Caisse de dépôt et placement du Québec

Fixed Income

FACT SHEET

Description

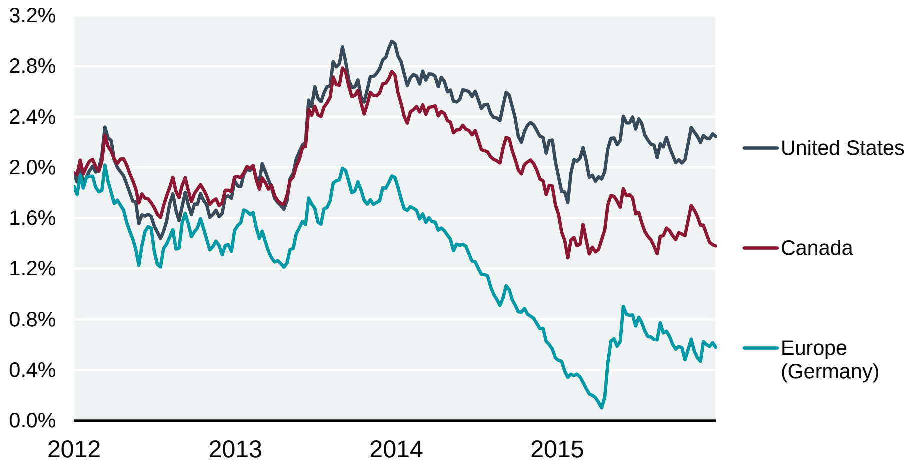
The Fixed Income asset class reduces the level of overall portfolio risk and allows for a certain matching of clients' assets and liabilities. It also constitutes a substantial source of liquidity.

This asset class consists of four portfolios. The Bond and Real Estate Debt portfolios, with net assets totalling $79.2 billion, are managed actively, whereas the Short Term Investment and Long Term Bond portfolios, with net assets totalling $6.9 billion, are indexed.

Market context

The past four years have been characterized by unprecedented monetary easing measures implemented by the main central banks. To support economic activity, the banks lowered their key interest rates to near 0%. They also introduced significant quantitative easing programs, in particular by purchasing government bonds. These programs have exerted downward pressure on bond yields around the world.

Changes in 10-year bond yields



Since their sudden spike in the spring and summer of 2013 – in response to market expectations that the U.S. Federal Reserve could potentially scale back its monetary easing measures – yields have clearly trended downward. This is primarily due to:

- fears of deflation in Europe; and
- market expectations that the European Central Bank (ECB) would implement a major quantitative easing program.

The ECB’s implementation of such a program in March 2015 led to a sharp decline in bond yields, not only in Europe but also in the rest of the world. The collapse in oil prices since mid-2014 also placed downward pressure on yields.

In Canada, yields remained relatively close to those in the U.S. until 2014. Since then, the spread has widened due to the impact of low oil prices on growth. Twice in 2015, the Bank of Canada reacted by trimming 25 basis points from its key interest rate.

Highlights of results

	At Dec. 31, 2015	4 years			2015		
Specialized portfolio	Net assets ($ billions)	Net investment results ($ millions)	Return (%)	Index (%)	Net investment results ($ millions)	Return (%)	Index (%)
Bonds	67.9	8,794	4.1	3.7	2,390	3.8	3.7
Real Estate Debt	11.3	1,955	5.5	3.6	536	5.1	3.5
Short Term Investments	4.5	261	1.0	0.9	49	0.7	0.6
Long Term Bonds	2.4	416	4.6	4.7	106	4.7	4.8
Fixed Income	86.1	11,426	4.0	3.5	3,081	3.9	3.6

The Fixed Income portfolios benefited from declining interest rates in recent years. Over four years, this asset class provided net investment results of $11.4 billion. The annualized return on this asset class totalled 4.0%, which is 0.5% above the benchmark index. In 2015, the Fixed Income asset class returned 3.9%.

BONDS

This actively managed portfolio generated net investment results of $8.8 billion over four years. Its annualized return of 4.1% benefited from:

- lower bond yields in Canada, and
- narrower spreads between federal government bonds and provincial and corporate bonds.

The return on this portfolio, which outperformed its index by 0.4%, was largely due to private debt activity and positions in U.S. financial institution bonds. The strategy focused on the narrowing of yield spreads also added value due to the overweighting of provincial bonds in the portfolio.

In 2015, the bond portfolio generated a return of 3.8%. This positive return was due to lowering yields in Canada, la Caisse’s credit strategies and a strong performance by corporate bonds, which are an area of focus for the portfolio. Among the securities that made the greatest contribution to this return were companies such as Citigroup, Agropur and Boreas.

REAL ESTATE DEBT

This actively managed portfolio consists primarily of senior Canadian commercial mortgage loans on quality real estate assets.

Over four years, the portfolio's net investment results reached close to $2.0 billion. The annualized return was 5.5%, which is 1.9 percentage points above the benchmark index. The value added during this period came mostly from a current portfolio yield that outperformed that of the index.

In 2015, the portfolio returned 5.1%, most of which was due to the current yield. Lowering federal yields also made a positive contribution, but this effect was offset by wider credit spreads.

SHORT-TERM INVESTMENTS

This indexed portfolio provided an annualized return of 1.0% over four years and a return of 0.7% over one year. These results reflect the low short-term interest rates that have prevailed in recent years.

LONG-TERM BONDS

This indexed portfolio had an annualized return of 4.6% over four years and a 4.7% return in 2015. An appreciable current return on long-term bonds and lowering yields in Canada also contributed to these results.