

Rating Report

Caisse de dépôt et placement du Québec and CDP Financial Inc.

DBRS Morningstar

July 3, 2020

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Ratings

Issuer	Debt	Rating	Rating Action	Trend
Caisse de dépôt et placement du Québec	Issuer Rating	AAA	Confirmed	Stable
CDP Financial Inc.*	Long-Term Debt	AAA	Confirmed	Stable
CDP Financial Inc.*	Canadian Short-Term Promissory Notes	R-1 (high)	Confirmed	Stable
CDP Financial Inc.*	U.S. Commercial Paper Notes	R-1 (high)	Confirmed	Stable
CDP Financial Inc.*	Euro Commercial Paper Notes	R-1 (high)	Confirmed	Stable

* Guaranteed by Caisse de dépôt et placement du Québec.

Rating Update

On July 3, 2020, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating of Caisse de dépôt et placement du Québec (La Caisse or CDPQ) at AAA. DBRS Morningstar also confirmed CDP Financial Inc.'s (CDP Financial) Long-Term Debt rating at AAA as well as its Canadian Short-Term Promissory Notes, U.S. Commercial Paper Notes, and Euro Commercial Paper Notes ratings at R-1 (high). All trends are Stable. The ratings are supported by a legislative framework that results in a substantial and captive asset base, a low-recourse debt burden, ample liquidity and strong operating performance.

La Caisse achieved a total return of 10.4% in 2019, driven by a strong performance in equity portfolios, including public and private equities, as well as a high return from fixed income investments. On a relative basis, the overall portfolio underperformed its benchmark (BM) by 150 basis points (bps). Net assets increased by \$30.6 billion to \$340.1 billion in 2019 as a result of \$31.1 billion in net investment results, which was offset by \$0.5 billion net withdrawals by depositors. Net returns measured over both a five-year and a 10-year investment horizon have outperformed their BMs by 90 and 100 bps, respectively.

La Caisse's investment approach has remained largely unchanged in recent years. The key pillars of the strategy continue to be BM-agnostic management, a bias toward quality assets, developing investment partnerships, increasing global diversification, and contributing to the economic development of Québec. At the same time, management continues to enhance its risk management and depositor relationship management functions. La Caisse's credit profile continues to benefit from a diverse and captive group of depositors that has continued to grow in recent years. In 2019, the board reviewed and approved the 2020–23 strategic priorities of each investment group, which are in line with the previous plan. In 2019 and early 2020, La Caisse announced two key appointments to its management team: a new chief economist and a new president and chief executive officer (CEO). In April 2020, La Caisse combined

International Private Equity, Infrastructure, Capital Solutions, and CDPO Infra into the Real Assets and Private Equity group and announced an internal appointment for its new head. Other changes to the management team included a new head of Equity Markets and a new head of Québec Investments and Stewardship Investing. In addition, La Caisse is seeking a new head of Liquid Markets after the prior head moved to his new role as the head of Real Assets and Private Equity.

Debt with recourse to La Caisse increased to \$21.1 billion in 2019, or 5.8% of adjusted net assets. Despite the slight increase, recourse debt burden remains well below the board-approved limit of 10% of adjusted net assets, providing considerable room for cyclical fluctuations in asset values. La Caisse meets the DBRS Morningstar criteria for commercial paper (CP) liquidity support, as outlined in the Appendix to the DBRS Morningstar methodology *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers* under the heading "Self-Liquidity for Canadian Public Pension Funds and Related Exclusive Asset Managers' CP Programs." La Caisse's liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit, which is consistent with DBRS Morningstar's policy on backup liquidity support for pension plans and provides considerable short-term financial flexibility.

DBRS Morningstar notes that a USD 4.0 billion credit facility guaranteed by CDPO for general corporate purposes was put in place in 2017 as an additional source of liquidity. The credit facility was renewed in 2019 and remained undrawn as at December 31, 2019.

Financial Information

	For the year ended December 31				
(\$ billions)	2019	2018	2017	2016	2015
Net depositor assets	340.1	309.5	298.5	270.7	248.0
Recourse debt ¹	21.1	15.5	13.8	14.4	13.7
As a share of adjusted net assets (%) ²	5.8	4.8	4.4	5.0	5.2
Portfolio return (%)	10.4	4.2	9.3	7.6	9.1
BM return (%)	11.9	2.4	9.2	5.8	6.7

1. Fair value. 2. For the purposes of the ratio calculation, net assets are adjusted by adding back recourse debt.

Issuer Description

Created in 1965, La Caisse is a public-sector entity with the mandate to manage funds for 41 private- and public-sector depositors. Depositors include public-sector pension and insurance plans and some government entities. CDP Financial is a wholly owned subsidiary of La Caisse set up to develop financing programs to meet the needs of La Caisse's investment groups. The ratings on the debts issued by CDP Financial are predicated on the unconditional and irrevocable guarantees provided by La Caisse.

Rating Considerations

Strengths

1. Exclusive legislated mandate to manage the assets

La Caisse has an exclusive mandate to manage a large pool of assets on behalf of public-sector depositors. The eight largest depositors, which account for 96.0% of net assets, are required to deposit their funds with La Caisse. The broad base of depositors provides a degree of diversification with respect to CDPO's net contributions. In recent years, La Caisse has worked to improve its depositor relationships through enhanced services/support, and this has led to high depositor satisfaction.

2. Large base of unencumbered assets and low debt

La Caisse had net assets of \$340.1 billion as at December 31, 2019, while recourse debt amounted to 5.8% of adjusted net assets, which provides a significant cushion against adverse market movements. In addition, the substantial net assets have provided La Caisse with the scale necessary to develop robust investment and risk management functions and achieve a high degree of diversification.

3. Substantial liquidity

La Caisse maintains a large pool of marketable fixed-income securities that can be readily converted to meet its obligations. There are policies and procedures in place that require ample liquidity to be maintained to ensure that La Caisse is able to meet all of its expected and unexpected liquidity requirements as well as to deploy capital opportunistically during a period of severe market stress. La Caisse also has the ability to issue CP in Canada, Europe, and the United States and to use repurchase agreements to quickly generate liquidity. In addition, in 2019 La Caisse renewed its credit facility of USD 4 billion, which remained undrawn as at December 31, 2019.

4. No direct responsibility for depositors' liabilities

The depositors retain responsibility for their underlying pension and other obligations. While those obligations will influence asset allocation and the timing and scope of withdrawals, La Caisse is not ultimately responsible for those obligations.

Challenges

1. Legislative changes could weaken depositor relationships

The ratings are strongly supported by legislative provisions that result in a highly captive asset base available to meet debt obligations. Legislation could be introduced that results in a less captive asset base, which could significantly reduce net assets and debt coverage. Given the historical role of La Caisse in the Province of Québec (Québec or the Province; rated AA (low) with a Stable trend by DBRS Morningstar) and its success in recent years, DBRS Morningstar considers any wholesale change in La Caisse's role as the provincial public-sector asset manager as a remote possibility.

2. Financial impact from the coronavirus pandemic

An expected economic contraction and weakened business performance due to the Coronavirus Disease (COVID-19) pandemic have already affected asset valuations in public equity and private markets. The

pandemic could have an impact on La Caisse's asset valuations and asset base. However, La Caisse's low recourse debt burden continues to provide considerable room for asset base movements.

3. Volatility inherent in investment activities

Asset valuations fluctuate over time. The current outlook of increased geopolitical risk, slow global economic growth, low interest rates, and maturing demographics can lead to an increased exposure to riskier assets. Riskier assets can offer potentially higher long-term results, but may also add more volatility to the valuation of the asset based in the short term.

Investment Performance

La Caisse generated \$31.1 billion in net investment results, or a return of 10.4%, in 2019. While generating a strong return, La Caisse underperformed its BM of 11.9%. This was mainly driven by a bias toward public equity in its BM's composition, which experienced a rally last year. DBRS Morningstar notes, however, that La Caisse has generally outperformed its BM since the end of the 2008 financial crisis. Over the last five years, La Caisse has achieved an average annual return of 8.1%, which compares favourably with the BM return of 7.2%. La Caisse attributes much of this success to its efforts to enhance the investment selection process, its globalization strategy and its focus on quality assets.

La Caisse portfolios benefitted from a favourable market environment in 2019. The bull market provided a backdrop to support gains in most portfolios across asset classes. Notably, robust returns in public and private equity as well as fixed income drove the overall result, largely offsetting investment losses in the real estate and in the asset allocation specialized portfolio. While broadly delivering positive returns, most portfolios underperformed their BMs.

Investment Returns

	Five-Year	Ten-Year	For the year ended December 31				
	Average	Average	2019	2018	2017	2016	2015
Portfolio (%)	8.1	9.2	10.4	4.2	9.3	7.6	9.1
BM (%) ¹	7.2	8.2	11.9	2.4	9.2	5.8	6.7

1. La Caisse's policy portfolio BM is weighted using actual portfolio class weightings.

Investment Returns

For the year ended December 31

Percentage	2019 Return	2018 BM	2018 Variance	2018 BM	2017 Return	2016 Return	2015 Return
Fixed Income							
Rates ¹	4.8	5.2	-0.4	2.1	1.8		
Credit ¹	10.9	9.3	1.6	0.3	5.1		
Bonds ¹						3.1	3.8
Real estate debt ¹						2.6	5.1
Short-term investments	1.7	1.6	0.1	1.4	0.6	0.5	0.7
Long-term bonds	12.6	12.5	0.1	0.0	8.0	2.1	4.7
Real return bonds ²	8.0	8.0	0.0	0.0	0.8	2.8	
Total (%)				0.9	3.5	2.9	3.9
Real Assets							
Real estate	-2.7	1.4	-4.1	12.0	8.0	10.4	13.1

Infrastructure	7.1	17.7	-10.6	6.5	10.1	11.1	6.6
Real return bonds ²							2.8
Total				10.1	8.7	10.6	10.6
Equities							
Public equity	17.2	18.0	-0.8	-2.5	13.7	9.4	
Global quality mandate ³	18.2	17.3	0.9	-0.8	9.5	4.0	21.5
Canada mandate ³	20.5	23.1	-2.6	-8.9	7.9	22.7	-3.9
Growth markets mandate ³	17.2	14.3	2.9	-8.9	28.4	5.9	5.8
U.S. equity							21.7
EAFE equity							19.3
Alternative Beta mandate	17.3	21.2	-3.9	-0.1	14.7	4.6	
Private equity	10.5	11.8	-1.3	8.7	13.0	14.0	8.4
Total				0.3	13.6	10.4	11.0
Other Investments							
Hedge funds							
Active overlay strategies (CAD millions)	206	n/a	n/a	n/a	(125)	28	42
Asset allocation (CAD millions) ⁴	-174	n/a	n/a	n/a	(399)	(135)	534
ABTNs (CAD millions) ⁵	n/a	n/a	n/a	n/a	n/a	140	72
Portfolio	10.4	11.9	-1.5	2.4	9.3	7.6	9.1

1. As of January 1, 2017, the bonds and real estate debt portfolios were closed and transferred to the rates and credit portfolios.

2. In 2016, real return bonds moved to Fixed Income from Inflation-Sensitive Investments.

3. Global quality mandate includes global quality equity portfolio prior to 2016; Canada mandate includes Canada equity prior to 2016; and growth markets mandate includes emerging markets equity prior to 2016.

4. Closed on January 1, 2020.

5. Closed on June 1, 2017.

Investment and Risk Management

Investment Allocations and Strategy

La Caisse manages depositors' funds in accordance with the depositors' asset allocations and investment policies, which are based upon the depositors' objectives/purposes, return requirements, risk tolerances, and investment horizons. Depositors allocate funds across 11 specialized portfolios, which are managed in accordance with specific investment policies that define, among other things, the investment philosophy and universe, the BM, value-added objectives, and concentration and risk limits. La Caisse also offers customized advisory service that allow depositors to tailor their exposure to currencies and interest rates.

The portfolio BM represents the weighted average (WA) of the depositors' asset allocations. The BM asset allocation shifted slightly in 2019, in line with the longer-term trend wherein more funds are allocated to equities and real assets and less to fixed income. The actual asset allocation shifted generally in line with the BM, with the fund overweight in real assets and underweight in equities and fixed income.

The core elements of La Caisse's investment strategy have remained stable in recent years, and include the following:

- BM-agnostic management.
- Quality assets rooted in the real economy.
- Partnerships ahead of transactions.
- Gradual increase in global presence.
- Contributions to the economic development of Québec.

Most fundamentally, La Caisse has sought to move away from complex investment strategies and heavy use of derivatives in favour of a portfolio that is grounded in high-quality assets that are expected to be resilient during periods of market volatility and generate strong returns over the long run. This approach focuses less on BM replication and outperformance and more on fundamental analysis and long-term convictions about the market and the real economy. BMs are still used for evaluation purposes, though the approach stresses strong absolute returns over the long term.

La Caisse is also seeking to expand further internationally as it grows in size. Over the last five years, the share of the portfolio invested directly in Canada has fallen to 34% from 46%. To support this effort, as well as growth in less-liquid asset classes, La Caisse has sought to build and enhance its relationships with other institutional investors and asset managers. Through these relationships, La Caisse expects to access better investment opportunities and improve asset returns.

While the overall portfolio strategy has remained stable, management continues to make some modest adjustments to the investment strategy to better position itself for what it expects will be a period of challenges as a result of the pandemic. This includes, among other things, emphasis on quality assets, investing in promising technology-related innovation across asset classes, greater focus on asset-specific risks, and alternative sources of return in the low-yield environment.

In recent years, illiquid private market assets have supported returns in the low-yield environment. While La Caisse has had a large real estate footprint for many years, it has quickly expanded into infrastructure. Over the last five years, La Caisse's infrastructure holdings have almost tripled to \$27.8 billion as at YE2019, and management expects that they will continue to increase over the next few years. More significantly, La Caisse has begun to move into greenfield infrastructure investments to give it an edge in a highly competitive infrastructure investment market. La Caisse established CDPQ Infra in 2015 to serve as the operational subsidiary that will hold existing and new brownfield investments and carry out greenfield infrastructure projects like the light-rail network in Montréal (Réseau express métropolitain), which broke ground in the spring of 2018. While greenfield investments are notably higher risk, La Caisse expects traditional brownfield infrastructure investments will continue to account for the bulk of the infrastructure portfolio's holdings. Infrastructure also fits into a broader globalization theme. With the focus on globalizing its investment portfolios, La Caisse has invested heavily around the world, particularly in growth markets, where the global share in its infrastructure portfolio increased to 23.7% at the end of 2019 from a nearly non-existent 1.3% in 2014.

In 2017, the board approved a new investment strategy to address the global challenge of climate change. La Caisse is the first Canadian pension asset manager to include climate change as one of its

targets. La Caisse has committed to a carbon-neutral portfolio by 2050 and it has joined forces with 13 other global asset managers to found Net-Zero Alliance, an initiative convened by the United Nations and the Principles for Responsible Investment, to address the goals of the Paris Agreement. Over the past year, La Caisse exceeded the low-carbon investment target for 2020 by adding \$6.9 billion low-carbon assets, bringing its total investment in low-carbon assets to \$34.4 billion. It is also on track to achieve the carbon intensity reduction target of 25% per dollar set for 2025.

Portfolio Composition

		Actual Portfolio Composition				
		As at December 31				
Percentage	BM 2019 ¹	2019	2018	2017	2016	2015
Fixed Income						
Rates ²	11.5	9.2	10.7	13.4		
Credit ²	17.2	19.5	18.2	17.0		
Bonds ²					25.2	27.4
Real estate debt ²					4.3	4.6
Short-term investments	1.1	0.3	0.3	0.6	2.3	2.0
Long-term bonds	0.9	0.9	0.9	1.0	1.0	1.0
Real return bonds ³	0.4	0.4	0.4	0.4	0.4	
	31.1	30.3	30.5	32.4	33.2	35.0
Real Assets						
Real estate	12.7	11.7	12.4	11.5	11.8	10.9
Infrastructure	7.4	8.2	7.3	5.4	5.4	5.2
Real return bonds ³						0.5
	20.1	19.9	19.7	16.9	17.2	16.6
Equities						
Public equity	35.0	34.4	35.1	37.6	37.5	
Global quality equity ⁴						13.7
Canadian equity ⁴						9.0
Emerging markets equity ⁴						5.5
U.S. equity ⁴						4.3
EAFE equity ⁴						4.4
Private equity	13.8	14.8	13.9	12.5	11.3	10.6
	48.8	49.2	49.0	50.1	48.8	47.5
Other Investments						
Hedge funds						
Active overlay strategies ⁵	0.0	0.2	0.2	0.2	0.2	0.2
Asset allocation	0.0	0.4	0.6	0.4	0.6	0.7
ABTN ⁶						
	0.0	0.6	0.8	0.6	0.8	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

1. The portfolio BM composition is the weighted average of the depositors' BM portfolios.

2. As of January 1, 2017, the bonds and real estate debt portfolios were closed and transferred in the rates and credit portfolios.

3. In 2016, real return bonds moved to fixed income from real assets.

4. As of January 1, 2016, the global quality equity, Canadian equity, emerging markets equity, U.S. equity and EAFE equity portfolios were combined into a new public equity portfolio.

5. Closed on January 1, 2020.

6. Closed on June 1, 2017.

Leverage and Debt

In 2019, CDPQ's investment-related liabilities increased by 30.6% to \$51.4 billion, largely as a result of a larger position in securities sold under repurchase agreements, CP, and Medium-Term Notes, which were partially offset by a decrease in securities sold short.

Positions in securities sold short have been notably trending downward since 2014. The reduction in securities sold short coincides with La Caisse's integration of its various equity portfolios. While short positions are likely to remain lower over the near term, they could fluctuate should economic conditions shift or opportunities for value add arise. Overall use of securities short selling remains constrained by La Caisse's investment and risk policies.

CDPQ makes modest use of repurchase agreements with relatively small asset and liability positions. La Caisse generally does not use repurchase agreements as a source of funding for its broader investment strategy but rather for income generation (i.e., taking advantage of specials in the repurchase agreement market). La Caisse generally sells Government of Canada and related issuers' securities under repurchase agreements with relatively short contract terms.

La Caisse, like other DBRS Morningstar-rated pension plans, makes use of derivatives to achieve various portfolio objectives; however, as at YE2019, liability positions remained small relative to the overall portfolio. CDPQ manages counterparty risk related to its over-the-counter derivative position by setting credit quality standards and concentration limits, monitoring counterparties daily, netting under International Swaps and Derivatives Association master agreements, and exchanging collateral under credit support annexes.

Board policy limits recourse debt to 10% of adjusted net assets. Recourse debt, measured at fair value, increased by 36.1% to \$21.1 billion in 2019, equivalent to 5.8% of adjusted net assets. The rise was driven by a CAD Equivalent \$2.9 billion increase in CP and two USD medium term notes issued in 2019. So far in 2020, La Caisse has issued two series of Senior Notes with staggered maturities: a three-year USD 2.0 billion note that matures in April 2023, followed by a five-year USD 2.5 billion note that matures in June 2025. Recourse debt remains well below the 10% board limit, providing considerable room for cyclical fluctuations in asset values.

CDPQ's CP programs have authorized limits of \$3.0 billion and USD 10.0 billion. The limit for the USD program increased in 2019 from USD 5.0 billion to USD 10.0 billion. La Caisse has policies in place describing the intended use of the program and requirements to stagger maturities. La Caisse meets the DBRS Morningstar criteria for CP liquidity support, as outlined in the Appendix to DBRS Morningstar's *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers* methodology. The liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit, which is consistent with DBRS Morningstar's policy on backup liquidity support for pension plans and provides considerable short-term financial flexibility.

As an additional source of liquidity, CDPO maintains a USD 4.0 billion credit facility guaranteed by CDPO for general corporate purposes. The credit facility remains undrawn as at December 31, 2019.

Investment-Related Liabilities and Capital Market Debt

(CAD millions)	As at December 31				
	2019	2018	2017	2016	2015
Accounts payable from pending trades	1,537	1,113	2,102	1,687	1,224
Securities sold short	3,787	7,802	5,096	5,676	6,189
Securities sold under repurchase agreements	23,527	12,539	15,972	21,555	18,496
Derivatives	1,022	2,057	659	1,083	2,564
Loans	368	290	364	189	116
Commercial paper	8,794	5,921	4,556	4,813	3,775
Medium-term notes	12,332	9,598	9,198	9,574	9,899
Total	51,367	39,320	37,947	44,577	42,263
Recourse debt ¹	21,126	15,519	13,754	14,387	13,674
As a share of adjusted net assets (%) ²	5.8	4.8	4.4	5.0	5.2

1. Recourse debt comprises capital market debt on a fair-value basis.

2. Net assets adjusted by adding back recourse debt.

Capital Market Debt Outstanding

As at December 31, 2019					
(CAD millions)	Maturity	Currency	Face Value		Effective Interest Rate (%)
			Currency of Issue	Equivalent CAD ¹	
Canadian Short-Term Promissory Notes (Program Size \$3 billion)	< 1 year	CAD		1,000	1.77
U.S. Commercial Paper Notes (Program Size USD 10 billion)	< 1 year	USD		7,823	1.90
Senior Notes	Jun 2020	EUR	750	1,171	3.50
Senior Notes	Jul 2020	CAD	1,000	1,000	4.60
Senior Notes	Jun 2021	USD	2,000	2,594	2.125
Senior Notes	Mar 2022	USD	2,000	2,594	2.75
Senior Notes	Jul 2024	USD	2,000	2,594	3.15
Senior Notes	Nov 2039	USD	1,250	1,621	5.60

1. Face value converted to Canadian dollars as at December 31, 2019.

Risk Management

Since the 2008 financial crisis, La Caisse has made considerable enhancements to its risk management framework and practices. The board has sought to instill risk management into the culture and has adopted an integrated risk management policy. This policy sets out the broad risk management framework, roles and responsibilities, risk budgets, limits, and key methodologies and processes.

Within the organization, each specialized portfolio is governed by a separate investment policy that prescribes overall management style, return targets, and key risk and concentration limits. These policies are supplemented by additional policies, procedures, and processes that address specific risk areas (e.g.,

liquidity, valuations, etc.). Operationally, investment groups are responsible for managing their investment risk and are supported by various risk management functions. Within each investment group, a Business Unit Risk Manager (BURM) is embedded to support the investment decision-making process by carrying out supporting analysis, influencing strategy, and providing a linkage to the risk management department as the BURMs report to the CRO. Further supporting the investment groups and the BURMs is the independent risk management department, which carries out risk measurement and analysis on individual transactions as well as across assets groups.

Further integration of risk management considerations into the investment approach and strategy occurs through the Investment-Risk Committee, which is responsible for reviewing and approving strategy, providing risk oversight and monitoring cross-sector risk, risk factors, liquidity, concentrations, etc. This committee is co-chaired by the CEO and the chief risk officer.

La Caisse estimates the absolute risk for its portfolio by calculating the value at risk (VaR) using the historical simulation method with 3,000 days of observations. La Caisse carries out a daily risk assessment on the portfolio, which includes estimating the VaR. In 2017, La Caisse revised its method for calculating VaR, including increasing the number of days of observations to 3,000 from 2,500, using a 95% confidence level instead of 99%, and estimating the effects on the portfolio of the worst events over a one-month horizon instead of a one-week horizon. As at December 31, 2019, La Caisse estimated the VaR over a one-year horizon with a 95% confidence level to be 13.7% of the portfolio, which was higher than the estimate of 13.6% for the BM and unchanged compared with the 2018 VaR estimate of 13.7% of the actual portfolio. In recent years, after the shift in the investment strategy, the VaR has moved lower and converged with the estimates of the VaR for the BM. The decrease in risk since 2011 has been driven by the adoption of the absolute-return strategy, the global quality strategy, and increased exposure to foreign currencies.

In addition to the VaR measure, La Caisse conducts stress testing on its portfolios under historical and hypothetical market events as well as under risk factor sensitivity scenarios. A wide range of factors are considered in the analysis, ranging from share prices, interest rates, and rate spreads to exchange rates, commodity prices, and market volatility. This is particularly useful to enhance the assessment of private investments where VaR is a less reliable measure.

Over the past couple of years, La Caisse has continued to further increase oversight and to enhance its internal risk modelling functions/processes to better understand asset-specific risks, improve comparability of risk estimates/processes across asset classes, and assess the broader implications of key risk factors across asset classes and sectors (transversal risks).

Liquidity Management

Liquidity management falls within La Caisse's broader risk management framework and investment risk management framework. Under the risk policies, La Caisse is expected to maintain ample liquidity so as to be able to meet all expected and unexpected liquidity requirements that could arise in a severe stress scenario. Policies also specify minimum liquidity levels and how liquidity is to be maintained. The board

places considerable emphasis on liquidity, given the challenges faced in 2008 and the desire to be well positioned to deploy capital during the next downturn or market correction. The overall liquidity of the plan and corresponding issues are reported to the board's Investment and Risk Management Committee regularly and reviewed internally by the Liquidity and Debt Financing Committee. As at December 2019, La Caisse had close to \$46 billion in liquidity in the form of Canadian and U.S. government securities, money market securities, and provincial debt. Under the most severe stress-testing scenarios, which include significant reductions in asset prices and margin/collateral calls, this level of liquidity continues to be ample. La Caisse also maintains further liquidity in the form of other non-government debt and public equities.

La Caisse has a Contingency Funding Plan in place in the event of a market event or funding disruption. The plan outlines various protocols, including individual responsibilities and a liquidity waterfall.

Valuation of Private Market Assets

La Caisse measures all of its investments at fair value in accordance with accounting standards and board policy (Caisse Investment Valuation Policy). The board remains responsible for the valuation of investments with the Audit Committee providing appropriate oversight. Valuation of all assets is directed by the valuation policy approved by the board and by the internal valuations committee, which comprises the senior management representatives outside of the investment units. The valuation committee reviews fair values and compliance with the valuation policy of investments semi-annually and recommends the results to the Audit Committee.

Nearly all private market assets are valued externally at least once every three years. Internally, the process is such that an independent valuation group within the finance team, which is separate from the investment teams, prepares and reviews valuations. La Caisse also relies on outside valuations to supplement internal valuations. The valuation group seeks to appraise valuations individually and collectively to ensure consistency and reasonableness of assumptions and valuations across individual assets and asset classes. Valuations are approved by the internal valuation committee. La Caisse's real estate holdings are held by Ivanhoé Cambridge and nearly all assets are subject to valuations twice annually.

Depositors and Net Assets

In 2019, net assets attributable to depositors rose by \$30.6 billion, or 9.9%, to \$340.1 billion. Growth was driven by \$31.1 billion in net investment results, which was offset by \$0.5 billion in net withdrawals by depositors. The net withdrawals were mainly due to \$2.9 billion net withdrawal from Generations Funds made by the Government of Québec as part of its plan to reduce its financial debt. Overall, strong investment returns from La Caisse generally satisfies or exceeds the depositors' needs.

As at YE2019, La Caisse managed \$340.1 billion in net assets for 41 private- and public-sector depositors, and a further \$123.9 billion in assets are managed or administered for other clients, though they are not consolidated in La Caisse's financial statements. The assets under administration has grown by 37.0% from \$90.4 billion in 2018, mainly a result of a significant increase in assets administered by

MCAP Commercial LP (rated BBB with a Stable trend by DBRS Morningstar), a subsidiary of Otéra Capital, itself one of La Caisse's real estate subsidiaries. The eight largest depositors account for 96.0% of net assets and are required by provincial law to deposit their funds with La Caisse, resulting in a highly captive asset base for La Caisse.

- **Public-Sector Pensions (\$178.9 Billion):** Three of the eight largest depositors relate to broad public-sector pension plans. The major government-sector pension plans are cost shared. Two of the depositors are for employee contributions, while the third, the Retirement Plans Sinking Fund, is the government's share of pension contributions. The employees' share of the pension plans is generally well funded, while the employer share of the pension fund is slightly underfunded. An agreement between the government and labour groups in 1999 set a 2020 target for improving the government's share of the funding status. The Government and Public Employees Retirement Plan is a moderately mature plan with the ratio of active-to-retired members in the range of 2.0 times.
- **Québec Pension Plan (\$81.6 Billion):** The Québec Pension Plan (QPP) has 4.2 million contributors and 2.1 million beneficiaries receiving \$14.5 billion in benefits annually. The enhanced QPP plan, which gradually phases in an increased contribution rate and maximum pensionable earning over five years, was announced in 2018 and began in January 2019. The additional plan is aimed to boost the retirement income of pension earners in the future. Net contributions remain marginally positive.
- **Construction Industry Pension Plan (\$25.8 Billion):** In Québec, construction workers and their employers are required to contribute to a supplementary pension plan that they jointly manage. The plan has 164,000 contributors and 98,000 retirees or surviving spouses receiving \$890 million in benefits annually.
- **Public Sector Insurance Plans (\$31.1 Billion):** La Caisse manages the investments held by the provincial workplace safety and insurance board and the provincial automobile insurance program (Québec has a public-private insurance system whereby a provincial program compensates road accident victims). The workplace insurance scheme covers 3.9 million workers, while the auto insurance scheme covers 5.5 million drivers. Collectively, they paid out \$3.3 billion in benefits in 2019.
- **Government Debt Sinking Fund (\$9.2 Billion):** The Generations Fund was established in 2006 to accumulate funds to support the Province's debt-reduction goals. In its 2018–19 budget, the Government of Québec announced a new repayment phase of the fund after years of depositing and investment success. In 2019, the Government of Québec made a \$2.9 billion withdrawal from the Generations Fund, which contributed to achieving its objective to reduce the gross debt to 45% of GDP six years before the March 31, 2026, target date. However, the coronavirus pandemic has dealt a shock to Québec's financial plan as the provincial government issued significant financial packages to counter the negative impacts of the coronavirus on its economy and healthcare system. That means fiscal deficits, higher debt loads, and higher gross debt to GDP ratio can be expected. As the full economic impact of the pandemic remains uncertain with the potential of a second wave in the second half of 2020, the ballooned debt and the government's measures to rebalance its financial budget are unclear at the time of the publishing. Whether the Generations Fund will be tapped in the near future and to

what extent remains to be seen. According to Budget 2020–21, the Generations Fund will continue to receive dedicated funds and, if no withdrawals are assumed, the total book amount is expected to gradually grow to \$25.7 billion by March 31, 2025.

Net contributions were modestly positive in the years prior to 2016, ranging between \$1.2 billion and \$2.4 billion. The addition of six new depositors in 2016 led to net contributions increasing to approximately double that of previous years and these were stable within a range of \$3.2 billion to \$4.3 billion. Since 2018, as the government of Québec started to draw on the Generations Fund, withdrawals has surpassed contributions in 2018 and 2019. Overall net withdrawals were \$0.8 billion and \$0.5 billion in 2018 and 2019, respectively.

The strength of the rating relies heavily on the captivity of the asset base. While legislative changes could weaken the captivity of the asset base, DBRS Morningstar views this risk as very remote, given the success of the Canadian public-sector asset manager model, La Caisse's strong results in recent years, and La Caisse's established relationships with both the provincial government and its depositors.

Change in Net Assets

(CAD millions)	For the year ended December 31				
	2019	2018	2017	2016	2015
Investment results	32,721	13,261	25,782	19,499	21,132
Expenses	(945)	(886)	(650)	(619)	(627)
Net investment results	31,776	12,375	25,132	18,880	20,505
Operating Expenses	(630)	(585)	(536)	(463)	(396)
Net contributions (withdrawals)	(548)	(791)	3,170	4,304	2,065
Increase (decrease) in net assets	30,598	10,999	27,766	22,721	22,174
Net assets	340,109	309,511	298,512	270,746	248,025

Depositors' Net Assets

(CAD billions)	First Deposit	For the year ended December 31				
		2019	2018	2017	2016	2015
Pension Plans						
Government and Public Employees Retirement Plan	1973	76.8	70.4	68.5	63.6	59.9
Retraite Québec	1966	81.6	72.6	69.3	62.2	57.1
Retirement Plans Sinking Fund	1994	93.0	83.2	78.5	65.4	59.3
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	25.8	23.3	22.4	20.7	19.5
Pension Plan for Management Personnel	1973	9.1	8.0	6.9	11.0	10.4
Other	1977-2017	8.7	7.9	7.2	6.5	4.0
Total		295.1	265.4	252.7	229.5	210.2
Insurance Plans						
Commission des normes de l'équité, de la santé et de la sécurité au travail	1973	18.1	16.6	16.2	15.4	14.7
Société de l'assurance automobile du Québec	1978	13.0	12.1	11.9	11.3	10.9
Other	1967-2005	2.8	2.4	2.3	1.9	1.8
Total		33.9	31.1	30.4	28.6	27.4

Other						
Generations Fund	2007	9.2	11.3	13.8	11.2	9.0
Other	1992-2012	1.9	1.7	1.6	1.5	1.4
Total		11.1	13.0	15.4	12.7	10.4
Net Assets		340.1	309.5	298.5	270.7	248.0

About La Caisse

La Caisse is one of Canada's largest institutional investment managers, with \$340.1 billion in net assets as at December 31, 2019. La Caisse manages assets on behalf of public-sector entities in Québec, which include pension plans, insurance plans, and other public-sector entities.

La Caisse is governed by the *Act Respecting La Caisse de dépôt et placement du Québec* (the Act), which, among other things, states that La Caisse shall seek to optimize the return on capital within the framework of the depositors' investment policies while at the same time contributing to Québec's economic development. While La Caisse is established by provincial legislation and that legislation imposes governance requirements and a process for appointing the board, La Caisse operates independently of the Province and does not serve as the Province's economic development arm. The Act specifically includes a provision recognizing La Caisse's independence.

While La Caisse continues to hold \$66.7 billion in assets in Québec, its investment decisions are not driven by political or economic development considerations. Its investments in the Province are driven by commercial and investment considerations. Given its long history of investing in Québec and its scale, La Caisse continues to be viewed as among the best-informed investors in Québec.

At present, the leading political parties in the Province remain committed to maintaining an independent Caisse. While its independence could be tested by subsequent governments, DBRS Morningstar views this risk as remote, given the success of the current model, the increasing complexity and scale of the investment operation, and the potential downside risk that could result from interference or mismanagement.

La Caisse Governance

La Caisse is governed by a 13-member board that includes independent and non-independent members. The Act limits the board to 15 members, at least two-thirds of whom must be independent directors and three-quarters of whom must be Québec residents. The legislative framework does not require depositors to be represented on the board. Board members are appointed by the Province on the recommendation of the existing board, which conducts a selection and screening process to ensure the prospective members have the skills and attributes necessary to complement those of the existing board. The board is composed of professionals with significant executive-level experience in a range of industries, including investment management, finance, insurance, economics, and government. Board members are appointed to terms of up to five years, which may be renewed to a combined total of ten years.

The board acts independently of the Province and makes decisions in the best interests of La Caisse and its depositors. While day-to-day management of La Caisse is delegated to the management team, the board retains responsibility for appointing the president and CEO, providing general management oversight, setting compensation, strategic planning, ensuring that there are adequate internal controls and risk management systems, developing and approving key policies, approving key investment and risk management policies, overseeing the audit, and approving key financial policies.

The board operates through four sub-committees: Audit, Human Resources, Governance and Ethics, and Investment and Risk Management. The Act specifically requires the first three committees and outlines their responsibilities.

Since DBRS Morningstar's last report, there have been no substantive changes in board governance or activities.

La Caisse Management

La Caisse has a strong and well-established management team. The team has put in place a stable and coherent investment strategy with a robust track record of delivering consistent strong results in the past 10 years. Since the 2008 financial crisis, the risk management functions have been enhanced and are now well integrated into the investment decision-making process. On this front, La Caisse continuously improves its risk management framework so as to strengthen its monitoring process and to support investment initiatives, such as the development of large-scale transaction analysis framework, mitigation of operation risks from transactions, globalization of La Caisse's portfolio and organizational transformation, and further integration of ESG risks in transaction structuring.

In 2019 and early 2020, La Caisse announced the appointment of two executives to key functions: Charles Emond to the position of President and CEO for a five-year mandate and Martin Coiteux to the position of Chief Economist. The appointment of Emond followed La Caisse's succession plan after Michael Sabia announced his departure in 2019. Emond has a long track record in the financial sector. He joined La Caisse in early 2019 and since then he has led La Caisse's investment efforts in Québec, private investments (Québec and International), and its global strategic activities in his former role as Executive Vice-President, Québec, Private Equity and Strategic Planning. In addition, he also sits on CDPQ Infra's Board of Directors. Prior to joining La Caisse, Emond held the positions of Executive Vice President, Financial Affairs; Head of Canadian Corporate Banking; and Global Head, Investment Banking and Capital Markets at the Bank of Nova Scotia.

In April 2020, La Caisse combined International Private Equity, Infrastructure, Capital Solutions, and CDPQ Infra into the Real Assets and Private Equity group under the leadership of Macky Tall. Other changes to the management team included a new head of Equity Markets and a new head of Québec Investments and Stewardship Investing. In addition, La Caisse also indicated it is in search of a new head of Liquid Markets after the prior head moved to his new role as the head of Real Assets and Private Equity.

La Caisse now has over 1,200 direct employees and more than 1,400 people are employed by its two real estate subsidiaries, Ivanhoé Cambridge and Otéra Capital, with another 65 employed by its infrastructure subsidiary, CDPQ Infra. The organization has been expanding and seeking to hire top talent in the sectors and regions in which it operates. La Caisse has subsidiaries with offices in New York, Washington, D.C., Paris, Singapore, Shanghai, Mexico City, Sydney, London, New Delhi, and São Paulo.

Ranking and Guarantees

The depositors retain responsibility for their underlying pension and other obligations. While those obligations will influence depositors' asset allocations and the timing and scope of withdrawals, La Caisse is not ultimately responsible for those obligations. DBRS Morningstar has reviewed a legal opinion provided to La Caisse stating that counterparty liabilities, such as the guaranteed obligations, are senior to the participation deposits of the depositors, with the exception of certain secured deposits that comprise a small fraction of assets.

La Caisse irrevocably guarantees the full payment of principal and interest with respect to the debentures and CP programs of CDP Financial. Should CDP Financial fail to make required payments, investors would be able to seek payment from La Caisse without first exhausting recourse to CDP Financial. Governing legislation permits guarantors to terminate guarantees after three years under certain circumstances. However, La Caisse will waive its right to revoke its guarantee. Obligations under the guarantee will not accelerate unless there is a default by CDP Financial and La Caisse. DBRS Morningstar has received a legal opinion stating that the guarantee is enforceable and is provided in accordance with board resolutions and governing bylaws and that the net assets of La Caisse (net of certain forms of deposits that represent a negligible fraction of assets) would be available to satisfy obligations arising under the guarantee.

Rating History

	Current	2019	2018	2017	2016	2015
Caisse de dépôt et placement du Québec						
Issuer Rating	AAA	AAA	AAA	AAA	AAA	AAA
CDP Financial Inc.						
Long-Term Debt	AAA	AAA	AAA	AAA	AAA	AAA
Canadian Short-Term Promissory	R-1 (high)					
U.S. Commercial Paper Notes	R-1 (high)					
Euro Commercial Paper Notes	R-1 (high)					

Previous Action

- Confirmed, July 5, 2019.

Related Research

- *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers*, April 27, 2020.
- *North American Structured Finance Flow-Through Ratings*, January 2, 2020.

Commercial Paper Limit

- CDP Financial Inc., Canadian Short-Term Promissory Notes and Euro Commercial Paper Notes: \$3.0 billion.
- CDP Financial Inc., U.S. Commercial Paper Notes: USD 10.0 billion.

Previous Report

- Caisse de dépôt et placement du Québec and CDP Financial Inc.: Rating Report, July 5, 2019.

Notes:

All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrsmorningstar.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, the U.S., and Europe with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.



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