)	3,402
Comprehensive income attributable to holders of participation units	(13)	10	756	822	2,363	1,465	11,104	6,372
Balance at end of the year	1,185	1,085	15,974	14,563	34,264	31,724	111,961	101,040

SUPPLEMENTARY INFORMATION (cont.)

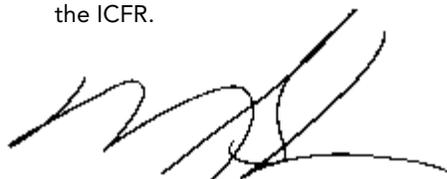
	PRIVATE EQUIT (780)		ASSET ALLOCATION (771)		ABTN (772) ¹		ACTIVE OVERLAY STRATEGIES (773)	
	2017	2016	2017	2016	2017	2016	2017	2016
Statement of financial position								
Assets								
Investments	36,718	30,754	5,072	3,536	–	3,970	7,202	6,718
Other financial assets	1,026	24	1,362	697	–	92	272	720
Total assets	37,744	30,778	6,434	4,233	–	4,062	7,474	7,438
Liabilities								
Investment liabilities	406	343	4,235	2,796	–	3,814	6,885	6,796
Other financial liabilities	838	475	841	81	–	91	16	13
Total liabilities excluding net assets attributable to holders of participation units	1,244	818	5,076	2,877	–	3,905	6,901	6,809
Net assets attributable to holders of participation units	36,500	29,960	1,358	1,356	–	157	573	629
Statement of comprehensive income								
	2017	2016	2017	2016	2017	2016	2017	2016
Investment income	2,760	2,212	77	96	5	133	18	64
Investment expense	(10)	(15)	(38)	(30)	(2)	(37)	(94)	(71)
Net investment income	2,750	2,197	39	66	3	96	(76)	(7)
Operating expenses	(178)	(149)	(11)	(10)	–	–	(33)	(44)
Net income	2,572	2,048	28	56	3	96	(109)	(51)
Net realized gains (losses)	509	495	(890)	(392)	(84)	(8)	355	276
Net unrealized gains (losses)	918	1,042	31	13	94	52	(371)	(197)
Net gains (losses) on financial instruments at fair value	1,427	1,537	(859)	(379)	10	44	(16)	79
Net investment result before distributions to (recoveries from) holders of participation units	3,999	3,585	(831)	(323)	13	140	(125)	28
(Distributions) recoveries	(2,572)	(2,048)	(28)	(56)	(3)	(96)	109	51
Comprehensive income attributable to holders of participation units	1,427	1,537	(859)	(379)	10	44	(16)	79
Statement of changes in net assets attributable to holders of participation units								
	2017	2016	2017	2016	2017	2016	2017	2016
Balance at beginning of the year	29,960	25,578	1,356	1,799	157	100	629	464
Participation units								
Units issued	7,141	6,818	940	1,105	87	13	232	373
Units cancelled	(2,028)	(3,973)	(79)	(1,169)	(254)	–	(272)	(287)
Net change in participation units for the year	5,113	2,845	861	(64)	(167)	13	(40)	86
Comprehensive income attributable to holders of participation units	1,427	1,537	(859)	(379)	10	44	(16)	79
Balance at end of the year	36,500	29,960	1,358	1,356	–	157	573	629

1. On June 1, 2017, the ABTN (772) specialized portfolio was dissolved following collection on its MAV 1 securities.

FINANCIAL CERTIFICATE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, Michael Sabia, President and Chief Executive Officer of Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of Caisse de dépôt et placement du Québec ("la Caisse") for the year ended December 31, 2017.
2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.
3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the consolidated financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of la Caisse as at the closing dates of the periods presented in the Annual Filings, as well as its comprehensive income, changes in net assets attributable to depositors, and cash flows for those years.
4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for la Caisse.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, at fiscal year-end, I have:
 - a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:
 - i) Material information relating to la Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.
 - ii) Information required to be disclosed by la Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.
 - b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the consolidated financial statements have been prepared, with a view to publication of financial information, in accordance with International Financial Reporting Standards (IFRS).
- 5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).
- 5.2. **ICFR material weakness relating to design:** Not applicable.
- 5.3. **Limitation of scope and design:** Not applicable.
6. **Evaluation:** I have:
 - a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report my conclusions based on this evaluation.
 - b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report the following information:
 - i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.
 - ii) Description of any material weaknesses relating to current operation at fiscal year-end: Not applicable.
7. **Reporting changes to the ICFR:** La Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2017 and ending on December 31, 2017 that has had, or is likely to have, a material impact on the ICFR.
8. **Reporting to co-auditors and the Board of Directors or Audit Committee of la Caisse:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of la Caisse or its Audit Committee, any fraud that involves management or other employees who have a significant role in the ICFR.



MICHAEL SABIA

President and Chief Executive Officer

April 6, 2018

FINANCIAL CERTIFICATE OF THE EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

I, Maarika Paul, Executive Vice-President and Chief Financial Officer of Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of Caisse de dépôt et placement du Québec ("la Caisse") for the year ended December 31, 2017.
2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.
3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the consolidated financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of la Caisse as at the closing dates of the periods presented in the Annual Filings, as well as its comprehensive income, changes in net assets attributable to depositors, and cash flows for those years.
4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for la Caisse.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, at fiscal year-end, I have:
 - a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:
 - i) Material information relating to la Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.
 - ii) Information required to be disclosed by la Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.
 - b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the consolidated financial statements have been prepared, with a view to publication of financial information, in accordance with International Financial Reporting Standards (IFRS).
- 5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).
- 5.2. **ICFR material weakness relating to design:** Not applicable.
- 5.3. **Limitation of scope and design:** Not applicable.
6. **Evaluation:** I have:
 - a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report my conclusions based on this evaluation.
 - b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report the following information:
 - i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.
 - ii) Description of any material weaknesses relating to current operation at fiscal year-end: Not applicable.
7. **Reporting changes to the ICFR:** La Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2017 and ending on December 31, 2017 that has had, or is likely to have, a material impact on the ICFR.
8. **Reporting to co-auditors and the Board of Directors or Audit Committee of la Caisse:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of la Caisse or its Audit Committee, any fraud that involves management or other employees who have a significant role in the ICFR.



MAARIKA PAUL, FCPA, FCA, CBV, ICD.D
Executive Vice-President and Chief Financial Officer
April 6, 2018

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In 2017, the Chief Financial Officer oversaw work to update existing documentation and to evaluate the design and effectiveness of internal control over financial reporting, and the Executive Committee approved the methodology for evaluating key controls. The purpose of this evaluation of internal control over the main financial processes was to ensure that la Caisse could meet its quality objectives related to financial reporting, in all material respects.

The evaluation of the design and effectiveness of internal control over financial reporting was carried out with the framework usually adopted by North American companies, namely that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013). This work enabled the Executive Committee to conclude that the design of control over financial reporting is adequate and effective, and that it provides reasonable assurance that the financial information presented in the Annual Filings, as defined by la Caisse's Financial Certification Policy, is reliable, and that la Caisse's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF FINANCIAL REPORTING CONTROLS AND PROCEDURES

Under la Caisse's Financial Certification Policy, the design and effectiveness of disclosure controls and procedures pertaining to the Annual Filings, namely the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report, must be evaluated.

As with the evaluation of internal control over financial reporting, the Chief Financial Officer also oversaw efforts to update existing documentation and to evaluate the design and effectiveness of disclosure controls and procedures, and the Executive Committee also approved the methodology for evaluating key controls.

As at December 31, 2017, the evaluation confirmed that the disclosure controls and procedures are adequate and effective, and provide reasonable assurance that all relevant information is gathered and submitted in a timely fashion to senior management, in particular to the President and Chief Executive Officer and to the Chief Financial Officer, so as to ensure that appropriate decisions concerning disclosure can be made.

The Board of Directors also approved the 2017 Annual Filings before their public disclosure.

General Notes

1. La Caisse's operations comply with the requirements of the Act respecting the Caisse de dépôt et placement du Québec¹ and investment industry practices. Its financial statements are prepared in accordance with International Financial Reporting Standards. Each year, la Caisse's co-auditors, the Auditor General of Québec and Ernst & Young LLP, audit the financial statements, the compliance of operations with laws, regulations, policies and guidelines, to the extent they deem appropriate.
2. The 2017 Annual Report Additional Information is an integral part of the 2017 Annual Report and presents, in the first section, the Tables of Returns as at December 31, 2017, for composites of la Caisse's depositors' accounts. These tables and calculations have been audited as at December 31, 2017 by Deloitte LLP for compliance with the Global Investment Performance Standards (GIPS®).
3. In this Annual Report, depositors' net assets and net investment results are defined as being in the consolidated financial statements net assets attributable to depositors and net investment results before distributions to depositors.
4. The returns of the specialized portfolios use the time-weighted rate of return formula.
5. The benchmark indexes for the asset classes and overall portfolio are based on the weighted average of the benchmark indexes for the specialized portfolios that comprise them.
6. Unless otherwise stated, returns, which are expressed as a percentage, are presented net of transaction fees, external management fees related to investment funds, and unconsolidated real estate subsidiaries fees, but before operating expenses and other fees. They are annualized for periods of more than one year. They include the return on cash and cash equivalents and they take into account any foreign exchange hedging. The ratio of operating expenses to the average net assets of each specialized portfolio is presented in the notes in the 2017 Annual Report Additional Information.
7. Unless otherwise stated, net investment results before distributions to depositors and net assets attributable to depositors are presented net of operating expenses and other fees.
8. Some returns are expressed in basis points (b.p.). One hundred basis points equal 1.00% and one basis point equals 0.01%.
9. Unless otherwise stated, all figures are in Canadian dollars. The letters M and B used with dollar amounts designate millions and billions, respectively.
10. Totals (figures or percentages) may vary because of rounding of figures.
11. Unless otherwise stated, all data in the tables and figures are from studies carried out by la Caisse.
12. The tables listing the top 10 investments present, in alphabetical order, the main cash positions based on information shown in tables 8, 9, 10 and 11 of the 2017 Annual Report Additional Information.
13. To determine whether an asset is classified as a Québec investment, la Caisse uses the location of the head office of the company or of the issuer or, in the case of real estate, the location of the property.

This classification system is widely used in the fund management industry but involves biases. Some companies are included even though their core operations are outside Québec. Similarly, companies with extensive operations in Québec are excluded if their head office is outside the province.

1. The Act respecting the Caisse de dépôt et placement du Québec is available on la Caisse's website at www.cdpq.com.

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The 2017 Annual Report and the 2017 Annual Report Additional Information are available on our website at www.cdpq.com.

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