Caisse de dépôt et placement du Québec

2019 Stewardship Investing Report

2 Message from Management

4 Investing with conviction

5 Focusing on the long term

7 Acting with sustainability in mind

8 An approach with a clear direction

10 Climate change

18 Diversity

24 Investor Leadership Network

26 Governance

34 Investing in the community

37 Appendices

We take a sustainable approach to investing

Message from Management

In a changing world, carrying out our mandate by seizing opportunities as they arise while also taking into account rapidly evolving risks is part of our everyday reality. And we do this with sustainability and a long-term view in mind.

Because these risks may impact our portfolio companies and because technological, climate and social advancements give rise to new opportunities, ESG issues are a key consideration in our transactions and business relationships. These matters are of vital importance to us, our depositors and the people we work with day after day.

The COVID-19 pandemic is jeopardizing people's safety and disrupting the performance of economies around the globe. This brings into even sharper focus the fact that social and environmental factors play an essential role in the evolution of our business activities.

Through stewardship investing we can cover a broad array of issues, allowing us to make better business decisions and strengthen our action within communities. We have three major areas of focus, namely pursuing our strategy to address climate change, promoting diversity and fostering good corporate governance, which our teams incorporate on a daily basis.

We present the results of these ongoing efforts in this report.

TAKING CLIMATE ACTION

Unprecedented mobilization around climate change was a highlight of 2019. The financial sector made great strides, and stakeholders are joining in by investing to reduce climate impact or by shrinking their portfolio's carbon footprint.

Our commitment to have a carbon-neutral portfolio by 2050, working with the Net-Zero Alliance, is a testament to this. We believe that this target is achievable if investors, businesses and governments all work together.

CDPQ has played a pioneering role and continues to provide key leadership to support this conviction.

ESG matters are now a core component of our transactions and business relationships. They are a key strategic imperative.

SUPPORTING INCLUSION AND DIVERSITY

Conversations about inclusion and diversity are now a part of our day-to-day work. Concrete steps are being taken, both by CDPQ and in working with our partners.

A number of initiatives are under way. We encourage dialogue among the various stakeholders to ensure that this issue is a priority. We value diversity in our teams, within the companies that we work with and in all our activities.

The idea is simple: we believe that diversity fosters innovation, better organizational decision-making and greater equality. That is why we will continue to take concrete action in this area.

PROMOTING SOUND GOVERNANCE

We believe that good corporate governance is a reflection of strength and sustainability. This is a particular focus of our teams, which ensure that our voice is heard through our engagement or through exercising our shareholder voting rights. Underlying our actions and choices are meticulous analyses of ESG factors that are specific to each situation. We also have expertise in the areas of international taxation and cybersecurity, where our goal is to build resilience and ensure that companies are operating within a secure and transparent framework.

Lastly, in the coming year, we will review our climate objectives to continue reflecting the disciplined approach and leadership that we want to demonstrate as markets transition. We are also giving consideration to integrating the UN's sustainable development goals. In 2020, we will begin to phase in these goals as part of our stewardship investing strategy.

Taken together, these commitments are why CDPQ is viewed as a sustainability leader in the international investment community. We are proud of this achievement and grateful to everyone who has helped make it possible.

Charles Emond
President and
Chief Executive Officer

Kim Thomassin
Executive Vice-President
and Head of Québec
Investments and
Stewardship Investing

Investing with conviction

Our mission leads us to generate the returns our clients need while working to strengthen the economy. Over decades, our leaders and teams of experts have shown that these two objectives could go hand in hand—and could even be mutually reinforcing.

Today, CDPQ ranks among the top institutional investors in the world. Our teams manage assets around the world in excess of $340 billion. They create value on behalf of 41 Québec public and parapublic pension and insurance plans. Ultimately, more than six million Québec contributors benefit from these efforts. And it is on their behalf that our teams work to build a portfolio capable of generating stable, long-term returns.

Net assets

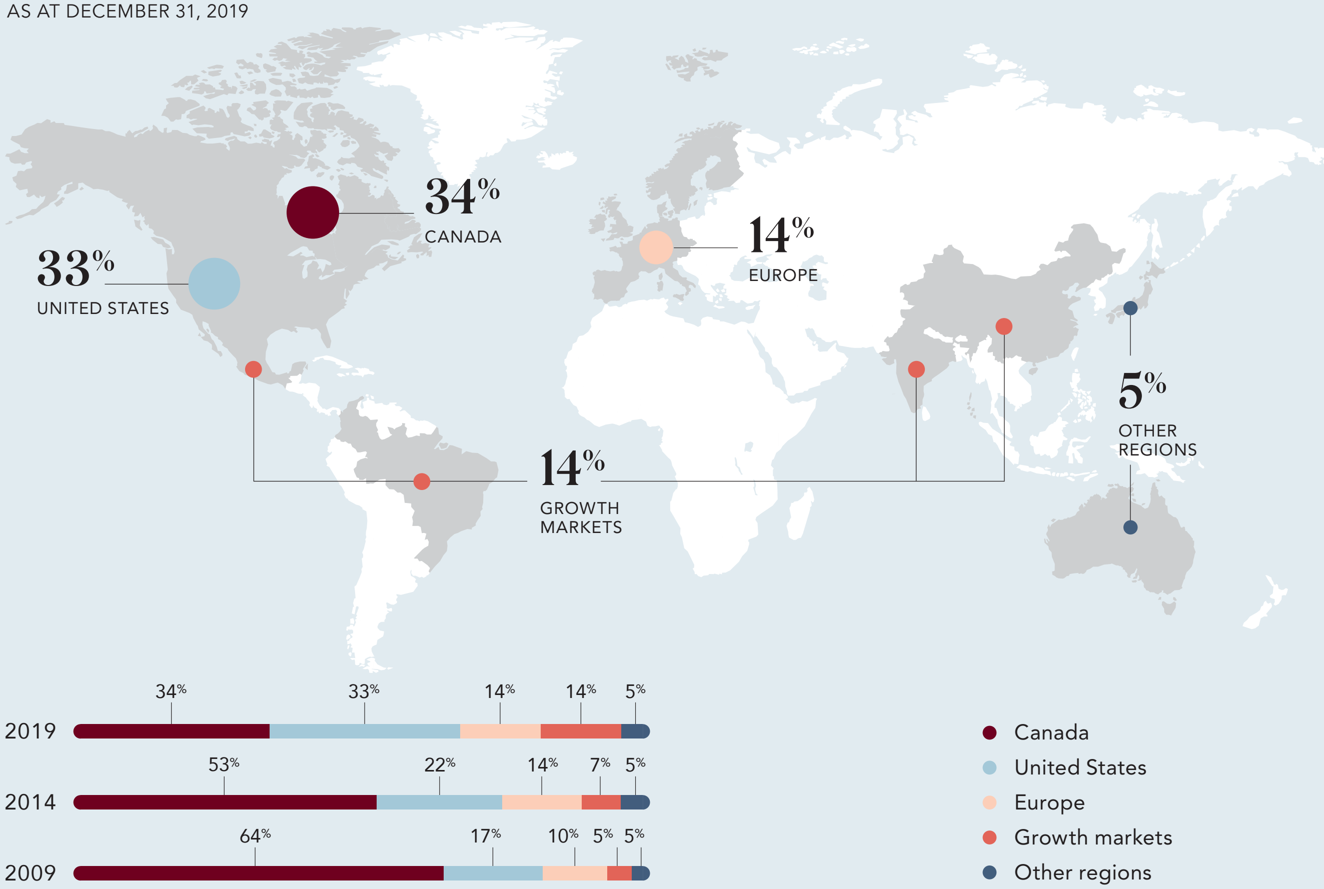
$340.1 B

AS AT DECEMBER 31, 2019

FIGURE 1

Overall portfolio geographical exposure

AS AT DECEMBER 31, 2019



Note: Totals may vary due to rounding.

Focusing on the long term

Over the past decade, CDPQ has generated the expected returns while adopting a risk strategy adapted to its depositors' needs. To achieve this, we relied on an investment strategy that includes a focus on long term, quality assets, world-class partnerships and climate change.

Five-year return

8.1%

ANNUALIZED

Ten-year return

9.2%

ANNUALIZED

The seven main pillars of our investment strategy

A LONG-TERM APPROACH

Beyond generating annual returns, our goal is to achieve solid results over the long term.

GLOBAL INVESTMENTS

We benefit from the growth of dynamic economies by targeting the best investment opportunities around the world.

QUALITY ASSETS

For all our portfolios, we target quality assets that are well positioned to weather turbulence.

WORLD-CLASS PARTNERS

We work with quality partners around the world who share our investment philosophy and whose strengths complement our own.

CONTRIBUTING TO QUÉBEC'S ECONOMY

A significant portion of our investments aim to support Québec companies that are innovating and expanding internationally and to support impactful projects for Québec's economy.

DIVERSIFYING TOWARD LESS-LIQUID ASSETS AND CREDIT

We are investing more in less-liquid assets and credit, drawing on our expertise, competitive advantages and long-term approach.

FACTORING IN CLIMATE CHANGE

Taking climate change into account is a critical part of every investment decision. We also focus on low-carbon assets to help build a more sustainable economy while generating returns.

Acting with sustainability in mind

As a global investor, we have a responsibility to act with a view to ensuring sustainability—for the companies and projects in which we invest as well as for society as a whole. For nearly 20 years, CDPQ has factored ESG criteria into its investment activities.

Our position is based on a measured and well-structured approach and key partnerships. We have put in place a stewardship investing strategy that encompasses our role as investor and shareholder, as well as the role that we play in the community.

We take a global approach, putting all our teams to work, and we have chosen to exercise our leadership by mobilizing our partners in order to build our influence.

We focus on three strategic priorities when taking action.

Our three stewardship investing priorities

CLIMATE CHANGE

We seek to increase our low-carbon assets and reduce our portfolio's carbon intensity, with the goal of long-term carbon neutrality.

DIVERSITY

We encourage talent diversity, particularly the inclusion of women in senior management roles and in seats on the Boards of our portfolio companies.

GOVERNANCE

We pay particular attention to issues such as Board composition, executive compensation, cybersecurity and international taxation.

We also focus on a broad range of issues, including energy management, business practice oversight and working conditions.

An approach with a clear direction

To move toward a more sustainable world, we have chosen a stewardship investing approach that encompasses our entire portfolio and all of our activities.

Our conviction

By executing our strategy, we support our portfolio companies to create sustainable value and we can seize business opportunities that will allow us to generate long-term performance.

Including ESG criteria

Our investments are the result of a meticulous analysis of various criteria, including the company's strategy, culture, current and past performance and stability, as well as the expertise of its teams.

ESG criteria often have a big impact on a company's performance. That is why we consider these criteria throughout the investment process.

Engagement over disinvestment

We believe in leveraging our capital and expertise constructively to encourage leading companies from all sectors to improve and join the transition. We see this approach as the most likely to positively contribute to an economy that is more sustainable overall.

As such, rather than disengaging, we look to influence our portfolio companies so that they adopt best practices and include more ESG criteria in their business decisions.

We exercise this influence through dialogue and our shareholder voting rights. We encourage companies to set ambitious sustainability objectives, to comprehensively and transparently disclose their results, and to present their findings and their initiatives to facilitate the assessment of their performance and positioning in relation to their peers.

Mobilizing our investment teams

Our investment teams are responsible for including sustainability metrics in their analyses and in monitoring portfolios. This is an integral part of the decision-making process.

Our stewardship investing and ESG risk analysis groups work together, following a systematic approach to better support our investment teams. It is also with this goal in mind that we have included climate targets in employees' variable compensation.

Providing leadership within our industry

To have a broader impact, we take a leadership role by rallying the global institutional investor community around a set of key stewardship investing priorities.

Working with our peers, we seek to improve engagement methods and to share best practices. There is no doubt that we will make a difference by working together.

We rally the global institutional investor community around major stewardship investing initiatives.

Taking concrete action to limit climate change

Year after year, numerous events around the world are a reminder that climate change is real and is already having major repercussions.

In 2017, CDPQ was one of the first global investors to make climate change a priority.

Since then, we have put in place a structured investment strategy to address the climate challenge. Our objective is to play a role in the transition to a low-carbon economy while seizing the resulting investment opportunities.

Two years later and the four pillars of our strategy are already delivering conclusive results.

And we plan to continue this work. In 2019, we made our most ambitious commitment yet to contribute to the fight against climate change. Alongside 11 international partners, we launched the Net-Zero Alliance last September. By the end of the year, this United Nations-convened initiative included 18 global investors sharing the goal of achieving carbon-neutral portfolios by 2050.

The four pillars of our strategy

1. Factor climate change into every investment decision

2. Increase our low-carbon investments by 80% between 2017 and 2020

3. Reduce our carbon intensity per dollar invested by 25% between 2017 and 2025

4. Exercise stronger climate leadership within the industry and with our portfolio companies

1. Our investment process

The key to the success of our strategy lies in factoring climate considerations into our investment process (Figure 2). Our teams must analyze investment opportunities to determine where they stand in terms of the energy transition, climate risks and whether they contribute to achieving our climate targets while generating good returns with an acceptable level of risk.

Using specialized tools

We have implemented tools and processes allowing our managers to properly analyze the investment opportunities and risks relating to climate change for all of our asset classes.

For example, we have incorporated carbon footprint data for various companies into our systems in order to measure the impact of a proposed transaction and estimate its evolution over time. Accordingly, approximately 100 potential investments were subject to a detailed analysis examining their positioning on climate issues as well as their carbon intensity during the year.

We are also developing a tool to identify and measure the physical risks relating to climate change.

Align the climate strategy with variable compensation

Aligning our climate strategy with the investment decisions that we make each day is a priority. That is why we were one of the first institutional investors to include climate targets in employees' variable compensation. This means that compensation will vary according to our progress on climate issues and in meeting our carbon intensity reduction objectives.

> We have incorporated carbon data into our systems to measure the impact of a potential transaction.

FIGURE 2

INTEGRATING CLIMATE FACTORS INTO OUR INVESTMENT PROCESSES

GLOBAL OBJECTIVE AND TARGETS	DETAILED TARGETS BY PORTFOLIO	SPECIFIC ANALYSIS OF INVESTMENTS	MONITORING AND ENGAGEMENT	REPORTING
Research, priorities and institutional strategies	Converted into quantitative objectives by group and sector	Detailed analysis of risks and opportunities associated with the investments	Measure, analyze, internal monitoring and public and private engagement	Publication of our targets and our performance

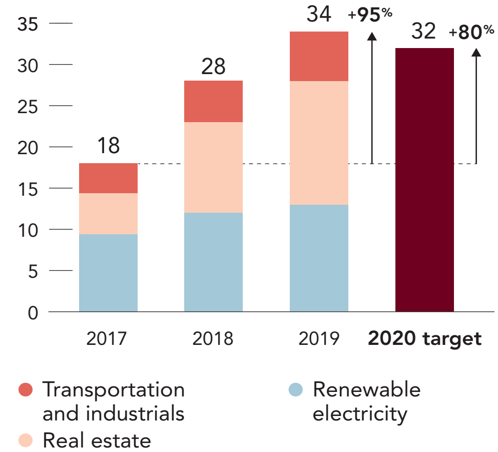
2. Our low-carbon investments

After implementing our strategy in 2017, we quickly exceeded our investment forecasts for low-carbon assets. In 2018, we increased our 2020 target to $32 billion, which is 80% higher than the 2017 figure.

As at December 31, 2019, our low-carbon asset portfolio totalled $34 billion (Chart 3), up 95% over 2017. As such, we have already exceeded our 2020 objectives.

CHART 3

LOW-CARBON INVESTMENTS
(in billions of dollars)



Tangible progress

Low-carbon investments in the portfolio (Pillar 2)

$18 B	$34 B	$32 B
2017 STARTING POINT	2019 VALUE	2020 TARGET

Overall portfolio carbon intensity (Pillar 3)

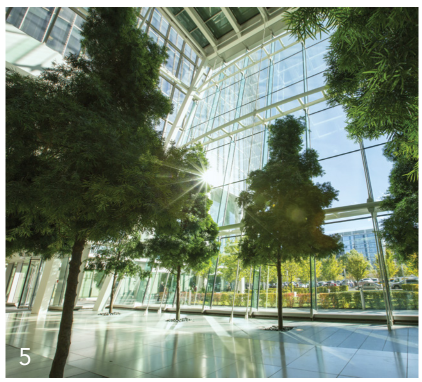
79 $tCO_2e/M^{\$}$ invested	63 $tCO_2e/M^{\$}$ invested	59 $tCO_2e/M^{\$}$ invested
2017 STARTING POINT	2019 VALUE	2025 TARGET

A number of low-carbon investments were added to our portfolio in 2019.


1

2


3


5


6


4

1.
Barcelona Metro

A €210-million loan to refinance a public-private partnership contract to build and operate metro stations in Barcelona

2.
Australian public transportation

Investment of $150 million, as part of a public-private partnership, for trains, systems, operations and maintenance of the Sydney metro system—the largest public transit project in Australia

3.
Azure Power Global

Reinvestment of US$75 million, on a private placement basis in this independent leading solar power producer in India

4.
AddÉnergie

Reinvestment in this leader in electric vehicle charging solutions to ensure future growth, particularly in the United States

5.
Sustainable development initiatives

Unsecured green bonds totalling $300 million issued by Ivanhoé Cambridge to finance sustainability initiatives

6.
Lightsource BP

Investment of £150 million, in the form of a loan, to finance a solar asset portfolio held and operated by the company

3. Our carbon intensity per dollar invested

In 2019, CDPQ remained a global leader in taking concrete steps to reduce its overall portfolio's carbon intensity. Our goal is to reduce our carbon intensity per dollar invested by 25% by 2025. To achieve this objective, we will reduce our holdings in high-carbon intensity assets, acquire low-carbon assets and improve the practices adopted by our portfolio companies through our engagement with them.

BUDGETING CARBON INTENSITY FOR EACH PORTFOLIO

To achieve our carbon intensity reduction targets while also generating the expected returns, we attribute carbon budgets to each of our portfolios. This governance tool allows us to set annual carbon intensity limits per portfolio.

Our managers include these carbon budgets in their annual strategic planning, thereby ensuring that they are respected by assessing the carbon footprint of each investment decision.

REDUCING OUR CARBON FOOTPRINT

As at December 31, 2019, our carbon footprint was mainly attributable to electricity production and certain high-intensity sectors (Chart 4). Currently 11% of our assets are considered low-carbon (7%) or are used to generate renewable electricity (4%).

The carbon intensity of our overall portfolio decreased by 21% compared to our benchmark for 2017. It was 63 tCO_2e/M$ in 2019, compared to 79 tCO_2e/M$ in 2017. We are committed to reducing our carbon intensity to 59 tCO_2e/M$, for a total reduction of 25% between now and 2025, as shown in Chart 5.

CHART 4

PORTFOLIO COMPOSITION: DOLLARS AND CARBON FOOTPRINT

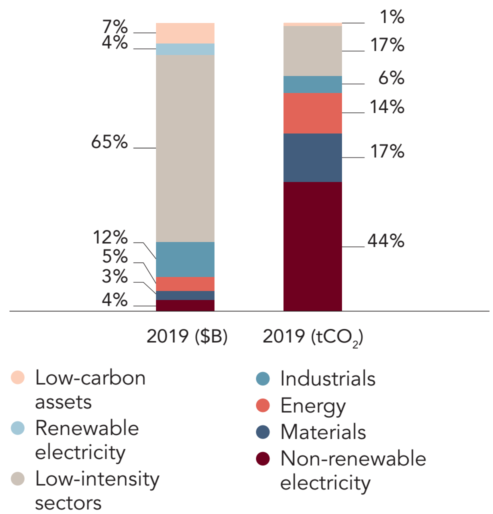
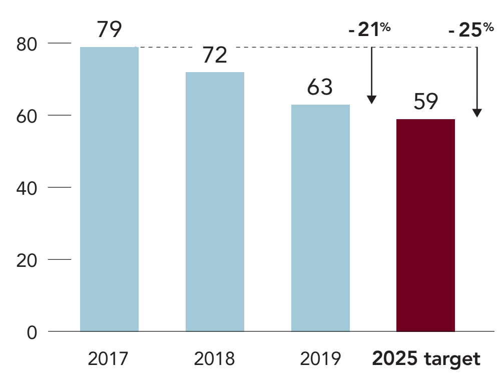


CHART 5

PORTFOLIO CARBON INTENSITY
(in tCO_2e/M$)



Case study

Ivanhoé Cambridge owns a shopping centre in Ontario that was built in 2004 and that did not qualify as a low-carbon asset. However, this changed as a result of various initiatives undertaken in recent years. The property manager improved waste diversion and energy and water consumption practices. This allowed the shopping centre to optimize its environmental performance. The measures put in place reduced energy consumption by 1.6 M kWh and cut carbon emissions by more than 60 tonnes annually. The property received BOMA Best Platinum certification in 2019.

4. Our climate leadership

Transitioning to a low-carbon economy is a lengthy process requiring the involvement of many different players: citizens, governments, organizations, businesses and investors.

As a long-term investor, CDPQ has chosen to exercise strong public leadership on climate issues. That is how we bring many different partners on board and optimize financial sector commitment with regard to this key issue.

We also encourage the companies in our portfolio to adopt a climate strategy that encompasses all of their activities and plans to reduce GHG emissions. In addition, we support them in making the transition to a low-carbon economy, notably through targeted investments.

EXERCISING LEADERSHIP

The **Investor Leadership Network's (ILN)** climate task force published a report on implementing the Task Force on Climate-related Financial Disclosure (TCFD) recommendations in September 2019. This report presents the lessons learned by the ILN members in implementing the recommendations. The objective is to help investors and businesses adopt uniform and comparable disclosure standards.

The ILN report is available online: www.investorleadershipnetwork.org/en/climate-disclosures.

We have also continued to exercise influence and share our expertise through our involvement in a number of associations, working groups and task forces:

- Co-chair of the City of Montréal's task force on its Climate Plan, together with the David Suzuki Foundation, to support the city in achieving its carbon neutrality and resilience goals by 2050.
- Working with Ouranos, a consortium on regional climatology and adaptation to climate change, developed a training program for the business community to ensure that climate risks are factored into decision-making.
- Working with the Asian Investor Group on Climate Change (AIGCC), developed and implemented training material for financial analysts that includes a focus on climate change, the TCFD and scenario analysis.
- Implemented an innovation platform for stewardship investing to leverage opportunities provided by our partnership with the CREO Family Office Syndicate, in order to direct more capital towards innovative investments in sustainability initiatives, including climate issues.
- Shared commitments toward different companies with the Climate Action 100+ initiative.
- Development of transition standards for issuing bonds, in connection with work led by the CSA Group, in collaboration with institutional investors.

In addition, we took part in conferences in connection with a number of climate change events, including the Expert Panel on Sustainable Finance, the Canadian Investor Relations Institute, the Responsible Investment Association, the Alternative Investment Management Association and Réseau Environnement.

WORKING WITH OUR PORTFOLIO COMPANIES

In 2019, we voted on 58 climate change-related proposals during the shareholders' meetings of our portfolio companies.

We also discussed this matter with the management teams and Boards of Directors of these companies on 46 different occasions.

Case study

In 2019, we had discussions with the management team of a North American company specialized in producing energy and transporting natural resources. This company was seeking to improve its disclosure of ESG risks. We provided guidance on what we consider to be fundamental disclosures as well as indicators to be published based on the TCFD's disclosure framework, in particular the analysis of climate scenarios. This work makes it possible to assess how various climate change factors can impact a company's performance.

A few months later, this company published an ESG profile presenting its performance in this area. It also released a sustainability and climate change report in accordance with TCFD recommendations, especially with regard to scenario analysis.

Harnessing diversity for performance and progress

Diversity is one of the three main priorities of our stewardship investing strategy. As an investor, we firmly believe that it provides substantial benefits that enhance our business performance and our impact.

Diversity and inclusion foster the success of the companies in which we invest. It's also why we encourage them to make this issue a key priority and to take concrete steps in this area.

In the same spirit, we believe that having many different perspectives within our teams—through gender diversity and by having team members with different experiences, from different generations and different ethnic backgrounds—fosters innovation and good decision-making. We are therefore pursuing our objective of increasing diversity within CDPQ.

Our commitment doesn't stop there. We would also like to mobilize the entire financial industry around this issue. To do this, we undertake and support concrete initiatives that focus on increasing the representation of women in the finance and investment sector, in Québec as well as abroad.

The three pillars of our commitment

1. Strengthen the commitment of our teams and governance bodies to diversity and inclusion

2. Implement initiatives that foster inclusion and the professional development of all team members

3. Promote diversity and exercise positive influence within the industry, with our partners and with our portfolio companies

1. Promoting diversity within our portfolio companies

As an investor and a shareholder, CDPQ expects companies to adopt policies that foster inclusion and diversity within their organizations and to make the appropriate disclosures. We recognize the progress made by our portfolio companies where these issues are concerned, and, whenever necessary, do not hesitate to make our voice heard to express how important these issues are.

ENGAGEMENT AND SHAREHOLDER VOTING RIGHTS

We contribute in two ways:

- When diversity and inclusion issues are identified, we hold direct discussions with the companies involved.
- We take the opportunity of portfolio company annual meetings to state our expectations in this area. We therefore leverage our shareholder voting rights to make our opinions on the matter known.

We encourage the inclusion of women on Boards of Directors as well as the election of members with different skills and experience. We support measures that make it possible to broaden the pool of candidates who are qualified to act as directors. We encourage our portfolio companies to publish a competency matrix with their circular, setting out each director's skills and expertise, as well as those being sought by the board.

During the year, we voted on 16 diversity-related proposals. We also engaged in a number of discussions on this matter with our portfolio companies.

> We support measures that broaden the pool of qualified candidates to sit as directors.

2. Diversity and inclusion at CDPQ

As a global institutional investor, CDPQ operates in a traditionally male-dominated industry. Gender diversity is one of our key priorities, which is why we work very hard to attract and retain more women and to support their career development.

CDPQ's Board and Executive Committee members pay particular attention to the advancement of women within the organization.

THROUGH RECRUITING

CDPQ teams actively implement concrete measures for hiring qualified women:

- We are increasingly present on university campuses to talk about what we do and recruit new talent.
- We launched a specific recruitment campaign on LinkedIn in 2019, which showcased the expertise of our women who are finance and investment professionals. The campaign allowed us to attract more women to work in finance positions during the year.

THROUGH PROFESSIONAL DEVELOPMENT

We provide internal and external mentoring programs to support the career development of high-potential women.

Moreover, each year we identify promising women among our talent and invite them to take part in *L'effet A*'s 100-day challenge. This initiative seeks to foster professional commitment on the part of women and to help them excel. In addition to a group of participants in Montréal, this year two women in our Paris office took part in this program that is now available in France.

43%

REPRESENTATION OF WOMEN
ON THE BOARD
AS AT DECEMBER 31, 2019

29%

REPRESENTATION OF WOMEN
ON THE EXECUTIVE COMMITTEE
AS AT DECEMBER 31, 2019

3. Mobilizing the industry through leadership initiatives

We work with other large, global institutional investors to address the issue of diversity and inclusion, which allows us to broaden our scope of action. It also prompts more investors to make this a priority and to play an influential role in this area.

INVESTOR LEADERSHIP NETWORK (ILN)

In 2019, CDPQ was instrumental in pursuing the ILN's objectives, including promoting gender diversity in the investment industry:

- ILN members made five major commitments to promote gender diversity in the finance and investment sectors. They will be implemented in the coming years.
- They have made a commitment to measure and increase female representation in investment and leadership roles within their teams in the coming years.
- Most ILN members, including CDPQ, have taken steps to obtain EDGE certification, a globally recognized benchmark for gender diversity. This will allow them to better direct their strategies and to strengthen their influence with partners and portfolio companies.
- An investment training and internship program for young women has begun in India, as the result of a partnership concluded in 2018 between ILN and the CFA Institute. This program is to be extended to other growth markets, starting with Brazil, in the coming years.

Five commitments made by ILN members to expand gender diversity

EXTERNAL MANAGERS

- Engage in dialogue regarding the issue of gender diversity, include it in pre-investment activities (due diligence process) and ensure thorough post-investment follow-up.

PUBLICLY TRADED COMPANIES

- Change our proxy voting policies to optimize gender diversity on Boards of Directors.
- Engage in dialogue with our portfolio companies to increase female representation on Boards of Directors and in senior management positions.

UNLISTED COMPANIES

- Promote gender diversity and inclusion through pre-investment (due diligence process) and post-investment activities.
- Actively recommend the appointment of women to Boards of Directors and aim at increasing female representation in senior management roles.

THE 30% CLUB

Since 2017, CDPQ has supported the 30% Club, which includes members from some 15 countries working toward a better gender balance within organizations. The Canadian chapter advocates for women to represent at least 30% of the Board composition and the management teams of S&P/TSX Composite Index companies—a goal that we wholeheartedly embrace.

CHEFFES DE FILE

We are continuing with this initiative that was launched in 2018 because we believe that it is vital to have more women at the head of growing companies. Cheffes de file includes approximately 60 women who are entrepreneurs, from 11 regions of Québec, who are leading companies with sales of between $5 million and $20 million. The goal is to foster the joint development and sharing of best practices to fuel the strategic thinking of these entrepreneurs and allow them to leverage the growth drivers that are available to them.

LEGAL LEADERS FOR DIVERSITY AND INCLUSION (LLD)

We take part in the activities organized by LLD, a Canadian organization whose Executive Committee includes Kim Thomassin, CDPQ's Executive Vice-President and Head of Québec Investments and Stewardship Investing. This group of lawyers has committed to creating a more inclusive legal profession as well as supporting diversity initiatives within companies. The organization opts for practical ways to achieve its mission, which include mentoring students and new hires, providing scholarships and speaking about diversity and inclusion.

Case study

As part of our involvement with the 30% Club, we have had discussions with a global portfolio company regarding the under-representation of women on Board and in senior management positions, as well as the lack of a formal policy in this area. This quickly led to tangible results. The company adopted a diversity policy during the year, stating its commitment to increase the number of women on its Board of Directors, with a target of women representing 25% of Board members in the short term.

The company also made a commitment to include more women in senior management roles. The two most recent appointments to senior management roles were women and a plan was adopted to identify promising female talent and support their career development.

A major international stewardship investing initiative

INVESTOR LEADERSHIP NETWORK

CDPQ founded the Investor Leadership Network (ILN) in 2018, in partnership with the Ontario Teachers' Pension Plan (Ontario Teachers'), against the backdrop of Canada's G7 presidency.

The goal of this initiative is to create new opportunities for sustainable growth by facilitating collaboration among peers and taking a long-term approach on key issues for investors and communities.

At the end of the year, 14 world-class global institutional investors were involved with this network to take direct, concrete action on the three most important issues that we face today.

Three initiatives

- Promote climate change disclosures.
- Enhance sustainable infrastructure expertise in growth markets.
- Foster diversity in investment.

Over the past 12 months, this network has refined the operation of its various committees and welcomed two new European members—APG Asset Management and Ardian—and also underwent its first leadership rotation.

Support better climate change disclosure

In September 2019, the climate task force issued a report presenting the lessons learned when implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

This report seeks to help asset owners and fund managers in making better choices to develop strategies and methods for making climate change disclosures.

Strengthen our sustainable infrastructure expertise in growth markets

In 2019, York University's Schulich School of Business welcomed the first group of senior civil servants managing infrastructure in growing economies as part of a program of study created by the ILN.

Thirteen participants from eight different countries received customized training to enhance their financial skills and ability to operate sustainable infrastructure. This training was combined with a residency in our investment partners' specialized infrastructure teams.

The program provides a unique opportunity allowing participants to deepen their expertise and share their outlook on the conditions for developing infrastructure and for investors to share their vision for investing in growth markets.

Given the success in this first year, a second group including more than 20 participants will participate in the 2021 edition of the program.

The highest level of commitment to diversity

Work was undertaken to encourage more diversity in financial markets, starting with an emphasis on gender diversity.

In 2019, the Diversity in Investment advisory committee launched ILN's CEO Council, which met for the first time on the sidelines of the G7 Summit.

The CEOs of the ILN organizations discussed increasing diversity and the representation of women within their organizations.

Photo: Schulich School of Business, York University

"What will stay with me from this program is the knowledge shared by the professors and the other participants. We are in similar situations in terms of infrastructure deficits and the problems we face."

Nataša Vukšic
Senior Technical Advisor
Office of the President, Republic of Serbia
2019 Fellow

Leveraging our investor role to evolve and influence governance practices

As a shareholder, we closely monitor ESG matters throughout the investment cycle and ensure that best practices are adopted and maintained over time.

We also place considerable importance on issues such as climate change, Board composition, executive compensation, cybersecurity and international taxation.

These matters have an impact on businesses in all industries. They may affect a company's performance and ability to maintain their competitive edge over the long term.

The opposite also applies, since ESG issues allow a company to stand out in a positive light when an effective strategy is put into place.

Our three ESG governance tools

1. Factor ESG matters into our investment analyses and monitoring

2. Engage in direct dialogue and collaborate with our portfolio companies

3. Exercise our voting rights and take a position when we disagree with certain proposals relating to ESG criteria

1. ESG analysis

The ESG analyses performed by our teams are taken into account in all decisions made by our portfolio managers and investment committees, as well as in monitoring assets held.

A total of 447 ESG analyses were carried out in 2019. This includes all of our new investments as well as our portfolio assets.

To ensure that a consistent approach is taken for external fund management, new managers were briefed on the importance of ESG issues and the scope of investment for their mandate was benchmarked against sectors representing the highest risk. Moreover, a guide on ESG matters was developed for external managers and sent to our partners.

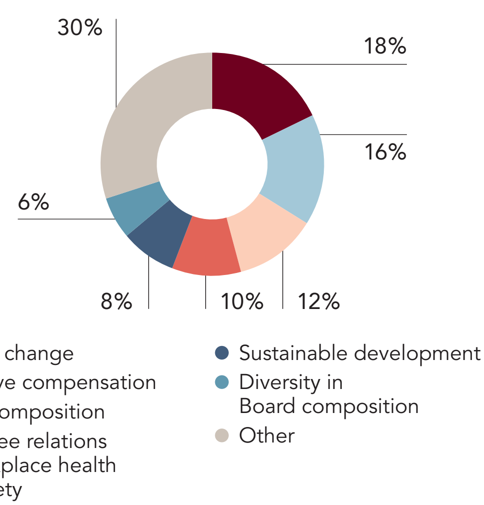
2. Commitment to our portfolio companies

We believe that it is imperative to work together with our portfolio companies to ensure that ESG best practices are implemented. We establish an open and constructive dialogue with the management teams of these companies during our meetings. This facilitates our understanding of their strategies and allows us to support their ESG efforts.

We have addressed various ESG-related issues with 97 portfolio companies on 256 different occasions during the year (Chart 6).

CHART 6

SIX KEY TOPICS ADDRESSED



EXPANDING OUR INFLUENCE THROUGH GLOBAL ACTIONS

In order to broaden the scope of our commitment, in 2017 we partnered with the Climate Action 100+ initiative. This organization of global investors makes it possible to encourage the highest carbon emitters to adopt emission reduction strategies. CDPQ's teams held constructive discussions with the senior management teams of companies operating in the energy sector.

447

ESG analyses conducted by our teams

3. Fulfilling our shareholder role

In exercising our voting rights at the annual general meetings of our portfolio companies, we can set out our expectations and express our opinion on ESG matters.

In 2019, we voted on 51,108 resolutions at 4,812 shareholders' meetings held in over 60 countries. Certain proposals relating to governance and executive compensation particularly caught our attention.

51,108
resolutions voted on at 4,812 shareholders' meetings in over 60 countries

4. Executive compensation

When we analyze compensation, we focus particularly on its transparent disclosure and its relation to company performance. When one of these criteria is not met, we do not hesitate to vote against management. In 2019, this happened in 29% of cases.

Case study

During the annual general meeting of a multinational corporation operating in the IT sector, shareholders were asked to vote on a proposal pertaining to the total compensation of the President and CEO for 2019. While this company generated exceptional results during the year, we were concerned about the substantial increase in the fixed portion of compensation and the repercussions that this could have for other components. We therefore voted against this proposal.

5. Cybersecurity: protecting information

Cybersecurity incidents are on the rise—abroad as well as in Québec—sometimes resulting in major repercussions for companies and their clients. In fact, clients rightfully demand robust measures to adequately safeguard sensitive personal information.

It is from this perspective that CDPQ teams perform a cross-functional analysis of our portfolio companies' cybersecurity. This analysis allows us to assess their level of maturity and to make appropriate recommendations.

80

interviews conducted by our teams to assess and familiarize companies with cybersecurity risks.

FOLLOWING A RIGOROUS ASSESSMENT PROCESS

The importance companies place on cybersecurity has a major impact on the risk related to their business activities. It is therefore vital for us to thoroughly understand a company's exposure to this type of risk throughout our overall investment process (Figure 7).

ENSURING BETTER COMPANY RESILIENCE

In 2019, our teams performed more than 165 cybersecurity risk analyses. We then conduct a due diligence review of processes to obtain a cross-functional view of the risk. In some cases, following the interviews, our teams proposed improvements to companies to limit their IT risk.

Case study

In 2019, we approached a transportation company after our teams detected a vulnerability in one of its systems. The ensuing discussions determined that the problem was related to a system that the company believed had been decommissioned several years ago.

Our detailed analysis allowed the company to review its practices and become more resilient. Moreover, this also prompted the company to implement an even more detailed protocol, which also benefits CDPQ and its portfolio companies.

FIGURE 7

CYBERSECURITY ANALYSIS

Cybersecurity analyses are conducted based on:

- Public information
- External evaluation reports
- Q&A sessions

›

Recommendations are developed to reduce residual risk

›

Post-investment monitoring is conducted to analyse the changes

6. Improving global tax practices

CDPQ pays particular attention to tax-related issues. As a long-term investor, we participate in initiatives that aim to clarify and improve the tax practices of companies and institutional investors around the globe.

Using artificial tax structures or short-term incentives can create substantial risks for companies and investors alike. This has impacts for society as a whole, since there are repercussions on the ability of our governments to fund public services.

We therefore take concrete steps to access more detailed information to fully conform to our public statement on international taxation (see appended statement).

Working with our peers, we seek to implement an effective and transparent international fiscal framework allowing governments to collect the income taxes that they are owed. This is vital in ensuring that governments can adequately fund public services. As such, we support the initiatives launched by various international institutions, such as the Organisation for Economic Co-operation and Development (OECD) and groups of investors like CDPQ, to prevent abusive tax practices.

In fall 2019, CDPQ discussed various tax issues with 15 of its international peers. It is important for us to be involved in discussions regarding fiscal transparency and to contribute to developing an ethical framework. Moreover, as part of a concerted approach, CDPQ and several of its peers began drafting a shared, standard letter to outline investors' expectations in terms of a company's fiscal behaviour.

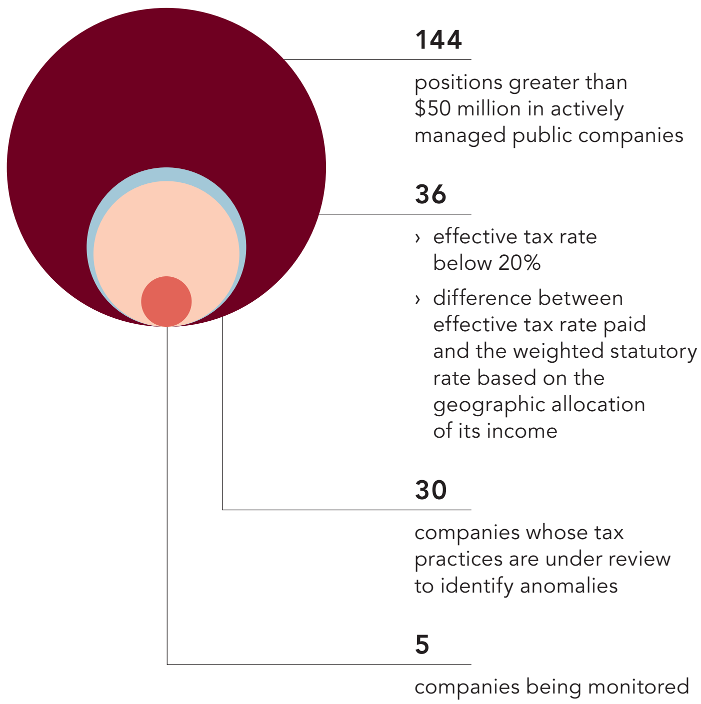
CAREFULLY ANALYZE THE TAX RATES FOR PUBLICLY LISTED COMPANIES

Tax practices, like risks, also influence the analysis of a potential investment. When considering investment opportunities, we use tools that provide a detailed picture of all of the tax practices of the companies in question. We are therefore able to ensure that these practices are viable and consistent with our expectations.

CDPQ also maintains a system for assessing the tax practices of its portfolio companies. We periodically review companies in which we have invested more than $50 million. This allows us to quickly act and engage in the necessary discussions. There is a consensus among OECD member countries and international experts that companies must pay income tax in countries where they have significant economic activity and where they generate revenues. Our analysis allows us to determine the degree to which our portfolio companies adhere to this principle.

FIGURE 8

TOOL FOR ANALYZING TAX PRACTICES



> We analyzed the tax practices of 144 publicly listed companies in our portfolio in which we have invested more than $50 million

Of these 144 publicly listed companies, 5 were identified as having a significant tax risk and were analyzed in more detail. We followed up periodically with their management teams to better understand the risk and work with the company on its tax practices.

Investing in the community

This past year provided an opportunity to redefine our donations and sponsorships policy. Priority sectors for philanthropic activity were reviewed against the general framework and guiding principles were established for the 2020–2022 period.

Our general framework: provide a source of constructive capital

In Québec, CDPQ's philanthropic endeavours are based on an objective to provide beneficial long-term support by investing in the community. In offering financial support, we seek to be a source of constructive capital, in keeping with our core values of ethics and discipline.

But our contribution is more than just financial. Our partnerships leverage the knowledge and expertise of our employees, their creativity and their involvement in business networks as well as the community.

Implementing our new donations and sponsorship policy for greater engagement

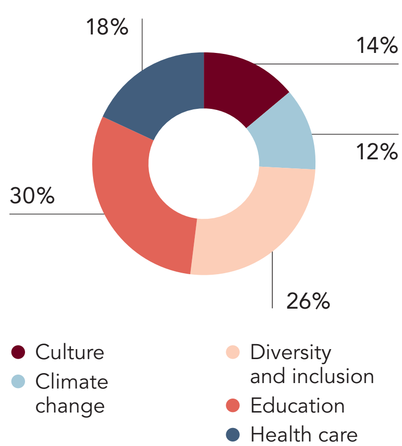
- We have introduced climate change as a theme in our philanthropic priority sectors.
- Diversity and inclusion, eco-friendly practices, innovation and lasting partnerships have become the criteria for selecting the most appropriate and impactful commitments.

180

organizations supported by CDPQ in 2019

CHART 9

OUR COMMUNITY SUPPORT IN 2019
(proportion of our donations by sector)



Supporting employee commitment

Causes and effects

Causes and Effects program

Our Causes and Effects program seeks to recognize employee commitment to charitable causes. It creates targeted connections allowing our employees to become members of Boards or strategic committees of non-profit organizations (NPOs).

+150 employees are members of the Board of Directors of an NPO

+130 employees took part in six team volunteering activities

+15 activities to volunteer our expertise to NPOs via the Impact 20-35 program developed for young CDPQ professionals

équiterre

Futurs possibles project

CDPQ presided over Équiterre's major fund-raising campaign in 2019 that helped raise a record amount to support this environmental organization's initiatives.

Part of the funds raised are being used for the *Futurs possibles* initiative. This unifying project seeks to implement concrete action to address climate change on a local level. Initiatives were identified by youth throughout Québec.

In a second phase, this educational project will be expanded to include other community groups who, together, will be asked to think of ways to implement solutions.

We believe that by fostering discussion among experts and community members we will be able to effectively address climate change. The *Futurs possibles* project is a demonstration of this.

Centraide of Greater Montreal

Innovative 2019 radiothon

As part of Centraide's corporate campaign, CDPQ held a radiothon during which a number of NPO leaders presented the mission of their organizations.

Charles Emond, who was CDPQ's Executive Vice-President, Québec, Private Equity and Strategic Planning at the time (he was appointed President and CEO at the end of January 2020) and Ani Castonguay, Executive Vice-President, Public Affairs, co-hosted a round table radio broadcast for CDPQ, to raise awareness of Centraide's impact in the Greater Montréal Area. Centraide applauded this innovative initiative and granted CDPQ its *Solidaires Mobilization, 1,000 plus employees* award.

$430,827

CONTRIBUTED BY EMPLOYEES TO THE 2019 CENTRAIDE CAMPAIGN

$861,654

TOTAL CONTRIBUTION TO THE 2019 CENTRAIDE CAMPAIGN

Appendices

CALCULATION OF THE INTENSITY OF CDPQ'S PORTFOLIO

Calculation

Total CDPQ portfolio intensity = $\frac{\Sigma \text{ CDPQ emissions } (tCO_2eq) \text{ of the portfolio as at December 31}}{\text{(CDPQ portfolio within the perimeter (millions of CAD)}}$

CDPQ emissions = asset-related emissions (tCO_2eq) **x** $\frac{\text{LT Capital supplied by CDPQ (millions of CAD)}}{\text{Total LT capital of the asset (millions of CAD)}}$

LT Capital = Long-term capital used by a company to finance its production assets (fair market value of equity + long-term debt).

Perimeter of calculation: CDPQ portfolio within the perimeter

Type of investment = Investments, including those of nonconsolidated subsidiaries, in the form of shares, corporate and Crown corporation debt, securities held through market indexes or exchange-traded funds (ETFs), externally managed investments, securities lending and borrowing. Are excluded: Government bonds, cash, warrants, derivative financial instruments and securities purchased under resale agreements.

Specialized portfolios = Equity Markets, Fixed Income, Private Equity, Infrastructure, Real Estate, certain investments in shares (including short positions) held in Asset Allocation.

Value as at December 31, 2019 = Includes $311 billion, excludes $83 billion (government bonds and other).

Emissions considered

The carbon footprint of an asset corresponds to its direct or indirect greenhouse gas emissions (scopes 1 and 2) converted into equivalent tons of CO_2 as defined by GHG Protocol.

Data sources

A) Direct holdings

The Trucost database is CDPQ's preferred source for individual issuers. Combined with data from the Compustat database, the Trucost figures (calendar year 2019) form the foundation of our calculations of emissions of individual securities and average sector intensity. In the absence of Trucost data, our approach is:

Low Intensity Assets (<120 tCO_2/M$) and intense assets under the methodological threshold	Average sector intensity (GICS Level 4 classification)
High intensity assets (⩾120 tCO_2eq/M$) that exceed the methodological threshold Ivanhoé Cambridge's assets	In order of priority: • Footprint disclosed by the issuer (if credible) • Footprint estimated by a credible source • Use of specific comparables operating facilities similar to those of the issuer • Estimation based on technical data from emitting facilities and credible sources of standardized data • Average intensity of the sector • Average corporate intensity for certain sectors or assets in emerging markets

B) Indirect holdings

Where data is available, the intensity of funds is calculated according to the rules applicable to direct holdings. Where data is not available, CDPQ uses the intensity of the fund disclosed by the manager or, if the data is unsatisfactory, the average intensity of the sector or asset class appropriate to the nature of the fund.

Methodological thresholds

CDPQ has established thresholds that allow it to adjust its level of analysis by sector:

	CDPQ exposure threshold
Very high intensity sectors (≈5,000 tCO_2eq/M$)	$10 M
High intensity sectors (≈2,000 tCO_2eq/M$)	$25 M
Average intensity sectors (≈500 tCO_2eq/M$)	$100 M

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON THE CARBON INTENSITY OF THE PORTFOLIO WITHIN THE CALCULATION BOUNDARY OF THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

To the Board of Directors and Management of the Caisse de dépôt et placement du Québec

We have undertaken a limited assurance engagement of the carbon intensity of the portfolio within the calculation boundary of the Caisse de dépôt et placement du Québec as at December 31, 2019 appearing on page 13 and 15 of the Stewardship Investing Report, whose calculation is defined in schedule "Calculation of the Intensity of the Caisse Portfolio" of the Stewardship Investing Report [the "Carbon Intensity of the Caisse Portfolio"].

Responsibility of the Caisse de dépôt et placement du Québec for the Carbon Intensity of the Caisse Portfolio

The Caisse de dépôt et placement du Québec is responsible for preparing the Carbon Intensity of the Caisse Portfolio in accordance with the internally developed criteria applied as explained in the schedule "Calculation of the Intensity of the Caisse Portfolio" of the Stewardship Investing Report. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of a Carbon Intensity of the Caisse Portfolio that is free from material misstatement, whether due to fraud or error.

There are currently no legislative or regulatory requirements requiring the Caisse de dépôt et placement du Québec to prepare, publish or have verified the carbon intensity of an asset. As a result, the quantification of the Carbon Intensity of the Caisse Portfolio is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Our independence and quality control

We have complied with the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Canadian Standard on Quality Control and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Carbon Intensity of the Caisse Portfolio based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with Canadian Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* (CSAE 3410), issued by the Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Carbon Intensity of the Caisse Portfolio is free from material misstatement.

A limited assurance engagement undertaken in accordance with CSAE 3410 involves assessing the suitability in the circumstances of the use by the Caisse de dépôt et placement du Québec of internally developed criteria as the basis for the preparation of the Carbon Intensity of the Caisse Portfolio, assessing the risks of material misstatement of the Carbon Intensity of the Caisse Portfolio whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Carbon Intensity of the Caisse Portfolio. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we performed:

- Interviews with selected personnel to understand the key issues related to the data and processes for the collection and accurate reporting of the Carbon Intensity of the Caisse Portfolio.
- Where relevant, walkthroughs of systems and processes for data aggregation and reporting.
- Inquiries of management regarding key assumptions and the evidence to support the assumptions.
- Validations of the accuracy of calculations performed, on a sample basis, primarily through inquiry, analytical procedures and recalculations.

Our procedures did not include providing conclusions in relation to:

- The completeness or accuracy of data sets or information relating to areas other than the Carbon Intensity of the Caisse Portfolio included in the Stewardship Investing Report.
- An assessment of the current value of the individual or aggregate interests of the Caisse de dépôt et placement du Québec appearing in the schedule "Calculation of the intensity of the Caisse Portfolio."

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Carbon Intensity of the Caisse Portfolio has been prepared, in all material respects, in accordance with the internally developed criteria applied as explained in schedule "Calculation of the Intensity of the Caisse Portfolio" of the Stewardship Investing Report.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Carbon Intensity of the portfolio within the for calculation boundary of the Caisse de dépôt et placement du Québec as at December 31, 2019 appearing on page 13 and 15 of the Stewardship Investing Report is not prepared, in all material respects, in accordance with the internally developed criteria applied as explained in the schedule "Calculation of the Intensity of the Caisse Portfolio" of the Stewardship Investing Report.

Ernst & Young LLP[1]

Montréal, Canada
March 31th, 2020

[1] FCPA auditor, FCA, public accountancy permit no. A114960

The Task Force on Climate-related Financial Disclosures (TCFD, a working group chaired by Michael Bloomberg) was established in 2015 by the Financial Stability Board of the G20 to develop a consistent and uniform framework for worldwide climate-related financial risk disclosures.

Issued in 2017, the TCFD's final recommendations represent today's global point of reference for financial disclosures relating to climate issues. Since CDPQ would like to see more and more companies and investors adopt these recommendations, it is leading by example and measuring its progress against this series of recommendations.

Application of the recommendations by CDPQ

Governance

Recommendation / Board oversight of climate-related risks and opportunities

- **Implementation** / Our responsible investment policy and climate strategy announced in 2017 require that ESG criteria, including the climate, be factored into the process for analyzing and approving investments. Our integrated risk management policy also encompasses the risks related to ESG criteria. These policies were approved by the Board of Directors, which monitors progress annually.
- In 2018, the Board of Directors' Human Resources Committee also approved factoring carbon into the calculation of employees' variable compensation. This component is now taken into consideration for variable compensation.

Recommendation / Describe management's role in assessing and managing climate-related risks and opportunities

- **Implementation** / Climate-related risks and opportunities are assessed and managed by CDPQ's various investment committees. Working in collaboration with the strategy and investment teams, the stewardship investing team closely monitors the annual carbon budgets of our specialized portfolios to achieve the targets set for 2025. These analyses are submitted to the various committees which include CDPQ executives, including the Investment-Risk Committee and the Executive Committee.

Strategy

Recommendation / Describe the climate-related risks and opportunities identified over the short, medium and long term

- **Implementation** / Our teams analyze the physical and transition risks relating to climate change. Physical risks are difficult to analyze and quantify. They are taken into account for investments located in areas that are vulnerable to extreme climate events or, where renewable energy is concerned, when the resource itself is dependent on the long-term climate.
- Various types of transition risks exist, including regulatory or political action (carbon pricing or subsidies), technological innovations, market risks (changes in demand for certain products), lawsuits and reputational risks. They are assessed by way of quantitative and qualitative analyses.
- In the short term, these risks are moderate and specific to certain companies and jurisdictions. They are analyzed case by case. Medium-term risks (<5 years) are of a technological, regulatory or market-related nature or pertain to carbon pricing, potentially affecting the competitiveness of carbon-intensive companies. Long-term transition risks (>5 years) are associated with high carbon intensity sectors for which lower carbon substitutes or disruptive technologies exist.
- There are many climate opportunities. CDPQ has set some targets for investing in low-carbon assets and is attentive to any opportunity to invest in renewable energy, sustainable transport, green buildings, energy efficiency initiatives or any other area promoting energy transition.

Recommendation / Describe the impact of climate-related risks and opportunities on operations, strategy and financial planning and how they factor into investment portfolios and strategies

- **Implementation** / As a long-term investor, CDPQ adapts its portfolio to seize opportunities and reduce its risk relating to climate change. Climate risk is analyzed by considering a number of unknowns and possible scenarios. These medium- and long-term systemic risks form the basis of our climate strategy, whose goal is to increase our number of low-carbon assets and reduce the carbon intensity of our overall portfolio by 25% between now and 2025. We therefore invest in low-carbon companies, projects and assets as well as companies that are poised to capitalize on the long-term energy transition. Moreover, we have developed guidance for any investments made in the energy value chain. This guidance defines and sets a framework for these activities while accounting for the role played by each component of the value chain in making an energy transition.
- Lastly, in 2019, CDPQ founded the Net-Zero Alliance together with other global investors. This initiative seeks to ensure that our portfolios are carbon neutral by 2050. Working together with the members of this group, we have begun to address the complex matter of setting intermediate science-based targets that will allow us to achieve this goal.

Recommendation / Describe the resilience of the strategy, taking into consideration different climate-related scenarios

- **Implementation** / Analyzing physical and transition risks for the overall portfolio is an extremely complex process. That is why we joined the United Nations Environment Programme Finance Initiative (UNEP FI) task force in 2018 to develop a more precise methodology in this regard. Three variables are of particularly critical importance: carbon pricing, a sector's ability to share transition costs and whether product substitutes exist. At the same time, we have continued to monitor the advancement of knowledge in this area on an international level. While in our view, these analyses and transition risk models are necessary, they have not yet made it possible to develop tools capable of providing a realistic and reliable indication of the resiliency of our portfolio. The work of the Net-Zero Alliance referred to above should, however, allow us to develop effective tools for this type of analysis.
- Our physical risk analyses have provided more promising results, and we are working actively to put in place a high-quality tool that will allow us to properly assess these various issues.

Risk Management

Recommendation / Describe the process for identifying and assessing climate-related risks based on portfolios and strategies

- **Implementation** / Climate-related risks are evaluated by the investment committees when the investment decision is made. The degree of analysis depends on the materiality of the risk. The risks assessed include physical and transition risks and take into account the company's industry positioning, management of ESG issues and transition strategy.
- Scenarios are used, when necessary, to analyze the impact of transitioning to more sustainable forms of energy or long-term changes in weather patterns based on key performance metrics. Portfolios are reviewed periodically to monitor risks and analyze the mitigation measures implemented by companies.

Recommendation / Describe the engagement with portfolio companies to improve their climate-related practices and disclosures

- **Implementation** / This engagement can take many different forms. We support shareholder proposals aimed at promoting better disclosure of climate-related risks and opportunities, in accordance with the TCFD's recommendations, by exercising our shareholder voting rights. Moreover, we speak with executives from select companies to understand their climate change strategy and encourage them to adopt best practices.
- As part of the Climate Action 100+ initiative, we work with other investors to influence the practices of the largest GHG emitters in the world.
- Our teams also work with their Canadian and international peers in connection with various events in order to raise awareness, among investors and companies, and share best practices developed internally to address climate-related issues.

Recommendation / Describe the process for managing and mitigating climate-related risks based on portfolios and strategies

- **Implementation** / For each portfolio, climate-related risks are managed with every investment decision, portfolio review or decision with regard to its composition. Transition risks are partially and gradually mitigated by way of annual carbon budgets for each portfolio based on the target of reducing the carbon footprint by 25% by 2025.

Recommendation / Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management

- **Implementation** / Climate-related risks are addressed in specific sections of the investment approval and reporting documents and are subject to the same governance as other risks. The work done by the UNEP FI task force in 2018 confirmed how difficult it is to develop models for physical and transition risks, particularly for the overall portfolio. We will continue our analyses in this area.

Metrics and targets

Recommendation / Disclose the metrics used to assess and track climate-related risks and opportunities, according to portfolio and strategy, and changes in metrics over time

- **Implementation** / Our main metrics are the carbon intensity (tCO_2e per million dollars) of a company or portfolio and the volume of low-carbon investments (in billions of dollars), based on Climate Bonds Initiative criteria. These indicators help quantify our progress as we work toward achieving our targets.

- CDPQ put in place an IT system in 2018 connecting its own internal databases to the databases of climate data suppliers, making it possible to estimate the carbon intensity of our various portfolios in real time. This system allows us to closely monitor their progress in achieving targets.

Recommendation / Disclose carbon intensity of the portfolio (types 1 and 2) and the associated risks

- **Implementation** / In 2019, the carbon intensity of CDPQ's portfolio was 63 tCO_2e/M$, down 16 tCO_2e/M$ from 2017.

Recommendation / Disclose carbon intensity based on portfolios and strategies, along with relevant data and the methodology used

- **Implementation** / We disclose the carbon intensity of our overall portfolio and provide information on the contribution of various sectors to our overall carbon footprint, in addition to their weight in CDPQ's overall portfolio (in billions of dollars).

- The methodology used to measure our carbon footprint is available in Appendix 1 and has been certified by CDPQ's external auditors (see Appendix 2).

Recommendation / Describe targets used to manage climate-related risks and opportunities and performance against targets

- **Implementation** / Our carbon intensity reduction targets are broken down by portfolio based on asset class, investment horizon and investment universe. In 2019, we reduced the carbon footprint of our overall portfolio by 21% compared to the 2017 reference footprint, and exceeded our target in terms of low-carbon investments initially set for 2020, with a 95% increase in our assets since 2017, for a total of $34.4 billion at the end of 2019.

STATEMENT ON INTERNATIONAL TAXATION

The following statement is intended to explain CDPQ's tax obligations and practices. It describes CDPQ's approach to working with companies and investors to adapt their practices and to fostering the adoption of effective and standard rules on a global scale.

CDPQ's tax status

As an international investor, CDPQ is subject to the tax laws of Québec, Canada and the jurisdictions where it has offices or holds investments.

CDPQ is exempt from Québec and Canadian income tax. Most pension funds around the world are similarly exempt from income tax, as they operate according to the EET system. Much like the tax treatment of Registered Retirement Savings Plans, under this system:

- contributions are exempt (E);
- returns are generally exempt (E); and
- benefits are taxed when paid to beneficiaries (T).

Under various bilateral treaties or agreements with foreign tax authorities, CDPQ is also exempt from income tax in several other countries, including the U.S., France, the U.K. and Australia.

In jurisdictions where exemptions are not available, CDPQ seeks to structure its investments so that investment income is not taxed twice:

- The first time abroad;
- The second time when benefits are paid to recipients.

CDPQ's exemptions in no way reduce the tax obligations of the companies in which it invests, which still have to pay all income taxes owed.

CDPQ'S PRESENCE IN LOW-TAX JURISDICTIONS

The growth in CDPQ's international investments has expanded its presence in certain low-tax jurisdictions. Investments in these jurisdictions fall under three categories:

1 – Direct investments in operating companies

Most of these companies operate and employ a large number of people in the countries where they are domiciled and pay taxes on their profits. For example, CDPQ's investments in Nestlé, a multinational corporation domiciled in Switzerland, fall into this category.

2 – Interests in investment funds

These funds comprise hundreds of international investors and are sometimes constituted in low-tax jurisdictions. These structures exist for legitimate business purposes. They make it possible to share expertise, better manage risk and obtain economies of scale.

Due to the large number of co-investors, CDPQ has very little influence on the choice of jurisdictions in which these investment funds are incorporated. The use of these funds in no way affects the obligation of each investor and company to comply with the tax laws applicable to them.

3 – Investments in companies that use low-tax jurisdictions to structure certain investments

There are legitimate business reasons that support the use of these structures. However, given that the number of investors is limited, CDPQ may sometimes have influence over its partners and foster the achievement of its business objectives by locating structures in Canada or in countries where it benefits from tax exemptions.

ADOPTING EFFECTIVE, STANDARDIZED RULES

The use of "tax havens" and the related tax planning strategies is a worldwide phenomenon. While legitimate, these practices are sometimes called into question, as some jurisdictions have a reputation for facilitating tax evasion.

But it is important to make the distinction between using a low-tax jurisdiction for business reasons and using one as a component of tax planning for tax evasion purposes.

Major initiatives to counter this phenomenon are under way, starting with the **OECD's Base Erosion and Profit Sharing initiative (BEPS)**. The OECD is proposing a concerted and ambitious approach to counter the abusive structures that allow certain taxpayers to unfairly reduce their tax obligations.

This project will fundamentally change international tax practices. Some of these changes have already come into effect. Others will be implemented over the coming years, as countries ratify the international agreements and adopt new laws.

CDPQ supports the various OECD and government initiatives to combat tax evasion. As of 2017, in accordance with the BEPS initiative, CDPQ now produces country-by-country filings that provide more detailed information to facilitate the tax authorities' audit work.

INFLUENCE OVER COMPANIES AND INVESTORS

Even though tax planning remains the responsibility of company management, CDPQ believes it can help evolve the business practices of its portfolio companies by encouraging engagement.

CDPQ uses its votes at public companies' shareholders' meetings, or discussions with management teams, to understand the companies' tax practices and insists on full transparency on this matter.

As part of its investment activities, CDPQ also helps fight tax abuse by performing background checks and by excluding from its private investments all companies which have been found guilty of tax evasion and have not modified their practices.

LONG-TERM ENGAGEMENT

Despite its efforts, CDPQ is aware that the different tax regimes in place around the world continue to allow certain taxpayers and multinationals to unduly reduce the taxes they should be paying. While numerous low-tax jurisdictions have committed in recent years to showing greater transparency and collaboration, there is still room for improvement.

As this entails agreement among many governments, and the adoption of new laws around the world, the evolution of company practices will not happen overnight.

This is why CDPQ is committed to playing an active role, both privately and publicly, to advance fair tax practices. This is a major, long-term undertaking that is essential to maintaining citizens' trust in companies and governments, and to preserving fairness in our societies.

The 2019 Stewardship Investing Report is available at www.cdpq.com
Le Rapport d'investissement durable 2019 est aussi accessible en français au www.cdpq.com

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