PRIVATE EQUITY

MARKET CONDITIONS

The private equity market idled until the last quarter of 2009, which saw an increase in transactions with a return to the high-yield loan market and a slow return of IPOs. Against this backdrop, large private equity fund managers focused on improving operational efficiencies and restructuring portfolio company balance sheets.

The corporate loan market saw a substantial narrowing of interest rate spreads, significantly increasing the value of portfolio securities.

HIGHLIGHTS

- The Private Equity group posted a 17.5% overall return. In total, the group's two specialized portfolios underperformed their benchmark indexes by 8.1%.
- The Investments and Infrastructures and Private Equity portfolios showed remarkable resilience in 2009 due to asset strength and exposure to less economically sensitive sectors. For example, despite a very challenging economic climate, 25 of the largest direct investments saw profitability (EBITDA) remain healthy, increasing by 2% after rising 6% in 2008.
- Unlike last year, the portfolios also benefited from the upward revaluation of investments to fair market value (mark-to-market). The rise in market was felt sooner in Investments and Infrastructures than Private Equity.

Return of specialized portfolios
Private Equity

For the fiscal year ended Dec. 31, 2009 — Percentage

	Weight*	Return	Index	Spread
Investments and Infrastructures	4.1	33.6	29.5	4.1
Private Equity	8.5	10.8	24.0	(13.2)

** : As a proportion of the Caisse's net assets*

INVESTMENTS AND INFRASTRUCTURES

- The return on this portfolio is 33.6%, 4.1% above its benchmark index.
- The market recovery during the second half of the year more than offset the first half's unrealized decrease in value. Behind the portfolio's healthy performance is its high concentration in less economically sensitive direct investments and a relatively rapid response to liquid markets.
- The narrowing of credit spreads has increased the market value of the loan holdings, which represents more than 50% of the portfolio's gains.
- Listed securities also profited from the market recovery.

PRIVATE EQUITY

- The return on this portfolio is 10.8%, 13.2% below its benchmark index.
- This underperformance is largely due to the historic gap between valuations of external private equity funds—heavily weighted in the portfolio—and liquid markets that comprise its benchmark index.
- The difference is particularly significant, considering the market rebounded only in the last quarter of the year.
- Valuations for leveraged buyouts, a significant weight in the portfolio, rose on greater merger and acquisition activity, virtually non-existent in 2009.
- As expected, investing in distressed loan funds was a profitable strategy for the portfolio.
- Venture capital investments also saw healthy returns from favourable exit strategies.