CDPQ

News Release

FOR IMMEDIATE RELEASE

CDPQ posts -7.9% six-month return and 6.1% five-year return, outperforming its benchmark portfolio over all periods

Montréal, August 17, 2022 – CDPQ today presented an update of its results as at June 30, 2022. In the worst six-month period of the last 50 years for stock and bond markets, CDPQ generated an average return of -7.9%, significantly above its benchmark portfolio's return of -10.5%. Over five and ten years, annualized returns were 6.1% and 8.3% respectively, also outpacing benchmark portfolio returns. Net assets were $392 billion.

"The first six months of the year were very challenging. The mix of factors we faced had not been witnessed in several decades: spiking inflation that triggered rapid and sharp interest rate hikes, rare simultaneous corrections in both stock and bond markets, fears of an economic downturn and the war in Ukraine with its many collateral effects," said Charles Emond, President and Chief Executive Officer of CDPQ. "Despite this turbulence, CDPQ's portfolio continued to clearly outperform its benchmark portfolio due to the strategy's evolution since the pandemic started, sound asset diversification and the quality of execution by our teams."

"For the past two years, we've been working in an environment of extremes characterized by particularly fast and pronounced changes. These unusual and unstable conditions will persist for some time. In the short term, we'll be watching what central banks do to contain inflation and how that impacts the economy. Our portfolio continues to be robust, and we remain disciplined in order to perform well in different market conditions," concluded Charles Emond.

Return highlights and achievements

Returns by asset class

As at June 30, 2022		10 years			5 years			6 months		
	Net assets[1] $ B	Investment results[1] $ B	Return %	Benchmark %	Investment results[1] $ B	Return %	Benchmark %	Investment results[1] $ B	Return %	Benchmark %
Fixed Income	119.2	16.3	2.5	1.5	1.2	1.1	-0.1	-17.8	-13.1	-15.1
Real Assets	95.4	38.1	8.7	9.3	19.6	5.7	6.5	6.9	7.9	2.4
Equities	176.5	144.7	12.1	10.6	75.4	9.8	8.6	-21.1	-10.6	-11.9
CDPQ return[2]	**391.6**	**202.1**	**8.3**	**7.3**	**94.2**	**6.1**	**5.3**	**-33.6**	**-7.9**	**-10.5**

1. Net assets and investment results are presented net of operating expenses.
2. The total includes the Asset Allocation portfolio, Customized Overlay Activities, cash activities and terminated activities.

The $28.2-billion decrease in net assets is due to investment results of -$33.6 billion and $5.4 billion in net deposits.

Each CDPQ depositor has its own investment horizon and tolerance for risk. As such, their results vary based on their investment policies. As at June 30, 2022, the returns of CDPQ's eight largest depositors ranged from -7.0% to -9.9% for six months. Their annualized returns ranged from 4.6% to 6.9% over five years and 6.8% to 9.4% over ten years.

Fixed Income: Historic rate hikes impacted returns, but credit activities generate value added

Several events—including the reopening of the economy, the war in Ukraine, supply chain challenges and the labour shortage—prompted an upsurge in inflation that is lasting longer than expected, driving central banks to raise rates sharply. In this context, the first half of the year saw bond markets turn in their worst performance since the 1920s. Over six months, CDPQ posted a -13.1% return in Fixed Income, compared to -15.1% for its benchmark portfolio, representing nearly $3 billion in value added attributable to all credit activities. Over five years, the asset class recorded an annualized 1.1% return, higher than its benchmark portfolio's -0.1% return, and generated nearly $7 billion in value added. All credit activities contributed to this performance, especially Real Estate Debt and Corporate Credit.

Private credit investments and commitments continued in the first half of 2022, amounting to $8.5 billion. Of note, in Infrastructure Financing, the team invested $190 million in Everstream Solutions, a fibre-optics telecommunications company serving businesses based in the United States, to fund the expansion of its network in the country. In Corporate Credit, up to $150 million in financing was provided to Duca Financial Services Credit Union Ltd., an Ontario-based financial cooperative. Through subsidiary Otéra Capital, a USD 360-million loan was also granted for the construction of over 500 residences in Santa Clara, in the United States, a priority country for our real estate debt strategy.

Real Assets: The Real Estate and Infrastructure portfolios perform amid rising inflation

Real Assets, a class that includes the Real Estate and Infrastructure portfolios, generated a 7.9% six-month return, demonstrating their diversifying role which contributes to limiting inflation's impact on the total portfolio. The asset class's return was significantly higher than its benchmark portfolio's return of 2.4%. With a five-year annualized return of 5.7%, the gap with its benchmark portfolio, which had a 6.5% return, continues to gradually narrow. The asset class is driven by the excellent performance of Infrastructure assets and the logistics real estate segment, but continues to be limited by the pandemic's impact on shopping centres and office buildings.

Real Estate

The Real Estate portfolio recorded a 10.2% return in the first six months, driven by its repositioning over the last two years, compared with 11.4% for its benchmark portfolio. Over five years, the annualized return was 2.9%, below the benchmark portfolio's 6.7%, which is in part due to the portfolio's historically high weighting in shopping centres. This weighting of 22%, representing the largest sector in the portfolio in January 2020, has now been reduced to the smallest, at 12%.

In the first half of the year, Ivanhoé Cambridge's teams executed around 40 transactions aligned with strategic priorities totalling $9.2 billion. For example, CDPQ's real estate subsidiary increased its exposure to logistics, including through a green digital infrastructure partnership of USD 1 billion with Bain Capital and Lodha, the leading real estate developer in India. In the United States, Ivanhoé Cambridge benefited from its successful partnership with Lendlease in Boston to start development of 60 Guest Street and launch a new life sciences joint venture that will provide ultramodern laboratories, offices and production facilities with an initial investment of USD 500 million. The real estate subsidiary also created a new partnership with Stockland in Australia to develop the M_Park campus dedicated to life sciences and technology. Ivanhoé Cambridge will hold 49% of this net-zero project.

Infrastructure

The Infrastructure portfolio generated a 5.8% return over six months, beating its benchmark portfolio's -5.5%. Over five years, it posted a 9.6% return, well above the 6.3% of its benchmark portfolio, which represents $6.5 billion in value added. This performance stems from a careful selection of assets, diligent post-investment asset management and good sectoral diversification, including in renewable energy, telecommunications and transportation. Included in the latter are ports and the passenger transportation industry, which is beginning to recover from the severe impact of pandemic-induced confinement measures around the world.

In the first six months, the Infrastructure team was disciplined in executing transactions, with nearly $7 billion in new investments and commitments. For example, CDPQ secured, alongside its long-term partner Invenergy and a group of investors, a lease for an offshore wind farm in the New York Bight auction, with the winning bid of USD 645 million. CDPQ also formalized the project to merge Eurostar, of which it already owned shares, and Thalys, making the new company the largest player in sustainable high-speed mobility in Western Europe. CDPQ invested USD 2.5 billion in port infrastructure in the United Arab Emirates with DP World, with which it launched a global investment platform in 2016. This infrastructure is strategically positioned to benefit from global trade routes and supply chains.

Equities: A return above the indexes in an exceptionally difficult environment for Equity Markets; a quality portfolio in the right sectors in Private Equity

The Equities asset class, which includes the Equity Markets and Private Equity portfolios, generated a six-month return of -10.6%, above its benchmark portfolio of -11.9%. Over five years, this asset class's annualized return was 9.8%, compared with 8.6% for the benchmark portfolio. That represents $10 billion in value added stemming from the superior performance of the quality companies in Private Equity.

Equity Markets

Inflationary pressure, surging interest rates and fears of a pronounced economic downturn have resulted in a severe correction in global stock markets during the first six months of the year. The flagship S&P 500 Index, which has lost nearly 20% from the start of 2022, its worst six-month period since 1970, is a good representation of this. In these difficult conditions, the Equity Markets portfolio recorded a six-month return of -16.0%, above its benchmark portfolio's -17.2%. Over five years, the portfolio produced an annualized return of 5.5%, below its benchmark portfolio, which stood at 6.0%. The difference is largely due to the portfolio's significant underexposure to certain technology giants throughout most of the period.

Private Equity

The bearish environment during the first six months also weighed on the private equity market. For six months, the portfolio's return was -2.4%, above the -4.1% return of its benchmark portfolio. Over five years, the portfolio produced an annualized return of 17.6%, outperforming its benchmark portfolio, which stood at 12.4%. This positive difference is the result of good sectoral allocation, including investments in health care, insurance and technology, combined with the quality of asset management, which is a core element of the investment approach. In an uncertain environment, the team also successfully continued providing customized support to portfolio companies on their strategies, acquisitions and operations.

Québec: Strategic transactions to support even more Québec companies in the first half of the year

The first six months were active for CDPQ in Québec, with some thirty investments and commitments, including transactions stemming directly from Ambition ME, a suite of financing solutions and support services to help Québec mid-market companies grow. One example is the investment in Bouthillette Parizeau, an engineering firm with numerous projects that provide solutions to fight climate change. CDPQ also invested in Laval-based COREALIS Pharma, a company that has become the leader in its sector in North America.

Also of note is the investment in Innocap for the acquisition of HedgeMark, a BNY Mellon company, thereby creating the world's largest alternative investment platform. The first half of the year also saw CDPQ acquire, alongside equal partner Fonds de solidarité FTQ, a 65% stake in Bonduelle Americas Long Life, which specializes in the processing and marketing of vegetables, thereby keeping the company's headquarters in Brossard.

A key step was achieved for the Réseau express métropolitain (REM), with the electrification of the South Shore branch, representing the 16-kilometre section between Montréal and Brossard. More recently, the REM began conducting test runs, with cars crossing the Samuel-De Champlain Bridge, a major project milestone. For the next phase, PMM, the consortium responsible for operating and maintaining the network for the next 30 years, will take over to conduct the tests and trials required for commissioning.

Lastly, Ivanhoé Cambridge and its partners invested close to $200 million in Haleco, a unique project at the intersection of Old Montréal and Griffintown, which stands out for its mixed-use approach (residential, commercial and offices) and will include community housing to create a quality neighbourhood catering to residents' needs. The project also plans to obtain LEED Platinum certification and incorporates a low-energy design. Ivanhoé Cambridge also rolled out initiatives supporting downtown Montréal's economic recovery and dynamism, including unveiling The Ring at the Esplanade PVM, and the launch of Nouveau Centre, an unparalleled offering of summer experiences in the heart of the city.

Financial reporting

In conducting its activities, CDPQ incurs operating expenses, external management fees and transaction costs. As at June 30, 2022, these annualized costs were estimated at 52 cents per $100 of average net assets, compared with 57 cents per $100 of average net assets in 2021. CDPQ's cost ratio compares favourably with that of its peers.

In addition, CDPQ is rated investment-grade with a stable outlook by the credit rating agencies, namely AAA (DBRS), AAA (S&P), Aaa (Moody's) and AAA (Fitch).

ABOUT CDPQ

At CDPQ, we invest constructively to generate sustainable returns over the long term. As a global investment group managing funds for public pension and insurance plans, we work alongside our partners to build enterprises that drive performance and progress. We are active in the major financial markets, private equity, infrastructure, real estate and private debt. As at June 30, 2022, CDPQ's net assets totalled CAD 392 billion. For more information, visit cdpq.com, follow us on Twitter or consult our Facebook or LinkedIn pages.

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