Caisse de dépôt et placement du Québec

Equity

FACT SHEET

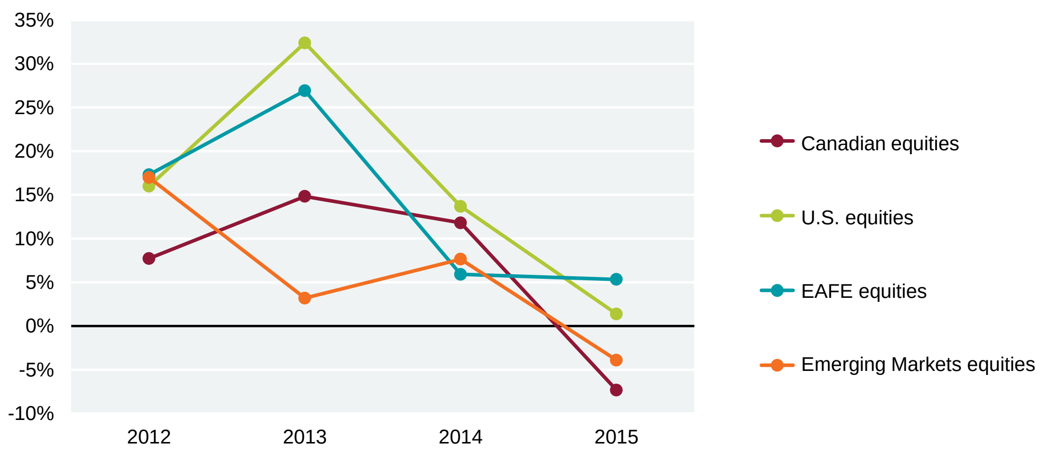
Description

The Equity asset class comprises six portfolios. The Canadian Equity, Global Quality Equity and Private Equity portfolios, with net assets totalling $82.4 billion, are managed actively. The Emerging Markets Equity portfolio, with net assets totalling $13.7 billion, has a substantial active management component. The U.S. Equity and EAFE (Europe, Australasia and Far East) Equity portfolios, with net assets totalling $21.5 billion, are indexed.

Market context

The performance of the benchmark indexes diverged in the period from 2012 to 2015. Support from the world's major central banks, in particular the unprecedented monetary easing measures implemented to stimulate economic activity, drove investors toward more risky assets to generate returns. The U.S. and EAFE stock indexes benefited the most. The Canadian and emerging market indexes also benefited but came under pressure as a result of broadly lower commodity prices.

Annual return of the main benchmark indexes in local currencies



The ongoing growth in equity returns came to an end in 2015. This situation is primarily due to market concerns over:

- slowing growth in China;
- the prospect of higher interest rates in the United States; and
- weaker growth outlook in developed countries.

Economic activity in China has slowed over the past few years as the economy was redirected toward domestic demand and services. This encouraged investors to abandon equity markets, in particular the stock exchanges of countries that are China's major trading partners and those of commodity-producing countries. The emerging markets index was particularly affected, as was the Canadian index, which also suffered from the collapse in oil prices.

The continuous improvement in labour market conditions in the U.S. led the Federal Reserve to tighten monetary policy in December 2015. The prospect of higher rates resulted in significant capital flows out of emerging equity markets throughout the year.

Weak productivity in developed countries, particularly in the United States and the United Kingdom, limits the potential for growth. Major challenges remain in some economies, including Japan and the euro zone. All of this led markets to revise their growth outlook downward for these countries.

In 2015, la Caisse's diversification on international stock markets allowed its portfolios to generate strong returns in Canadian dollars. Portfolios benefited from the Canadian dollar's significant depreciation, particularly against the U.S. dollar.

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 (%)
Global Quality Equities[1]	33.9	12,480	24.0	17.3	5,964	21.5	14.6
Canadian Equities	22.4	6,567	7.8	6.4	(925)	(3.9)	(7.3)
Emerging Markets Equities	13.7	3,107	8.6	7.9	750	5.8	3.6
U.S. Equities	10.6	9,063	24.7	24.7	2,117	21.7	21.6
EAFE Equities	10.9	6,210	17.1	16.7	1,852	19.3	19.0
Public Equity	**91.5**	**41,621**	**15.3**	**13.4**	**9,758**	**11.6**	**7.8**
Private Equity	26.1	9,771	13.4	13.2	1,828	8.4	4.1
Equity	**117.6**	**51,392**	**14.9**	**13.4**	**11,586**	**11.0**	**7.2**

[1]The portfolio was created on January 1, 2013. For the four-year period, the return corresponds to the period from January 1, 2013, to December 31, 2015.

Over four years, the Equity asset class was the biggest contributor to la Caisse's overall return, generating net investment results of $51.4 billion, including $41.6 billion from public equity markets portfolios and $9.8 billion from the Private Equity portfolio. The annualized return on this asset class totalled 14.9%, 1.5 percentage points above its benchmark index. For 2015, the return on this asset class was 11.0%.

GLOBAL QUALITY EQUITIES

The Global Quality Equity portfolio is invested in well-established large cap companies with exposure to global growth that provide more stable results with less risk. Since its inception in 2013, it has generated a 24.0% annualized return, compared to 17.3% for its benchmark index. With an annualized value-added of 6.7%, this portfolio generated, in only three years, more than two-thirds of the value-added realized by all the equity portfolios over four years, for a contribution of $3.6 billion.

In 2015, the portfolio had a 21.5% return due to the excellent performance of certain securities of companies in the U.S., Europe and Japan. The gains came in particular from companies in the healthcare sector (Medtronic, UnitedHealth, Roche), the consumer products sector (Unilever, Kimberly-Clark) and the telecommunications sector (KDDI, Orange). Positions held in this portfolio proved resilient to market downturns in the second half of the year.

CANADIAN EQUITIES

This portfolio produced a 7.8% annualized return over four years, which is 1.4 percentage points higher than its benchmark index. It generated $6.6 billion of net investment results.

The portfolio's absolute return during this period is attributable to strong performance in the finance, consumer products and information technology sectors. An investment strategy aimed at selecting quality securities, in particular those of companies with a very high exposure to the U.S. market, also proved profitable.

The portfolio also benefited from the excellent performance of Québec securities, which accounted for 35.7% of its assets as at December 31, 2015. This performance was fueled by various factors, including lower exposure to the natural resources sector and greater exposure to the U.S. market.

In 2015, the Canadian equity market was hard hit by the collapse of oil and other commodity prices, which weakened the portfolio's return. However the -3.9% return was better than the decline of its index (-7.3%), showing the portfolio's resilience since the introduction of a benchmark-agnostic approach. Today, the portfolio is more concentrated and relies on quality securities that are less sensitive to market fluctuations in order to preserve clients' capital. Among these securities, we note the strong performance of companies in the consumer products sector (Couche-Tard, Magna, Dollarama), the information technology sector (CGI), the industrials sector (Agrium) and the healthcare sector (Catamaran Corporation).

EMERGING MARKETS EQUITIES

Over four years, this portfolio generated an 8.6% annualized return, compared to a 7.9% return for its benchmark index. This result is due to the good performance of Asian equity markets, particularly those of China, Taiwan, South Korea and India.

This result also demonstrates the advantage of having integrated an active management component in this portfolio since July 2013. These activities generated an annualized return of 21.3% since their implementation and were carried out alongside well-established partners, with deep knowledge of these markets, and who share la Caisse's benchmark-agnostic approach.

In 2015, the portfolio returned 5.8%. It benefited from the benchmark-agnostic component, including a favourable positioning with respect to China.

U.S. EQUITIES AND EAFE EQUITIES

Both of these portfolios are indexed.

The U.S. Equity portfolio generated a 24.7% annualized return over four years and a 21.7% return in 2015.

The EAFE Equity portfolio generated a 17.1% annualized return over four years and a 19.3% return in 2015.

The appreciation of the U.S. dollar and of the currencies of most of the other developed countries against the Canadian dollar had a positive impact on these returns.

PRIVATE EQUITY

Over four years, the Private Equity portfolio generated net investment results of $9.8 billion, with a 13.4% annualized return. In 2015, the portfolio returned 8.4%.

Increased earnings and improved operating performance by portfolio companies contributed to this solid performance. Several companies also made acquisitions at attractive valuation levels and launched initial public offerings, which increased the value of la Caisse’s shareholdings.

In recent years, the portfolio’s composition has changed significantly. As a result of the decision to reduce the proportion of funds in favour of direct investments, their weight in the portfolio fell from 68.0% in 2009 to 44.0% at the end of 2015. This was profitable since our direct investments outperformed funds during the past four years, at 15.9% compared to 10.9%.

In 2015, managers continued to implement a strategy based on a long-term philosophy. They invested $5.6 billion in private equities through several major transactions.

- Bombardier Transportation: acquisition of a 30% stake of this global leader in rail transportation technologies (USD 1.5 billion);
- O2: financing for the acquisition of O2 by Three UK , which contributed to the creation of the leading wireless operator in the United Kingdom (GBP 3.1 billion invested by the partners, for a 33% interest);
- SPIE: additional equity invested in this company, which has become a European engineering leader (EUR 100 million); and
- SterlingBackCheck: joint investment with Goldman Sachs to acquire a majority interest in this New York firm, which is one of the largest background screening companies in the world.