

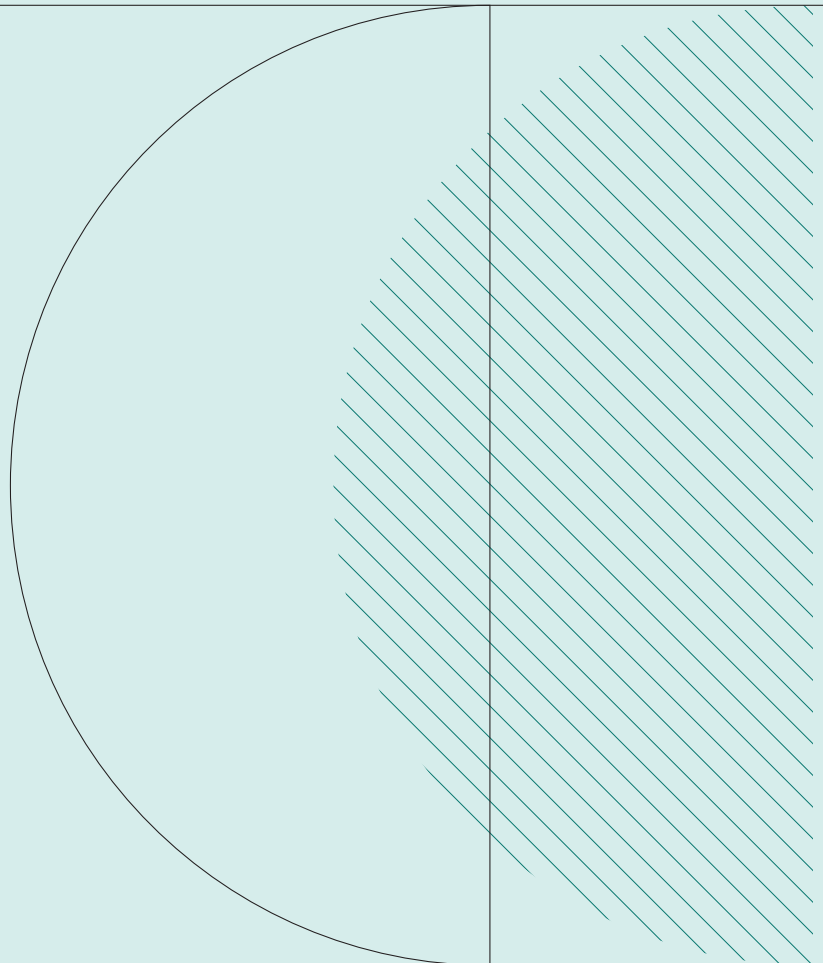


# 2020 Stewardship Investing Report



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We invest constructive  
capital knowing that  
performance and progress  
go hand in hand.



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# Message from Management



In 2020, the COVID-19 pandemic and ensuing crisis had unprecedented impacts on communities, exacerbating already existing inequalities. Women, young people and members of ethnocultural minority groups around the globe were particularly hard hit.

This year also saw citizens around the world stand up in support of social justice. The echo of their voices is a strong signal that encourages us to continue and expand our efforts to promote equity, diversity and inclusion.

While the crisis has severely affected economies, the recovery is an opportunity for us all to rebuild better and be more ambitious in our fight against climate change and meet rising needs. By directing capital to a greener, more equitable transition, we can generate growth while contributing to a more sustainable world.

As a global investment group that takes a long-term approach, we have an opportunity to invest and develop assets that foster stronger communities and healthier living environments. Guided by this ambition, we can carry out our mission while safeguarding the trust of millions of Quebecers for whom we are working, as well as the communities that are home to our portfolio companies.

Each day, we assess the quality of our investments in light of targeted returns as well as rigorous sustainability criteria. Our teams also rely on expertise and close collaboration with our partners to promote ideas that are important to us, such as fighting climate change, promoting diversity and inclusion and sound governance within our portfolio companies.

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## ENHANCING OUR CLIMATE AMBITIONS

We work to fight against climate change each and every day. Given that we have exceeded our targets set in 2017, this first phase of our commitment has been successfully completed this year.

In the coming months, we will be resetting our low-carbon investment targets to focus more on assets that support the transition.

Moreover, adjusting our carbon intensity reduction target will allow us to enhance our efforts across our entire portfolio. We will pay very close attention to the decarbonization of the real economy by strengthening our commitment to our portfolio companies as the transition unfolds. Our target is still tied to our goal of achieving a carbon neutral portfolio by 2050 and we are continuing our efforts in this area, particularly with our partners.

In line with this vision, we have also confirmed that we wish to eliminate our coal exposure and that we have significantly reduced our exposure to oil production since 2017, in keeping with our goal to ultimately eliminate the most polluting forms of fossil fuel from our portfolios.

## PROMOTING EQUITY, DIVERSITY AND INCLUSION

This past year has solidified our conviction that championing equity, diversity and inclusion is now more important than ever.

We have clarified our expectations of portfolio companies in our improved *Policy on the Principles Governing the Exercise of Voting Rights of Public Companies*. This governance tool provides guidance for our voting positions with regard to our stewardship investing priorities, allowing us to signal that our portfolio companies must implement this change more quickly.

Because we firmly believe that a corporate culture based on equity, diversity and inclusion is synonymous with success, we also provide an inclusive work environment for the development of all our talent.

In addition, we continue to work with our international partners to advance these issues in our industry, both locally and around the world.

## LEADING BY EXAMPLE ON BEST GOVERNANCE PRACTICES

The impacts of the pandemic have shined a light on how important strong governance is.

Transparency and resilience are fundamental in the companies we invest in.

We develop our companies' expertise in areas such as environmental, social and governance (ESG) factors, cybersecurity and abusive tax planning through discussions with our experts.

The progress made and results achieved in recent months illustrate the important work our teams do, our efforts to address these major societal issues and our commitment to meet our depositors' needs.

For the coming year we will continue down this path of investing constructive capital.



**Charles Emond**  
President and  
Chief Executive Officer



**Kim Thomassin**  
Executive Vice-President  
and Head of Investments  
in Québec and  
Stewardship Investing

# Generating value over the long term

We are a global investment group with \$365.5 billion in assets invested in all the major markets on behalf of more than 40 major Québec public and parapublic pension and insurance plans.

Our mission is to ensure the sustainability of depositors' funds and safeguard the retirements of more than six million Quebecers while helping to build a dynamic, competitive and sustainable economy.

## Net assets

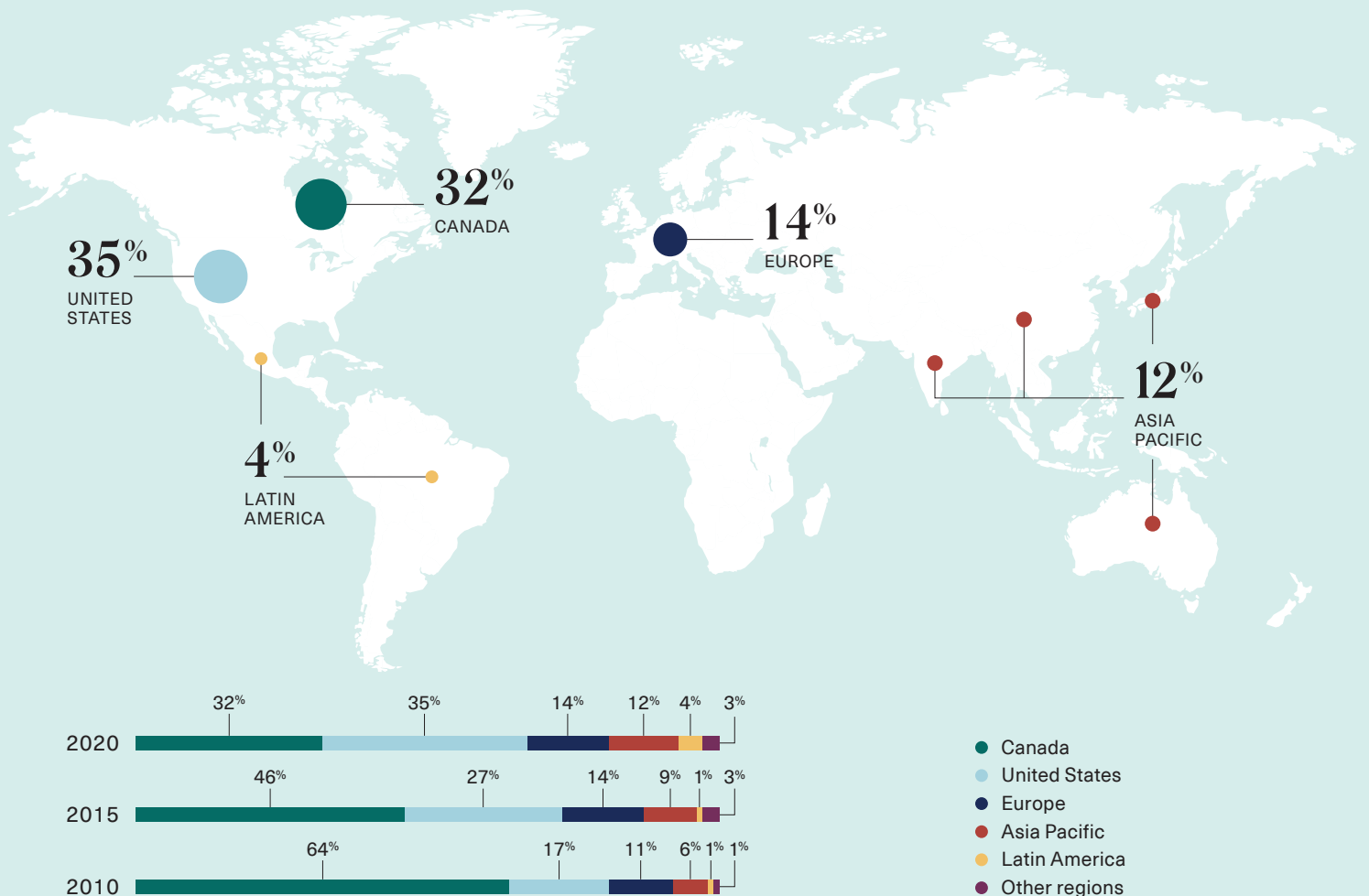
# \$365.5 B

AS AT DECEMBER 31, 2020

FIGURE 1

## Total portfolio geographic exposure

AS AT DECEMBER 31, 2020



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# Delivering optimal performance

Our global influence and experience in all asset classes allow us to seize opportunities that benefit all Quebecers.

Over five years, the various funds have delivered returns that meet depositors' long-term needs.

## Five-year return

# 7.8%

ANNUALIZED

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## Ten-year return

# 8.6%

ANNUALIZED

## Main pillars of our investment strategy

Our major accomplishments for the year are in line with our strategic orientations, which evolved in 2020.

### Optimal performance

Benefit from diversified sources of return, create value through post-investment management and assess risk thoroughly.

### Québec economy

Leverage our advantages in Québec to generate returns while helping build a dynamic, competitive and sustainable economy.

### Technology trends

Create value by capitalizing on the acceleration of technology trends, including the impact that a digitizing economy has on businesses and our operations.

### Worldwide presence

Increase our exposure to global markets by adopting an integrated approach across regions and partnering with the best.

### Stewardship investing

Invest in assets that support the transition toward a low-carbon economy while affirming our leadership on ESG matters.

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# Acknowledging the reality our clients face

Each of our depositors has distinct needs that we take into consideration when establishing our investment strategies. Our clients are the millions of Quebecers who contribute to or benefit from these plans. They belong to all generations—from those just entering the work force to those enjoying a well-earned retirement.

## A LASTING RELATIONSHIP WITH DEPOSITORS

We build relationships that are based on collaboration, listening, transparency and a clear division of roles and responsibilities. This is even more essential in the crisis that occurred in 2020; with unprecedented markets, we intensified our discussions.

By providing advisory services tailored to our depositors, we contribute to the financial solidity of pension and insurance plans.

We support our depositors in their investment policy and choice of tailored portfolio by leveraging our market knowledge and portfolio management expertise.

## Our mission

Seize the best  
investment  
opportunities  
to generate optimal  
long-term returns.

## Three types of depositors

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### Pension plans

Québec Pension Plan and the pension plans of hundreds of thousands of public and parapublic sector employees

### Insurance plans

Insurance plans such as the Société de l'assurance automobile du Québec, which indemnifies road accidents

### Other organizations

Other organizations, such as the Office de la protection du consommateur and the Ministère des Finances du Québec



# Using our levers of influence

In order to contribute to the economy over the long term, we have developed a stewardship investment strategy that applies to our total portfolio and activities.

## OUR APPROACH

We support portfolio companies in creating lasting value by focusing on promising business opportunities that deliver growth and long-term performance.

We rigorously use multiple levers of influence in a structured way to boost their performance and sustainability.

We operate on a number of fronts to execute our strategy (Figure 2).

## Our conviction

Stewardship investing is a fundamental driver of CDPQ's long-term performance.

FIGURE 2

OUR STEWARDSHIP INVESTING LEVERS OF INFLUENCE



# 1. Our strategic projects

## A MORE AMBITIOUS PROXY VOTING POLICY

We reviewed our *Policy on the Principles Governing the Exercise of Voting Rights of Public Companies* in 2020 to include new diversity and inclusion elements as well as further refine our position on climate issues.

With respect to diversity and inclusion within our portfolio companies, we have:

- Stated our desire to encourage any measure that promotes diversity in the broader sense and that allows for a range of views to be heard and included in the decision-making process
- Raised our expectations, mainly with regard to disclosure, policies, targets and statistics
- Adopted a target of having women represent 30% of Boards of Directors by 2022
- Included the option of abstaining or voting against the directors responsible for appointments if there are no mitigating circumstances

With respect to climate issues, we:

- Included the possibility of supporting shareholder proposals, such as adopting greenhouse gas emissions (GHG) reduction targets, implementing scenario analyses and improving disclosure quality
- Added the option of abstaining or voting against the directors in charge of these issues if no progress is made

A letter summarizing these principal changes has been provided to all public companies held in active management in nearly 30 countries.

## FACTORING IN SUSTAINABLE DEVELOPMENT GOALS

To adopt international best practices, we have reviewed the UN's Sustainable Development Goals (SDG) to align our approach, targets and ESG risk management with this framework. The UN's 2030 Agenda for Sustainable Development focuses on key development goals involving people, the planet and the sustainable economy.



In 2020, we began integrating these SDGs throughout our stewardship investing strategy in a structured manner. We have selected the four SDGs where we believe we can have the greatest impact.

## 2. Our leadership in Québec and around the world

To maximize our impact and contribute to societal progress, we use our influence to bring together groups of institutional investors in Québec and around the world for major stewardship investing initiatives.

We work hard to advance major issues, notably on climate risk and ESG factor reporting, abusive tax practices and accelerating diversity and inclusion within our industry and our portfolio companies.

We leverage our capital and expertise to encourage companies and our peers in all industries to mobilize and play a role in the transition toward a sustainable economy. We firmly believe that this approach will have a lasting impact that will benefit the economy and society as a whole.

## 3. Supporting our teams

Our investment teams evaluate a number of sustainability metrics when analyzing and monitoring portfolios. Having a more comprehensive understanding of ESG factors has a significant impact on this key aspect of the decision-making process.

Our stewardship investing and ESG risk analysis groups work together closely to structure our efforts and support our investment teams.

We also focus on professional development activities to expand the knowledge and expertise of our teams in a changing stewardship investing context.



We implemented key initiatives in 2020 to raise awareness on diversity and inclusion. This included:

- Providing training to more than 500 investment team members and nominee directors, in collaboration with senior management and external experts
- Developing tools for our investment teams to help them better convey our convictions to their partners

## 4. Integrating ESG factors into our business decisions

Before making an investment, we perform a detailed analysis of a company's various aspects such as the strategy and culture, current and previous performance, stability, growth potential and team know-how. Moreover, given that ESG

factors are closely tied to an organization's performance, we take these factors into account throughout our investment, analysis, decision-making, and post-investment management process.

## 5. Shareholder voting

As a shareholder, our voting rights are a preferred tool for expressing our positions as a long-term investor. We rely on them to convey our expectations and share our convictions in a variety of areas during the annual general meetings of our portfolio companies (Charts 3 and 4).

We voted on 58,032 proposals during 5,566 shareholder meetings in 2020 through our equity market holdings.

CHART 3

TOPICS OF MANAGEMENT PROPOSALS

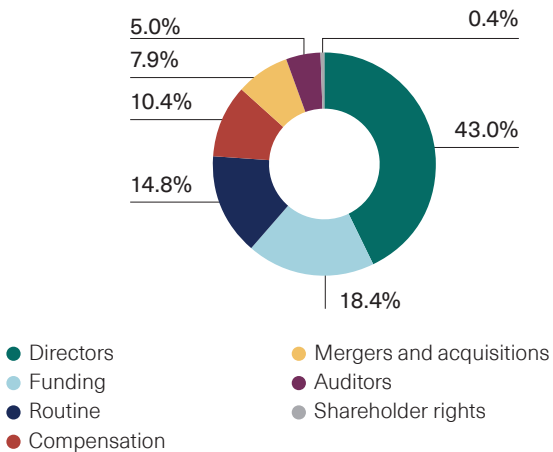
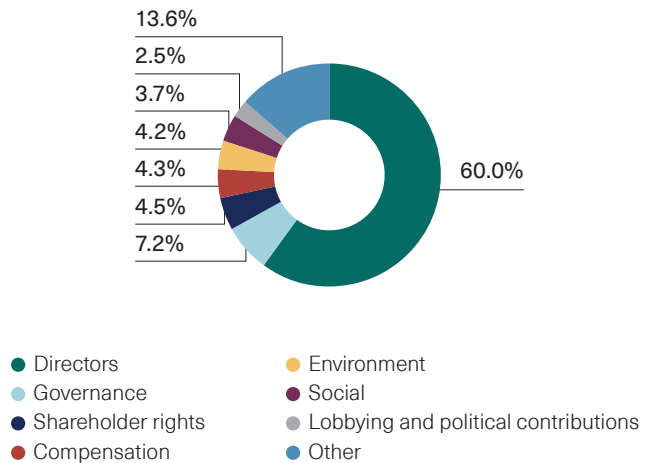


CHART 4

TOPICS OF SHAREHOLDER PROPOSALS



## 6. Commitment to mobilize our portfolio companies

We leverage our influence by being in regular contact with our portfolio companies. We encourage them to set ambitious sustainability objectives, to be transparent and rigorous in reporting results and to present the action taken to measure performance.

Through these conversations, we build a transparent and constructive dialogue with the management teams and Board members of these companies to make collaborative strides in the areas identified. This allows us to understand their strategies and provide better support.

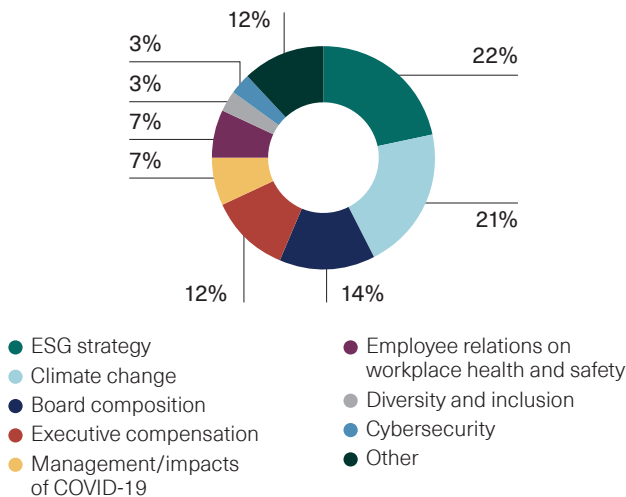
Our teams actively continued their work during the COVID-19 pandemic. We engaged in 143 discussions regarding various ESG-related matters with 112 portfolio companies (Chart 5) during the year.

We also use our influence as Board members to encourage various companies to adopt best practices.

New elements were added to our proxy voting policy in the fall of 2020 to set out our expectations regarding diversity, inclusion and climate change. They will be priority topics for discussion in 2021.

CHART 5

### KEY TOPICS ADDRESSED



### Executive compensation

Effective management of the compensation of the portfolio companies' executives is one of the factors considered in our analyses. We pay special attention to transparency of disclosures and how this information is tied to company performance. If neither criteria meet our expectations, we will not hesitate to exercise our right and vote against management. In 2020, we did this in 30% of cases.

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# Making the growth of Québec's economy and companies a priority

We believe that it is our duty to support Québec companies and the various stakeholders in our economy, especially in turbulent times.

We support companies in their growth and international expansion plans. We encourage technological innovation while helping create more sustainable communities.

## **\$4 billion to recover and build for the long term**

CDPQ mobilized at the beginning of the pandemic, creating a \$4-billion envelope to support Québec companies temporarily affected by the crisis. This support, which complements the measures announced by other financial and governmental institutions, was accompanied by personalized support that drew on the financial, strategic and operational expertise of our teams.

This initiative also makes it possible to drive the recovery and growth initiatives of the selected businesses. As at December 31, 2020, half of the amounts had been or were in the process of being allocated.

### **Our goal**

Help to build a dynamic, competitive and sustainable economy over the long term by combining our teams' know-how, our investment expertise and our vast business network.



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## Support measures tailored to the COVID-19 crisis



Ivanhoé Cambridge, CDPQ's real estate subsidiary, worked with the various levels of government and took into account the needs of its tenants to offer exceptional recovery and support solutions, such as rent deferrals.

Ivanhoé Cambridge also partnered with Lightspeed, a leader in cloud-based sales services. Tenants in its Canadian shopping centres received free access to Lightspeed's integrated sales software for one year, in addition to real-time inventory

management and delivery service optimization modules. This allowed them to better adapt to the lockdown measures and provide online sales platforms to their clients.

To promote the well-being of merchants and customers and to provide them with a safe environment, Ivanhoé Cambridge also offered a virtual queue management system free of charge to its tenants.

## Fostering diversity within companies

### Equity25<sup>3</sup>

The launch of the Equity 25<sup>3</sup> fund in October 2020 is one of the tangible results of CDPQ's commitment to diversity and inclusion. We aim to encourage growing SMEs and successful technology companies in Québec and Canada to increase diversity and inclusion in their teams within five years of being selected.

Companies must ensure that people from different backgrounds (women, visible minorities, Indigenous peoples) represent at least 25% of:

- Board members
- Management team members
- Shareholders

The fund offers \$5 to \$30 million in investments as well as operational guidance to implement and execute a customized diversity and inclusion plan. With a total of \$250 million to deploy over four years, Equity 25<sup>3</sup> is the largest fund created nationally that directly targets diversity as a lever for development and expansion.

### LES CHEFFES DE FILE

We firmly believe that there should be more women at the head of companies, which is why we are actively pursuing Cheffes de file, an initiative launched 2018. It brings together 76 women entrepreneurs from 11 regions of Québec who are leading companies with sales of between \$5 and \$20 million.

The goal is to foster joint development and the sharing of best practices to fuel the strategic thinking of these women entrepreneurs while allowing them to leverage CDPQ's network of partners and accelerate company growth. Issues addressed in 2020 included planning for post-pandemic growth, improving their customer experience and building their employer brand.

# Investing in the transition

In 2020, CDPQ exceeded the targets we set when unveiling our climate strategy, significantly increasing our low-carbon investments and substantially reducing the portfolio's carbon intensity compared to 2017.







The COVID-19 pandemic and the ensuing global economic slowdown have highlighted why urgent action is needed to address sustainability issues facing our communities and why investing in the transition is of paramount importance.

These are two key convictions for CDPQ. The results generated by our first climate strategy are a testament to our desire to be proactive and remain at the forefront among large, global institutional investors in fighting climate change. To achieve this, our targets must be based on clear principles and measurable and achievable actions, thereby allowing rigorous disclosure on what we accomplished.

We are now one of the world's leading investors in renewable energy. We will continue this momentum to foster a transition to an increasingly sustainable economy. We will be updating our climate strategy in 2021 to showcase our ambitions in this area.

**Our goal**

Continue to contribute to the decarbonization of the real economy and achieve a carbon-neutral portfolio by 2050.

**The four pillars of our strategy**

1.

Factor climate change into every investment decision

2.

Increase our low-carbon investments by 80% between 2017 and 2020

3.

Reduce our carbon intensity per dollar invested by 25% between 2017 and 2025

4.

Exercise stronger climate leadership within the industry and with our portfolio companies

# 1. Our investment process

Since 2018, the climate factor has been an integral part of our investment process (Figure 6) and the focus of sustained efforts by all of our teams.

A climate ambassador has been identified for each specialized portfolio. This reference person has the necessary skills to ensure that climate factors are considered when analyzing investment opportunities.

All potential investments are carefully analyzed by various committees which include CDPQ executives, notably the Investment-Risk Committee. This process allows us to continuously monitor our climate targets and identify new low-carbon investment opportunities with an acceptable level of risk.

## DEVELOPING SPECIALIZED TOOLS

We have put in place different ways to factor climate risk into our investment process. In addition to systematically considering a company's carbon footprint data, we develop specialized tools to manage the physical and transition risks.

### Carbon budget

To ensure that we achieve our carbon intensity reduction targets, we use "carbon budgets" for each of our portfolios. Our managers take these budgets into account in their annual strategic planning and ensure that they are respected by measuring the carbon footprint of their investment decisions

throughout the year. This tool promotes low-carbon investments as well as investments that are better positioned for an energy transition.

### Variable compensation tied to climate targets

CDPQ sent a strong message by directly tying employees' variable compensation to the achievement of climate targets. We are one of the first global institutional investors to do this.

### Physical risks

We are working with our peers and expert advisors to develop an innovative solution that will enable conducting a qualitative and quantitative assessment of events that could have a significant impact on our assets. It will be possible to refine our analyses according to different climate scenarios and time horizons to determine the implications for a company's value chain. Ultimately, this will help us to better anticipate physical climate risks, to engage in discussions with companies on how to mitigate risks and to improve total portfolio resilience.

### Transition risks

We have also developed qualitative tools to improve the integration of transition risks. These scalable tools aim to guide decision-making according to regulatory, technological and socio-economic developments around the world. They also allow teams to ask the right questions when analyzing investment and post-investment opportunities.

FIGURE 6

## FACTORING CLIMATE CHANGE INTO OUR INVESTMENT PROCESSES



## 2. Our low-carbon investments

As at December 31, 2020, our portfolio of low-carbon assets totalled \$36 billion (Chart 7), which is double the value of our investments compared to 2017. We have therefore exceeded our target of \$32 billion for 2020. In the coming months, we will set a new target for low-carbon investments.

### PLATFORM FOR INNOVATION IN STEWARDSHIP INVESTING

CDPQ recognizes that key innovations that will have a major impact on GHG emissions are needed to successfully transition to a low-carbon economy. To better target this type of investment, in 2020 we created a platform for innovation in stewardship investing (ISI) in keeping with our desire to develop new partnerships leading to business opportunities. These new collaborative initiatives will allow CDPQ to develop our internal expertise in certain areas relating to the sustainable economy as well as identify new market segments.

### GROWING DEMAND FOR LOW-CARBON ASSETS

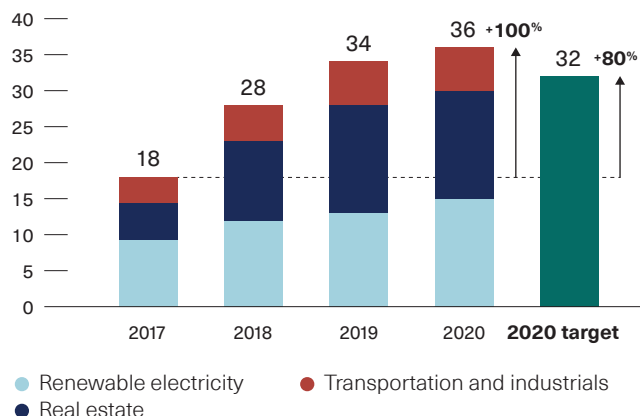
As an industry leader, we have managed to double the value of our low-carbon assets in recent years. However, highly available capital, coupled with increased competition between a growing number of investors interested in acquiring green assets, may make growing these assets more complex in the coming years.

We nonetheless believe that interesting opportunities to invest in the transition can be seized to provide tangible impacts in terms of GHG emissions reduction.

CHART 7

### LOW-CARBON INVESTMENTS

(in billions of dollars)



Some portfolio companies are developing and building solar power or wind farms that are then sold to third parties. In these situations, our constructive capital is used to create assets that make an active contribution to the energy transition, even if they do not always remain in our portfolio.

## Low-carbon investments in the portfolio

**\$18 B**

2017 STARTING POINT

**\$32 B**

2020 TARGET

**\$36 B**

2020 VALUE

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As at December 31, 2020, our portfolio of low-carbon assets totalled \$36 billion, double the value of investments compared to 2017, exceeding our 2020 target of \$32 billion.



### Case study

CDPQ partners with CREO Family Office Syndicate (CREO), an organization that aims to direct more capital to investments in climate change initiatives, through the work done by the innovation platform for stewardship investing.

This collaboration with CREO has led to a joint investment agreement with S2G Ventures to invest up to US\$125 million over the next three years in venture capital companies whose objective is to have a more sustainable agri-food industry.

An initial investment was made in a food technology company, Benson Hill, in 2020.



A number of investments and reinvestments were added to our low-carbon portfolio around the world in 2020, making us one of the largest investors in this area.

**1. Greater Changhua 1**

- New investment
- Offshore wind farm project in Taiwan
- Will provide clean energy to more than 650,000 homes

**2. CDPQ Renovables Iberia**

- New investment
- Total of 73 solar power facilities
- Supplies more than 115,000 households in Spain

**3. Azure Power**

- Reinvestment
- Leader in the development and operation of solar energy projects in India
- Participates in the growth of the renewable energy market

**4. AddÉnergie**

- Reinvestment
- Leader in electric vehicle charging solutions in Canada
- Operates a network of charging stations across North America

**5. Invenery Renewables**

- Reinvestment
- Growth project for one of the largest renewable energy producers in North America
- Will provide total capacity of approximately 2,300 MW in wind farms in the United States and Canada



1



2



3



4



5

### 3. Our carbon intensity per dollar invested

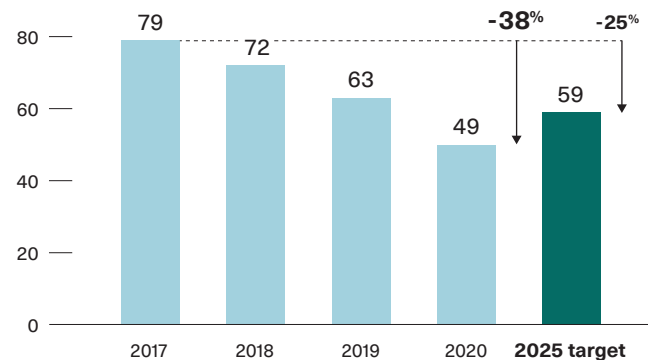
The carbon intensity of our total portfolio decreased by 38% compared to our 2017 starting point. It was 49 tCO<sub>2</sub>e/M\$ as at December 31, 2020, compared to 79 tCO<sub>2</sub>e/M\$ on the same date in 2017 (Chart 8). We achieved this reduction by rigorously using carbon budgets, acquiring low-carbon assets and disposing of higher carbon-intensity assets.

Given that we have exceeded our reduction target of 25%, in 2021 we will be setting a new target for 2025. We expect to continue our efforts toward achieving a carbon-neutral portfolio by 2050.

As at December 31, 2020, the carbon footprint of our portfolio was mainly attributable to electricity production and certain high-intensity sectors (Chart 9).

CHART 8

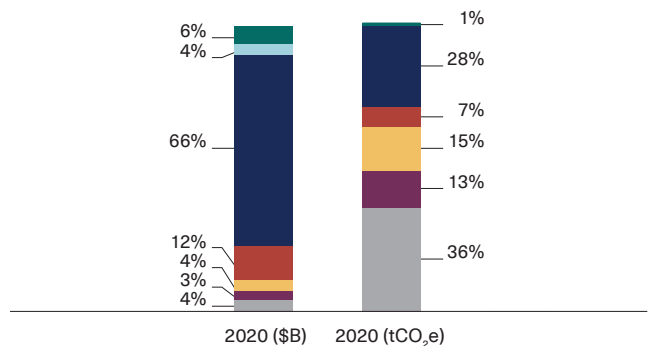
PORTFOLIO CARBON INTENSITY  
(in tCO<sub>2</sub>e/M\$)



The proportion of low-carbon assets (6%) and renewable electricity generating assets (4%) is 10% of the value of CDPQ’s portfolio.

CHART 9

PORTFOLIO COMPOSITION:  
DOLLARS AND CARBON FOOTPRINT



- Low-carbon assets
- Renewable electricity
- Low-intensity sectors
- Industrials
- Energy
- Materials
- Non-renewable electricity

## Total portfolio carbon intensity

79 tCO<sub>2</sub>e/M\$ invested

2017 STARTING POINT

59 tCO<sub>2</sub>e/M\$ invested

2025 TARGET

49 tCO<sub>2</sub>e/M\$ invested

2020 VALUE

Our portfolio's carbon intensity is down 38% from the starting point in 2017: it was 49 tCO<sub>2</sub>e/M\$ as at December 31, 2020, compared to 79 tCO<sub>2</sub>e/M\$ on the same date in 2017.



### Case study

Place Ville Marie, a building in downtown Montréal owned by our subsidiary, Ivanhoé Cambridge, is currently participating in a major energy recovery project that will have a significant impact on GHG emissions. This initiative aims to use heat pumps to reduce steam consumption in heating. The heating and air conditioning systems will be interconnected so that residual energy is transferred between them. This is expected to decrease energy consumption by approximately 15% as well as reduce GHG emissions by more than 3,000 tCO<sub>2</sub>e per year, for a total reduction of more than 40%.

**REDUCING OUR EXPOSURE TO THE MOST POLLUTING FOSSIL FUELS**

Throughout our investment process, we analyze the role that all energy value chain components play in the transition, thereby closely monitoring our hydrocarbon exposure. We will demand that the highest emitters in this sector initiate a real transition for their business model when making our investment decisions.

In fall 2020, we pledged, together with the members of the UN-convened Net-Zero Asset Owner Alliance, to no longer finance any new thermal coal projects in addition to gradually phasing most coal-powered assets in industrialized countries out of our portfolio by 2030, eliminating them fully worldwide between now and 2040.

We pay especially close attention to the most polluting forms of energy and have set an objective of eliminating our exposure to these forms of energy in the coming years.



**Case study**

To make better choices in our climate budgets and manage our hydrocarbon exposure, in 2020 our investment teams decided to sell our direct holdings in Exxon Mobil Corp. This followed a number of commitments made to Exxon in connection with our support for the Climate Action 100+ initiative, which encourages companies to improve their climate performance and be more transparent regarding climate issues. While we have seen some progress over time, selling off this asset became the best option since the energy landscape and the climate change situation are evolving quickly. This transaction represents a reduction of around 190,000 tCO<sub>2</sub>e in our portfolio.



## 4. Our climate leadership

We believe that the recovery needed to offset the economic impacts of the COVID-19 pandemic is an opportunity to help build more sustainable businesses and communities. CDPQ takes climate change into account and this approach must be extended to include all industry stakeholders.

In addition to our own climate targets, we endeavour to influence all investment and finance sector stakeholders. This means that we play an active role in promoting a number of local and international initiatives to mobilize our portfolio companies, our peers and the business community in the fight against climate change.

### STRUCTURING INITIATIVES

In 2020, we continued our commitment to a number of major international initiatives, notably the Investor Leadership Network (ILN) and the UN-convened Net-Zero Asset Owner Alliance (see pages 24–25).

We have also continued to use our influence and share our expertise with many associations, groups and task forces.

### Maple 8

In November 2020, we sent a strong message in favour of a sustainable, equitable and inclusive economic recovery by issuing a joint statement with seven of the largest pension fund investment managers in Canada. This statement calls for better integration of ESG criteria for greater transparency and for recognized protocols to be adopted facilitating the disclosure of comparable financial information useful in decision-making, such as the Task Force on Climate-related Financial Disclosures (TCFD) as well as standards issued by the Sustainability Accounting Standards Board (SASB).

### Montreal Climate Partnership

In late 2020, we joined the steering committee of the Montreal Climate Partnership, an independent initiative that brings together recognized economic, community, philanthropic and institutional organizations. The goal is to mobilize the key players in the Montréal community to help reduce GHG emissions by 55% by 2030 and become carbon neutral by 2050. This initiative led by civil society comes in the wake of the City of Montréal's Climate Plan launched in December 2020.

### Climate Action 100+

In 2020, we co-led three initiatives in connection with Climate Action 100+, which we have been a member of since 2017. These initiatives aimed to influence Southern Company, WEC Energy Group and Duke Energy. As a result of these efforts, these three large emitters made a commitment to become carbon neutral by 2050, representing a reduction of more than 200 million tCO<sub>2</sub>e per year.

# Supporting sustainable growth through two major international initiatives

## Investor Leadership Network (ILN)

CDPQ cofounded the Investor Leadership Network against the backdrop of Canada's presidency of the G7 in 2018. The ILN currently brings together 14 global institutional investors.

The ILN's objective is to facilitate collaboration among peers and work collectively on concrete initiatives relating to three strategic issues:

- Promote a mutual understanding between emerging market public-sector officials responsible for infrastructure planning and developed market investors by way of a sustainable infrastructure fellowship program
- Enable performance by unleashing talent in global capital markets through diversity, with an initial focus on women
- Speed up the implementation of uniform and comparable climate-related disclosures

CDPQ also co-leads several bodies within the ILN, such as the CEO Council, the Board of Directors and the advisory committees for each initiative and the communications committee.

### PROMOTING BEST PRACTICES

#### Diversity in investment

The ILN's 14 members held their second CEO Council in June 2020, where they pledged to increase diversity in the investment and finance sector. To achieve this, they will set measurable targets and promote them within their respective organizations as well as with their portfolio companies and external managers. A particular focus will be on senior leadership positions and investment roles.

The letter signed by Council members is available at: [www.investorleadershipnetwork.org/wp-content/uploads/2020/06/ILN-Diversity-Joint-Engagement-Letter\\_Signatures-June-2020.pdf](https://www.investorleadershipnetwork.org/wp-content/uploads/2020/06/ILN-Diversity-Joint-Engagement-Letter_Signatures-June-2020.pdf)

#### Climate change

In September 2020, the ILN published a practical guide for investors titled: *"Climate Change Mitigation and Your Portfolio: Practical Tools for Investors."*

This report provides a clear outlook on the transition to a carbon-neutral economy by 2050. It presents ten key levers for the industries most affected by the transition, in addition to including detailed tips allowing for a better interpretation of the scenarios analyzed by portfolio companies.

The report is available at: [https://www.investorleadership-network.org/wp-content/uploads/2020/09/ILN\\_Climate-Change-Mitigation-and-Your-Portfolio.pdf](https://www.investorleadership-network.org/wp-content/uploads/2020/09/ILN_Climate-Change-Mitigation-and-Your-Portfolio.pdf)

#### Sustainable infrastructure

The Sustainable Infrastructure Fellowship Program is offered to senior-level public sector officials responsible for infrastructure planning in emerging markets. It allows them to build their expertise, learn best practices and discuss the conditions for developing infrastructure projects with ILN members. In 2020, 26 participants were recruited and are currently taking part in remote training activities through York University's Schulich School of Business, including a component provided by ILN members.

## UN-convened Net-Zero Asset Owner Alliance

CDPQ is one of the founding members of the UN-convened Net-Zero Asset Owner Alliance, a UN initiative that currently brings together 35 large global investors with a shared objective of achieving carbon-neutral portfolios by 2050 while focusing on the impact on the real economy.

By focusing on the climate issues and tapping into each member's expertise, the Alliance asserts strong leadership and provides great potential for change. Members' economic influence is leveraged to encourage investors to support their portfolio companies in decarbonization.

Members work together to develop frameworks and tools through various task forces to help organizations design a transition strategy based on a thorough assessment of the situation. CDPQ's teams work on these committees and are helping to steer the Alliance.

### ENCOURAGING INVESTORS TO TRANSITION TO A SUSTAINABLE ECONOMY

Two key reports were published in the wake of these consultations in 2020:

#### Inaugural 2025 Target Setting Protocol

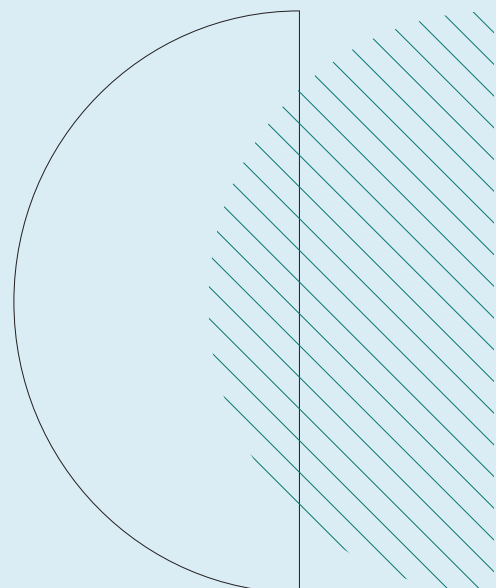
Setting science-based interim targets is a complex challenge. As such, the Alliance has published a protocol clearly setting out the approach to be taken by members in order to set a carbon footprint reduction target for their portfolios within the next five years.

This protocol is available on the website of the United Nations Environment Programme Finance Initiative (UNEP FI) at: [www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf](https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf)

#### Thermal Coal Position

To achieve their carbon neutrality target, Alliance members also published a position on thermal coal, which recommends cancelling all new thermal coal projects. The report also recommends prohibiting financing for new plants and calls upon governments to develop renewable energy initiatives.

This document is available on the website of the United Nations Environment Programme Finance Initiative at: <https://www.unepfi.org/wordpress/wp-content/uploads/2020/11/Net-Zero-Asset-Owner-Alliance-Thermal-Coal-Position.pdf>



# Promoting diversity and inclusion at all levels

The COVID-19 crisis has accelerated economic and social inequality around the globe, making us even more determined to promote gender, ethnocultural and generational diversity as well as diversity of different backgrounds within our organization and in society as a whole.





Our goal is to ensure that CDPQ provides an inclusive work environment that values respect, trust, listening and openness to differences. We want our people to grow as well as contribute fully to our business objectives.

Since our convictions extend to the companies we invest in as well as external managers who work with us, we encourage them to place more importance on this, to structure their approach and to mobilize in a tangible way.

Our commitment goes even further. We are determined to exercise our leadership on these matters within the financial industry. To achieve this objective, we develop and participate in concrete initiatives, notably to increase the number of women and members of ethnocultural minority groups in financial and investment roles both in Québec and internationally.

### **Our conviction**

A corporate culture based on equity, diversity and inclusion is fundamental to achieving our business objectives and building stronger communities.

## **Three pillars of our commitment**

1.

Implement initiatives that foster inclusion and the professional development of all of our talent

2.

Exercise strong leadership among our portfolio companies and external managers

3.

Promote diversity and inclusion to positively influence the industry and our partners

# 1. Focus on diversity and inclusion within our teams

CDPQ makes a sustained effort to attract, retain and develop more women as well as people of different origins, from different cultures and with different backgrounds in our talent pool.

## **AN INCLUSIVE AND EQUITABLE RECRUITING PROCESS**

There is no question that it is important to attract, recruit and develop employees with different profiles. This diversity allows us to cultivate a variety of perspectives that make us better in everything that we do.

In concrete terms, this means:

- Promoting our professions and maintaining an active approach to recruiting
- Periodically analyzing all of our workforce and setting measurable targets to ensure that diversity is fairly represented at all levels
- Regularly reviewing our recruiting and talent management practices and tools

## **EDGE ASSESS CERTIFICATION**

We obtained EDGE Assess certification in May 2020 in connection with our work with the ILN, which enabled us to measure our actions regarding gender equality at all levels within the organization and make concrete commitments in this area. This allowed us to:

- Set targets for gender balance at all levels of the organization
- Clarify career advancement criteria
- Gather all of our statements, principles and guidelines governing diversity and inclusion within one policy that reflects the importance that the Board of Directors and the executive committee place on this.

While EDGE certification focuses on gender diversity, the action taken will benefit all of our talent. This also helps us to better define our strategies and build our influence with our partners and portfolio companies.

## Aligning performance and progress

43%

SHARE OF WOMEN  
ON THE BOARD  
OF DIRECTORS

31%

SHARE OF WOMEN  
ON OUR EXECUTIVE  
COMMITTEE

22%

SHARE OF WOMEN  
IN INVESTMENT  
POSITIONS

23%

SHARE OF OUR EMPLOYEES  
IN QUÉBEC WHO IDENTIFY AS  
A MEMBER OF ONE OF THE  
FOLLOWING GROUPS: VISIBLE  
MINORITY, ETHNIC MINORITY  
OR INDIGENOUS PEOPLES

---

As at December 31, 2020

We believe it is important for women and members of the following groups to be represented: visible minorities, ethnic minorities and Indigenous peoples. We see this as critical to building a more just society and to achieving our business objectives.



### Benefits of diverse and inclusive teams:

- Broader perspectives on business opportunities
- Better decision quality
- Stronger employee engagement
- A more comprehensive view of risks

## 2. Exercise strong leadership among our portfolio companies and external managers

As an investor and shareholder, we have clear expectations of our portfolio companies and external managers. We pay particular attention to the adoption of policies and the disclosure of diversity and inclusion data, and we take a keen interest in progress that is made.

### ENCOURAGING DIVERSITY AND INCLUSION

We generally encourage our portfolio companies and external managers to increase representation by women and members of minority groups on their Board of Directors as well as throughout their organizations while also promoting a diversity of skills and experience.

In 2020, we took stock of the situation to set targets and make concrete commitments. This analysis showed that, as at December 31, 2020, 59% of the public companies held in active management in our portfolio had less than 30% women members on their Boards of Directors.

We propose two types of action to deal with the situation:

- Having a direct and open dialogue with the companies in question to discuss any diversity and inclusion issues that may arise
- Using our shareholder vote during annual general meetings to state our expectations and convictions

### Nominee directors

Gender representation among nominee directors appointed by CDPQ and subsidiaries was also examined. As at December 31, 2020, 22% of these positions were held by women.

In light of this work, CDPQ has adopted a target of having 30% of Board positions held by women by 2023. An action plan is being implemented to achieve this.

### Our goal

To encourage measures aimed at broadening the pool of candidates who are qualified to act as directors.

The action plan has four areas of focus:

- Mapping positions that are filled and vacant and monitoring targets regularly
- Reviewing selection and appointment processes and criteria
- Strengthening the pool of candidate profiles, notably by leveraging our international networks and being more proactive in our talent search
- Overseeing the role of Board member, which includes professional development for current directors



### 3. Promoting industry-wide diversity

CDPQ advances diversity and inclusion issues, together with other major employers and global institutional investors. By collaborating on shared initiatives, we maximize the impact of our actions. This also allows us to have more influence in our industry and bring more investors on board to support this priority.

#### MAKING A COMMITMENT TO OUR PEERS

##### BlackNorth Initiative

In September 2020, CDPQ’s President and CEO joined more than 300 business leaders in Québec and across Canada to sign the BlackNorth pledge. This initiative calls for concrete action and specific goals to end systemic racism and create advancement opportunities for members of the Black community.

##### Canadian Investor Statement on Diversity and Inclusion

As a founding signatory, in October 2020 CDPQ took part in an initiative coordinated by the Responsible Investment Association (RIA). The goal is to improve the annual public disclosure of diversity data, to adopt policies, objectives and timelines and to expand and promote the organization’s efforts to eliminate obstacles to diversity and inclusion.

##### The Prosperity Project’s Zero Report

CDPQ has contributed to the Prosperity Project’s Zero Report. This initiative assesses the repercussions of the pandemic on women—particularly women from different minority groups—on three organizational levels, i.e. the Board of Directors, the executive committee as well as candidates seeking executive positions within large public companies, Crown/government corporations and private corporations.

##### The 30% Club

Since 2017, CDPQ has been a member of the Canadian chapter of this group of organizations advocating for at least 30% female representation on the Board of Directors and management team of S&P/TSX Composite Index companies.

In 2020, we helped to develop Engagement Talking Points for members of the 30% Club and their employees. This document provides arguments to answer the most frequently asked questions about diversity and inclusion raised by Board members.



# Requiring responsible governance practices

The COVID-19 pandemic reiterated the importance of a company's decision-making structure and processes. Effective risk management, an organizational culture that is based on collaboration and a sustained dialogue regarding best practices are key assets for companies as they face the challenges before them.



Our teams promote our outlook and leverage their expertise regarding companies to improve organizational resilience.

In 2020, our teams reviewed a set of factors when analyzing our transactions. Board composition and effectiveness, shareholding structure, executive compensation, tax practices, ethics and business practices, as well as risk management and cybersecurity were examined.

**Our belief**

Sound corporate governance is a reflection of the solidity and durability of our portfolio companies.

## Our three priorities for supporting more responsible governance

1.

Analyzing ESG factors in all of our investment activities

2.

Anticipating cybersecurity issues

3.

Countering abusive tax planning

# 1. Analyzing ESG factors in all of our investment activities

Our teams' ESG analyses are a key element in our investment strategy. They allow us to ensure that ESG factors are taken into account by the companies in which we invest.

We perform detailed analyses to map the potential ESG risks we may be exposed to as an investor. The goal is to apply the necessary measures to ensure that our own teams—as well as those of our portfolio companies—are able to assess risks appropriately and make optimal decisions.

Since ESG issues change, we provide tools to our managers to help them measure the potential impacts. We have therefore taken a structured approach allowing us to identify more sensitive sectors and take this analysis into account when making decisions.

355

TOTAL ESG ANALYSES  
PERFORMED IN 2020



## Case study

There have been a number of discussions in recent years—particularly in 2020—with the Board of Directors and senior management of a major Canadian industrial company. We regularly shared our ESG priorities and views on the practices in place. Given its recent involvement in an ESG initiative, the company leveraged our discussions to continue improving its disclosure framework.

Following discussions with its investment partners, the company announced the adoption of an enhanced expertise matrix for directors and strengthened its climate governance and disclosure.

## Exercising international leadership

We are determined to contribute to changing our industry, which is why we have become involved on different fronts to encourage the adoption of ESG best practices.

### IFRS FOUNDATION'S PUBLIC CONSULTATIONS

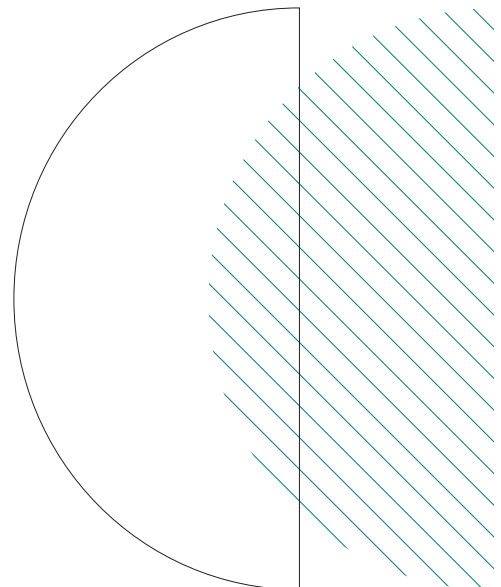
We work closely with our peers to adopt a common, comparable and more transparent ESG reporting framework. In December 2020, we submitted a letter to the International Financial Reporting Standards (IFRS) Foundation in response to public consultations in connection with the creation of a Sustainability Standards Board (SSB). We firmly support the implementation of a global reference framework for ESG reporting.

### CFO LEADERSHIP NETWORK – ACCOUNTING FOR SUSTAINABILITY (A4S) INITIATIVE

We took part in work done by the CFO Leadership Network's Canadian chapter, as part of the Accounting for Sustainability initiative to encourage economic, environmental and social issues to be factored into strategies, processes and decision-making.

### TOBACCO-FREE FINANCE PLEDGE

The tobacco industry represents a public health issue with serious repercussions for the environment and society, which is why we believe that it is not sustainable in the long term. By signing the Tobacco-Free Finance Pledge in December 2020, we officially withdrew from this industry. This pledge underscores the leadership shown by financial institutions that have instituted tobacco-free financing policies and encourages other institutions to follow suit.



## 2. Anticipating cybersecurity issues

The health crisis in 2020 accelerated connectivity in societies around the globe. Most companies, institutions and organizations operated online, which exposed them to heightened cybersecurity risks. Such risks were already rising very quickly, with greater potential impacts for stakeholders.

These threats are increasingly sophisticated today. They can have major economic, political and social repercussions. Stakeholders are quite rightfully demanding that their confidential personal information be better protected.

CDPQ pays particularly close attention to efforts made by companies to address cybersecurity issues and carefully assesses a company's resilience to this threat. Given that this could have a significant impact on business activities, we make this a priority issue in our discussions.

### ONGOING RISK ASSESSMENT

We place considerable importance on a company's exposure to cyber threats throughout our investment process. This allows us to assess the company's level of maturity, suggest improvements, monitor the risks identified and build maturity (Figure 10).

A number of cybersecurity risk analyses were conducted by our teams in 2020 at all stages of the investment cycle, taking into account the following factors: governance, resources available, processes in place and cybersecurity technology.

FIGURE 10

### CYBERSECURITY ANALYSIS

Cybersecurity analyses are conducted based on:

- › Public information
- › External evaluation reports
- › Q&A sessions with the company



Cybersecurity risk is assessed and recommendations are made to reduce residual risk



Post-investment monitoring is conducted to monitor changes for the company

### 3. Countering abusive tax planning

We took various action in 2020 in the area of international taxation. Our investment process was refined to clarify the criteria used by our teams in assessing shares of public companies. To reflect these developments, we updated our commitment regarding international taxation in recent months (Appendix 4).

CDPQ believes that the abusive use of low-tax jurisdictions represents a major societal issue. The negative impact their use has on public finances in countries around the world and

on their ability to meet the needs of their citizens is clear. Since we oppose any form of tax evasion and support the fight against the aggressive use of tax rules, we are helping to clarify and improve the tax practices of companies and institutional investors around the globe. We are also playing a role in various related initiatives.



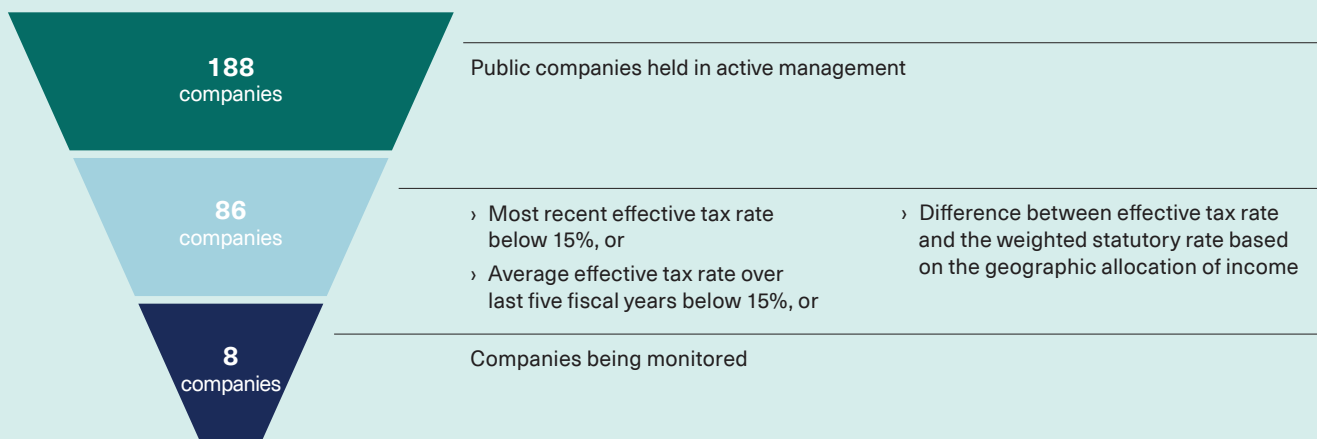
**TOOL FOR ANALYZING TAX PRACTICES**

We analyze the tax practices of our portfolio companies and review these practices periodically to ensure that they adhere to our principles governing taxation. This allows us to react quickly and have a conversation with a company's management team, when necessary, to clarify our expectations.

All of our public companies held in active management were reviewed in 2020 (Figure 11). For this type of investment, we chose to include on our list of companies being monitored those with an effective tax rate of less than 15%, a generally recognized threshold under which companies may be suspected of employing abusive tax practices. After completing this analysis, eight companies were identified as requiring monitoring since their tax practices could be considered abusive.

FIGURE 11

**TOOL FOR ANALYZING TAX PRACTICES**





### **CONCERTED EFFORTS WITH OUR INTERNATIONAL PARTNERS**

There is a consensus among OECD member countries and international experts that companies must pay income tax in countries where they have significant economic activity and where they earn revenues.

CDPQ also took part in two round-table discussions on tax transparency organized by Norges Bank (Norway) and ABP (the Netherlands). These events were an opportunity to share our experience and discuss best practices for managing tax risks with other global investors.

Working with our international peers, we have developed a joint tool that establishes and clarifies what is expected of external managers so they can have more influence in ensuring tax transparency.



### **Case study**

An investment fund that successfully bid to acquire a European infrastructure target offered CDPQ a minority stake. The fund planned to invest through a subsidiary based in Luxembourg. To adhere to our tax policies, we convinced the fund to let us invest directly in the parent company based in France, establishing governance there rather than in Luxembourg.

# Supporting communities in an unprecedented crisis

The COVID-19 pandemic that struck the world in early 2020 quickly led to huge needs in communities. We therefore had to provide additional assistance to various organizations in order to support the people affected by this unprecedented crisis.

In this context, we pursued philanthropic endeavours in four priority areas: health, combatting climate change, support for universities and communities, which includes fighting poverty, school perseverance and access to culture (Chart 12).

## PROVIDING BENEFICIAL LONG-TERM SUPPORT

CDPQ continues our philanthropic endeavours in Québec by providing concrete support to the community. Our new donations and sponsorships policy for 2020–2022 seeks to provide beneficial long-term support in keeping with our core values of ethics and rigour.

In contributing to different organizations, we leverage our teams' know-how and creativity, their commitment to the community and their business networks to build partnerships. This allows us to have an impact that extends well beyond the funds provided.

**120+** ORGANIZATIONS SUPPORTED IN 2020

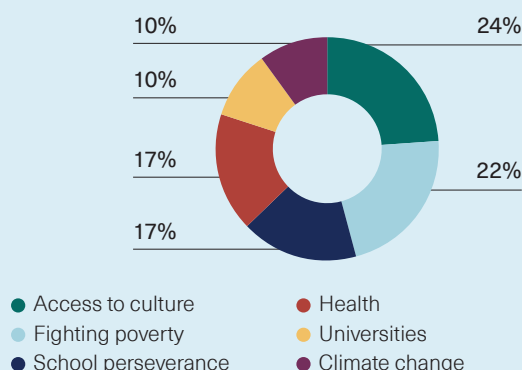
## FACING THE CRISIS TOGETHER

In this time of great economic and social uncertainty, we are very aware of the challenges facing many organizations that directly provide essential services to the most vulnerable members of society. To help them maintain these services and broaden their offerings, CDPQ has contributed an additional \$300,000 divided among five charitable organizations:

- Centraide of Greater Montreal's emergency fund, dedicated to the most vulnerable people
- Little Brothers, which works with seniors in need
- Alloprof, which provides educational support to children and their parents
- Tel-Jeunes, which supports young people and their parents through free and confidential counselling services
- The Red Cross and its community support initiatives

CHART 12

### OUR COMMUNITY SUPPORT IN 2020



## HIGHLY ENGAGED EMPLOYEES

Our Causes and Effects program highlights employee commitment to charitable causes. CDPQ provides financial recognition to non-profit organizations (NPOs) that our employees become involved in as a member of the Board of Directors, the strategic committee or in fundraising activities:

**150+** of our employees are members of NPO Boards

**39+** donations made to organizations that our employees are involved with, for a total of nearly \$35,000

**200+** young CDPQ professionals between 20 and 35 years of age are involved in the Impact 20–35 initiative, which provides expertise to select NPOs on a voluntary basis

**6** volunteer missions were organized by Impact 20–35

## 2020 RED CROSS CAMPAIGN—WORKING AT THE CENTRE OF THE EMERGENCY

This major fundraising campaign co-chaired by CDPQ and Hydro-Québec was aimed at supporting the Canadian Red Cross emergency fund. The donations allowed the Red Cross to carry out various initiatives in support of the measures implemented by government authorities. Among other things, a mobile hospital was set up in the LaSalle borough to help the CIUSSS de l'Ouest-de-l'Île-de-Montréal and increase its capacity at the height of the first wave of the pandemic.

## ETHICS AND COMPLIANCE CERTIFICATION

Working in partnership with HEC Montréal and Hydro-Québec, in 2020 CDPQ created a new type of certification that aims to provide ethics and compliance training to professionals and managers. The first class of 22 participants has completed the program, which provides an overview of best practices in this area.

## A RECORD AMOUNT RAISED FOR THE 2020 CENTRAIDE CAMPAIGN

Centraide's very first virtual fundraising campaign, whose theme was "Six feet apart but close to the heart," was a success. In 2020, our employees' solidarity and engagement was seen through their exceptional participation in a year when needs increased dramatically.

**\$513,276**

CONTRIBUTED BY EMPLOYEES TO  
THE 2020 CENTRAIDE CAMPAIGN

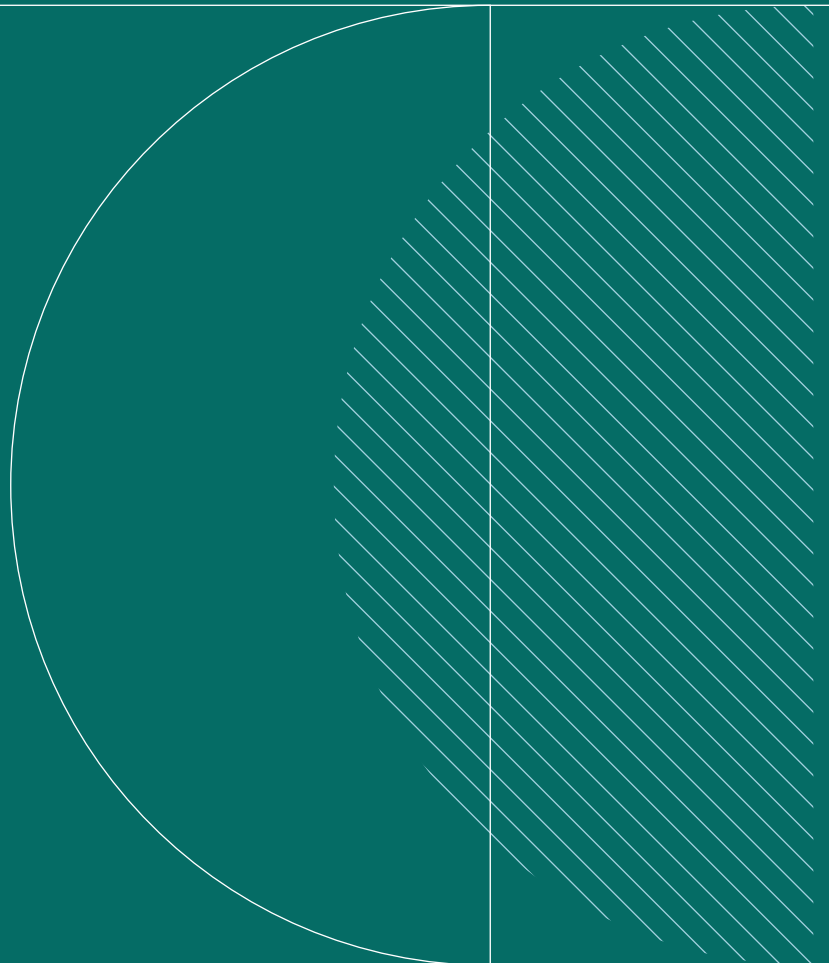
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**\$1,026,552**

TOTAL CONTRIBUTION TO  
THE 2020 CENTRAIDE CAMPAIGN



# Appendices



## CALCULATION OF THE INTENSITY OF CDPQ'S PORTFOLIO

### Calculation

$$\text{Total CDPQ portfolio intensity} = \frac{\sum \text{CDPQ emissions (tCO}_2\text{e) of the portfolio as at December 31}}{\text{CDPQ portfolio within the perimeter (millions of CAD)}}$$

$$\text{CDPQ emissions} = \text{asset-related emissions (tCO}_2\text{e)} \times \frac{\text{LT capital supplied by CDPQ (millions of CAD)}}{\text{Total LT capital of the asset (millions of CAD)}}$$

**LT Capital:** Long-term capital used by a company to finance its production assets (fair market value of equity + long-term debt).

**Perimeter of calculation:** CDPQ portfolio in the perimeter.

**Type of investment:** Investments, including those of non-consolidated subsidiaries, in the form of shares, corporate and Crown corporation debt, securities held through market indexes or exchange-traded funds (ETFs), externally managed investments, securities lending and borrowing. Are excluded: government bonds, cash, warrants, derivative financial instruments and securities purchased under resale agreements.

**Specialized portfolios:** Equity Markets, Fixed Income, Private Equity, Infrastructure, Real Estate, certain investments in shares (including short positions) held in Asset Allocation

**Value as at December 31, 2020:** Includes \$333 billion, excludes \$92 billion (government bonds and other).

### Emissions considered

The carbon footprint of an asset corresponds to its direct or indirect greenhouse gas emissions (scopes 1 and 2) converted into equivalent tons of CO<sub>2</sub> as defined by GHG Protocol.

### Data sources

#### A) Direct holdings

The Trucost database is CDPQ's preferred source for individual issuers. Combined with data from the Compustat and Bloomberg database, the Trucost figures (calendar year 2020) form the foundation of our calculations of emissions by individual securities and average sector intensity. In the absence of Trucost data, our approach is as follows:

Low Intensity Assets (< 120 tCO <sub>2</sub> e/M\$) and intense assets under the methodological threshold	Average sector intensity (GICS Level 4 classification)
High intensity asset (≥ 120 tCO <sub>2</sub> e/M\$) that exceed the methodological threshold  Ivanhoé Cambridge's assets	In order of priority: <ul style="list-style-type: none"> <li>• Footprint disclosed by the issuer (if credible)</li> <li>• Footprint estimated by a credible source</li> <li>• Use of specific comparables operating facilities similar to those of the issuer</li> <li>• Estimation based on technical data from emitting facilities and credible sources of standardized data</li> <li>• Average intensity of the sector</li> <li>• Average corporate intensity for certain sectors or assets in emerging markets</li> </ul>

### Methodological thresholds

CDPQ has established thresholds that allow it to adjust its level of analysis by sector:

	CDPQ exposure threshold
Very high intensity sectors (≈5,000 tCO <sub>2</sub> e/M\$)	\$10 M
High intensity sectors (≈2,000 tCO <sub>2</sub> e/M\$)	\$25 M
Average intensity sectors (≈500 tCO <sub>2</sub> e/M\$)	\$100 M

#### B) Indirect holdings

Where data is available, the intensity of funds is calculated according to the rules applicable to direct holdings. Where data is not available, CDPQ uses the intensity of the fund disclosed by the manager or, if the data is unsatisfactory, the average intensity of the sector or asset class appropriate to the nature of the fund.

## INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON THE CARBON INTENSITY OF THE PORTFOLIO WITHIN THE CALCULATION BOUNDARY OF THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

### TO THE BOARD OF DIRECTORS AND MANAGEMENT OF THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

#### Scope

We have undertaken a limited assurance engagement of the carbon intensity of the portfolio of the Caisse de Dépôt et placement du Québec ("CDPQ") as of December 31, 2020, comprising the carbon intensity of the portfolio within the calculation boundary of the CDPQ on pages 20 and 44 of the Stewardship Investing Report (the "Subject Matter").

Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

#### Criteria applied by CDPQ

In preparing the carbon intensity of the CDPQ portfolio, CDPQ applied internally developed criteria (Criteria). The Criteria can be accessed in the schedule "Calculation of the Intensity of the CDPQ Portfolio" of the Stewardship Investing Report, which is publicly available. Such Criteria were specifically designed for determining the carbon intensity of the CDPQ portfolio as there are currently no legislative or regulatory requirements requiring the CDPQ to prepare, publish or have verified the carbon intensity of an asset. As a result, the subject matter information may not be suitable for another purpose.

#### CDPQ's responsibilities

CDPQ's management is responsible for selecting the Criteria, and for presenting the carbon intensity of the CDPQ portfolio in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Subject Matter, such that it is free from material misstatement, whether due to fraud or error.

#### EY's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

Our engagement was conducted in accordance with the *Canadian Standard on Assurance Engagements 3410, Assurance Engagements on Greenhouse Gas Statements (CSAE 3410)*, issued by the Auditing and Assurance Standards Board, and the terms of reference for this engagement as agreed with the CDPQ on January 11, 2021. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

#### Our Independence and Quality Control

We have maintained our independence in accordance with the ethical requirements that are relevant in Canada, and have the required competencies and experience to conduct this assurance review.

EY also applies International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

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Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

The carbon intensity of the CDPQ Portfolio quantification process is subject to scientific uncertainty, which arises because of incomplete scientific knowledge about the measurement of greenhouse gas emissions. Additionally, emissions procedures are subject to estimation (or measurement) uncertainty resulting from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the carbon intensity of the CDPQ portfolio and related information, and applying analytical and other relevant procedures.

Our procedures included:

- Conducted interviews with personnel to understand the business and reporting process
- Conducted interviews with key personnel to understand the process for collecting, collating and reporting the subject matter during the reporting period
- Checked that the calculation criteria have been correctly applied in accordance with the methodologies outlined in the Criteria
- Undertook analytical review procedures to support the reasonableness of the data
- Identified and testing assumptions supporting calculations
- Tested, on a sample basis, underlying source information to check the accuracy of the data

We also performed such other procedures as we considered necessary in the circumstances.

Our procedures did not include providing conclusions in relation to:

- The completeness or accuracy of data sets or information relating to areas other than the Carbon Intensity of the CDPQ Portfolio included in the Stewardship Investing Report.
- An assessment of the current value of the individual or aggregate interests of the CDPQ appearing in the schedule "Calculation of the intensity of the CDPQ Portfolio."

### **Conclusion**

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the carbon intensity of the CDPQ portfolio as of December 31, 2020 in order for it to be in accordance with the Criteria.

### **Restricted use**

This report is intended solely for the information and use of CDPQ and is not intended to be and should not be used by anyone other than those specified parties.



April 15, 2021  
Montreal, Canada

<sup>1</sup>FCPA, auditor, FCA, partner, public accountancy permit # A114960



## TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Issued in 2017, the TCFD's recommendations represent today's global benchmark for financial disclosures relating to climate issues. Since CDPQ would like to see more and more companies and investors adopt these recommendations, it is leading by example and measuring our progress against this series of recommendations.

### APPLICATION OF THE RECOMMENDATIONS BY CDPQ

#### Governance

#### 1. Board oversight of climate-related risks and opportunities

- Our responsible investment policy and climate strategy announced in 2017 require that climate considerations be factored into the process for analyzing and approving investments. Our integrated risk management policy also encompasses the risks related to ESG criteria. These policies are approved by the Board of Directors, which monitors progress semiannually.
- In 2018, the Board of Directors' Human Resources Committee approved factoring carbon into the calculation of employees' variable compensation. This component is now taken into consideration for variable compensation.

#### 2. Describe management's role in assessing and managing climate-related risks and opportunities

- The assessment and management of climate-related risks and opportunities are fully factored into CDPQ's investment processes. Working in collaboration with the strategy and investment teams, the climate risk and issues team closely monitors the annual carbon budgets of our specialized portfolios to achieve the targets set for 2025. These analyses are submitted to the various committees on which CDPQ executives sit, including the Investment-Risk Committee.
- Climate risks are discussed in specific sections of investment approval and reporting documents and are subject to the same governance as other risks.
- The Climate Risk and Issues and Stewardship Investing teams calculate the carbon intensity of investment opportunities as well as when monitoring CDPQ's companies and portfolios. They also support the climate ambassadors for each specialized portfolio in factoring climate considerations into the analysis of investment opportunities.

#### Strategy and risk management

#### 3. Describe the climate-related risks and opportunities identified over the short, medium and long term

- Our teams analyze the different types of physical risks relating to climate change over the short, medium and long term. These risks are taken into account for investments located in areas that are vulnerable to extreme climate events or when the resource itself is dependent on the climate over the long term.
- The work done by the United Nations Environment Programme Finance Initiatives (UNEP FI) showed how complex it is to develop models for physical risks, particularly for the total portfolio. In light of their conclusions, we have partnered with our Canadian peers as well as The Climate Services (TCS) to develop a tool to better understand, measure and report in financial terms physical risks relating to climate change that can impact our portfolio assets.
- Our teams also analyze transition risks relating to climate change. Various types of transition risks exist, including regulatory or political action (carbon pricing or subsidies), technological innovations, market risks (changes in demand for certain products), lawsuits and reputational risks. They are assessed by way of quantitative and qualitative analyses.
- In the short term, these risks are moderate and specific to certain companies and jurisdictions. They are analyzed case by case. Medium-term transition risks (<5 years) are of a technological, regulatory or market-related nature or pertain to carbon pricing, potentially affecting the competitiveness of carbon-intensive companies. Long-term transition risks (>5 years) are associated with high carbon intensity sectors for which lower carbon substitutes or disruptive technologies exist.

- We remain abreast of methodologies to quantitatively assess the transition risk for our portfolios. We have not yet identified a service provider using a sufficiently robust methodology that would allow us to effectively quantify the impacts of the transition. The most common issues are the lack of assumptions for passing costs for a price on emissions on to customers and the failure to factor in the impacts on value chains.
- There are many climate opportunities. CDPQ has set some targets for investing in low-carbon assets and is attentive to any opportunity to invest in any other area promoting a transition to a more sustainable economy.

#### **4. Describe and assess the impact of climate-related risks and opportunities on operations, strategy and financial planning and how they factor into investment portfolios and strategies**

- As a long-term investor, CDPQ adapts our portfolio to seize opportunities and reduce our risk relating to climate change. Climate risks are evaluated by the investment committees when the investment decision is made and the portfolio composition is reviewed. The degree of analysis depends on the materiality of the risk. The risks assessed include physical and transition risks and take into account the company's industry positioning, management of ESG issues and transition strategy.
- Scenarios are used, when necessary, to analyze the impact of the energy transition or long-term changes in weather patterns based on key performance metrics. These risks are addressed in specific sections of the investment approval and reporting documents and are subject to the same governance as other risks.
- Portfolios are reviewed periodically to monitor climate risks and analyze the mitigation measures implemented by companies.
- We therefore invest in low carbon companies, projects and assets as well as companies that are well positioned to survive a long-term energy transition.

- Due to our low-carbon investment and carbon intensity reduction targets for the portfolio, climate opportunities form an integral part of our investment strategy.
- We have also introduced specific guidance to oversee energy value chain investments. This guidance clarifies the role of all value chain components in the energy transition.
- Lastly, in 2019, CDPQ cofounded the UN-convened Net-Zero Asset Owner Alliance together with other global investors. This initiative seeks to ensure that our portfolios are carbon neutral by 2050, while supporting the decarbonization of the real economy. Working together with the members of this group, we have begun to address the complex matter of setting intermediate science-based targets. We have also published an initial protocol for setting objectives for 2025 to support companies in this area.

#### **5. Management of physical risks**

- Working together with our peers and expert advisors, we are developing an innovative solution that will allow us to perform a qualitative and quantitative assessment of material events facing our assets. We will be able to refine our analyses according to different climate scenarios and time horizons to determine the implications for a company's value chain throughout our investment process. Ultimately, this will help us to better anticipate physical climate risks and make our investment strategy more resilient throughout our portfolio.

#### **6. Management of transition risks**

- We have developed qualitative tools to improve the way that transition risks are factored into analyses. These scalable tools are aimed at guiding decision-making according to regulatory, technological and socio-economic developments around the world. They will also allow teams to ask the right questions when analyzing investment opportunities.

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## 7. Long-term ambitions

- As a member of the UN-convened Net-Zero Asset Owner Alliance, we set interim targets every five years to encourage the decarbonization of our portfolios.
- To decarbonize the real economy, the members of this group pledged to work together in developing best practices, influencing portfolio companies and continuing to drive financing for existing climate solutions with the goal of achieving portfolio decarbonization targets.
- The target set by CDPQ in 2017 (-25% in carbon intensity between 2017 and 2025) covers all asset classes, i.e. real estate, fixed income, equity markets, private equity and infrastructure.
- To support the members of this initiative, an Inaugural 2025 Alliance Target Setting Protocol was published, setting out the approach taken by the Alliance and its members for setting carbon intensity reduction targets that can be achieved within the next five years. Additional work will also begin in order to add certain asset classes, notably infrastructure.
- In the fall of 2020, we pledged, together with the members of the UN-convened Net-Zero Asset Owner Alliance, to no longer finance any new thermal coal project as well as to phase out from our portfolios most coal-fired assets in industrialized countries by 2030, eliminating them completely on a global scale by 2040.
- We are also exploring the methodologies underlying the calculation of forward-looking climate metrics, particularly the climate trajectory alignment for companies and portfolios. CDPQ currently believes that these climate change metrics include a number of key issues, notably some considerable differences between the approaches used for this calculation, significant variances in the results generated and too limited coverage of the underlying data. For these reasons, until a more robust methodology is developed, we will continue to use the carbon intensity metric of a company or portfolio and the volume of low-carbon investments, combined with our own qualitative tools.

## 8. Engage with portfolio companies to improve their climate-related practices and disclosures

- This commitment can take different forms. We support shareholder proposals aimed at promoting better disclosure of climate-related risks and opportunities, in accordance with the TCFD's recommendations, by exercising our shareholder voting rights. Moreover, we speak with executives from select companies to understand their climate change strategy and encourage them to adopt best practices. In some cases, CDPQ pools our efforts with other peers to maximize our influence with companies.
- As part of various initiatives, including Climate Action 100+, we work with other Canadian and international investors to influence the practices of the largest emitters, raise awareness among investors and companies, and share best practices for addressing climate issues.

## 9. Seize opportunities

- There are many climate opportunities. CDPQ has set some targets for investing in low-carbon assets and is attentive to any opportunity in areas promoting the transition to a more sustainable economy.
- CDPQ partners with CREO Family Office Syndicate (CREO), an organization that aims to direct more capital toward climate change solutions through the work done by the innovation platform for stewardship investing.
- This collaboration led to a joint investment agreement with S2G Ventures, which will make it possible to invest up to US\$125 million over the next three years in venture capital corporations whose goal is to make the agri-food industry more sustainable.
- In 2020, CDPQ made an initial investment in Benson Hill, a food technology company that leverages the natural genetic diversity of plants.
- In our advisory capacity for many portfolio companies, CDPQ encourages these companies to develop or adopt technology supporting a transition to a greener economy.

## 10. Develop new investment guidelines

- We analyze the role that each component of the energy value chain plays in the transition throughout our investment process and, therefore, closely monitor our hydrocarbon exposure.
- In the fall of 2020, we pledged, together with the members of the UN-convened Net-Zero Asset Owner Alliance, to no longer finance any new thermal coal project as well as to gradually phase out from our portfolios all coal-fired plants in industrialized countries by 2030, eliminating them completely on a global scale by 2040.

## Metrics and targets

### 11. Disclose the metrics used to assess and track climate-related risks and opportunities, according to portfolio and strategy, and changes in metrics

- Our main metrics are the carbon intensity (tCO<sub>2</sub>e/M\$) of a company or portfolio and the volume of low-carbon investments (in billions of dollars), based on Climate Bonds Initiative criteria.
- CDPQ put in place an IT system in 2018 connecting our own internal databases to the databases of climate data suppliers, making it possible to estimate the carbon intensity of our various portfolios in real time. This system allows us to closely monitor progress in achieving targets.
- CDPQ has also taken part in the work led by the UN-convened Net-Zero Asset Owner Alliance to find solutions making it possible to strengthen the methodology using forward-looking climate metrics. In our view, the metric measuring the implicit increase in global temperatures resulting from GHG emissions and by a group of entities includes several key issues that limit its appropriateness in measuring climate risks and opportunities in our portfolios.
- CDPQ prefers to continue using the metric for the carbon intensity of a company or portfolio and the volume of low-carbon investments, which it considers to provide information that is credible, rigorous, easy to understand, obtained using a transparent methodology and useful in decision-making.

### 12. Disclose carbon intensity of the portfolio (types 1 and 2) and the associated risks

- In 2020, the carbon intensity of CDPQ's portfolio was 49 tCO<sub>2</sub>e/M\$, down 30 tCO<sub>2</sub>e/M\$ from 2017.

### 13. Disclose carbon intensity based on portfolios and strategies, along with relevant data and the methodology used

- We disclose the carbon intensity of our total portfolio and provide information on the contribution of various sectors to our overall carbon footprint, in addition to their weight in CDPQ's total portfolio in billions of dollars.
- The methodology used to measure our carbon footprint is available in Appendix 1 and has been certified by CDPQ's external auditors (see Appendix 2).

### 14. Describe targets used to manage climate-related risks and opportunities and performance against targets

- Our carbon intensity reduction targets are broken down by portfolio based on asset class, time horizon and investment universe. In 2020, we reduced the carbon footprint of our total portfolio by 38% compared to the 2017 reference footprint. We also exceeded our target for low carbon investments initially set for 2020 reaching \$36 billion, or double the value of our investments in 2017.

## CDPQ'S INTERNATIONAL TAXATION COMMITMENT

The abusive use of low-tax jurisdictions and aggressive tax planning are a societal issue that CDPQ takes very seriously. Such tax strategies have a negative impact on public finances for governments around the world as well as on their ability to meet the needs of their citizens. CDPQ opposes all forms of tax evasion and supports the fight against the abusive use of tax rules. It takes part in international efforts to put an end to unfair tax practices in certain jurisdictions that make it easy to circumvent tax laws.

The structure of our investments is consistent with the letter and spirit of tax laws as well as OECD recommendations in connection with the base erosion and profit sharing (BEPS) initiative—the key international initiative focussing on low-tax jurisdictions. We therefore work with our portfolio companies and partners to promote action that supports the adoption of these recommendations.

As a manager of pension and insurance funds, CDPQ is not taxed on the returns generated by the vast majority of our assets. However, when investing, we carefully examine the tax rate for our investments in different jurisdictions. By relying on internal and external expertise, best practices that are seen and discussed in the industry as well as statements by governments and international organizations such as the OECD, we have developed objective, stringent and robust criteria that we apply when doing our due diligence.

This analysis allows us to assess the proposed transaction structure and influence our partners to avoid using low-tax jurisdictions when there is no legitimate business or legal reasons to do so and to ensure that no undue tax benefits are derived which could ultimately lead to CDPQ's decision not to invest.

### LOW-TAX JURISDICTIONS

There is currently no global consensus regarding what defines a low-tax jurisdiction. That is why there continue to be significant differences between the reference lists made public by the various organizations and jurisdictions.

Given that there is no broadly accepted or internationally agreed upon list of low-tax jurisdictions, we have established a list of jurisdictions for which any new investment must be carefully analyzed. This list is updated periodically in light of legislative developments or positions taken by various international organizations recognized as having expertise in this area.

A list of countries is not an end in itself. Companies domiciled in countries that could be considered low-tax jurisdictions pay income taxes while other companies domiciled in countries not on these lists can pay very little tax.

That is why CDPQ considers it important to broaden the analytical framework to focus on overly aggressive tax planning rather than being limited to a list of countries to ensure that assets are being managed in a sustainable manner.

### ANALYTICAL CRITERIA

The criteria developed by CDPQ with regard to international taxation have been incorporated into the investment process, making it possible for teams to use a structured approach.

**Investments must be subject to a consolidated tax rate of at least 15%, no matter where the investment is made.**

This rate is a generally recognized threshold under which companies may be suspected of employing abusive tax practices. Most companies that meet this criterion generally pay income tax in the countries where they carry on most of their operations.

**CDPQ ensures that the structure or partnership are consistent with the BEPS initiative guidelines**, when taking part in investment funds or platforms created to support the relationship with partners. In particular, these guidelines provide that an investment structure should not confer on the investor a tax benefit that would not have been available had the investment been made directly.

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CDPQ places considerable importance on this, since funds with hundreds of international investors are often incorporated in low-tax jurisdictions. There are legitimate business reasons for these structures. Most notably, they are used to support the relationship and structure between investors rather than being created for tax-avoidance purposes. In fact, the companies in which the fund invests pay income tax where they operate while investors in the fund pay income tax on the returns that they receive.

**When there is a limited number of investors, CDPQ may sometimes influence its partners,** encouraging them to achieve their business objectives by setting up structures outside of the low-tax jurisdiction.

However, when a fund has many co-investors, CDPQ generally has very little influence in terms of the choice of jurisdiction where these investment funds are originally incorporated. CDPQ derives no tax benefits in these situations.

The issue of abusive use of low-tax jurisdictions or aggressive tax planning is important to many public and private sector stakeholders and requires considerable collaboration. By using our influence to support international efforts and our investment process, which includes best practices, we want to take a clear leadership role and meet all of our obligations.

The 2020 Stewardship Investing Report is available at [www.cdpq.com](http://www.cdpq.com).

*Le Rapport d'investissement durable 2020 est aussi accessible en français au [www.cdpq.com](http://www.cdpq.com).*

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