



EQUITIES

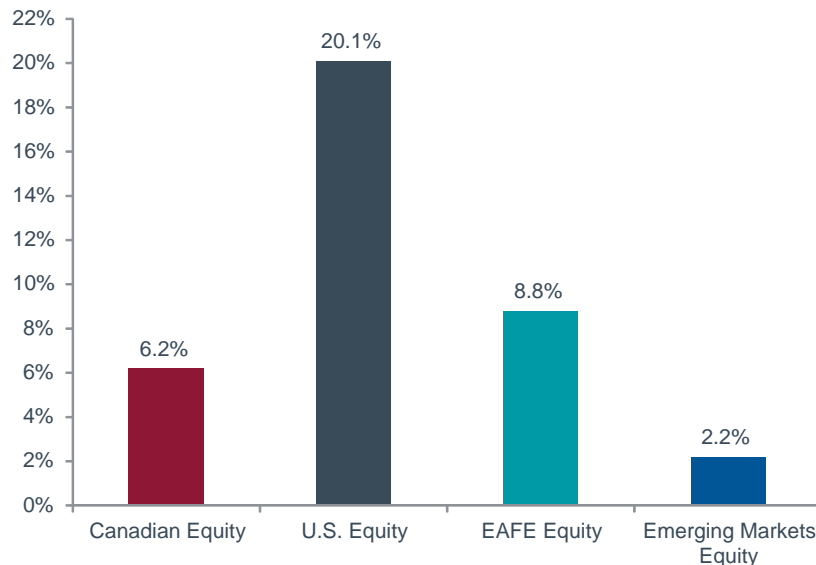
DESCRIPTION

The Equity asset class comprises six portfolios. The Canadian Equity, Global Quality Equity, Emerging Markets Equity and Private Equity portfolios, with net assets totalling \$87.1 billion, are managed actively. Meanwhile, the U.S. Equity and EAFE (Europe, Australasia and Far East) Equity portfolios, with net assets totalling \$19.8 billion, are indexed.

MARKET CONTEXT

Disparities in the monetary policies of central banks and in the budgetary policies of governments caused significant differences in the economic and stock market performances of the various countries. Over four years, the stock market in the United States, driven by expansionary monetary policy and improved corporate earnings, recorded the best performance of all the world's stock markets.

Four-year annualized returns
of the main benchmark indexes in Canadian dollars



After several years of difficult adjustments, the U.S. economy is in much better shape, with a significant decrease in the unemployment rate. Its underlying dynamics are robust and will be strengthened by the drop in oil prices.

In the euro zone, however, the economic situation deteriorated and is becoming increasingly complex. Improvements have been made to Europe's institutional framework, but the strategy based on budgetary austerity and the injection of liquidity by the European Central Bank (ECB) only yielded disappointing growth and low inflation. The economic situation forced the ECB to respond more aggressively by announcing a vast quantitative easing program in January 2015, following in the footsteps of the Bank of Japan and the U.S. Federal Reserve.

The sharp decline in the price of oil in 2014 had an adverse impact on producing countries, including Canada, as well as on the energy sector.

Most of the growth economies slowed significantly from 2011 to 2014 as the impacts of the major budgetary stimulus put in place in 2009, especially in China, diminished. Even so, some countries fared better than others by opting for monetary and budgetary discipline and putting in place structural reforms.

HIGHLIGHTS OF RESULTS

	At Dec. 31, 2014	4 years			1 year		
Specialized portfolio	Net assets (\$ billions)	Net investment results (\$ millions)	Return (%)	Index (%)	Net investment results (\$ millions)	Return (%)	Index (%)
Global Quality Equity ¹	28.3	6,516	25.2	18.6	3,929	18.5	11.6
Canadian Equity	24.6	5,359	5.9	6.2	2,845	13.4	11.8
Emerging Markets Equity	11.8	1,317	2.4	2.2	949	9.2	9.0
U.S. Equity	10.3	7,265	20.1	20.1	2,232	24.0	23.9
EAFE Equity	9.5	3,396	9.2	8.8	379	4.0	3.7
Equity Markets²	84.5	27,451	10.1	9.5	10,482	14.4	11.9
Private Equity	22.4	9,056	13.0	14.0	2,384	12.1	12.5
Equities²	106.9	36,507	10.7	10.5	12,866	13.9	12.0

¹The 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, 2014.

²The Québec International portfolio, closed out on November 30, 2012, and the Global Equity portfolio, closed out on March 31, 2014, are included in this line.

Over four years, the Equity asset class was the biggest contributor to la Caisse's overall return, generating net investment results of \$36.5 billion, including more than \$9 billion from the Private Equity portfolio. Over the period, the annualized return on this asset class totalled 10.7%, slightly outperforming its benchmark index. For 2014, the return on this asset class was 13.9%.

GLOBAL QUALITY EQUITY

The Global Quality Equity portfolio, created in 2013, invests in established large cap companies with exposure to global growth as well as more stable results with reduced risk. Since inception, the portfolio has had a 25.2% annualized return compared to 18.6% for its benchmark index. This is too brief a period to draw conclusions, but the results exceed expectations.

In 2014, the portfolio took advantage of the strong performance by the U.S. stock market and returned 18.5%. This strong return is due largely to the portfolio's significant exposure to major international companies established in the United States, many of them in the health care, consumer products and industrials sectors.

CANADIAN EQUITY

The Canadian Equity portfolio generated a 5.9% annualized return over four years, underperforming its benchmark index by 0.3%, and produced net investment results of \$5.4 billion. Since it was repositioned in 2012, the portfolio's performance has improved considerably. During that period, it produced a 12% annualized return, outperforming its benchmark by 0.6%.

The heavy weighting in the technology and consumer products sectors, combined with effective security selection in these sectors, made a positive contribution to the portfolio's four-year relative return. Even so, the portfolio's positioning in the industrials sector as well as security selection in the materials sector, subtracted value.

Québec securities account for 34% of la Caisse's portfolio, compared to 17% for the S&P/TSX Index. Over four years, the Morningstar National Bank Québec Index has returned 14.1%, versus 5.1% for the S&P/TSX during the same period.

In 2014, the portfolio had a solid return of 13.4%. During the year, the managers increased their investments based on an absolute-return approach, constructing a more concentrated portfolio focused on businesses with greater exposure to the U.S. market. Their security selection in the consumer staples sector, combined with that sector's heavy weighting, also contributed significantly to the portfolio's outperformance.

EMERGING MARKETS EQUITY

The annualized return on this portfolio is 2.4% over four years, or 0.2% more than its benchmark index. The portfolio has been managed actively since July 2013.

Economic growth in the main emerging countries – Brazil, China, South Korea and India – slowed during the past four years, and the equity markets in these countries underperformed those of the developed markets over the same period. Nevertheless, the growth forecasts for the emerging economies indicate that these markets will expand in the years to come.

The drop in oil prices in 2014 accentuated the disparities between the countries. Oil exporters, especially those in Latin America, underperformed the Asian countries, which are generally net energy consumers.

U.S. EQUITY AND EAFE EQUITY

Both of these portfolios are indexed.

The U.S. Equity portfolio generated a 20.1% annualized return over four years and 24% in 2014. The stronger U.S. dollar vis-à-vis the Canadian dollar increased the portfolio's return significantly during that period.

The EAFE Equity portfolio produced a 9.2% annualized return over four years. Its 4% return for 2014 is due mainly to the negative returns recorded by the French and German stock markets.

PRIVATE EQUITY

Over four years, the Private Equity portfolio generated substantial net investment results of \$9 billion, with a 13% annualized return. In 2014, the portfolio returned 12.1%. These returns exceed the long-term target return.

The increase in the valuation multiples of the companies in the portfolio, along with their improved operating performance, lower debt levels and higher earnings, contributed to the portfolio's solid absolute return over the past four years. Moreover, many of the companies in the portfolio took advantage of lower interest rates to refinance their debt.

In recent years, the portfolio's makeup has changed significantly as a result of the decision to decrease the proportion of funds in favour of direct investments. As a result, the portfolio's weighting of funds went from 68% in 2009 to 44% at the end of 2014. This decision was profitable as direct investments outperformed funds during the past four years.

Over the four-year period, the benchmark index returned 14% as a result of its significant exposure to the U.S. market, which has recorded an exceptional performance since 2011.

La Caisse continued to adjust the Private Equity portfolio's investment strategy, in line with its new approach, which calls for it to:

- position itself as a leading global private equity investor, in terms of size and performance;
- invest with a long-term philosophy by staying the course despite market volatility and aligning the portfolio's construction with the investment cycle; and
- support expanding Québec companies, especially through the deployment of la Caisse's international network.

To carry out this plan, several major strategic initiatives are underway, including the opening of foreign offices and a review of investment processes so as to constantly take advantage of la Caisse's full capabilities.