Caisse de dépôt et placement du Québec

Inflation-Sensitive Investments

FACT SHEET

Description

The Inflation-Sensitive Investments asset class consists of three portfolios: Real Estate, Infrastructure and Real Return Bonds. The investment income generated by these assets is generally tied to inflation. This partially hedges the inflation risk associated with the liabilities of many of la Caisse's clients. This asset class is also less sensitive to market movements, both in periods of rapid expansion or contraction.

The Real Estate and Infrastructure portfolios, which represent $40.0 billion in net assets, are managed using a benchmark-agnostic approach. They focus on quality, solid and resilient assets. They benefit less when markets make strong gains, but offer sound capital protection in times of market turbulence.

The Real Return Bonds portfolio has net assets of $1.0 billion and is indexed.

Market context

This asset class has generated high returns in recent years as a result of the broad-based decline in interest rates and the economic recovery in the United States. Strong demand from institutional investors for buildings and infrastructure has also exerted upward pressure on prices. The attractiveness of these less-liquid assets is tied to their excellent risk-return profile and the high and stable income they generate, while diversifying risk in the portfolio.

The U.S. real estate market expanded strongly in 2015. Growing demand in all segments of the real estate market reflected stronger economic fundamentals. In many large U.S. cities, interest among investors for office buildings and residential properties resulted in higher asset valuations. In Europe, interest in real estate assets in most markets caused property values to rise. The Canadian market offered solid returns, particularly on shopping centres and prestigious office buildings due to strong leasing revenues and sustained demand for high-quality assets. However, disparities exist in markets across the country.

In infrastructure, increased volatility in equity markets and low returns in bond markets continued to fuel investors' interest. As governments around the world seek to reduce budget deficits, the number of transactions by private investors is growing.

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 (%)
Real Estate	27.0	10,031	12.6	13.8	3,052	13.1	15.4
Infrastructure	13.0	3,006	9.8	12.9	705	6.6	(5.1)
Real Return Bonds	1.0	18	1.0	1.0	29	2.8	2.8
Inflation-Sensitive Investments	41.0	13,055	11.3	12.7	3,786	10.6	8.1

Over four years, this asset class generated net investment results of $13.1 billion and an annualized return of 11.3%. In 2015, the return was 10.6%.

REAL ESTATE

The Real Estate portfolio generated an annualized return of 12.6% over four years, producing net investment results of $10.0 billion. For 2015, the return on this asset class was 13.1%.

In recent years, managers at Ivanhoé Cambridge, la Caisse's real estate subsidiary, have undertaken a strategic repositioning of the portfolio. They sold properties that no longer match the required quality profile or that are not in targeted segments or markets. In the past five years, over two-thirds of the portfolio's assets have been repositioned.

This portfolio benefited mainly from increases in the value of its shopping centres and office buildings, over the four-year period as well as in 2015. It also benefited from strong leasing revenues generated by its properties as a result of high occupancy rates.

In 2015, Ivanhoé Cambridge completed $18.2 billion in transactions, including $12.4 billion in acquisitions. They were particularly focused in the U.S. market, in office buildings, but also in the multiresidential sector, to take advantage of a strong trend among households toward renting rather than buying. The European assets of Ivanhoé Cambridge also performed exceptionally well in 2015, due, among other factors, to the repositioning of the portfolio in Paris and in London, and to key investments such as Gecina and P3 Logistic Parks.

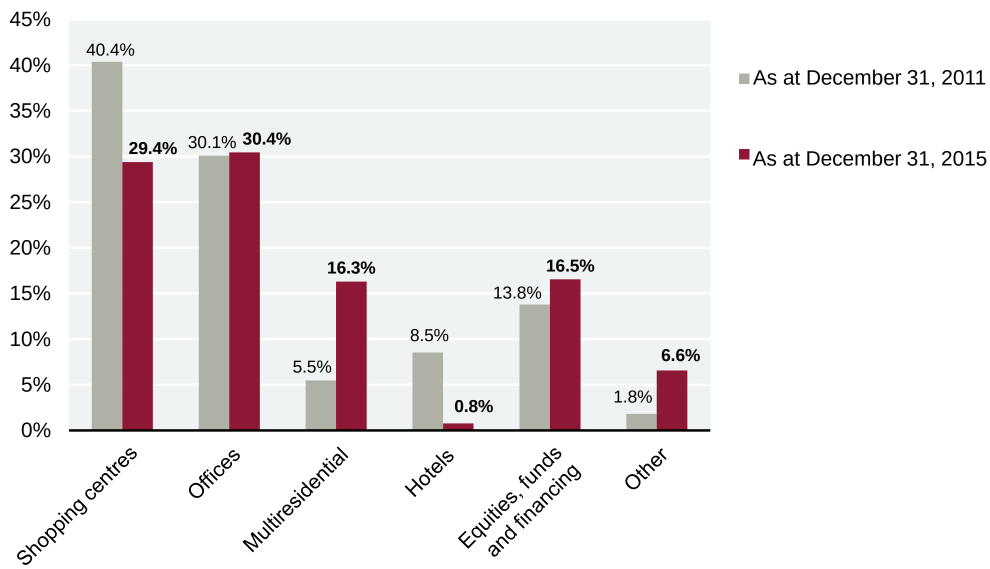
Main acquisitions concluded over the past year were:

- Stuyvesant Town/Peter Cooper Village: jointly with Blackstone, and following an agreement with the City of New York, acquisition of this large housing complex in Manhattan, New York (USD 5.3 billion with its partner);
- Three Bryant Park: acquisition of this prestigious office building in Midtown, Manhattan, New York (USD 2.2 billion);
- Chongbang: joint investment with APG, a pension asset manager, for a strategic interest in this leading developer, owner and operator of mixed-use real estate projects in Shanghai (USD 920 million with its partners);

- Hamlet Gardens, 4B Merchant Square, Hill Street and Circus Apartments: joint investments with Residential Land to acquire these four multiresidential properties in London, U.K. (approximately GBP 300 million with its partner); and
- Liberty Place: acquisition of 25% of a 42-storey office building in the downtown core of Sydney, Ivanhoé Cambridge's first real estate investment in Australia (more than AUD 250 million in partnership with Blackstone Property Partners Asia).

Property sales were mostly in Europe, notably in Paris with the T1 and B towers in the La Défense area and 75 avenue de la Grande Armée.

Sector changes in the Real Estate portfolio
(as a % of total assets)



INFRASTRUCTURE

Over four years, the Infrastructure portfolio produced a 9.8% annualized return and generated $3.0 billion of net investment results. In 2015, the portfolio returned 6.6%.

Slightly more than half of the performance over the past four years was due to the current return, which reflects solid results from the operating companies in the portfolio. The remaining portion was attributable to higher asset values, reflecting their quality and the growing interest among investors for this asset class.

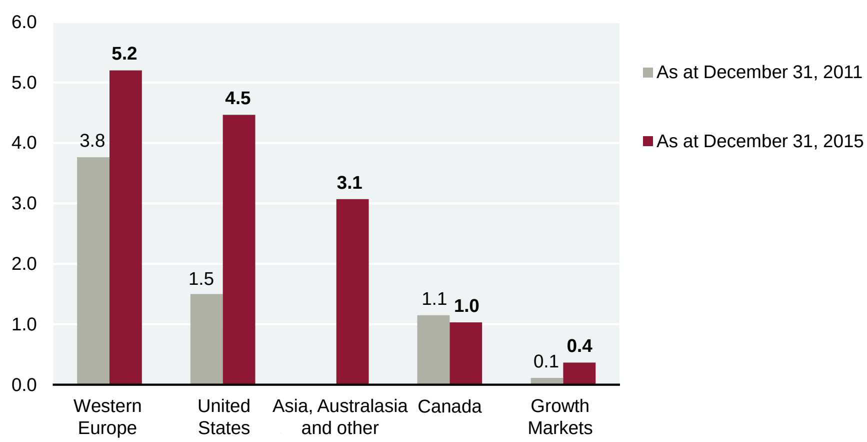
In five years, the Infrastructure portfolio has tripled in size, from $4.3 billion in net assets in 2010 to $13.0 billion at the end of 2015. This growth resulted in greater asset diversification, both geographically and by segment. The managers focused on increased capital investment in the U.S. and Australia and less concentration in Europe. In 2015, they made a first investment in Mexico, a country with strong growth potential whose government is currently introducing promising reforms.

Over four years, la Caisse has invested $7.4 billion in infrastructure, including $3.5 billion in 2015 alone. The main investments of the past year were:

- Transgrid: interest in the consortium of investors having acquired the 99-year lease of Australia's largest electricity transmission network located in the State of New South Wales, for a holding of close to 25% (AUD 1.2 billion);
- Creation of a co-investment platform, in collaboration with a consortium of Mexican institutional investors, to implement several transportation and energy infrastructure projects in Mexico (planned joint investment of $2.8 billion over five years);
- Eurostar: acquisition, in partnership with Hermes Infrastructure, of 40% (30% Caisse, 10% Hermes) of Eurostar, Europe's pre-eminent high-speed rail operator; and
- Southern Star Central Corporation: partnership with GE Energy Financial Services to jointly acquire this well-established company that operates a regulated natural gas pipeline network in the U.S.

In July 2015, la Caisse created CDPQ Infra. This subsidiary will act as the owner-operator of infrastructure projects globally. Two proposals are currently being studied in Québec: the electric public transit system on Montréal's new Champlain Bridge and that linking downtown Montréal to the Montréal-Trudeau International Airport and the West Island.

Changes in the distribution of the Infrastructure portfolio
(total assets in billions of $)



REAL RETURN BONDS

This indexed portfolio had an annualized return of 1.0% over four years. In 2015, the portfolio benefited from the lower real rate environment and posted a 2.8% return.