2018

Annual Report

Quality.
Resilience.

Caisse de dépôt et placement du Québec

This report presents an overview of our 2018 results, our achievements and our progress across the organization.

Declining global stock markets and geopolitical uncertainties put la Caisse's portfolio to the test in 2018.

The performance generated for our depositors over one and five years **reflects the strategy we deployed in recent years to build a robust and resilient portfolio.**

This benefits all Quebecers.

Resilience

This word sums up 2018.
The challenging market context confirmed the resilience of la Caisse's portfolio.

This was the result of work accomplished over the last several years to build an all-terrain investment strategy that is up to the challenge of difficult market conditions.

Quality

Above all, our focus on quality – in our transactions, in our partnerships, and in our selection of securities – is why our portfolio succeeded in generating performance that exceeded its benchmark.

Our focus on quality serves as the foundation for our portfolio's performance and resilience.

Diversified assets

Over the last few years, we have invested significantly in less-liquid assets. Once again in 2018, we completed major infrastructure, real estate and private equity transactions around the world.

In addition, our exposure to international markets has grown considerably over five years. Why a global approach? To benefit from the growth of dynamic economies and seize the best investment opportunities.

Partnerships

To create long-term value, it takes the right partners.
This is why, now more than ever, our partnership approach is central to our investment strategy.

In 2018, we created a new team responsible for strategic partnerships. By optimizing our existing business relationships and developing new ones, this team will allow us to benefit from the strengths of world-class partners.

Québec

Québec is at the heart of our actions – and represents a significant portion of our investments. These investments help to stimulate the economy, year after year.

In 2018, we continued to support Québec's private sector by concentrating on the new economy. Whether it's supporting companies that innovate or are globalizing, or through growth-creating projects, our objective remains the same: to drive the economy of today and tomorrow.

Long term

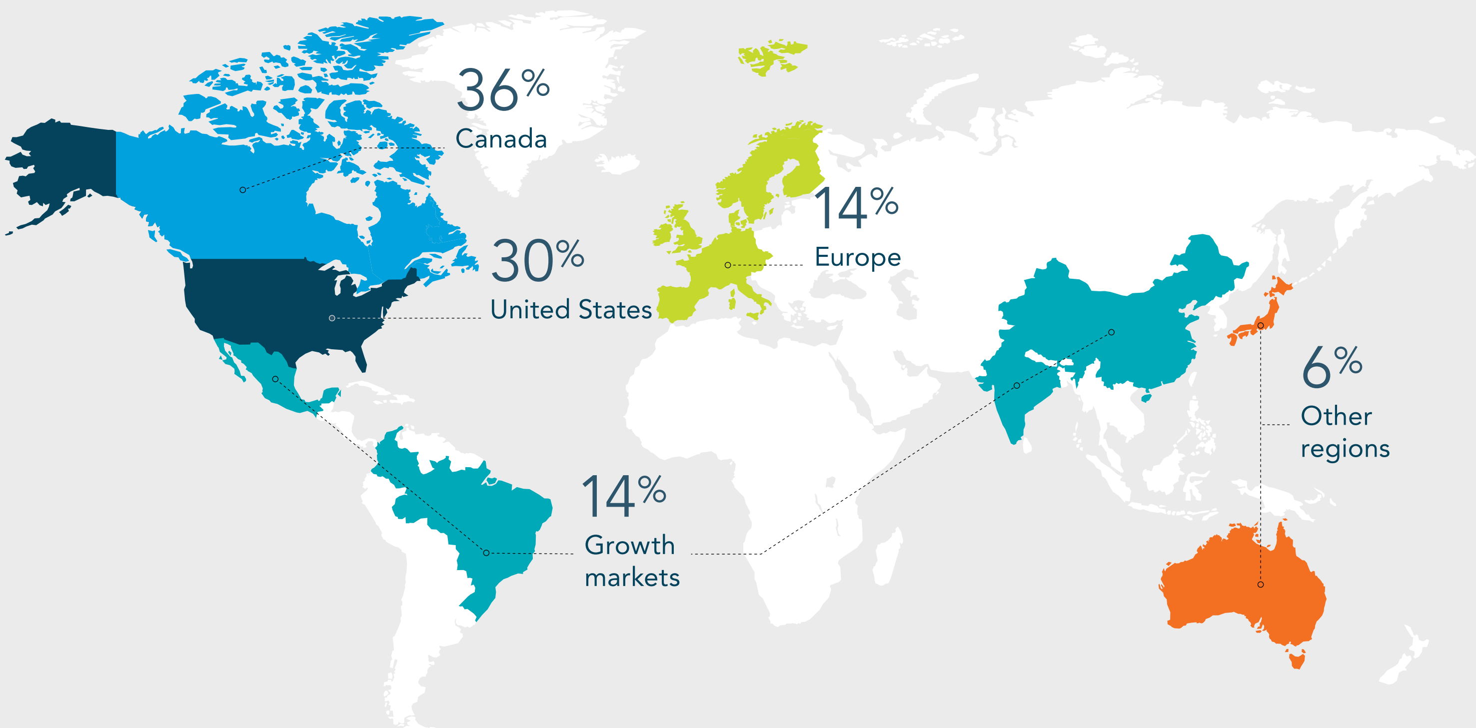
Delivering solid annual returns is important. But we measure our performance over a longer period. Over the past five years, we obtained results that exceeded our depositors' long-term needs.

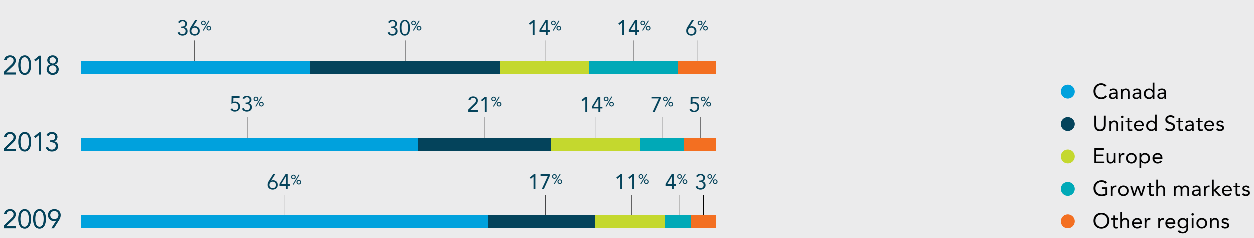
With our eye on an even longer horizon, we are staying the course on our strategy – to deliver solid returns to Quebecers, with a focus on sustainability.

We passed the $300-billion mark in net assets in 2018 with investments around the world.

Overall portfolio geographical exposure

as at December 31, 2018





As at December 31, 2018

$309.5 B
NET ASSETS

2018 results

4.2%

RETURN

$11.8 B

NET INVESTMENT RESULTS

Results over five years

8.4%

ANNUALIZED RETURN

$98.7 B

NET INVESTMENT RESULTS

Results over ten years

9.2%

ANNUALIZED RETURN

$171.6 B

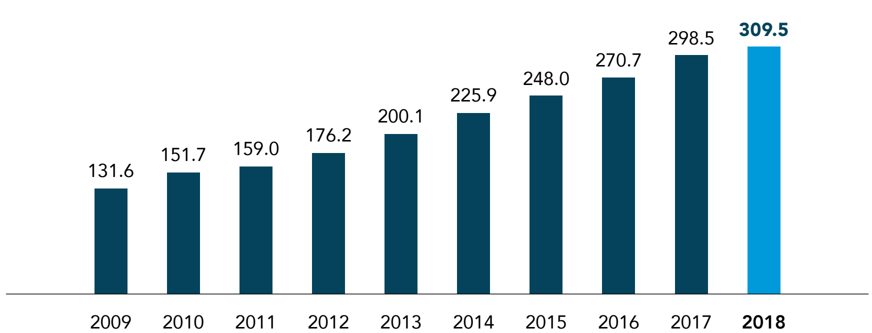
NET INVESTMENT RESULTS

Highest credit ratings reaffirmed

AAA

The DBRS, Standard & Poor's and Moody's rating agencies have reaffirmed the credit ratings of la Caisse and CDP Financial with a stable outlook. At the beginning of 2019, Fitch issued both an initial credit rating of AAA.

Caisse net assets from 2009 to 2018
(in billions of dollars)



We build long-term business relationships with knowledgeable partners.

Working and collaborating with trusted partners is key to standing out when competition is fierce. This is especially true when we operate in global markets that are as dynamic as they are diversified.

Our partners provide us with greater scope and capacity to seize the best business opportunities. We work with them to build innovative investment platforms with a long-term view. Whether they are major investors or operating companies, they share our vision, interests and values.

That is why we strengthened our approach in 2018 by creating a team dedicated to partnerships.

By combining our expertise and networks with global partners, we can innovate and execute high-caliber transactions.

Strong global partnerships in 2018

CDPQ-Generation

- Creation of a US$3-billion sustainable investment partnership with Generation Investment Management
- First acquisition: FNZ, a global company working in the FinTech sector (Picture 1)

1

Prologis

- New partnership for Ivanhoé Cambridge with the world leader in logistics real estate
- Investments of US$890 million to acquire, develop and operate logistics properties in Brazil (Picture 2)

FDN and Colombian pension funds

- Launch of an infrastructure co-investment platform in Colombia
- Long-term investments of up to US$1 billion (Picture 3)

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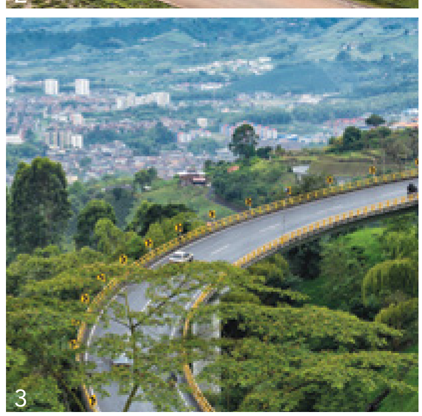

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Ardian

- Private equity partner since 2006
- Joint acquisition of a significant equity interest in Alvest, a leading airport ground-support equipment company in France (Picture 4)

4

We want to contribute **to addressing** society's challenges.

At la Caisse, we believe that environmental, social and governance matters should not be seen as constraints. They are opportunities to generate sustainable growth that benefits everyone.

We have therefore implemented a strategy that governs our investments and speaks to our role as a community-minded shareholder. We take a global approach – prioritizing climate change and working with our partners to increase our impact.

Our objective is both ambitious and realistic: to demonstrate that commercial interests are compatible with the public interest. Because as a long-term investor, we know that our performance will only be as sustainable as the world in which we invest.

Our approach

Global approach

Integration of our strategy into the heart of our investment cycle and our decision-making process for our entire portfolio and all of our activities.

Priority: climate

Deployment of a strategy to address the climate challenge and encourage the transition to a low-carbon economy.

Leadership

Mobilization of our partners around our priorities – and on collective and constructive engagement regarding the sustainability of communities and the planet.

Focal areas

Acting in five focal areas: climate, governance, expanding opportunities for women in business, international taxation and community involvement.

Centralizing expertise

Consolidation of expertise within a team dedicated to stewardship investing.

A few promising results

+$10 B

in low-carbon assets.
This exceeds our 2020 target, which we have now increased.

–10%

in our portfolio's carbon intensity.
This puts us firmly on track to reach our 25% reduction target by 2025.

Coalition of

+$6 T

Leading role in the creation of the Investor Leadership Network, comprised of 12 members with over $6 trillion in assets under management.

For more details regarding our achievements, please read our 2018 Stewardship Investing Report at www.cdpq.com.

We help **build important projects and strong companies** that are focused on innovation and open to the world.

$44.3 B

TOTAL ASSETS IN THE PRIVATE SECTOR

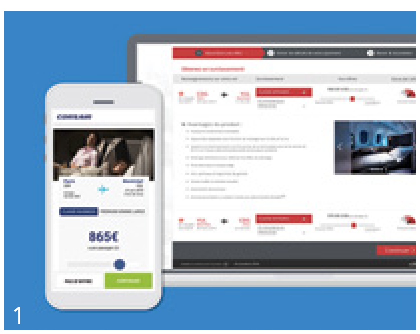
Vitality in the private sector is a sign of a prosperous economy. That is why, for several years now, our efforts in Québec have focused on this growth driver. We have partnered with nearly 775 Québec companies, including some 685 SMEs. Our objective? To accelerate their growth and foster their global expansion so they can compete with the best in their industry.

Since la Caisse wants to stimulate today's economy while strengthening its foundations for tomorrow, we are sharpening our focus on innovation. In 2018, we supported the ambitions of promising technology companies in new economy sectors – while also supporting digital transformation in more traditional fields.

As always, entrepreneurship is an essential link in developing the next generation of private-sector successes.

Achievements in Québec in 2018

1. **Plusgrade**
   Global expansion
2. **Espace CDPQ | Axe IA**
   Initiatives for AI startups
3. **Hopper**
   Growth and AI integration
4. **Metro Supply Chain Group**
   Global expansion
5. **Réseau express métropolitain (REM)**
   REM construction started
6. **Ocean Group**
   Expansion of its activities
7. **Breather**
   AI project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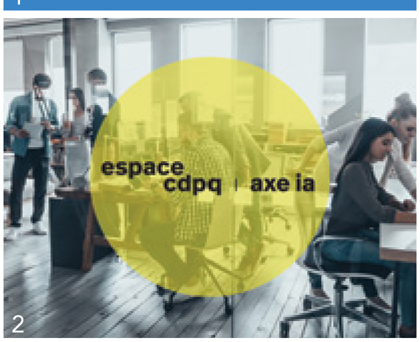

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3


4


5


6

7

We invest our depositors' funds **to benefit more than six million Quebecers.**

For our eight main clients, we generated returns that vary between

7.6% and 9.2%

OVER 5 YEARS

3.7% and 4.4%

IN 2018

Our depositors' needs are at the heart of all our decisions. They are why we work to build a robust and resilient portfolio, capable of generating results that meet their long-term expectations.

Our depositors are mainly pension funds and insurance plans with very distinct realities. In addition to maintaining open communications, we leverage our teams' expertise and our knowledge of the financial environment to support our depositors in their investment decisions.

In other words, we work for millions of Quebecers every day.

La Caisse at a glance

6 million+ Quebecers
who contribute or receive benefits

40+
major
retirement and insurance plans entrust their funds

to la Caisse's
investment experts

who invest the funds
in Québec's
economy and in
60+ countries

to generate
returns over
the long term
$$

to
benefit

Our main depositors

Finances Québec
Retirement Plans Sinking Fund

Retraite Québec
Québec Pension Plan Fund

RREGOP
Government and Public Employees Retirement Plan

COMMISSION DE LA CONSTRUCTION DU QUÉBEC
Supplemental Pension Plan for Employees of the Québec Construction Industry

CNESST
Commission des normes, de l'équité, de la santé et de la sécurité du travail

Société de l'assurance automobile Québec

Finances Québec
Generations Fund

RRPE
Pension Plan of Management Personnel

For the complete list of our depositors, see page 28.

We generate sustained returns through key transactions in our major asset classes.

Techem
Interest in a consortium led by Partners Group to acquire this German company, a leader in the global market for energy sub-metering services, valued at €4.6 billion

Tillman Infrastructure
Loan of US$500 million, alongside AMP Capital, to this U.S. telecommunication infrastructure owner and operator to finance the construction of cellular towers across the United States

IDI Logistics
Fifty-fifty partnership between Ivanhoé Cambridge and Oxford, OMERS' real estate division, for a total investment of $4.6 billion in this U.S. logistics company as well as in all of its assets

Results by asset class

Equities

10.4% OVER 5 YEARS

3.5% IN 2018

Fixed Income

4.2% OVER 5 YEARS

2.1% IN 2018

Real Assets

10.0% OVER 5 YEARS

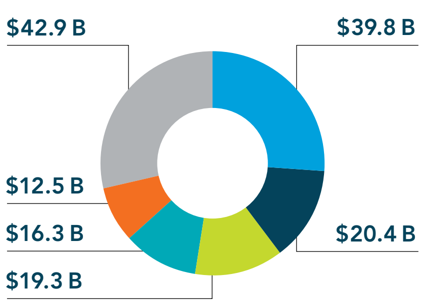
9.0% IN 2018

Net assets as at December 31, 2018

Equities

$151.2 B

NET ASSETS BY PORTFOLIO AND MANDATE

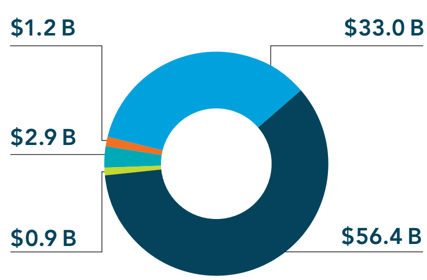


- Global Quality
- Canada
- Growth Markets
- Alternative Beta
- Other
- Private Equity

Fixed Income

$94.3 B

NET ASSETS BY PORTFOLIO

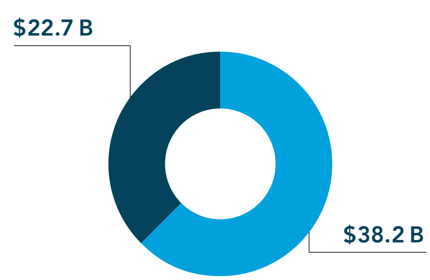


- Rates
- Credit
- Short Term Investments
- Long Term Bonds
- Real Return Bonds

Real Assets

$61.0 B

NET ASSETS BY PORTFOLIO



- Real Estate
- Infrastructure

Note: Totals may vary due to rounding.

Our main achievements stem from continuity and reflect the major priorities in our strategy.

In 2018, we:

Continued to increase our pace of investment in less-liquid assets and credit by focusing on our expertise and competitive advantages

- **Infrastructure:** Total investments of $5.8 billion, including increasing our stake in renewable energy leaders in North America and in India.
- **Private Equity:** Over $9 billion deployed internationally, with major investments in sustainable industry in Europe and the United States, as well as in commercial real estate services in Canada.
- **Real Estate:** Total transaction volume of $16.6 billion and continuation of portfolio repositioning, with an important increase in investment in the rapidly growing industrial and logistics sector.
- **Credit:** Increase and diversification of activities through loans for the construction of telecom towers in the United States, the acquisition of solar power assets in Spain and the optimization of a leading insurer's capital structure in Québec.

Developed new investment value creation levers to take advantage of trends shaping the economy

- Advancement of innovation culture through a dedicated team responsible for targeting investment opportunities, accelerating their execution and fostering innovation within the organization.
- Development of a structured approach and leading-edge expertise to take better advantage of the changes resulting from disruptive technologies.
- Establishment of a US$3-billion stewardship investment partnership with Generation Investment Management, resulting in the acquisition of FNZ, a global firm in the FinTech sector.

Continued maximizing our impact in Québec by concentrating our actions on our strategy's three pillars

Growth-creating projects

- Réseau express metropolitain (REM) construction officially started after selecting the consortia and closing its financing.
- Modernization of Ivanhoé Cambridge's commercial real estate portfolio, with the continuation of the Projet Nouveau Centre, totalling more than $1 billion in investments in downtown Montréal, in addition to renovating Laurier Québec.

Growth and globalization

- Investment in and support of numerous companies in Québec with their growth and expansion, including AddÉnergie, Ocean Group, Plusgrade and Transcontinental.
- Launch of Cheffes de file, an initiative aimed at driving the growth of companies owned by women.

Innovation and the next generation

- Support of the Québec economy's digital transformation through investments in companies such as Breather and Hopper, and in companies that use technological solutions to support their growth, such as BFL Canada and Frank And Oak.
- Creation of Espace CDPQ | Axe IA to support startups from innovative sectors in the marketing of their artificial intelligence (AI) solutions.

Continued globalizing our activities with major investments around the world, including in growth markets

- Diversification of our assets worldwide, with 64% exposure to global markets at the end of 2018.
- Increased beneficial exposure in the United States and expansion of our investments in Asia Pacific, specifically in logistics real estate.
- In Latin America, creation of an infrastructure co-investment platform in Colombia and a significant increase in assets in Mexico.
- Strengthening of our strategic partnerships approach, in both developed and growth markets, with the implementation of a dedicated team.

Deployed our investment strategy to address climate change through concrete actions with conclusive results

- A $10-billion increase in low-carbon assets, exceeding the initial target of $8 billion, with a new target set at $32 billion by 2020.
- A 10% reduction in our portfolio's carbon intensity, with a target of a 25% reduction by 2025.
- High-quality transactions in renewable electricity in the United States, Europe, India and Latin America.
- Consolidating expertise within a team dedicated to stewardship investing and initiatives.

Message from the Chairman of the Board

La Caisse's stable strategy and solid portfolio have once again resulted in good returns for our depositors this year.

In 2018, with difficult and uncertain market conditions, la Caisse has proven the soundness of its investment strategy. It is a strategy based on a solid foundation, yet in sync with the times.

The Board of Directors knew that la Caisse's portfolio was robust – but this year, there was new proof of its resilience. The Board is satisfied with the one-year and five-year results that added significant value compared to the benchmark.

In an economic environment vulnerable to a slowdown and facing ongoing uncertainty, it is difficult to predict where the markets will be in the medium and long term. However, the Board is fully confident that la Caisse will continue to move forward thanks to its advantages: a clear vision, sound governance, critical mass and talented teams.

During 2018, la Caisse continued to diversify its portfolio with quality transactions, including in private equity, infrastructure, real estate and credit, both in Québec and in international markets. This shows that its strategy, focused on its impact in Québec as well as on the globalization of its activities, is bearing fruit.

In Québec, its teams have put their expertise and knowledge of the market to good use in substantially supporting the private sector and Québec companies that are innovating and looking to globalize. They have continued to focus on the new economy, a significant growth vector for the future.

Internationally, the resources deployed over the last few years to strengthen its capacities have resulted in tangible investments. Thanks to experienced teams from Montréal to Singapore, from London to Sydney, from New York to New Delhi, la Caisse is better positioned today to take advantage of the dynamism of high-potential economies.

Along the way, la Caisse has established itself as a partner of choice, sought by major investors and companies alike. I would be remiss in neglecting to highlight the creation of a team responsible for strategic partnerships, an initiative that confirms the importance that la Caisse places on collaboration.

The Board also welcomes the creation of a team focusing on innovation. This will enable la Caisse to more swiftly take advantage of new opportunities that emerge as the world changes.

Additionally, we look forward to the contributions of the Stewardship Investing team, which will support la Caisse's leadership role in the fight against climate change. The Board supported the decision to include a carbon factor in the calculation of employees' incentive compensation. We are convinced that this decision will allow la Caisse to better advance its strategy.

Lastly, 2018 marked the beginning of construction of the Réseau express métropolitain (REM). This innovative public transportation network will improve the daily life of citizens in the greater Montréal area. We must remember that this project was still on the drawing board barely two years ago!

I would like to thank my colleagues on the Board of Directors for their diligence and rigour in fulfilling their functions. Their contribution to the organization's governance is crucial. I would like to thank Bertrand Cesvet for the work he accomplished during his term on the Board, which ended in 2018, and I would like to welcome Sylvain Brosseau.

On behalf of the Board, I want to express our gratitude for the work done by all employees, who successfully navigated a complex environment in 2018. La Caisse has strong leadership. The management team is competent, and a talented next generation is being developed. Engagement reached a new high – and pride has continually increased since the arrival of Michael Sabia 10 years ago.

So much progress has been made since March 2009! Under Michael's direction, net assets have grown from $120 billion to nearly $310 billion, with an average annual return of 9.2% over 10 years. These are solid results.

In addition, under his direction, la Caisse has become a source of pride for Quebecers and an institution that enjoys an excellent international reputation.

ROBERT TESSIER
Chairman of the Board

Message from the President and Chief Executive Officer

Several years ago, we decided to revise our investment strategy to define a new two-fold approach: to benefit from growth when markets are up while emphasizing the resilience of the portfolio to react better when markets are down or very volatile.

In 2018, this strategy was tested by a difficult year end for equity markets.

First, tightening financial conditions in the first three quarters created substantial uncertainty in the markets. Then came the fourth quarter, when markets plummeted: the S&P 500 lost 13%; the MSCI ACWI lost 12% and the MSCI Europe lost 11%. For the first time in eight years, markets closed out a year in negative territory.

Confronted with this turbulence, our portfolio performed as expected. We delivered a 4.2% return, outperforming our benchmark portfolio by around 180 basis points – in other words, adding $5.3 billion of value.

In brief, it was a demanding year that could be a precursor of what's ahead over the medium term: volatility, slowing economic growth and geopolitical risks.

In this context, our strategy is built on four pillars:

1. Quality – a characteristic common to all our portfolios. A priority for all our asset classes. For example, the Global Quality mandate in our public equity portfolio performed very well thanks to investments in high-quality companies that are better positioned to withstand market turbulence.
2. Diversification of our portfolio toward less-liquid assets. Investing in growing and resilient companies, with a focus on four sectors: health care, financial services, technology and sustainable industry. Investing in quality infrastructure that generates a good current return. Investing in the industrial and logistics sector, which offers strong potential in real estate.
3. Geographic diversification with a growing emphasis on emerging markets. In 2018, the U.S. economy was the world's only economy with strong growth, so our greater exposure there paid important dividends. In contrast, for growth markets, the year was full of challenges. Still, these emerging markets have generated high returns in recent years, making it important to increase our investments in them. Because the world's economic centre of gravity is migrating to the south and east. A trend and top priority for the future.
4. In Québec, the fundamentals of our strategy have not changed: focus on innovation, globalization of Québec's economy and growth-creating projects like the REM. Our ongoing priority is to invest in the private sector, the true driver of economic development in Québec. This is why in 2018 we increased our investments in this sector to nearly $44.3 billion. This represents investments in close to 775 Québec companies, of which some 685 are SMEs.

In addition, in just one year, we made substantial progress in implementing our plan to address the challenges and opportunities of climate change. In 2018, we added $10 billion in low-carbon assets to our portfolio, exceeding our target of $8 billion set for 2020. So we raised our goal, setting a new target of $14 billion for the same period. We also reduced our portfolio's carbon intensity by 10%. We are on track to achieve our 25% reduction target by 2025.

This progress is due to the work of our teams in Québec and around the world, who each day lend their talent and expertise to delivering sustained results for our depositors, the people of Québec.

Our priorities for the future

Going forward, despite continued uncertainty, we will stay the course, focusing on a few core long-term priorities.

First, we will continue to focus on quality, a key to our success in recent years.

Then, we will continue to develop the best partnerships we can around the world – and continue to diversify our assets by:

- Adapting our portfolio to increase the share of our investments in less-liquid assets. These have demonstrated a capacity for solid performance, especially in uncertain markets.
- Continuing to globalize our activities, so we can harness growth wherever it is in the world, to benefit Quebecers.

In Québec, we will pay particular attention to the development of the new economy, and support solid companies as they grow and expand into global markets. Additionally, we are building the Réseau express métropolitain (REM), always with the goal of enhancing productivity and strengthening Montréal as the metropolis of Québec.

In 2018, we began to focus more on innovation by creating a team dedicated to this important issue. We will continue this work to accelerate innovation across the organization, creating different investment opportunities that will distinguish us even more. Along the same lines, we are developing internal expertise on disruptive technology, not only to better understand the impact of coming changes on our portfolio, but also to act on the investment opportunities they will provide.

Along the way, with a view to sustainability, we will continue to execute our strategy on climate change to contribute to the transition toward a low-carbon economy.

At all times, we will be guided by one ambition: to realize the full potential of la Caisse to the benefit of every Quebecer.

MICHAEL SABIA
President and Chief Executive Officer

Our Clients, the Depositors

Our Clients, the Depositors

The year 2018 was characterized by increasing uncertainty regarding the global economy's growth potential, which resulted in financial market turbulence. In this context, la Caisse's investment strategy decisions over the last few years combined with depositors' decisions regarding benchmark portfolios were proven to be sound.

PRODUCTIVE COLLABORATION

Through its investments, la Caisse aims to contribute to the financial solidity of its depositors' funds. La Caisse puts its knowledge of global markets and its portfolio management expertise to use in supporting its depositors in their investment decisions. The relationship between la Caisse and its depositors is based on a business model where collaboration, listening, transparency and clear sharing of each entity's roles and responsibilities are central.

In 2018, la Caisse's teams and its depositors' representatives held regular discussions on various topics. In the context of the work on investment policies, the strategic orientations proposed by la Caisse were focused on optimizing its clients' risk-return profiles.

A DEPOSITORS' CONTEXT THAT HAS CHANGED OVER THE LAST FEW YEARS

After several years of additional contribution payments to overcome actuarial deficits, as well as significant returns on financial markets, the depositors' pension and insurance plans are in a much better financial position today.

However, this new reality is not without challenges. For example, these plans' demographic profiles have changed significantly over the years. Therefore, the investment orientations and tools available for sound risk management must be revised for each one.

In 2018, both la Caisse's and depositors' teams continued their work and held discussions regarding these questions.

CUSTOMIZED ADVISORY SERVICES

With its advisory services, la Caisse offers its depositors support in their investment policy decisions, specifically those affecting the choice of a long-term benchmark portfolio (strategic asset allocation). These services include:

- Financial market analyses and economic outlook evaluations;
- Long-term risk and return assumptions for the principal asset classes and specialized portfolios offered;
- Simulations comparing the expected long-term effect of various benchmark portfolio choices on a plan's returns, risk, financial position and its financing.

Several analysis projects were thus carried out with depositors over the last few years. This work permitted the analysis of the strategic allocation of assets in place and, for certain depositors, changing it based on their financial reality, risk tolerance, liquidity needs, changes to la Caisse products, etc.

Specific attention was also paid to analyzing various stress tests developed to measure the resilience of the benchmark portfolio when faced with various scenarios.

Also, to address the plans' new demographic realities, emphasis was placed on asset management tools used to reduce the sensitivity of their financial position to interest rate fluctuations.

DEPOSITORS' INDIVIDUAL RETURNS

On the whole, over five years, the various depositors' funds generated returns corresponding to their needs, while showing the resilience expected in periods of volatility.

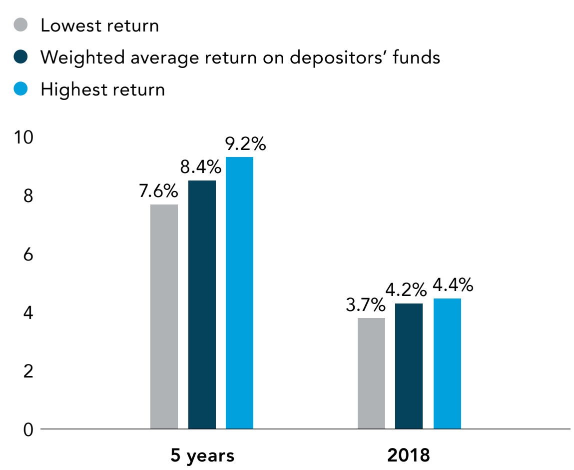
The decisions made with respect to the allocation of assets among the three major asset classes in the overall portfolio – Equities, Fixed Income and Real Assets – have a significant impact on the returns of each depositor. With support from la Caisse, depositors make these decisions based, most notably, on their target returns, risk tolerance and their investment horizon.

Over five years, the annualized returns of the eight principal depositors' funds ranged from 7.6% to 9.2%.

For 2018, depositors' returns varied between 3.7% and 4.4%.

FIGURE 1

RETURNS ON THE EIGHT PRINCIPAL DEPOSITORS' FUNDS



AN ADAPTED PORTFOLIO OFFERING

La Caisse enables its depositors to allocate their funds to specialized portfolios that hold the same type of securities (see Table 2). The vast majority of these portfolios are managed actively. Each one is managed based on rules set out in an investment policy, which specifies the:

- management approach;
- investment universe and benchmark index;
- target returns;
- risk oversight.

In addition to its specialized portfolios, la Caisse provides overlay options to enable each depositor to customize its exposure to interest rates.

In 2018, adjustments were made to the activities of some of la Caisse's portfolios.

Thus, the allocation targets for the Equity Markets portfolio mandates were reviewed, and more specifically, those for Growth Markets. This adjustment also required a change to the portfolio's benchmark.

In addition, as planned at the time of its launch in 2017, the Credit portfolio saw its target allocation increase. Thus, the target weight of its specialty finance activities was increased, which was offset by an equivalent reduction in the target exposure for the corporate credit mandate. This adjustment also required a change to the portfolio's benchmark.

Lastly, the customized overlay operations that allow depositors to customize the exposure of their funds to interest rates were modified to optimize the risk-return profile. Since September 2018, futures contracts on U.S. interest rates are used for exposing these activities to interest rates.

TABLE 2

SPECIALIZED PORTFOLIO OFFERING
(as at December 31, 2018)

	ACTIVELY MANAGED	INDEXED	OBJECTIVES
FIXED INCOME	Rates Credit	Short Term Investments Long Term Bonds Real Return Bonds	Reduce the portfolio's overall risk level Match depositors' assets and liabilities Provide an important source of liquidity
REAL ASSETS	Real Estate Infrastructure		Have exposure to markets for which investment income is indexed to inflation Partially hedge the inflation risk associated with the liabilities of several depositors
EQUITIES	Equity Markets Private Equity		Increase depositors' long-term target returns
OTHER INVESTMENTS	Active Overlay Strategies Asset Allocation		Achieve diversification and complementarity of la Caisse's overall portfolio

Eight principal depositors' funds

Represented 96.1% of net assets as at December 31, 2018

1 Retirement Plans Sinking Fund

$83.2 B

NET ASSETS

- Fund used by the Government of Québec to capitalize the employer's portion of retirement benefits of employees in the public and parapublic sectors

2 Retraite Québec

$72.6 B

NET ASSETS

- Québec Pension Plan Fund
- 4.1 million contributors
- 2.0 million beneficiaries
- $13.9 billion in benefits paid annually

3 Government and Public Employees Retirement Plan

$70.4 B

NET ASSETS

- 539,000 contributors
- 271,000 retirees and 18,000 surviving spouses and orphans
- $5.7 billion in retirement benefits paid annually

4 Supplemental Pension Plan for Employees of the Québec Construction Industry

$23.3 B

NET ASSETS

- 157,500 contributors
- 94,000 retirees or surviving spouses
- $906 million in benefits paid annually

5 Commission des normes, de l'équité, de la santé et de la sécurité du travail

$16.6 B

NET ASSETS

- 224,000 contributing employers
- 3.9 million workers covered
- $2.1 billion in benefits paid annually

6 Société de l'assurance automobile du Québec

$12.1 B

NET ASSETS

- 5.4 million driver's licence holders
- 6.5 million registered vehicles
- $1 billion paid in compensation annually

7 Generations Fund

$11.3 B

NET ASSETS

- Fund used to repay Québec's debt

8 Pension Plan of Management Personnel

$8.0 B

NET ASSETS

- 27,000 contributors
- 30,000 retirees and 2,500 surviving spouses and orphans
- $1.4 billion in benefits paid annually

TABLE 3

LA CAISSE'S 41 DEPOSITORS – Comparison of net assets as at December 31, 2017, and as at December 31, 2018

(fair value as as December 31 – in millions of dollars)

		Depositors' net assets			
		2018		2017	
	First deposit	$	%	$	%
PENSION PLANS					
Retraite Québec	1966	**72,584**	**23.5**	69,282	23.2
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	**23,312**	**7.5**	22,389	7.5
Government and Public Employees Retirement Plan	1973	**70,406**	**22.7**	68,467	23.0
Pension Plan of Management Personnel	1973	**8,035**	**2.6**	6,871	2.3
Pension Plan for Federal Employees Transferred to Employment with the Government of Québec	1977	**264**	**0.1**	262	0.1
Pension Plan of Elected Municipal Officers	1989	**270**	**0.1**	264	0.1
Retirement Plan for the Mayors and Councillors of Municipalities	2015	**1**	**–**	1	–
Régime complémentaire de rentes des techniciens ambulanciers/ paramédics et des services préhospitaliers d'urgence	1990	**611**	**0.2**	588	0.2
Ministère des Finances, Government of Québec[1]					
Retirement Plans Sinking Fund	1994	**83,176**	**26.9**	78,468	26.3
Superannuation Plan for the Members of the Sûreté du Québec – employers' fund	2009	**873**	**0.3**	654	0.2
Régime de retraite de l'Université du Québec	2004	**635**	**0.2**	549	0.2
Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	2005	**471**	**0.2**	387	0.1
Régime de retraite pour certains employés de la Commission scolaire de la Capitale	2006	**31**	**–**	33	–
Pension Plan of the Non-Teaching Staff of the Commission des écoles catholiques de Montréal	2007	**184**	**0.1**	197	0.1
Superannuation Plan for the Members of the Sûreté du Québec – participants' fund	2007	**524**	**0.2**	474	0.2
Régime de retraite des employés de la Ville de Laval	2007	**427**	**0.1**	347	0.1
Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges	2010	**89**	**–**	88	–
Fonds commun de placement des régimes de retraite de l'Université Laval	2012	**322**	**0.1**	267	0.1
Fiducie globale Ville de Magog	2012	**70**	**–**	69	–
Régime de retraite des employées et employés de la Ville de Sherbrooke	2012	**52**	**–**	42	–
Régime de retraite des agents de la paix en services correctionnels	2013	**661**	**0.2**	643	0.2
Régime complémentaire de retraite des employés réguliers de la Société de transport de Sherbrooke	2013	**80**	**–**	81	–
Régime de retraite de la Corporation de l'École Polytechnique	2014	**68**	**–**	58	–
Régime de retraite de la Ville de Terrebonne	2015	**69**	**–**	64	–
Régime de retraite des cadres de la Ville de Québec	2016	**256**	**0.1**	264	0.1
Régime de retraite des employés manuels de la Ville de Québec	2016	**315**	**0.1**	318	0.1
Régime de retraite des fonctionnaires de la Ville de Québec	2016	**559**	**0.2**	560	0.2
Régime de retraite du personnel professionnel de la Ville de Québec	2016	**220**	**0.1**	213	0.1
Régime de retraite des policiers et policières de la Ville de Québec	2016	**462**	**0.2**	453	0.2
Régime de retraite des pompiers de la Ville de Québec	2016	**170**	**0.1**	165	0.1
Régime de retraite des employés du Réseau de transport de la Capitale	2016	**83**	**–**	70	–
Régime de retraite des chauffeurs d'autobus de la Société de transport de Laval	2017	**127**	**–**	122	–
INSURANCE PLANS					
Régie des marchés agricoles et alimentaires du Québec	1967	**11**	**–**	11	–
La Financière agricole du Québec	1968	**900**	**0.3**	933	0.3
Autorité des marchés financiers	1969	**881**	**0.3**	843	0.3
Commission des normes, de l'équité, de la santé et de la sécurité du travail	1973	**16,640**	**5.4**	16,214	5.4
Société de l'assurance automobile du Québec	1978	**12,072**	**3.9**	11,924	4.0
Les Producteurs de bovins du Québec	1989	**6**	**–**	6	–
Survivor's Pension Plan	1997	**448**	**0.1**	460	0.2
Conseil de gestion de l'assurance parentale	2005	**141**	**–**	–	–
OTHER DEPOSITORS					
Office de la protection du consommateur	1992	**142**	**0.1**	155	0.1
Ministère des Finances, Government of Québec[1]					
Generations Fund	2007	**11,298**	**3.6**	13,780	4.6
Accumulated Sick Leave Fund	2008	**1,240**	**0.4**	1,191	0.4
Territorial Information Fund	2011	**189**	**0.1**	155	–
Agence du revenu du Québec	2012	**136**	**–**	130	–
TOTAL		**309,511**	**100.0**	298,512	100.0

1. The Ministère des Finances entrusts la Caisse with a total of five funds.

Management Report

Global Macroeconomic Environment

It has been ten years since the beginning of the 2008-2009 financial crisis. But the excess capacity in all developed countries caused by the severity of the crisis has only recently been reabsorbed, even though significant cross-regional divergences persist.

To achieve this, central banks had to drastically lower their key rates, with some implementing massive asset purchase programs, thus inflating their balance sheet and global liquidity to record levels (see Figure 4).

Growth market economies benefited from this environment of generalized monetary easing to continue closing the standard of living gap with developed countries. The synchronized global economic rebound observed in 2017, however, gave way to a slight slowdown in 2018 (see Figure 5).

FIGURE 4

BALANCE SHEETS OF MAIN DEVELOPED COUNTRIES' CENTRAL BANKS
(in billions of U.S. dollars)

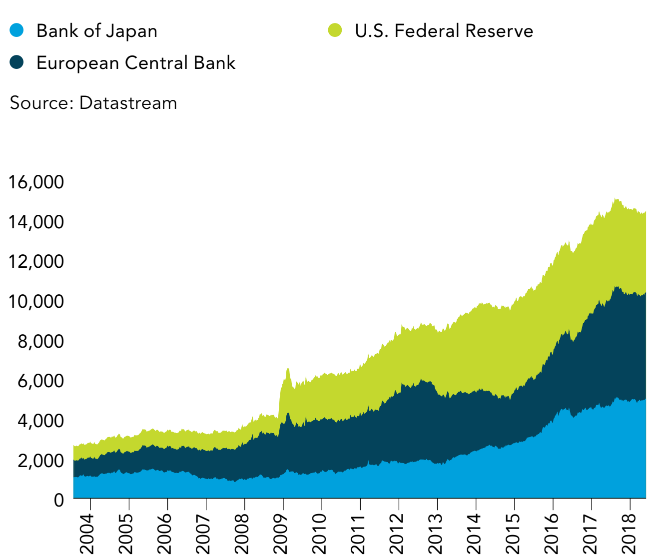
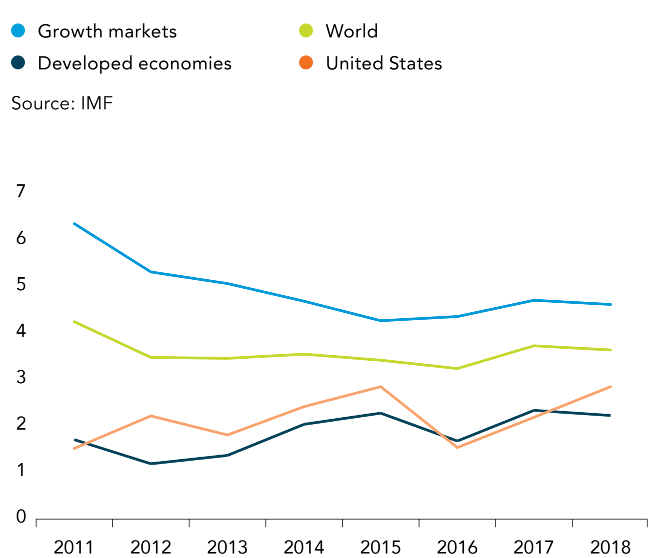


FIGURE 5

GLOBAL GROWTH SLOWED IN 2018, BUT THE UNITED STATES KEPT ITS MOMENTUM
Annual real GDP growth (as a percentage)



GLOBAL GROWTH DECELERATED IN 2018 AND RAISED CONCERNS AT THE END OF THE YEAR

Even though global economic growth is higher than that recorded over the last five years, it slowed in 2018. A series of factors explain this deceleration. First, in China, debt control efforts resulted in a sharp decrease in private sector credit growth, at a time when business confidence was fragile. China's slowing growth affected a significant number of its trade partners, including Germany, which was already facing difficulties adjusting to new pollution emission standards in its important automobile sector. These events, combined with monetary tightening initiated by several central banks, weighed on business confidence. Specifically, the tone adopted by the U.S. Federal Reserve (Fed) over the last quarter of the year worried investors that the announced tightening would slow down the U.S. economy more than necessary, in a context where the global economy remained fragile. This caused bond yields to fall sharply, as well as significant market corrections all over the world, prompting fears of an imminent end to the expansion cycle.

Geopolitical factors also undermined business confidence. Among these factors, the threat of a trade war between the U.S. and China no doubt had the greatest impact. Concerns with Brexit, tensions between Italy and its European partners and protests associated with the yellow vests movement in France are also worth noting.

THE UNITED STATES LEADS THE PACK IN DEVELOPED COUNTRIES

Even with a backdrop of uncertainty, U.S. growth still accelerated in 2018, especially as a result of the fiscal stimulus at the end of 2017 and the beginning of 2018. The U.S. economy recorded the best growth among the major developed countries in 2018, as well as over the previous five years. According to the International Monetary Fund (IMF), the U.S. economy was in excess demand starting in 2017. Even though inflation remained under control over the last few years, the Fed started normalizing its monetary policy by increasing its key rate at the end of 2015 and decreasing the size of its balance sheet in October 2017. Despite this monetary tightening, U.S. 10-year bond yields remained largely below 3%. They were pushed lower by downward pressure from the increase in global uncertainty and the Fed's balance sheet, which remains very high. U.S. bond yields also came under pressure from much lower rates in Europe and Japan, resulting in investors preferring to purchase U.S. government bonds.

In the euro zone, growth was relatively weak over the past five years, despite extraordinary monetary easing measures by the European Central Bank (ECB). The zone's economy still had production overcapacity in 2018, and the unemployment rate remained higher than before the crisis. After the growth rebound in 2017, the euro zone's economy slowed sharply throughout 2018. Even so, the ECB ended its asset purchasing program at the end of the year.

THE CANADIAN AND QUÉBEC ECONOMIES ARE ALMOST AT FULL EMPLOYMENT, BUT DEBT AND INTERNATIONAL COMPETITION REMAIN IMPORTANT ISSUES

The Canadian economy has performed well over the past five years. GDP increased an average 1.9% per year, a pace that is higher than its potential growth. This helped drive the unemployment rate down to 5.6%, a historical low and nearly full employment, by the end of 2018. After strongly accelerating in 2017, the Canadian economy slowed in 2018, mainly because of the sharp weakness in Canadian oil prices, the slowdown in the real estate sector and uncertainties around negotiations on the agreement to replace NAFTA. The Bank of Canada still increased its key rate by 25 bps three times, but it remained cautious in its end-of-year statements on upcoming increases. The sharp slowdown in growth in the last quarter of the year surprised markets.

Québec's economic performance was similar to that of Canada, resulting in a very dynamic job market. That said, Québec, with the accelerated aging of its population, is also facing, like the rest of Canada, significant household debt and international competition issues that could weigh on its future growth. The signing of the new free trade agreement, the Canada–United States–Mexico Agreement (CUSMA), however, dispelled a significant risk.

U.S. TRADE AND MONETARY POLICIES WEIGHED ON GROWTH MARKETS IN 2018

Growth markets have experienced notable cyclical fluctuations over the past five years, reflecting internal factors, such as the economic slowdown in China and the deep recession in Brazil. External factors also caused problems in growth markets, including tightening of U.S. monetary policy and the fall in commodities prices, which harmed exporters. In 2017, despite differences among countries, overall activity for growth markets had started to accelerate in synchronization with that of developed countries. This was due to the recovery of global trade and a greater appetite for risk that encouraged capital investments.

The cyclical slowdown in 2018 was fairly widespread across the main growth markets, with the appreciation of the U.S. dollar as a backdrop. First, the slowdown in China, amplified by U.S. trade policies, had global repercussions that hurt the business climate and worsened market sentiment. In India, growth accelerated slightly in 2018 while the effects of demonetization and the introduction of the goods and services tax dissipated. This momentum subsided, however, in the wake of the uncertainty surrounding the upcoming general elections. In Mexico, even though the signing of the CUSMA reduced aversion to risk, the new government's planned economic policies raised questions. Lastly, in Brazil, the new president's appointment of an economic team that seems determined to implement significant structural reforms has been favourably received by the markets.

Analysis of Overall Performance

Over five years, la Caisse generated results that exceeded depositors' long-term needs, with significant value added.

$309.5 B	$98.7 B	8.4%
NET ASSETS	5-YEAR NET INVESTMENT RESULTS	5-YEAR ANNUALIZED RETURN

4 asset classes: Fixed Income / Real Assets / Equities / Other Investments

FIVE-YEAR RETURN

Over the last five years, la Caisse has continued to pursue its investment strategy, which emphasizes globalization, absolute return, less-liquid assets and credit activities, its impact in Québec, and the transition toward a low-carbon economy. By following this strategy, the overall portfolio generated net investment results of $98.7 billion. As at December 31, 2018, net assets stood at $309.5 billion (see Table 7, p. 35), up over 50% from December 31, 2013.

Over five years, the annualized weighted average return on depositors' funds was 8.4%, with performance ranging from 12.0% in 2014 to 4.2% in 2018 (see Table 6, p. 35). The benchmark index posted an annualized return of 7.1%. The 1.3% difference represents $16.7 billion in value added. All the portfolios in each asset class contributed to the overall return.

Fixed Income

Over five years, this asset class generated net investment results of $16.7 billion. The annualized return of 4.2% exceeded that of its index, which was 3.5%, representing $3.0 billion in value added. This result was due in part to the current return on portfolio assets as well as the narrower credit spreads before 2017. La Caisse's decision to diversify its sources of fixed income returns also proved beneficial. This led to increased exposure to market segments with better profiles than those of more traditional bonds, as evidenced by changes in the Credit portfolio since it was first created in 2017.

Real Assets

The Real Assets class generated net investment results of $20.2 billion over five years and a 10.0% annualized return, the same as its benchmark index. The Infrastructure and Real Estate portfolios posted average annual returns of 10.4% and 9.8%, respectively. Their performance was due to both higher values for assets held and current return. In a highly competitive market for real assets, la Caisse was able to make the most of its comparative advantages and complete a high volume of transactions globally, alongside world-class partners.

Equities

The Equities asset class, which represents close to half of the overall portfolio, posted a 10.4% annualized return, the best five-year return of all the investment classes. The class outperformed its benchmark index by 2.3% as a result of the strategy based on quality implemented over the last few years, in terms of both security selection and choice of partners. This has made the Equities class la Caisse's primary source of value added, with $13.2 billion, and the greatest contributor to overall return, with $59.1 billion in net investment results. Both of the class's portfolios stood out, with net investment results of $41.5 billion for Equity Markets and $17.7 billion for Private Equity, due to annualized returns of 9.5% and 12.8%, respectively.

2018 RETURN

La Caisse's strategy was tested in 2018. For the first time since 2011, global stock markets ended the year in negative territory, due in particular to the normalization of monetary policies, geopolitical uncertainties and a tariff escalation provoked by tensions between the world's leading economies.

La Caisse was nevertheless able to deliver a 4.2% return in this environment, outperforming its benchmark index, which posted a 2.4% return (see Table 7). The $5.3 billion of value added created in this environment reflects the institution's strategy of building a robust and resilient portfolio that can perform in difficult markets. In 2018, the overall portfolio generated net investment results of $11.8 billion, with significant contributions from three major asset classes.

TABLE 6

CAISSE RETURNS
(for periods ended December 31 – as a percentage)

	Caisse overall return[1]
5 years (2014-2018)	**8.4**
2018	4.2
2017	9.3
2016	7.6
2015	9.1
2014	12.0

1. Weighted average return on depositors' funds.

TABLE 7

NET ASSETS AND RETURNS IN RELATION TO BENCHMARK INDEXES
(for periods ended December 31, 2018)

		5 years			1 year		
Asset class	Net assets $B	Net investment results $M	Return %	Index %	Net investment results $M	Return %	Index %
Fixed Income	**94.3**	**16,695**	**4.2**	**3.5**	1,897	2.1	0.9
Real Assets	**61.0**	**20,154**	**10.0**	**10.0**	4,771	9.0	10.1
Equities	**151.2**	**59,123**	**10.4**	**8.1**	4,840	3.5	0.3
Active Overlay Strategies	**0.6**	**12**	**N/A**	**N/A**	(163)	N/A	N/A
Asset Allocation	**1.8**	**1,235**	**N/A**	**N/A**	203	N/A	N/A
Total[1,2]	**309.5**	**98,687**	**8.4**	**7.1**	11,790	4.2	2.4

1. The total includes customized overlay operations, cash activities and terminated activities.
2. See General Notes 3 and 6 of the Annual Report, on page 185.

Fixed Income

Despite a high level of uncertainty, which led to major swings in bond markets during the year, the Fixed Income asset class generated net investment results of $1.9 billion. This performance was primarily due to the shift begun in the Credit portfolio the previous year. Its activities, which include corporate credit, sovereign credit, real estate debt and specialty finance, had a positive impact on returns for the Fixed Income portfolios, which were 2.1%, or 1.2% higher than the benchmark index.

Real Assets

The Infrastructure and Real Estate portfolios posted a combined return of 9.0% in 2018, with net investment results of $4.8 billion. For the five-year period, these results were primarily due to higher asset values and the current return. Major transactions were completed during the year in both portfolios, including several in promising sectors such as logistics and renewable energy.

Equities

The Equities asset class generated a 3.5% return in 2018, compared to 0.3% for its benchmark index. This performance reflects the strategy based on quality implemented over the last few years, and resulted in net investment results of $4.8 billion, with $4.6 billion of value added. The Equity Markets portfolio proved resilient with a return of -0.9%, outperforming the -2.5% return of its benchmark index. The Global Quality mandate stood out with very strong results, given the environment, and generated $2.9 billion in value added. The Private Equity portfolio posted the best return of all la Caisse's portfolios, at 16.6%, with net investment results of $5.9 billion.

GEOGRAPHIC DIVERSIFICATION

La Caisse diversifies its investments by investing not only in varied asset classes but also in different parts of the world. In addition to reducing the risk in the overall portfolio, this geographic diversification allows la Caisse to seize attractive opportunities in dynamic economies.

Through its globalization strategy, la Caisse has expanded its presence in international markets by approximately $116 billion over five years. Its geographic exposure has evolved considerably as a result, with exposure outside Canada reaching 64.3% of the portfolio at the end of 2018 compared to 46.6% at the end of 2013 (see Table 8).

TABLE 8

GEOGRAPHIC EXPOSURE OF THE OVERALL PORTFOLIO
(as at December 31 – as a percentage)

	2018	2013
Canada	**35.7**	53.4
United States	**30.2**	21.1
Europe	**14.5**	14.0
Growth markets	**13.6**	6.9
Other regions	**6.0**	4.6
Total	**100.0**	100.0

La Caisse nevertheless remains very active in Québec and Canada, which account for over one third of its total geographic exposure.

During the period, the greatest increase in exposure was in the United States, where it rose 9.1%. Investments also increased at a strong pace in growth markets, where la Caisse's exposure has nearly doubled over the last five years. To deploy capital in these markets, la Caisse employs a partnership strategy and targets high-potential countries such as China, India, Brazil, Mexico and Colombia.

CURRENCY EXPOSURE AND FOREIGN EXCHANGE HEDGING

As at December 31, 2018, la Caisse's exposure to foreign currencies amounted to 55% of total net assets, up 6% from the end of 2017. Over the last several years this share has grown considerably with the globalization of la Caisse's activities.

All of the liquid portfolios, with the exception of certain fixed income securities, now have foreign exchange exposure. This is also the case for all the less-liquid portfolios as a result of the gradual de-hedging from 2016 to 2018.

Note that la Caisse's exposure to foreign currencies had a positive impact on the overall return in 2018 as well as over five years, mainly due to the U.S. dollar's appreciation relative to the Canadian dollar.

BENCHMARK PORTFOLIO

La Caisse's benchmark portfolio corresponds to the weighted average of the asset allocation decisions made by each of the depositors when their investment policies are established.

In 2018, the depositors reviewed the composition of their respective benchmark portfolios, and this has influenced the composition of la Caisse's benchmark portfolio. As at December 31, 2018, it presented increases in the weighting of the Real Assets class and, to a lesser extent, in the weighting of the Equities class compared to the previous year. In contrast, the weighting of the Fixed Income class decreased. These changes reflect la Caisse's strategic directions (see Table 9, p. 38).

OVERALL PORTFOLIO

The composition of la Caisse's overall portfolio reflects decisions made by the depositors about their benchmark portfolios and by la Caisse in relation to the upper and lower limits set for each specialized portfolio. The last two columns of Table 9, on page 38, present the changes in the composition of the overall portfolio over one year.

TABLE 9

COMPOSITION OF THE BENCHMARK PORTFOLIO AND CHANGES IN THE OVERALL PORTFOLIO

(percentage of depositors' net assets)

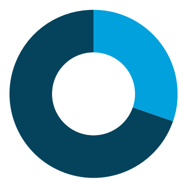
	Benchmark portfolio				Overall portfolio	
	as at December 31, 2018[1]			as at December 31, 2017[1]		
	Lower limit %	Benchmark portfolio %	Upper limit %	Benchmark portfolio %	as at December 31, 2018 %	as at December 31, 2017 %
Fixed Income						
Rates	**7.8**	**12.6**	**18.8**	13.5	**10.7**	13.4
Credit	**11.9**	**16.7**	**23.1**	16.0	**18.2**	17.0
Short Term Investments	**0.2**	**1.1**	**8.6**	1.2	**0.3**	0.6
Long Term Bonds	**0.7**	**0.9**	**4.5**	1.0	**0.9**	1.0
Real Return Bonds	**0.3**	**0.4**	**2.2**	0.4	**0.4**	0.4
Total		**31.7**		32.1	**30.5**	32.4
Real Assets						
Real Estate	**8.4**	**12.1**	**14.8**	12.0	**12.4**	11.5
Infrastructure	**3.4**	**6.5**	**9.2**	6.3	**7.3**	5.4
Total		**18.6**		18.3	**19.7**	16.9
Equities						
Equity Markets	**25.7**	**37.2**	**45.1**	37.6	**35.1**	37.6
Private Equity	**9.1**	**12.5**	**15.6**	12.0	**13.9**	12.5
Total		**49.7**		49.6	**49.0**	50.1
Other Investments						
Active Overlay Strategies	**0.0**	**0.0**	**0.5**	0.0	**0.2**	0.2
Asset Allocation	**0.0**	**0.0**	**1.0**	0.0	**0.6**	0.4
Total		**100.0**		100.0	**100.0**	100.0

1. The benchmark portfolio and its upper and lower limits are the result of the weighted average of the depositors' respective benchmark portfolios.

Fixed Income

The results for this asset class benefited from the decision to diversify sources of returns.

$94.3 B
NET ASSETS



30.5%
OF LA CAISSE'S OVERALL PORTFOLIO

4.2%
5-YEAR ANNUALIZED RETURN

5 portfolios: Rates / Credit / Short Term Investments / Long Term Bonds / Real Return Bonds

All the figures in this section are detailed in Table 17 (p. 52).

RATES

Return since inception

This actively managed portfolio has two main activities: interest rate management and sovereign credit. Since its inception in 2017, it has delivered $1.4 billion of net investment results.

2018 return

The portfolio generated a 2.3% return and net investment results of $751 million, essentially due to the current return on securities. The impact of changes in rates was virtually neutral, since rates were steady for the year. The generally favourable economic environment in Canada resulted in a gradual increase in rates over the first three quarters. However, uncertainty in the markets at the end of the year led to a general decrease in rates and wider credit spreads on provincial bonds.

RATES PORTFOLIO

COMPOSITION

- More traditional government bonds with excellent credit quality:
  - Governments of Canada and other developed countries
  - Governments of Canadian provinces

ADVANTAGES

- Low risk level and protection of the overall portfolio
- Main source of la Caisse's liquidity
- Diversification
- Source of current yield
- Potential to match assets with the long-term financial commitments of depositors

As can be seen in Table 10, which presents FTSE TMX Canada bond index returns, provincial bonds, including those of Québec, generated the lowest returns in 2018, followed by corporate bonds. Among the various issuer categories, federal government bonds delivered the best performance. In 2018, the FTSE TMX Canada Universe Index posted a modest 1.4% return, compared to 3.5% over five years.

CREDIT

Return since inception

This portfolio, which was also launched in 2017, includes investment activities grouped into four main mandates: Corporate Credit, Real Estate Debt, Specialty Finance and Sovereign Credit. It generated net investment results of $3.4 billion.

2018 Return

In 2018, the portfolio generated a 2.3% return and $1.1 billion of net investment results. It outperformed its benchmark index by 2.0%, adding $1.0 billion in value. Of these mandates, Real Estate Debt profited from the high current return on this type of activity. Specialty Finance also delivered strong performance. In Sovereign Credit, despite volatility in growth market bonds during the year, the return benefited from a sharp drop in yields in certain countries such as Brazil and India.

CREDIT PORTFOLIO

COMPOSITION

- Expanded universe of instruments with features of fixed income securities according to the mandate:
  - Corporate Credit: quality or high-yield bonds (public companies) and direct or syndicated loans (private companies)
  - Real Estate Debt: mortgage and commercial construction loans, mostly senior, on office, retail, industrial and residential buildings
  - Specialty Finance: debt, hybrid or equity securities with certain features of debt instruments, and project financing
  - Sovereign Credit: a focus on sovereign and quasi-sovereign securities from growth markets

ADVANTAGES

- Market segments featuring better performance and a return that is superior to the traditional bond market
- Diversified sources of value
- Potential to match assets with the long-term financial commitments of depositors
- In real estate debt, low credit risk due to a prudent underwriting approach and the quality of the assets

TABLE 10

FTSE TMX CANADA BOND INDEX RETURNS
(as a percentage)

	2018				2017				5 years			
FTSE TMX Canada bond indexes	Short-term	Medium-term	Long-term	Total	Short-term	Medium-term	Long-term	Total	Short-term	Medium-term	Long-term	Total
Federal	**1.9**	**2.4**	**3.4**	**2.4**	(0.6)	(0.7)	2.7	0.1	1.3	3.0	5.5	2.6
Provincial	**2.0**	**1.9**	**(0.6)**	**0.7**	0.1	1.3	8.0	4.3	1.9	3.8	6.2	4.5
Québec	**2.0**	**1.9**	**(0.2)**	**0.9**	0.2	1.4	8.2	4.3	2.0	3.9	6.7	4.8
Corporate	**1.8**	**1.3**	**(0.4)**	**1.1**	1.0	2.6	8.8	3.4	2.3	4.3	6.3	3.7
Universe	**1.9**	**1.9**	**0.3**	**1.4**	0.1	1.0	7.0	2.5	1.7	3.7	6.1	3.5

In 2018, la Caisse pursued its strategy to expand credit activities through major transactions, including:

- Tillman Infrastructure: With AMP Capital, an investment of US$500 million, which could double depending on the company's growing needs, to finance the construction of telecommunications towers across the United States;
- SSQ Insurance: Financing of up to $150 million so that the company, which is one of the largest insurance companies in Québec, can optimize its capital structure and execute its strategic plan;
- ContourGlobal: A loan of $150 million (€100 million) for the acquisition of solar power assets in Spain through this growth platform that targets long-term contract-backed energy assets.

SHORT TERM INVESTMENTS

This indexed portfolio consists of liquid short-term investments on the Canadian money market. A reflection of the low rate environment that has characterized the last few years, the portfolio's annualized five-year return was 0.9%, representing net investment results of $172 million. In 2018, the rise in the Bank of Canada's key interest rates boosted the current return on the assets. This led to a 1.5% return for the portfolio.

LONG TERM BONDS

This portfolio of long-term provincial bonds is managed using an index-style approach. It has generated a five-year annualized return of 6.4% and net investment results of $702 million. The portfolio benefited from the significant current yield of securities, stable over time, as well as an advantageous price effect due to the decrease in long-term rates in Canada and Québec over the period. In 2018, the high volatility of rates had an unfavourable effect on the portfolio, given its long-term maturity. This resulted in a negative market effect, which erased the current yield of securities over one year, resulting in a neutral return.

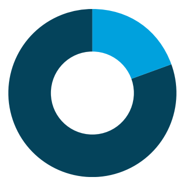
REAL RETURN BONDS

The goal of this indexed portfolio is to protect the overall portfolio against rising Canadian inflation rates. Over five years, it generated a 3.8% annualized return and net investment results of $193 million due to rising inflation in Canada. In 2018, despite a positive inflation effect, the portfolio posted a slightly negative return. This was due to an unfavourable market effect resulting from the increase in real rates in the wake of the Bank of Canada's key rate hikes.

Real Assets

In addition to generating solid results, this asset class provides diversification for the overall portfolio.

$61.0 B
NET ASSETS



19.7%
OF LA CAISSE'S OVERALL PORTFOLIO

10.0%
5-YEAR ANNUALIZED RETURN

2 portfolios: Real Estate / Infrastructure

All the figures in this section are detailed in Table 17 (p. 52).

REAL ESTATE

Five-year return

Managed by Ivanhoé Cambridge, a Caisse real estate subsidiary, this portfolio underwent a major repositioning that began a few years ago centred around some key themes. They include a major shift toward the industrial and logistics sector, innovative development projects and greater geographical diversification. As a result, the portfolio generated a 9.8% annualized return and $13.4 billion of net investment results.

Among the properties that added the most value during the period were office buildings in the United States, France and Canada, residential properties in the United States and Canadian shopping centres. More recently, returns on investments in the industrial and logistics sector, in growth markets and in development projects also had notable positive impacts. The current return on assets held also contributed to performance. The portfolio's return differed from the return on its benchmark index by -0.9%. This was due to various factors, including a more long-term debt structure and different geographical and sectoral positionings.

Figures 11 and 12 on page 43 present changes in the Real Estate portfolio's exposure over five years, by region and by sector.

REAL ESTATE PORTFOLIO

COMPOSITION
- Quality buildings and portfolios or companies, mostly located in key cities around the world
- Investments in equities and debt, primarily in shopping centres and in office, residential, industrial and logistics buildings

ADVANTAGES
- Source of current return
- Attractive risk-return profile and substantial cash flows
- Diversification of the risk in la Caisse's overall portfolio due to a lower correlation between the assets held and global markets
- Some long-term capital protection against inflation due to lease indexing

2018 return

During the year, Ivanhoé Cambridge's transaction volume totalled $16.6 billion. Of this amount, $7.3 billion was from strategic sales made to reposition the portfolio, including 19 assets in the U.S. office building segment and two Canadian shopping centres. New investments reached $9.3 billion and were focused on key themes, with major investments in the industrial and logistics sector. The following are a few highlights from 2018:

- Pure Industrial Real Estate Trust ($1.6 billion): Acquisition, in partnership with Blackstone Property Partners, of this trust that manages a real estate investment fund in industrial and logistics properties in Canada and the United States;
- Prologis: Creation of a partnership with this firm that has become the global leader in logistics real estate to invest US$890 million to acquire, develop and operate properties in this sector in Brazil;
- IDI Logistics ($2.3 billion): A 50-50 partnership with Oxford, the real estate arm of OMERS, for a total investment of $4.6 billion in this U.S. logistics company and all of its assets;
- Texas Tower: Beginning of construction of a high-quality office tower in downtown Houston that is aiming for LEED Platinum certification, in partnership with Hines;
- In Asia Pacific: Growth of almost $2 billion in investments and commitments in Australia, China, India, Indonesia and Singapore, mainly for logistics development projects and mixed-used projects with its partners, LOGOS, Piramal and Chongbang.

For the year, the return was 7.8%, amounting to net investment results of $2.7 billion. These results stem largely from appreciation in the value of assets in the office, residential and industrial sectors. In terms of geography, properties in the United States made a significant contribution, particularly in the residential sector. In terms of sectors, office buildings contributed most to the return. The difference between the return on the portfolio and that of its benchmark index was due to various factors, including less geographic diversification, less exposure to the industrial and logistics sector, and the publicly listed companies held, whose securities were volatile.

FIGURE 11

GEOGRAPHIC EXPOSURE – REAL ESTATE
(as a percentage)

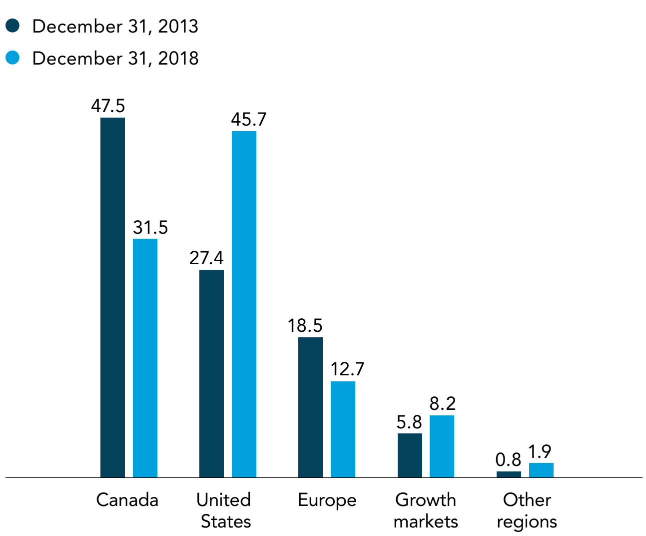
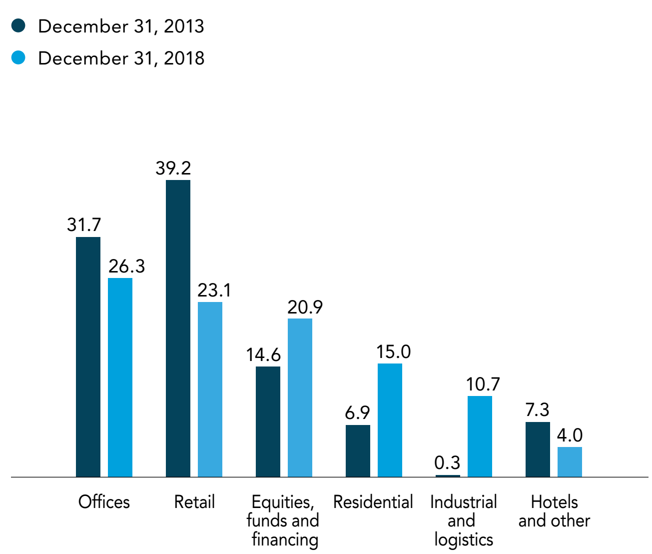


FIGURE 12

SECTORAL EXPOSURE – REAL ESTATE
(as a percentage)



INFRASTRUCTURE

Five-year return

This portfolio generated net investment results of $6.7 billion and an annualized return of 10.4%. This performance was primarily due to the current return on the companies held, especially those that operate with regulated and contracted assets. The contributions of HAH (Heathrow airport), Colonial Pipeline, London Array in the offshore wind sector and Trencap (Énergir) are worth noting. This confirms the relevance of the strategy of focusing on quality investments that offer consistent revenues over the long term. The portfolio also benefited from the appreciation in value of the assets held, in particular Airport Holdings, which operates the Budapest airport, the Port of Brisbane, in Australia, and Invenergy Renewables, in the United States. Over five years, it has generated $1.7 billion in value added compared to its index due to the quality of the partnerships in direct investments, effective monitoring of asset management teams, and favourable geographic and sectoral allocations.

Figures 13 and 14 illustrate changes in the portfolio's diversification over the last five years.

2018 return

In 2018, the portfolio generated net investment results of $2.0 billion. It benefited from the same factors that contributed to its good performance over five years: first, the high current return on assets, but also strong appreciation in their value. At 11.2%, it outperformed its benchmark index by 4.7%. This represents $929 million in added value.

In 2018, la Caisse made world-class investments in infrastructure, including:

- Invenergy Renewables: Increasing in its stake to 53.6% in this renewable energy leader, the largest independent private company in this sector in North America;
- Co-investment platform in Colombia: Creation of a platform to invest up to US$1 billion in infrastructure projects and companies, jointly with all the Colombian pension plans under the leadership of FDN, a firm specialized in infrastructure financing and development;

FIGURE 13

GEOGRAPHIC EXPOSURE – INFRASTRUCTURE
(as a percentage)

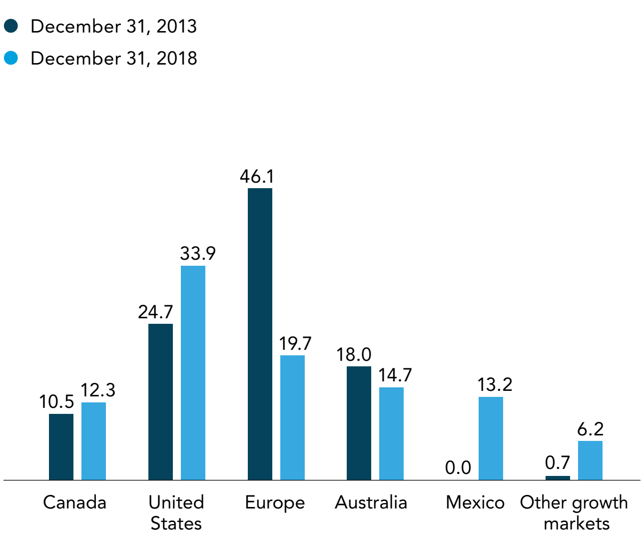
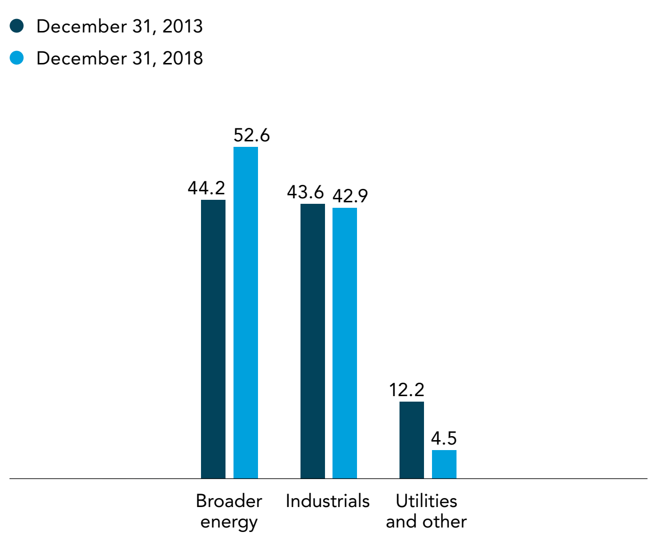


FIGURE 14

SECTORAL EXPOSURE – INFRASTRUCTURE[1]
(as a percentage)



1. Data for 2013 were adjusted to reflect the new classification of assets in the portfolio.

- Azure Power Global: A US$100-million investment to increase la Caisse's stake in this Indian solar energy producer to 40.3%;
- Renewable portfolio in Mexico: Acquisition of 80% of a portfolio of wind and solar farms owned by Enel Green Power, through a platform shared by la Caisse and CKD IM, a consortium of Mexican institutional investors;
- Student Transportation: Privatization and delisting from the Toronto Stock Exchange of this leader in school transportation that operates over 13,500 vehicles in the United States and Canada (la Caisse 79.9%, Ullico 20.1%).

Futhermore, some major milestones were achieved in the Réseau express métropolitain (REM) project led by la Caisse's subsidiary, CDPQ Infra. In addition to announcing the consortia, la Caisse completed the project financing of $6.3 billion and broke ground in the spring of 2018.

INFRASTRUCTURE PORTFOLIO

COMPOSITION

- Interests in companies that operate various types of infrastructure (ports, airports, highways, wind and solar farms, energy transmission and distribution networks, social infrastructure and passenger transportation systems)
- Quality companies with low risk profiles that are less sensitive to changing economic conditions

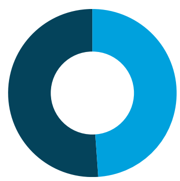
ADVANTAGES

- Stable and predictable revenues over the long term
- Steady cash flows and a better risk-return profile than other asset classes due to the regulatory frameworks governing many sectors
- Distinct risk profile that can be used to diversify risk in the overall portfolio
- Some long-term capital protection against inflation

Equities

This quality-focused asset class generated the highest five-year return and strong value added.

$151.2 B
NET ASSETS



49.0%
OF LA CAISSE'S OVERALL PORTFOLIO

10.4%
5-YEAR ANNUALIZED RETURN

2 portfolios: Equity Markets / Private Equity

All the figures in this section are detailed in Table 17 (p. 52).

EQUITY MARKETS

Five-year return

La Caisse benefited from its strategy based on the construction of a portfolio that will be robust in the long term and focused on absolute-return management. Over the last five years, the Equity Markets portfolio delivered net investment results of $41.5 billion, with an annualized return of 9.5%. It outperformed its index by 1.9%, amounting to $7.8 billion of value added.

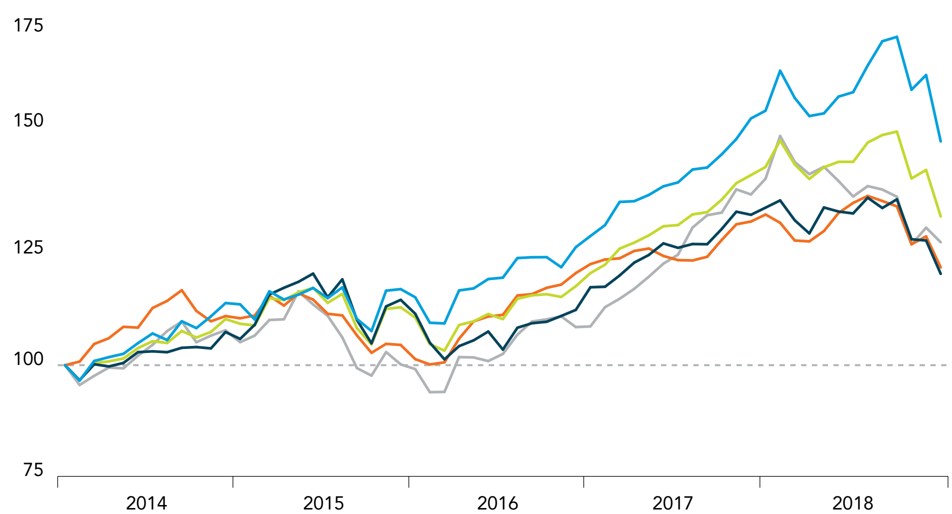
This performance took place in generally favourable market conditions for Equity Markets, except for 2018. From 2014 to 2018, the main global indexes all posted positive average gains (see Figure 15). The U.S. S&P 500 stood out with an annual average return of 8.5% (in local currency). The portfolio also benefited greatly from its significant exposure to the United States, where the economy experienced strong growth over the last five years.

FIGURE 15

EQUITY MARKETS PERFORMANCE 2014-2018
(December 31, 2013 = 100, in local currencies)

- S&P 500
- MSCI EAFE
- MSCI ACWI
- S&P/TSX
- MSCI EM

Source: Rimes



2018 return

In 2018, the main stock market indexes posted some of their worst annual returns since the 2008-2009 financial crisis. Despite strong growth in corporate earnings around the world, valuation multiples were down in an environment where U.S. monetary policy was being normalized, certain tariffs were higher and trade and geopolitical tensions were on the rise.

In a volatile market environment, the portfolio proved resilient, posting a return of -0.9% compared to -2.5% for its index, amounting to $1.8 billion of value added. This result is a reflection of la Caisse's strategy. The mandates in the portfolio are based on the same basic principle: the selection of quality assets. This focus on quality explains the positive difference with the index, both for 2018 and over five years.

GLOBAL QUALITY MANDATE

Five-year return

A pillar of la Caisse's absolute-return management strategy, this mandate is the largest in the Equity Markets portfolio. Since its creation in 2013, it has captured almost all market highs but only a fraction of market lows. Over five years, the mandate has generated net investment results of $17.0 billion. With an annualized return of 11.8%, it outperformed its index by 3.4%, creating $4.8 billion of value added. This is by far the strongest contribution of all the mandates to the portfolio's total value added. In particular, the mandate benefited from its exposure to the U.S. market, as American companies accounted for over 50% of the securities held.

2018 return

The mandate posted a return of 6.4%, the highest in the portfolio in 2018. This generated net investment results of $2.5 billion and strong value added of $2.9 billion compared to the index. These results for 2018 and over five years were largely due to the selection of quality securities and sectoral positioning resulting from absolute-return management. This performance shows the resilience of the mandate, which fully plays its defensive role in the portfolio, demonstrating how valuable its behaviour is during the turbulent periods observed in the second half of the year.

GLOBAL QUALITY MANDATE

COMPOSITION

- Securities in high-quality companies, exposed to global economic growth, traded on the stock exchanges of the countries included in the MSCI ACWI Index (the United States, Canada, Europe, Australasia, the Far East and emerging markets)
- Highly profitable and stable companies that have strong fundamentals over time and demonstrate a conservative use of financial leverage

ADVANTAGES

- Risk-adjusted return exceeding that of public equities over a long-term horizon
- Geographic diversification
- Protection against inflation over the long term
- Investments that are less sensitive to market fluctuations, and provide higher liquidity during periods of market turmoil

CANADA MANDATE

Five-year return

The mandate obtained an annualized return of 6.0% compared to 4.5% for its index. The selection of securities based on the absolute-return management approach has proven successful, as has the selection of Canadian companies well positioned to take advantage of the vitality in the U.S. economy. Accordingly, the mandate generated net investment results of $7.0 billion and value added of $1.7 billion. This essentially stems from Québec securities, which were responsible for nearly two thirds of the return for the period. Securities that provided high contributions included CN, CGI, Alimentation Couche-Tard and Gildan, companies that all have a quality management team and significant activities in the United States.

2018 return

Like the Canadian stock exchange, which posted a negative return for 2018, the mandate earned -7.2% for the year. This downturn is primarily attributable to the finance sector. However, it should be noted that the mandate generated considerable value added. Its 1.7% difference with the index was particularly due to the strong performance of companies such as CGI and Alimentation Couche-Tard, as well as by an advantageous selection of stocks related to natural resources.

GROWTH MARKETS MANDATE

Five-year return

Over the last five years, the mandate's return was driven by the performances of the major Asian markets, including China and India, as well as by Taiwanese and South Korean information technology companies. In addition, careful partner selection made a difference thanks to their expertise and extensive knowledge in their fields. Accordingly, the mandate recorded an annualized return of 7.7%, 1.4% above its benchmark. This difference represents $1.0 billion of value added, which was largely generated by external managers in China. Since 2014, $5.3 billion in net investment results have been generated.

2018 return

After achieving the portfolio's best performance in 2017, the mandate recorded the sharpest decline of the Equity Markets portfolio mandates in 2018, with a return of - 7.9%. Uncertainty around trade and geopolitical tensions created a risk-averse environment, which drove investors out of growth markets and into countries considered safer, such as the United States. Lower returns largely stemmed from China and South Korea. However, the mandate generated positive value added of 1.0% above its benchmark, resulting from external management and alternative beta activities.

CANADA MANDATE

COMPOSITION

- Securities of publicly listed Canadian corporations, with an emphasis on the construction of a quality, concentrated portfolio that reflects distinctive aspects of the Canadian universe
- Businesses exposed to growth, with fundamental qualities and competitive advantages that will persist in the long term
- The mandate is 37.7% composed of Québec companies, compared to 16.0% for the S&P/TSX Index

ADVANTAGES

- Better understanding of investments and role of influence due to market proximity
- Protection against inflation over the long term

GROWTH MARKETS MANDATE

COMPOSITION

- Growth market securities traded on the stock exchanges of countries mainly in the MSCI EM Index (emerging markets)
- Class A shares listed on the Shanghai and Shenzhen stock exchanges

ADVANTAGES

- Return exceeding those of the equity markets of developed countries over the long term
- Geographic diversification
- Significant absolute-return management component of the mandate implemented alongside well-established local partners that have deep knowledge of the target markets

ALTERNATIVE BETA MANDATE

Return since inception

This mandate emphasizes a strategy that consists of weighting securities based on various fundamental measures, such as sales, cash flows and dividends, rather than on market capitalization. Since it was created in 2016, it has generated net investment results of $3.5 billion.

2018 return

The geographic allocation resulting from the securities' weighting, particularly high in Europe, had a negative impact on the mandate in 2018. This was reflected in a neutral return.

ALTERNATIVE BETA MANDATE

COMPOSITION
- Securities in the developed markets included in the MSCI World Index, excluding Canada

ADVANTAGES
- Reduced exposure to securities that the market values highly, regardless of their fundamental values
- Investments evenly distributed among the sectors to avoid overconcentration in any particular sector

PRIVATE EQUITY

Five-year return

This portfolio generated net investment results of $17.7 billion. It posted an annualized return of 12.8%, compared to 8.9% for its benchmark index, representing a value added of $5.4 billion. Over the past several years, the composition of the Private Equity portfolio has changed considerably, as the share of funds has decreased while direct interests in companies have increased. Large deployments were also made during the period. Furthermore, the portfolio's geographic exposure changed, with more investments outside North America, mainly in Europe, as shown in Figure 16, on page 50.

This significant change in the portfolio explains the quality of the performance over five years and in 2018. Direct investments, which now represent three quarters of the portfolio's activities, delivered a high return, better than investment funds. However, investment funds still contributed significantly to the portfolio's results due to a sustained return.

2018 return

The portfolio performed particularly well in 2018, posting a 16.6% return, nearly twice that of its index. This generated $2.8 billion of value added on net investment results of $5.9 billion. The portfolio's two activities, direct investments and funds, both contributed to this performance. Direct investments benefited from a high return on assets, both for Québec companies and international companies. In addition, the materialization of certain investments also contributed to the return.

During the year, the Private Equity teams deployed over $9.0 billion in international markets, with major investments in well-known companies, including:

- Techem: Acquisition of a stake in this German leader in the global market for energy sub-metering services valued at around €4.6 billion;
- Alvest: A significant capital stake of this French company specialized in airport ground support equipment that supports the aeronautic sector in its technological and environmental shift, thereby reducing carbon emissions on the tarmac;

Equities (continued)

- FNZ: Acquisition of this FinTech firm with a business value of £1.65 billion, as part of a long-term partnership with Generation Investment Management, which plans to invest US$3.0 billion in the coming years;
- Power Solutions: In partnership with Brookfield, a commitment to acquire all of this entity, valued at $13.2 billion, from the American company Johnson Controls. Power Solutions specializes in manufacturing automotive batteries, including for hybrid and electric vehicles;
- Delachaux Group: Acquisition of a significant minority stake in this family-owned, French-based company active in the rail infrastructure equipment industry;
- Avison Young: A $250-million investment to back the global expansion of this Canadian commercial real estate services company.

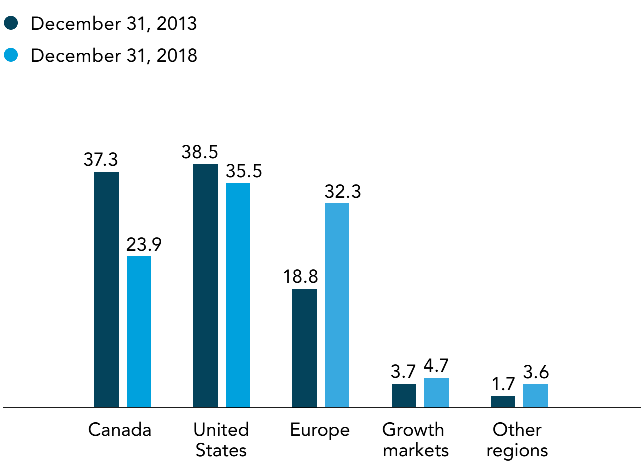
In Québec, la Caisse was very active in private equity in 2018. In line with one of the pillars of its strategy, its teams worked with many Québec companies on their growth and expansion projects, including:

- Ocean Group: $112 million invested 50-50 with Fonds de solidarité FTQ for a minority stake taken in this Québec City maritime company to expand its Canadian activities and foster its international development;
- Plusgrade: A $200-million investment in this global travel upgrade solutions leader so that it can break into new international markets and widen its range of products;
- AddÉnergie: A second investment in this leader in electric vehicle charging solutions so that it can pursue growth, particularly in the United States.

In addition, la Caisse continued to build on innovation and the next generation, another pillar of its strategy, with a particular emphasis on the new economy in 2018. To foster the digital transition of the Québec economy, la Caisse invested in technology companies such as Poka, Hopper and Breather. It also backed La Maison Simons in the implementation of its multi-service fulfillment centre, as well as Frank And Oak in the implementation of artificial intelligence into its online shopping experience.

FIGURE 16

GEOGRAPHIC EXPOSURE – PRIVATE EQUITY
(as a percentage)



PRIVATE EQUITY PORTFOLIO

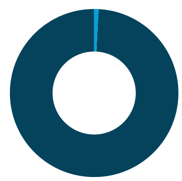
COMPOSITION
- Direct interests, primarily in private companies, but also in listed companies
- Companies active in all sectors of the economy, especially defensive sectors, and quality companies with stable, predictable revenues, as well as growing companies
- Stakes in high-performing investment funds
- Assets invested in Québec represent one quarter of the portfolio

ADVANTAGES
- Expected long-term returns that exceed those of the stock markets
- Focus on quality partnership and long-term value creation, particularly through organic growth, acquisitions and operational efficiency

Other Investments

Over five years, the portfolios delivered positive results, with activities that were complementary to those of other portfolios.

$2.4 B
NET ASSETS



0.8%
OF LA CAISSE'S OVERALL PORTFOLIO

2 portfolios: Active Overlay Strategies / Asset Allocation

All the figures in this section are detailed in Table 17 (p. 52).

ACTIVE OVERLAY STRATEGIES

Five-year results

This portfolio consists of non-capitalized investment activities with an absolute-return objective. Since its inception in 2014, it has generated net investment results of $12 million. It has benefited mainly from good performance in external funds.

Results in 2018

In 2018, the portfolio incurred losses arising from the negative returns recorded by the External Funds and Tactical Management components.

ASSET ALLOCATION

Five-year results

Asset Allocation includes two types of activities: active strategies, to improve the profile of the overall portfolio, and investments, to balance the weight of less-liquid assets. The Asset Allocation portfolio includes certain positions in these activities – as the other positions are taken in various specialized portfolios.

ACTIVE OVERLAY STRATEGIES PORTFOLIO

COMPOSITION
- Non-capitalized portfolio
- Investments in external funds
- Internally managed positions on financial markets, mainly in the form of financial instruments that are liquid and transparent

ADVANTAGES
- Moderate risk-return profile
- Possibility of generating returns above those of bonds with less risk than with equity markets
- Diversification
- Low correlation with equity markets

ASSET ALLOCATION PORTFOLIO

COMPOSITION
- Non-capitalized portfolio
- Positions on financial markets, mainly in the form of financial instruments that are liquid and transparent

ADVANTAGES
- Calibration of the risk-return profile of la Caisse's overall portfolio
- Enhancement of the overall portfolio's return
- Exposure to asset classes that diversify the overall portfolio

Over five years, the portfolio generated $1.2 billion in net investment results. This performance is mainly due to asset allocation strategies on liquid markets, which mainly benefited from positions on the U.S. dollar.

2018 results

Net investment results of $203 million mainly stem from relative investment strategies between various market segments. Stock market volatility in 2018 and the currency strategy were beneficial.

RETURN BY SPECIALIZED PORTFOLIO

Table 17 presents the returns of the specialized portfolio and mandates compared to their benchmark indexes for the five-year and one-year periods ended December 31, 2018.

TABLE 17

SPECIALIZED PORTFOLIO RETURNS IN RELATION TO BENCHMARK INDEXES
(for periods ended December 31, 2018)

Specialized portfolios	Net assets $M	5 years: Net investment results $M	5 years: Return %	5 years: Index %	1 year: Net investment results $M	1 year: Return %	1 year: Index %
Fixed Income							
Rates	**32,985**	**1,416**	**N/A**	**N/A**	751	2.3	2.1
Credit	**56,378**	**3,395**	**N/A**	**N/A**	1,134	2.3	0.3
Short Term Investments	**867**	**172**	**0.9**	**0.8**	15	1.5	1.4
Long Term Bonds	**2,863**	**702**	**6.4**	**6.4**	(2)	(0.0)	0.0
Real Return Bonds	**1,192**	**193**	**3.8**	**3.8**	(1)	(0.1)	(0.0)
Total[1]	**94,285**	**16,695**	**4.2**	**3.5**	1,897	2.1	0.9
Real Assets							
Real Estate	**38,225**	**13,406**	**9.8**	**10.7**	2,735	7.8	12.0
Infrastructure	**22,741**	**6,748**	**10.4**	**8.5**	2,036	11.2	6.5
Total	**60,966**	**20,154**	**10.0**	**10.0**	4,771	9.0	10.1
Equities							
Global Quality mandate[1]	**39,759**	**17,030**	**11.8**	**8.3**	2,453	6.4	(0.8)
Canada mandate[1]	**20,426**	**6,954**	**6.0**	**4.5**	(1,644)	(7.2)	(8.9)
Growth Markets mandate[1]	**19,315**	**5,258**	**7.7**	**6.3**	(1,734)	(7.9)	(8.9)
Alternative Beta mandate	**16,337**	**3,460**	**N/A**	**N/A**	(23)	(0.7)	(0.1)
Equity Markets[2]	**108,301**	**41,459**	**9.5**	**7.6**	(1,028)	(0.9)	(2.5)
Private Equity[2]	**42,927**	**17,664**	**12.8**	**8.9**	5,868	16.6	8.7
Total	**151,228**	**59,123**	**10.4**	**8.1**	4,840	3.5	0.3
Other investments							
Active Overlay Strategies	**586**	**12**	**N/A**	**N/A**	(163)	N/A	N/A
Asset Allocation[3]	**1,781**	**1,235**	**N/A**	**N/A**	203	N/A	N/A
Total[4]	**309,511**	**98,687**	**8.4**	**7.1**	11,790	4.2	2.4

1. Includes the history of closed portfolios.
2. Includes the activities of the Relationship Investing mandate, of the Strategic mandate over three years and of the Global Value mandate over two years, and the five-year returns of the closed equity markets portfolios.
3. Results include the specialized portfolio and overlay operations.
4. The total includes customized overlay operations, cash activities and terminated activities.

Risk Management

In a turbulent environment, la Caisse pursued its strategy of targeting an optimal risk-return relationship.

HIGHLIGHTS

1
In 2018, market risk was stable and slightly below that of the benchmark portfolio.

2
During the year, several stress tests demonstrated the portfolio's resilience relative to the market under various scenarios.

3
Market movements at the end of the year showed that the portfolio is as resilient as expected.

CHANGES IN RISK MEASUREMENT

La Caisse attaches great importance to risk management, which is an integral part of its activities in both its portfolio management and business processes. The teams undertake many initiatives to strengthen this aspect of operations. Over the years, la Caisse has attained a high level of risk management and developed a strong risk culture.

In managing its risks, la Caisse takes into account factors such as global economic conditions, changes in financial markets, and sectoral and geographic concentrations in the portfolio. During the year, its teams monitored various risks, many of which will continue to be monitored in 2019:

- The central banks' normalization process and adjustments to monetary policies;
- A possible correction in valuations should markets turn risk-averse;
- Geopolitical tensions around the world;
- Trade tensions between the United States and China;
- A potential slowdown in the global economy;
- The Brexit negotiations and ever-present instability in Europe;
- The impact of climate change and disruptive technologies on the business environment;
- Tensions related to social inequalities around the world and the rise of populist movements;
- An ongoing competitiveness issue in Canada, the Canadian dollar, changes in the oil sector and household debt.

Market risk

Over the last several years, la Caisse has decided to reduce its risk level consistent with its assessment of risks and market valuations. From the end of 2013 to the end of 2018, the level of market risk in the overall portfolio fell, despite an increase in investments in less-liquid assets. The higher expected risk in these investments was offset by a lower weight in equity market investments, in accordance with la Caisse's strategic directions.

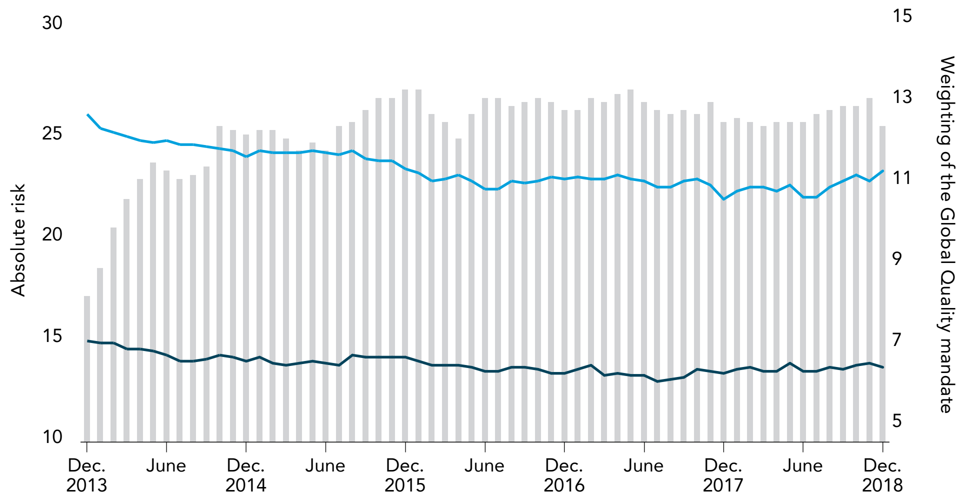
Other factors explaining this decline in market risk are:

- La Caisse's adoption of an absolute-return management approach;
- An emphasis on the quality of investments and securities, in particular the Global Quality strategy (see Figure 18), one of the pillars of absolute-return management, which proved particularly resilient during strong market movements;
- Increased exposure to foreign currencies;

FIGURE 18

IMPACT OF THE GLOBAL QUALITY MANDATE'S WEIGHTING ON RISK[1]
(as a percentage)

- Absolute risk – Equities
- Absolute risk – Caisse
- Weighting – Global Quality mandate

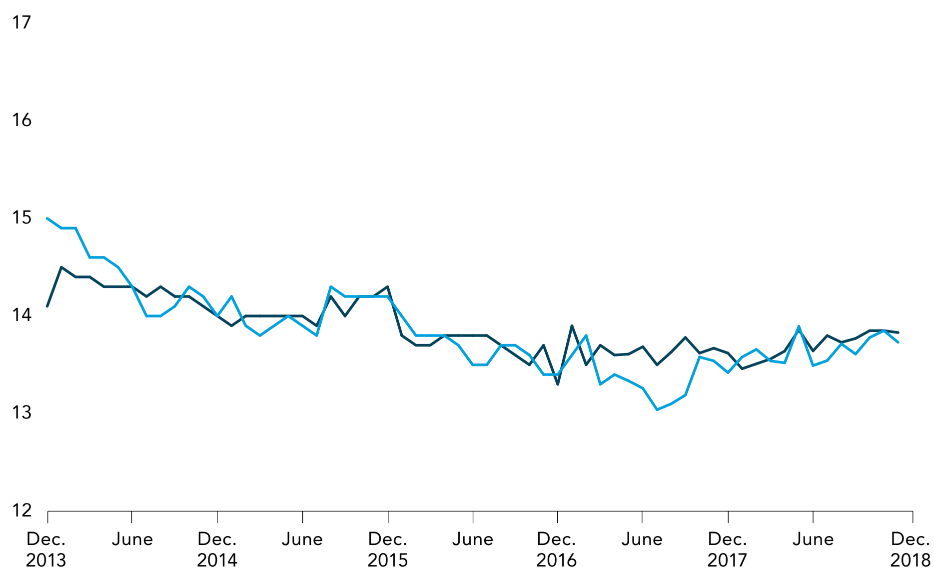


1. The risk figures preceding July 2017 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2017.

FIGURE 19

CAISSE ABSOLUTE RISK AND BENCHMARK PORTFOLIO RISK[1]
(as a percentage)

- Caisse absolute risk
- Benchmark portfolio risk



1. The risk figures preceding July 2017 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2017.

As shown in Figure 19, on page 54, the absolute risk of the overall portfolio was noticeably higher than that of the benchmark portfolio on December 31, 2013. Over the following five years, these levels generally moved in tandem, even though the spread between them has narrowed and widened at times. As at December 31, 2018, the absolute risk of the overall portfolio was 13.7% of net assets, compared to 13.8% for the benchmark portfolio. This level of market risk reflects the cautious approach adopted in the current economic and political environment.

Figure 21 shows how the absolute risk ratio for the overall portfolio compared to the absolute risk of its benchmark portfolio followed this five-year downward trend. By the end of 2018 the risk ratio was 0.99, unchanged from one year earlier. Note that la Caisse uses this ratio to set the absolute risk limit used to manage the market risk of its portfolio. A level of 1.00 indicates that the risk-taking to generate the value added is identical to that of the benchmark portfolio.

In 2018, market risk was at a level comparable to that of the previous year, despite certain changes in the asset classes (see Table 20). This demonstrates that, in accordance with its strategy, la Caisse deployed capital while maintaining a consistent level of overall risk. The slight increase in market risk was primarily due to the increase in absolute risk in the Equities asset class, essentially in private equity.

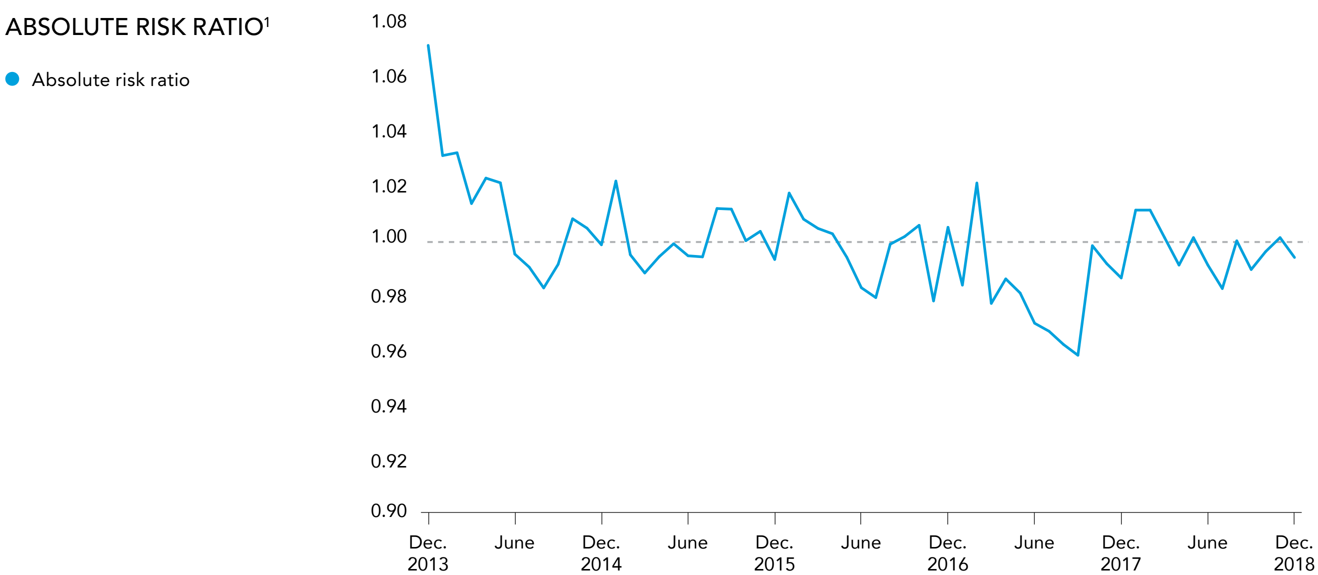
TABLE 20

MARKET RISK – ABSOLUTE
(as at December 31 – as a percentage)

Asset class	2018	2017
Fixed Income	**6.0**	5.8
Real Assets	**17.0**	18.9
Equities	**23.4**	22.0
Other investments	**0.3**	0.4
Overall	**13.7**	13.4

FIGURE 21

ABSOLUTE RISK RATIO[1]



1. The risk figures preceding July 2017 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2017.

There was also a slight increase in the Fixed Income class, due to an increase in sovereign credit investments in growth markets. In contrast, the absolute risk of Real Assets declined significantly due to larger investments in infrastructure, which have a lower market risk than investments in real estate.

Credit risk

Credit risk increased in 2018 following the deployment of capital in various mandates of the Credit portfolio. To assess credit risk, la Caisse relies on measures of market risk and potential capital losses. The latter measure incorporates an issuer's probabilities of default, correlations and recovery assumptions.

In addition to quantitative measures, for each investment proposal, a committee consisting of members of the risk and investment teams reviews the fundamental analyses to establish an internal credit rating. On a regular basis, the committee reviews its ratings and monitors any changes, including differences with the agency ratings. During the year, the committee reviewed over 190 issuers.

Concentration risk

In 2018, the overall portfolio's level of concentration risk was unchanged. Even if la Caisse takes more concentrated positions in certain investments to seize the most attractive opportunities, it mitigates this risk through geographic and sectoral diversification.

Counterparty risk

La Caisse's counterparty risk arising from the use of over-the-counter derivatives continues to be low. La Caisse employs different mechanisms to limit this risk, including negotiating legal agreements based on standards issued by the ISDA (International Swaps and Derivatives Association), daily exchanges of collateral and exposure limits for each of its counterparties. Moreover, to keep this risk to a low level, la Caisse monitors a series of indicators on a daily basis to assess the financial health of each of its counterparties. Changes in the quality of their credit are closely analyzed.

Liquidity risk

At the end of 2018, la Caisse could count on an adequate level of liquidity, despite a decline compared to 2017. This was partially due to the use of some of the liquidity reserve for investments in less-liquid assets, as well as market movements at the end of the year. The liquidity reserve was replenished at the beginning of 2019.

Note that the reserve includes primary liquid assets, i.e. very liquid assets that can be used immediately without any loss of value, and secondary liquid assets, which are slightly less liquid but can be quickly converted into cash and are resilient. Each year, la Caisse establishes a minimum threshold of liquidity to maintain in the reserve in order to:

- Meet its potential commitments as well as those of its depositors;
- Rebalance the overall portfolio;
- Maintain the desired flexibility in the event of a crisis, including to take advantage of attractive investment opportunities.

As at December 31, 2018, la Caisse had a sufficient liquidity reserve to meet its potential commitments, even in the event of a major market correction (see Note 12 to the Consolidated Financial Statements, page 161).

REVIEW OF OVERSIGHT AND PROCESSES

In 2018, la Caisse undertook several initiatives intended to strengthen its risk management frameworks and processes. It also applied guidelines covering the approach (see Note 12 to the Consolidated Financial Statements, p. 161).

Influence of the Risk function on investment

Risk Management plays a key role in investment activities. Its influence was apparent through:

- An active presence on many committees, including the Investment-Risk Committee, the Investment and Risk Management Committee, the Operational Risk Committee and the Investment, Research and Currency Committees;
- Good governance of its risk processes;
- An influential role in the analysis and development of the strategic plan;
- The integration of business unit risk managers into each investment team.

Strategic planning of investments and monitoring of strategic risks

When the annual strategic plan is developed, the strategies proposed by the investment groups are thoroughly analyzed to clearly identify the stakes and determine the potential impacts of new initiatives on la Caisse's risk. With these analyses, la Caisse can define its strategic priorities, in this instance those for 2018-2022.

Support for the globalization of la Caisse's activities

Among its efforts during the year to support its globalization activities, la Caisse:

- Developed the capabilities of the team charged with analyzing geopolitical risk;
- Performed quantitative analyses related to the deployment of external management in growth markets.

Mitigation of operational risks

Operational risks may arise from la Caisse's transactional activities, growth and globalization, as well as from transformations undertaken within the organization to achieve strategic objectives. The Operational Risk Committee is responsible for measuring and evaluating this type of risk. A variety of work is carried out to mitigate this risk, including an update of the mapping for evaluating the impact and probability of the major operational risks. The work carried out in 2018 also included:

- A strengthened process for monitoring market events and the disposition plan for investments;
- The development of an enhanced questionnaire for due diligence reviews of external management partners.

IMPROVED RISK MANAGEMENT METHODOLOGIES AND TOOLS

In 2018, la Caisse continued to refine its quantitative analysis methodologies and tools to better monitor risks. Several teams benefited from the improvements, including:

- Fixed Income: Implementation of a factorial approach for identifying risk factors in the Rates portfolio and a new methodology for estimating potential default rates in Credit portfolio activities;
- Private Equity: Review of the methodology on modelling investment risk and identifying risk factors in the main files, for a consolidated view of the portfolio by risk factor;
- Asset Allocation: Monitoring investment activities and analysis of market risk and liquidity for the strategies developed.

Risk measurement and stress testing

As a complement to value at risk (VaR), la Caisse measures market risk using various stress tests in order to quantify the potential impacts on the overall portfolio of certain market events.

Accordingly, in 2018 la Caisse carried out several tests as part of a comprehensive exercise to understand and estimate the resilience of the overall portfolio. Based on the analysis of the biases and exposures of all the specialized portfolios, it analyzed how the portfolios would respond to various scenarios that could have an impact on the financial markets. These tests show that the overall portfolio is resilient relative to the market in most of the scenarios considered probable, as well as those observed historically.

New measure of credit risk

La Caisse introduced a new measure of credit risk to better recognize the impacts of investment concentration and diversification, including on portfolios with an important deployment of capital.

Measurement of climate risk

In 2018, la Caisse measured carbon intensity in 150 investments and investment proposals and analyzed their impact on the intensity of the overall portfolio. In addition to determining reduction targets for each asset class, it modelled expected movements in the portfolio, which allows efficient monitoring of the carbon footprint.

Compliance

HIGHLIGHTS

1
Compliance programs were applied throughout the year to ensure compliance with depositors' investment policies, the specialized portfolios' investment policies and management mandates.

2
Various activities were maintained to raise employee awareness of the Code of Ethics and Professional Conduct.

The compliance activities of la Caisse include oversight to ensure adherence to the portfolios' investment policies and to the Code of Ethics and Professional Conduct.

INVESTMENT POLICIES

Programs are in place to certify compliance with depositors' investment policies and portfolio investment policies. In 2018, certificates of compliance with these policies were issued to depositors on June 30 and December 31. In addition, programs to ensure the compliance of activities in the specialized portfolios and management mandates were maintained.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

Compliance with the Code of Ethics and Professional Conduct for Officers and Employees is essential. At the beginning of each year, all employees must complete a declaration on compliance with the Code and confirm through the required documents information with respect to the holdings in their personal portfolios. They are also obliged to report any situation where they have reason to believe that there has been a breach of the Code or any other Caisse policy.

In 2018, la Caisse carried out several activities to heighten employee awareness of various aspects of the Code. Mandatory training is provided to all new employees. Furthermore, a meeting is held with each new officer to discuss various aspects of the Code of Ethics and Professional Conduct. In addition, interactive video clips with specific themes or addressing ethical questions were published on the employee intranet throughout the year to provide examples of how to handle situations involving ethics and professional conduct. The system for pre-approving personal transactions is accessible to all employees, including employees in international offices.

Lastly, in 2018 la Caisse adopted a procedure on disclosure of wrongdoings. This procedure stems from the Code of Ethics and the Act to facilitate the disclosure of wrongdoings relating to public bodies. Its purpose is to establish mechanisms for reporting such acts and measures for protecting individuals who make such reports.

The Code of Ethics and Professional Conduct for Officers and Employees is available on la Caisse's website (www.cdpq.com), in the Governance section.

ACCESS TO INFORMATION

La Caisse processes requests for access to documents in accordance with the Act respecting access to documents held by public bodies and the protection of personal information (the Access Act). In 2018, la Caisse processed 67 requests for access to documents, including 38 for la Caisse, 9 for la Caisse and CDPQ Infra, 9 for CDPQ Infra and 11 for subsidiaries of la Caisse. All of the requests were handled within the legally prescribed time limit. Of these 67 requests, 30 were accepted, 26 were accepted in part, 2 were referred to another entity, 8 were refused and 1 was withdrawn. The requests received concerned issues such as incentive compensation, the number of employees and the payroll, the number of departures, minutes of meetings, cyberattacks, the Réseau express métropolitain (REM) and several other subjects of an administrative or budgetary nature. Five requests were subject to an application for review by the Commission d'accès à l'information (CAI), including one that was withdrawn from the CAI. Responses to requests for access are available on la Caisse's website.

Lastly, in accordance with the Regulation respecting the distribution of information and the protection of personal information, la Caisse publicly posts on its website the specific information covered by this regulation: leases, training contracts, advertising and promotion contracts, mobile telecommunications contracts, training expenses, total travel expenses, and the CEO's travel expenses, official expenses and executive vehicle expenses.

CYBERSECURITY

La Caisse pays close attention to cybersecurity. It employs significant security measures by applying recognized frameworks, the aspects of which are continuously tested. Ongoing efforts are made to monitor changes in technology and be able to counter potential threats. In addition, several lines of defence, both internal and external, are established to ensure that the measures in place are effective. In 2018, several of these measures allowed la Caisse to continue containing cybersecurity-related risk and counter various threats, including identity theft, by using cutting-edge technologies, through enhanced monitoring of suppliers and external partners and the use of new detection technologies.

The management of cybersecurity risks also applies to the service providers that host la Caisse's data. All suppliers are subject to a verification process by an independent service delivery team in order to ensure that their systems meet the organization's security standards. In addition, minimal security standards are required for a supplier to be authorized.

LANGUAGE POLICY

La Caisse complies with the requirements of the Charter of the French Language and its language Policy, which stipulates French as the everyday language of work for all employees in its offices in Québec. La Caisse considers the quality and use of French in its spoken and written communications to be of paramount importance.

To that end, la Caisse provides its employees with various tools that contribute to correct French usage, as well as a number of reference works, including a lexicon that it compiled to define terms specific to its investing activities.

In 2018, articles on the proper use of expressions and idioms were published regularly on the employee intranet. The articles also encouraged employees to use the tools and references available on the website of the Office québécois de la langue française, as well as other language tools available to them.

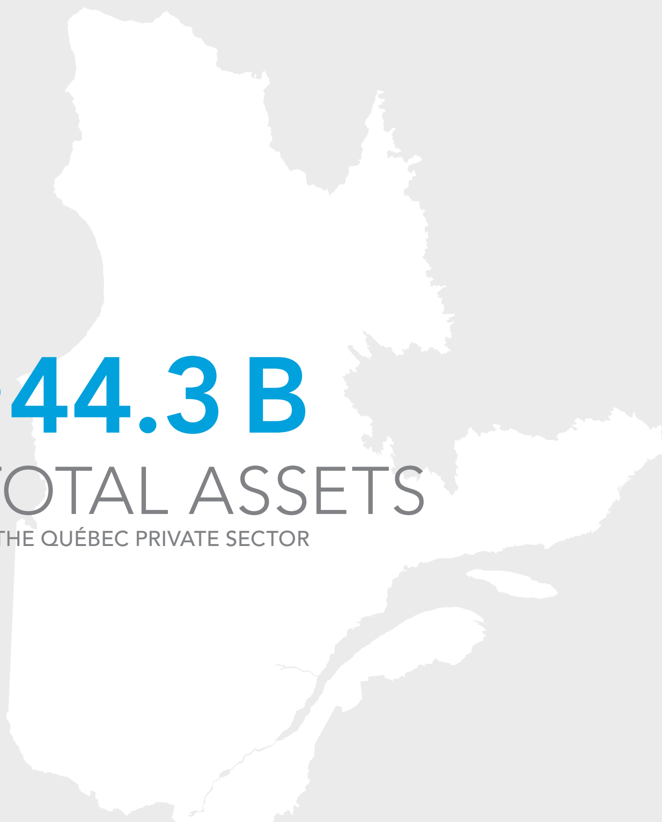
Various other initiatives were also undertaken, including a quiz and articles on the quality and use of French. In addition, the fifth annual Dictée de la Caisse was held in December 2018 as part of the initiatives to make employees more acutely aware of the quality of French in the workplace.

COMPLAINT MANAGEMENT

La Caisse has designated M^{e} Ginette Depelteau, Senior Vice-President, Compliance and Responsible Investment, to receive complaints and analyze them with all due attention. Complaints may be addressed to her by phone (514 847-5901), fax (514 281-9334) or email (gestiondesplaintes@cdpq.com).

La Caisse in Québec

Driving Québec's economy for today and tomorrow.



$44.3 B

TOTAL ASSETS

IN THE QUÉBEC PRIVATE SECTOR

$7.3 B

NEW INVESTMENTS AND COMMITMENTS IN 2018

Close to

40%

PROPORTION OF OUR TRANSACTIONS CARRIED OUT IN THE NEW ECONOMY IN 2018

Close to

775

NUMBER OF QUÉBEC COMPANIES THAT ARE PARTNERS, INCLUDING SOME 685 SMEs

To contribute to the vitality of Québec's economy, la Caisse has targeted the private sector. We invest in growth-creating projects. We back the expansion and globalization of Québec companies. And we support innovation and the next generation. Because we believe that it is important to support today's economy while building tomorrow's, the sectors of the future were the backdrop for many of our investments in 2018.

Growth-creating projects

We design and develop major infrastructure and real estate projects – and we support the renewable energy sector. These sectors generate concrete benefits for Québec's economy.

REM

Construction began on this major public transportation project, just two years after it was announced

(Picture 1)

Place Ville Marie

Continuation of the work to revitalize the Esplanade and transform the shopping gallery

(Picture 2)

Montréal Eaton Centre

Progress on renovations for this downtown property to transform the user experience

(Picture 3)

Laurier Québec

Start of the second phase of the modernization of this major shopping centre in Québec City

(Picture 4)

Boralex

Support for the growth of this leader in renewable energy

(Picture 5)

1

2

3

4

5

Growth and globalization

We finance and support Québec companies of all sizes in their growth projects, both in Québec and internationally.

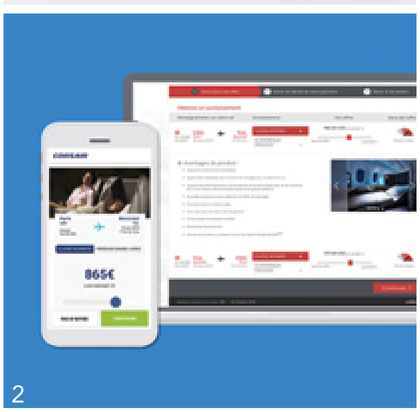
AddÉnergie
Second investment for this leader in electric vehicle charging solutions to continue its growth in the U.S. market

(Picture 1)

Plusgrade
Support for this global leader in travel upgrades to enter new markets and broaden its range of products

(Picture 2)

1



2

Ocean Group
Investment for this Québec maritime company to expand its activities in Canada and around the world

(Picture 3)

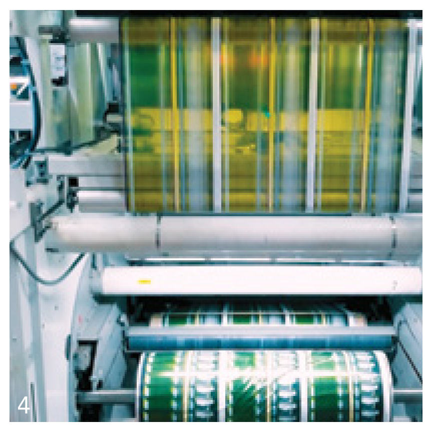
3

Transcontinental
Participation in the financing to acquire Coveris Americas, a U.S. packaging company

(Picture 4)

Demers Ambulances
Support for this leading Québec company that designs, manufactures, and distributes ambulances

(Picture 5)



4

5

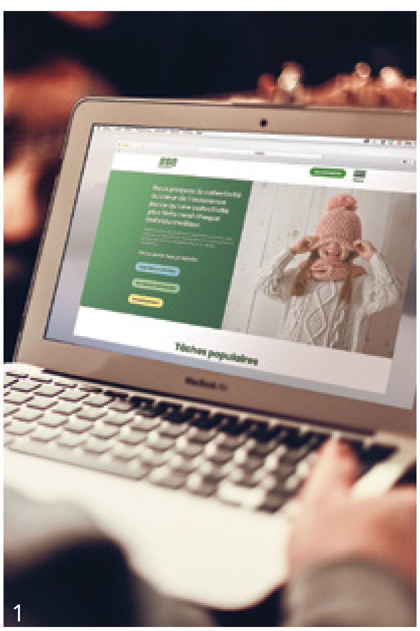
Innovation and the next generation

We contribute to the development of ecosystems, support companies that will succeed in the new economy and promote the vitality of entrepreneurship.

Digital transformation

Support for deployment of technology applications to improve operational efficiency for SSQ Insurance and BFL Canada

(Picture 1: SSQ Insurance)



Technology companies

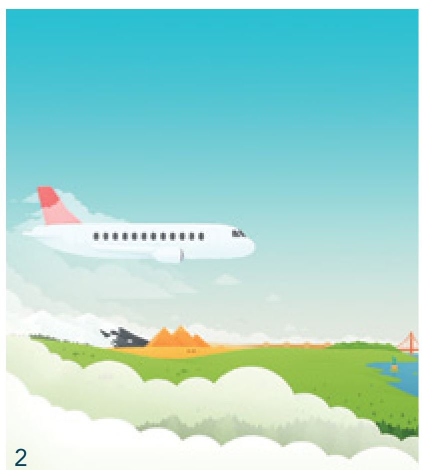
Initial support for young businesses, Poka and Breather, and second investment in Hopper and TrackTik

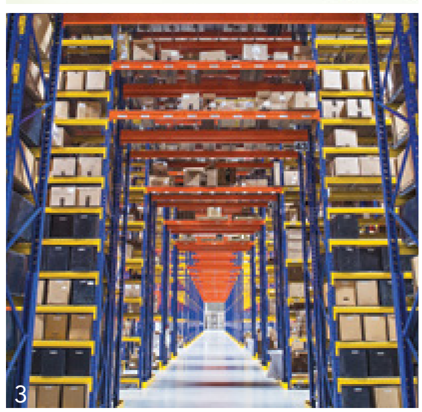
(Picture 2: Hopper)

E-commerce

Investments in businesses that play a determining role in the e-commerce value chain, such as FX Innovation and Metro Supply Chain Group, and support for technology and artificial intelligence for La Maison Simons and Frank And Oak

(Picture 3: Metro Supply Chain Group)





Artificial intelligence

Launch of Espace CDPQ | Axe IA, which will house startups from innovative sectors at Mila – Québec Artificial Intelligence Institute

(Picture 4: Espace CDPQ | Axe IA)

Entrepreneurship

Implementation of Espace CDPQ branches in Québec City, Shawinigan and Sherbrooke, and creation of Cheffes de file, targeting the growth of companies owned by women

(Picture 5: Cheffes de file)

A concrete contribution to Québec's economic growth

La Caisse plays a leading role in the Québec economy. We have deep knowledge of our home market, where our activities help stimulate growth. Our impact can be seen through investments in the private sector, especially in innovative or globalizing businesses. We also contribute to growth-creating projects and provide sustained support to entrepreneurship. Thanks to the expertise and know-how of our teams, our achievements generate concrete benefits for depositors and the Québec economy alike.

Since the private sector is the main driver of Québec's economy, la Caisse has focused on making the majority of its investments in that sector over the last several years. Thus in 2018, its holdings in private Québec companies reached $44.3 billion, up $11.8 billion in five years. To maximize our impact in Québec, la Caisse has focused its investment strategy around three major pillars: implementing growth-creating projects, growth and global expansion of Québec companies and innovation and the next generation. We therefore design and develop major infrastructure and real estate projects. We actively work with Québec companies to foster their expansion projects at home and internationally. We support SMEs that will stand out in the new economy, and contribute to entrepreneurial vitality through a series of initiatives to promote entrepreneurship.

In 2018, our three-pillar approach led to $7.3 billion in new investments and commitments. This brings our total investments and commitments over the last five years to $21.2 billion.

La Caisse leverages its strategic advantages to optimize impact, including the expertise of our teams in many sectors, our business relationships in Québec and around the world, our offices in ten countries and our network of partners in Québec and internationally. Our accomplishments extend far beyond the dollars we invest.

AS AT DECEMBER 31, 2018, LA CAISSE'S ASSETS IN QUÉBEC TOTALLED $63.8 BILLION. ALMOST 70% OF THIS AMOUNT WAS INVESTED IN THE PRIVATE SECTOR, REPRESENTING $44.3 BILLION.

TABLE 22

ASSETS AND COMMITMENTS IN QUÉBEC – PRIVATE EQUITY AND INFRASTRUCTURE
(as at December 31 – in millions of dollars)

	2018			2017		
	Assets	**Undisbursed commitments**	**Assets and undisbursed commitments**	Assets	Undisbursed commitments	Assets and undisbursed commitments
Small and medium-sized businesses	**2,670**	**607**	**3,277**	1,958	686	2,644
Large businesses	**10,911**	**1,980**	**12,891**	10,231	961	11,192
Total	**13,581**	**2,587**	**16,168**	12,189	1,647	13,836

Long-term partner of Québec companies

One of la Caisse's major objectives in Québec is to foster the emergence and growth of strong Québec companies that will stand out in their industry and compete with the best in the world, carving out a place for themselves in global markets. To that end, la Caisse creates long-term partnerships with them. To foster all stages of their development, we implement customized financing solutions that meet their needs.

WORKING WITH QUÉBEC COMPANIES OF ALL SIZES

The unique know-how of la Caisse's teams is a major asset in the corporate financing universe. This strategic advantage is harnessed to support Québec companies in their growth, globalization, innovation and next-generation projects. In 2018, this was demonstrated by la Caisse's support for the expansion of several companies of various sizes, such as Ocean Group, Boralex, Transcontinental, Plusgrade and AddÉnergie. La Caisse was also active among technology companies and those using technology and innovation to grow, such as La Maison Simons, Frank And Oak, SSQ Insurance and BFL Canada. We also invested in companies that play a determining role in the e-commerce value chain, such as FX Innovation and Metro Supply Chain Group. In fact, in 2018, we focused extensively on the new economy; 40% of la Caisse's transactions in Québec were in this area.

INVESTMENT ACTIVITIES – PRIVATE EQUITY AND INFRASTRUCTURE

In 2018, la Caisse's Private Equity and Infrastructure assets totalled $13.6 billion (see Table 22, p. 66). Private Equity investments include direct investments in private companies as well as shares of publicly traded companies from initial public offerings or large transactions. Table 23 presents la Caisse's 10 main Private Equity and Infrastructure investments in Québec.

La Caisse also invests in publicly traded Québec companies with a market capitalization of less than $1.5 billion. This helps to stimulate Québec's equity market and the growth of these companies.

TABLE 23

TOP 10 QUÉBEC INVESTMENTS – PRIVATE EQUITY AND INFRASTRUCTURE PORTFOLIOS
(as at December 31, 2018)

Boralex
CDPQ Infra
Cogeco Communications
Knowlton Development Corporation (kdc/one)
Lightspeed
McInnis Cement
Osisko Gold Royalties
Plusgrade
Trencap (Énergir)
WSP Global Group

Presence in the private sector

La Caisse's presence in the private sector focuses on five areas:

- Private equity
- Equity market investments
- Loan financing
- Infrastructure investments
- Real estate investments

INVESTMENT ACTIVITIES – EQUITY MARKETS

As at December 31, 2018, la Caisse's investments in Québec publicly traded equities totalled $8.8 billion. The 10 main positions in this category are listed in Table 24.

Securities in Québec companies amounted to 37.7% of the total assets in the Canada mandate as at December 31, 2018. This is more than double the weighting of these securities in the overall S&P/TSX index, for which the proportion of Québec company securities was 16.0% during that period.

PROMISING PARTNERSHIPS TO INCREASE IMPACT IN QUÉBEC

La Caisse has formed partnerships with a variety of Québec funds over the years. This enables us to fuel the growth of numerous companies of various sizes and foster the development of specialized investment funds. These long-term partnerships seek to help a greater number of young SME technology companies successfully navigate the early stages of their development. That is why la Caisse specifically targets this sector by working with more than 10 funds that are active in the new economy. We participated in the creation of Luge Capital, a venture capital fund that targets FinTech startups and artificial intelligence solutions applied to financial services. In 2018, this new fund began its investment activities. La Caisse also invested in Québec-based White Star Capital fund, which targets globalization of technology companies.

In addition to multiplying investments, our partnerships with specialized funds provide another advantage to la Caisse: the possibility of gaining access to a pipeline of promising businesses, from which potential targets for direct investments often emerge. La Caisse's teams analyze companies that partner funds invest in and regularly track their progress, thereby identifying potential direct investments. Several successes have resulted from this strategy over the last few years. In 2018, investments were made in Poka, a training and knowledge management platform focusing on digital transformation in the manufacturing sector; and in Breather, which offers technology to provide workspaces that are adaptable to its clients' needs. To date, this approach used by la Caisse has borne fruit. In fact, efforts to identify direct investment targets have produced excellent results, as evidenced by certain targeted companies experiencing so much growth that reinvestments have already been made. Thus in 2018, a second direct investment was made in Hopper, the fast-growing travel application, and in TrackTik, owner of cloud-based software to manage security staff. Added to these was a reinvestment during 2017 in Lightspeed, a company that is now publicly traded and offers cloud-based point-of-sale solutions for independent retailers and restaurants.

TABLE 24

TOP 10 QUÉBEC POSITIONS – EQUITY MARKETS PORTFOLIO
(as at December 31, 2018)

Alimentation Couche-Tard
Canadian National Railway Company
CGI Group
Dollarama
Gildan Activewear
Industrial Alliance, Insurance and Financial Services
Power Corporation of Canada
Saputo
SNC-Lavalin Group
Stella-Jones

TABLE 25

TOP 10 QUÉBEC INVESTMENTS – REAL ESTATE PORTFOLIO
(as at December 31, 2018)

Édifice Jacques-Parizeau, Montréal
Fairmont Le Château Frontenac, Québec City
Fairmont The Queen Elizabeth, Montréal
Fairview Pointe-Claire, Pointe-Claire
Galeries d'Anjou, Montréal
Laurier Québec, Québec City
Le 1000 De La Gauchetière, Montréal
Montréal Eaton Centre, Montréal
Place Ste-Foy, Québec City
Place Ville Marie, Montréal

A leader in Québec real estate

La Caisse has two subsidiaries specializing in real estate: Ivanhoé Cambridge and Otéra Capital. Through them, we are a leader in Québec real estate. The investments and activities of these two well-established companies generate significant benefits.

As at December 31, 2018, la Caisse's real estate assets in Québec totalled $11.3 billion. They are detailed in Table 26, while the 10 major investments in this sector are listed in Table 25 on page 68.

IVANHOÉ CAMBRIDGE

Ivanhoé Cambridge, a world-class real estate company, is a major real estate owner and manager in Québec. As at December 31, 2018, it owned 38 buildings in Québec with a total value of $6.8 billion. These included eight shopping centres, nine office buildings, nine logistics and industrial buildings, three luxury hotels and two residential complexes. Its portfolio of Québec shopping centres and office buildings totals 12.0 million square feet (1.1 million square metres).

In 2018, Ivanhoé Cambridge continued construction of the Projet Nouveau Centre, with planned investments of $1 billion in Montréal's downtown core. After the re-opening of the Fairmont The Queen Elizabeth and delivery of Maison Manuvie, work progressed on Place Ville Marie and Montréal Eaton Centre. Both properties, each receiving $200 million in investments, are the subject of major work that includes:

- Revitalization of the Esplanade, transformation of the commercial gallery and the addition of a food and beverage destination at Place Ville Marie
- Revitalization of the commercial and restaurant offering, specifically with the arrival of Décathlon and the first Time Out Market in Canada, and the creation of a single shopping destination as a result of merging the Complexe Les Ailes with the Montréal Eaton Centre (under the latter's brand).

In Québec City, Ivanhoé Cambridge started the second phase of its renovation of Laurier Québec, at a cost of $60 million. The work includes the complete renovation of common areas and modernization of the parking lot. In partnership with Claridge, a second investment vehicle was also launched. With a $100 million envelope, it targets Québec's urban centres, primarily Québec and Montréal.

OTÉRA CAPITAL

Otéra Capital, one of Canada's leading mortgage lenders, finances some 227 commercial buildings in 12 regions in Québec. As at December 31, 2018 this subsidiary managed assets totalling $4.5 billion. During 2018, the company granted about 30 new loans and refinancings.

TABLE 26

REAL ESTATE ASSETS AND COMMITMENTS IN QUÉBEC
(as at December 31 – in millions of dollars)

	2018			2017		
	Assets	**Undisbursed commitments**	**Assets and undisbursed commitments**	Assets	Undisbursed commitments	Assets and undisbursed commitments
Shopping centres	**3,118**	**308**	**3,426**	3,162	231	3,393
Offices	**4,751**	**105**	**4,856**	4,675	213	4,888
Multiresidential	**994**	**487**	**1,481**	780	474	1,254
Other	**2,421**	**102**	**2,523**	2,213	63	2,276
Total	**11,284**	**1,002**	**12,286**	10,830	981	11,811

Innovating to develop public infrastructure projects

CDPQ Infra was created in 2015 as a unique model to finance and complete public infrastructure projects. This subsidiary of la Caisse is responsible for the development, construction and operation of the Réseau express métropolitain (REM), a new light rail transit system. This will be its first public transportation project.

The REM will be one of the largest automated transit networks in the world – and the largest public transportation project in the last 50 years in Québec. It will connect downtown Montréal, university hubs, the South Shore, the North Shore, the West Island and the Montréal-Trudeau Airport through a fully automated and electric light rail transit system. The route will cover 67 kilometres and use 26 stations to provide high-frequency service that will facilitate daily travel. It will operate 20 hours a day, seven days a week, and will be connected to Montréal's three main Metro lines.

CONSTRUCTION BEGINS

The year 2018 marked the official beginning of construction on the REM, with the groundbreaking ceremony held in the spring. This followed the selection of the consortia for the engineering, procurement and construction contract for the infrastructure – and for supplying the rolling stock and systems, operation and maintenance. In addition, the final route and budget of $6.3 billion were concluded. Construction is already well underway on several sites, including:

- the Édouard-Montpetit station, where the equivalent of 20 storeys will be dug in a very densely built area to construct the station, which will be the second deepest in North America.
- McGill College, where one of the largest stations in the network will be located.
- the West Island, where a former CN railway bridge was demolished to make room for an elevated structure currently under construction.
- the Deux-Montagnes line, where major construction work will result in increasing both frequency and capacity of the REM.
- the South Shore, where elevated structure pillars are now visible along Highway 10.

Two years after the project was officially announced, the REM is now becoming a reality. The first tests will be conducted at the end of 2020. Commissioning of the first branch is planned for 2021.

A growth-creating project

The economic benefits in Québec from the REM project are considerable:

- **$4 billion** of Québec content
- **34,000** jobs during construction
- **$2 billion** in salaries paid
- **1,000** permanent jobs created

In addition, the project will create a centre of expertise for operating and maintaining automated electric transit infrastructure. The REM's construction will be carbon neutral. Its operations will reduce GHG emissions by approximately 680,000 tonnes over 25 years.

An essential financing role in Québec

La Caisse plays an essential role in financing in Québec. We participate in numerous private sector growth projects that directly and positively impact the Québec economy.

Active in the private financing market in Québec for the last several years, la Caisse continued its expansion in the sector in 2018. With private businesses as one of the primary engines of Québec's economy, financing their growth projects creates a double benefit. It generates attractive long-term returns for la Caisse's depositors, while fostering economic activity in Québec.

Several companies in Québec, whether they are publicly traded or not, have benefited from financing from la Caisse over the years. As a long-standing partner, we have supported numerous projects that have helped companies expand in local as well as international markets. Some results in 2018 from our commitment to this sector include:

- An unsecured, subordinated loan of up to $300 million, alongside the Fonds de solidarité FTQ, to fuel the growth of Boralex, a leader in renewable energy production.
- A loan of up to $150 million to SSQ Insurance to continue executing its strategic plan, which is based on innovation and its Canada-wide expansion.

In addition, with the objective of proposing financing packages that are adapted to companies' projects and needs, la Caisse's fixed income teams work jointly with private equity teams. In 2018, this collaboration resulted in the addition of a financing component in certain share capital investments.

While interest rates remained low despite a slight increase, and while expected returns on bond securities are modest, la Caisse continued to reduce its exposure to bonds from developed countries. Its positions in the Québec public sector were reduced, and those in the private sector were increased. La Caisse remains a key holder of Québec government, municipal, crown corporation and para-governmental organization bonds.

As at December 31, 2018, la Caisse's holdings of private and public-sector bonds totalled $30.1 billion. This is shown in detail in Table 27.

TABLE 27

ASSETS IN QUÉBEC –
CORPORATE SECURITIES AND BONDS
(as at December 31 – in billions of dollars)

	2018	2017
Private sector: corporate securities	**10.6**	9.7
Québec public sector		
Government of Québec	**13.4**	14.8
Hydro-Québec	**5.1**	5.0
Other crown corporations	**0.9**	0.9
Municipalities and para-governmental corporations	**0.1**	0.2
Subtotal	**19.5**	20.9
Total	**30.1**	30.6

Espace CDPQ: An investment and development hub for entrepreneurs

Unique in Québec, Espace CDPQ brings together partners and stakeholders around a common objective: to accelerate the growth and globalization of Québec SMEs. This investment and development hub, created by la Caisse, achieves this by combining networks, expertise and financial resources to benefit these businesses.

Established at Place Ville Marie in 2016, Espace CDPQ houses about 20 actors in SME development and financing under one roof to promote collaboration. Its financing component combines 13 complementary investment organizations. Its development component is strengthened through the presence of six organizations dedicated to developing and training growing companies. Together, the network includes more than 1,350 companies of all sizes and sectors and provides bridges to more than 170 countries. Espace CDPQ, through its activities, is also a source of potential investments for la Caisse. For more information regarding Espace CDPQ's activities and its partners, consult www.espacecdpq.com.

ACTIVITIES AND NEW INITIATIVES

During 2018, Espace CDPQ's investment partners completed more than 147 investments and reinvestments in Québec. The development and training organizations worked with more than 430 entrepreneurs and intrapreneurs through a network of more than 150 mentors and experts. During the year, Espace CDPQ partners and their network collectively organized and held more than 5,000 meetings and business activities.

Espace CDPQ also broadened its regional reach by partnering with three accelerators for young technology companies: le Camp in Québec, DigiHub in Shawinigan and Accélérateur de création d'entreprises technologiques (ACET) in Sherbrooke. These regional hubs become branches, thus ensuring a physical and virtual presence by Espace CDPQ's partner-experts. Several activities are offered. In June, for example, investment expertise clinics were held in each hub. In September, 15 promising companies from all three regions participated in a two-day entrepreneurial boot camp with experienced entrepreneurs, company management experts and Espace CDPQ investors. At the event, held at Espace CDPQ, they were able to explore new perspectives, develop relationships with investors and consider various solutions to their growth challenges. Other targeted networking activities are also offered in each region.

Lastly, la Caisse set up Espace CDPQ | Axe IA, as a result of a strategic partnership with Mila – Québec Artificial Intelligence Institute. The goal is to participate in the emergence of a new culture of collaboration between academic and business communities that specialize in artificial intelligence. On an annual basis, more than ten startups from innovative sectors will be housed in Mila's new premises, where they will have access to Mila's researchers and work. These businesses will also benefit from la Caisse's and Espace CDPQ's advice, oversight and network of experts. This initiative will help these startups to accelerate the marketing of new artificial intelligence products.

Inspire a strong entrepreneurial culture in Québec

The sustainable growth of Québec's economy depends on the emergence of a new generation of businesses. To empower the next wave of entrepreneurs, la Caisse has partnered with various organizations over the years to implement concrete initiatives to promote entrepreneurship.

The publication of the 10th Québec Entrepreneurship Index showed that Quebecers' intentions to undertake entrepreneurial activities has tripled since 2009. It was 19.5% in 2018 and has climbed to 41% among young people 18 to 34 years of age. The Fondation de l'entrepreneurship's Québec Entrepreneurship Index, which has been published by la Caisse since 2011 and is produced in partnership with the National Bank – HEC Montréal Institute for Entrepreneurship (NBIE) and Leger, evaluates major gauges of the entrepreneurial chain.

DEVENIR ENTREPRENEUR

Devenir entrepreneur – an entrepreneurship awareness initiative launched in the fall of 2015 by la Caisse, Desjardins Group and National Bank – has continued to grow. In 2018, two new campaigns were launched on various platforms throughout Québec. The "objective: growth" campaign brings together entrepreneurs from various sectors across Québec to discuss business growth. These discussions are the subject of videos offered on www.devenirentrepreneur.com, and podcasts available on mobile platforms. Several portraits of women entrepreneurs were also published on www.devenirentrepreneur.com, to drive the message that women can be successful entrepreneurs.

YOUTH INITIATIVES

The Semaine des entrepreneurs à l'école held its third edition in 2018, in partnership with OSEntreprendre. The activities took place in 17 Québec regions, with the participation of more than 300 volunteer entrepreneurs. In total, more than 20,000 young people from 300 educational institutions attended some 600 conferences about entrepreneurship.

In addition, the fifth Grande journée des petits entrepreneurs inspired 5,555 young participants from across Québec to launch a company for a day. This was a resounding success for an initiative that attracted 300 participants during its first edition.

LE CERCLE DES GRANDS ENTREPRENEURS DU QUÉBEC

In 2018, la Caisse, National Bank and Desjardins Group created the Cercle des Grands entrepreneurs du Québec, to honour and showcase great entrepreneurs whose achievements and ideals have contributed to Québec's entrepreneurial vitality and economic development. The initiative also offers inspiring models to promote this career choice. This first edition honoured Alain Bouchard, Aldo Bensadoun, Lino Saputo, Lise Watier, Rémi Marcoux and Serge Godin during a tribute evening. An interactive exhibition to showcase these entrepreneurs then travelled throughout Québec, attracting more than 2,500 people.

CHEFFES DE FILE

In the fall of 2018, la Caisse announced the creation of a unique initiative to accelerate the growth of companies owned by women and increase the number of women entrepreneurs in Québec. The Cheffes de file is a community of around 60 women entrepreneurs from 11 regions across Québec, each of whom leads a solid and promising company. Through this initiative, these entrepreneurs come together to promote co-development, exchange best practices and reflect on strategic and operational matters using a collaborative platform specially designed for them.

devenir entrepreneur

semaine des entrepreneurs à l'école

Cercle des Grands entrepreneurs du Québec

LES CHEFFES DE FILE

A leader in Québec's financial industry

Through the very nature and scope of its operations, la Caisse plays a leading role in Québec's financial industry. It is particularly attentive to the development of a pool of qualified experts in this field while supporting the next generation in other key sectors.

Over the years, la Caisse has developed partnerships with large universities in Québec to meet the needs of the financial sector. These collaborations involve funding for research chairs and the creation of training programs. The following are examples of our collaboration with the university community:

- Académie de la relève entrepreneuriale CDPQ – Université Laval;
- Campaign to launch a dozen new institutes and research centres – HEC, Polytechnique and Université de Montréal;
- Centre of Excellence – Carrefour d'entrepreneuriat et d'innovation – Université du Québec à Trois-Rivières;
- The Caisse de dépôt et placement du Québec Portfolio Management Chair at École des sciences de la gestion at Université du Québec à Montréal (ESG UQAM);
- The Caisse de dépôt et placement du Québec Research Chair in Actuarial Management of Asset Risks at Université Laval;
- McGill International Portfolio Challenge – McGill University;
- Creative Destruction Lab – Montréal for scientific endeavours with strong growth potential in the startup stage – HEC Montréal;
- Investment funds – Fondation de l'Université du Québec à Rimouski;
- The CDPQ-HEC Montréal Going Global Program;
- Sustainable Investment Professional Certification Program at the John Molson School of Business at Concordia University;
- Entrepreneurship in culture, media and entertainment program – HEC Montréal;
- Research on responsible investment at Concordia University;
- Research on responsible investment at Université de Sherbrooke;
- Research on responsible investment at Polytechnique Montréal;
- Trading floor – ESG UQAM.

Each year la Caisse also employs numerous students as part of its internship program in finance and other key sectors. In 2018, we hired 159 students and interns for periods ranging from four to eight months.

Also, to support the next generation of journalists in Québec, la Caisse partnered with the Fédération professionnelle des journalistes du Québec to create the Fonds CDPQ pour la relève journalistique. This fund will provide ten young journalists or students each year with a $10,000 bursary – enabling them to develop experience in professional media by taking a paid internship, a portion of which will be spent in the economic and financial sectors.

A LARGE NETWORK OF SUPPLIERS

La Caisse and its subsidiaries use the services of many Québec companies while conducting their activities. This includes the support of more than 2,000 suppliers that have a business establishment in Québec. In 2018, la Caisse and its subsidiaries in Québec maintained their spending at the same levels as in 2017, for a total amount of more than $900 million.

As stipulated in its Policy on Contracts for the Acquisition or Leasing of Goods and Services, la Caisse favours Québec suppliers, provided they satisfy its cost and quality criteria.

Reports of the Board of Directors and Board Committees

Report
of the Board of Directors

HIGHLIGHTS

1
Reviewed and confirmed la Caisse's strategic directions.

2
Approved investment proposals under the Board's authority.

3
Regularly monitored progress on the construction of the Réseau express métropolitain (REM).

THE BOARD OF DIRECTORS

MANDATE

The mandate of the Board of Directors includes ensuring that the organization takes the necessary measures to attain the objectives stated in its mission, and that la Caisse is managed in compliance with the provisions of its incorporating act and regulations.

For a full description of the mandate of the Board of Directors, consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2018)

As at December 31, 2018, the Board consisted of 13 members out of a maximum of 15. During the year, the Government of Québec confirmed the appointment of Sylvain Brosseau, President and Chief Executive Officer of Walter Global Asset Management, as an independent member, replacing Bertrand Cesvet, whose mandate ended on April 8, 2018.

DIRECTOR COMPENSATION

The compensation of la Caisse's directors is determined by an order-in-council of the Government of Québec. Their compensation for 2018 is provided in Table 29 on page 77. The directors are also entitled to be reimbursed for their travel and living expenses.

COMPENSATION OF THE CHAIRMAN OF THE BOARD

The annual compensation of the Chairman of the Board is set at $195,000 by an order-in-council of the Government of Québec. The Chairman of the Board is also entitled to be reimbursed for representation expenses related to the duties of his position, to a maximum of $15,000 per year.

TABLE 28

DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2018[1]

Directors	Board of Directors		Audit Committee		Investment and Risk Management Committee		Human Resources Committee		Governance and Ethics Committee	
	6 reg.	9 spec.	6 reg.	2 spec.	6 reg.	5 spec.	7 reg.	1 spec.	5 reg.	1 spec.
Elisabetta Bigsby	6	5	–	–	–	–	7	1	–	–
Ivana Bonnet-Zivcevic	6	9	–	–	–	–	7	1	–	–
Sylvain Brosseau	3/3	4/4	–	–	1/1	–	2/2	–	–	–
Bertrand Cesvet	1/2	3/3	–	–	–	–	3/3	1	–	–
Patricia Curadeau-Grou	5	7/8	–	–	6	4	–	–	–	–
Michel Després	5	9	–	–	–	–	–	–	–	–
Gilles Godbout	6	9	6	2	6	5	–	–	–	–
François Joly	6	9	6	2	6	5	–	–	–	–
Jean La Couture	6	8/8	–	–	6	5	–	–	–	–
Diane Lemieux	6	7	–	–	–	–	–	–	–	–
Wendy Murdock	6	7	–	–	6	4	–	–	5	1
François R. Roy	6	9	6	2	–	–	–	–	5	1
Michael Sabia	6	8	–	–	–	–	–	–	–	–
Robert Tessier	6	9	–	–	–	–	7	1	5	1

1. Directors justify their absences from regular meetings of a Committee or the Board to la Caisse's Secretariat. During 2018, directors were not able to attend certain meetings, due mainly to health reasons or to obligations related to family or work commitments or due to our potential conflict of interest management rules.

TABLE 29

COMPENSATION PAID TO INDEPENDENT DIRECTORS UNDER ORDER-IN-COUNCIL[1]

(in dollars)

Directors	Annual compensation	Compensation as Committee Chair	Attendance fees	Total compensation
Elisabetta Bigsby	19,173	5,992	17,049	42,214
Ivana Bonnet-Zivcevic	20,457	–	22,413	42,870
Sylvain Brosseau	9,529	–	8,127	17,656
Bertrand Cesvet	5,146	–	7,098	12,244
Patricia Curadeau-Grou	19,173	–	20,679	39,852
Gilles Godbout	19,173	–	21,114	40,287
François Joly[2]	19,173	5,992	37,728	62,893
Jean La Couture	19,173	5,992	22,485	47,650
Wendy Murdock	19,173	–	25,610	44,783
François R. Roy	19,173	5,992	25,610	50,775
Total	169,343	23,968	207,913	**401,224**

1. In accordance with the terms of the Order-in-Council:
   a. The compensation includes an increase.
   b. The attendance fee for each special Board or Committee meeting of short duration, held by conference call, is half of the attendance fee allowed for a regular meeting.
   c. Members who are retired from the public sector receive total reduced compensation.
2. This director received attendance fees for attending la Caisse's Selection Committee and the Audit Committee meetings of la Caisse's real estate subsidiaries.

ACTIVITY REPORT

Strategic directions

In 2018, la Caisse's strategic directions were consistent with those of previous years and remained focused on the long-term positioning of the overall portfolio, in particular by increasing investments in less-liquid assets and credit, continuing to globalize and maximizing its impact in Québec. La Caisse also seeks to develop new value-creating levers, including through deeper integration of trends shaping the economy, such as climate change and disruptive technologies.

In 2018, the Board:

- Regularly monitored the results and risks associated with the strategies, at each step in their deployment;
- Alongside senior management, reviewed various economic and financial scenarios that could have an impact on how la Caisse's strategy evolves;
- Reviewed and approved, in line with the previous plan, the strategic priorities for 2018 of each investment group, including the real estate subsidiaries and CDPQ Infra, and of each administrative group.

The Board also adopted la Caisse's business plan and annual budget and received regular progress reports from senior management.

Financial results, internal controls and management systems

With assistance from the Audit Committee, the Board fulfilled its responsibilities with respect to financial results and internal controls, notably by:

- Reviewing the quarterly financial statements and approving the consolidated financial statements as at June 30 and December 31;
- Evaluating the integrity of all controls applied to data used to prepare the financial statements and related notes;
- Reviewing the returns of the investment units and approving the news releases announcing the annual financial results and the semi-annual update;
- Reviewing and approving la Caisse's Annual Report;
- Recommending to the Government the appointment of EY as co-auditor of the books and accounts of la Caisse for a five-year mandate beginning in 2019 and approving the appointment of EY as auditor of the books and accounts of certain subsidiaries of la Caisse for the same period;
- Approving the review of the External Auditor Independence Policy and the Internal Audit Charter;
- Monitoring progress in technology projects to upgrade financial information systems and their security;
- Reviewing and approving delegations of authority.

See the Report of the Audit Committee on page 80 for more information on the responsibilities discharged by the Committee and the Board.

Investment and risk management

Assisted by the Investment and Risk Management Committee, the Board ensured that an effective and rigorous risk management framework and the related processes were applied throughout the year. As such, the Board:

- Approved, on the Committee's recommendation, investment proposals under its authority, taking into account, among other things, the impact of each one on the level and concentration of risk of the specialized portfolio in question and of la Caisse's overall portfolio;
- Approved changes to the investment policies of certain specialized portfolios;
- Approved changes to the Integrated Risk Management Policy;
- Monitored the foreign currency management and hedging plan;
- Approved limits on market risk and the objectives for la Caisse's overall portfolio and for each of the specialized portfolios and major mandates, as well as the limits placed on the use of derivative financial instruments and the limits on overall concentration;
- Approved liquidity risk oversight and ensured that la Caisse's overall strategy for managing this risk was followed.

Moreover, the Board approved an investment in the CDPQ Infra subsidiary in order to construct the Réseau express métropolitain (REM).

For all the activities of the Board and the Investment and Risk Management Committee, see the Report of the Investment and Risk Management Committee on page 101.

Corporate governance

The Board met in the absence of members of senior management and held discussions with the President and Chief Executive Officer in the absence of other members of senior management. It also received an activity report from each committee at each meeting, so that it could review and express an opinion on their recommendations. In addition, on the recommendation of the Governance and Ethics Committee, the Board:

- Evaluated its own operations and that of its committees as well as the performance of each chair;
- Reviewed the composition of its committees;
- Approved the expertise and experience profile of each of its independent members;
- Reviewed the orientation and continuing education program for Board members;
- Reviewed the Policy on Harassment and Misconduct;
- Reviewed the Code of Ethics and Professional Conduct applicable to officers and employees of la Caisse.

See the Report of the Governance and Ethics Committee on page 83 for more information on the responsibilities discharged by the Committee and the Board regarding governance and ethics.

Supervision of senior management and human resources management

With assistance from the Human Resources Committee, the Board approved the President and Chief Executive Officer's detailed objectives for 2018 and reviewed his performance based on objectives set at the beginning of the year. The Board also approved the performance evaluation and total compensation conditions for senior executives.

Following the recommendation of the Human Resources Committee, the Board approved changes affecting the organization's leaders. Macky Tall was appointed to the position of Head of Liquid Markets and President and Chief Executive Officer of CDPQ Infra. Maxime Aucoin was promoted to the position of Executive Vice-President, Investment Strategies and Innovation and was made responsible for the new Innovation team. Ani Castonguay was promoted to the position of Executive Vice-President, Public Affairs. Furthermore, in addition to supervising the external management activities in the Liquid Assets asset classes, Mario Therrien was given responsibility for developing strategic partnerships in developed markets. Lastly, Claude Bergeron was given responsibility for all activities related to depositors, in addition to his risk management responsibilities.

The Committee also reviewed the appointment of Emmanuel Jaclot to the position of Executive Vice-President, Infrastructure and the appointment of Alexandre Synnett to the position of Executive Vice-President, Digital Technology and Operations, under the leadership of Maarika Paul, Executive Vice-President and Chief Financial and Operations Officer. This appointment followed the departure of Pierre Miron, who held the position of Executive Vice-President, Digital Technology and Operations.

See the Report of the Human Resources Committee on page 85 for more information on the responsibilities discharged by the Committee and the Board.

Report
of the Audit Committee

HIGHLIGHTS

1
Reviewed and monitored preparation of the financial statements.

2
Recommended, following a call for tenders, the appointment of the firm EY as co-auditor of the books and accounts of la Caisse for a five-year mandate beginning in 2019.

3
Monitored and analyzed the effects of all activities implemented to ensure optimal use of resources.

THE AUDIT COMMITTEE

MANDATE

The Audit Committee sees that the financial statements accurately reflect la Caisse's financial position. It also ensures, among other things, that la Caisse has adequate and effective internal control mechanisms and a risk management process.

For a complete description of the Committee's mandate, consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2018)

The composition of the Committee was reviewed in 2018.

The Committee consisted of three independent members, including professionals with accounting or financial expertise as well as the experience and knowledge required to read and understand financial statements and to fulfill their roles properly.

- Chair: François Joly (guest member at meetings of the Investment and Risk Management Committee)
- Members: Gilles Godbout and François R. Roy

The Chairman of the Board attends the Committee meetings.

ACTIVITY REPORT

Number of meetings in 2018: 8

Financial reporting

In 2018, the Committee fulfilled its financial reporting responsibilities, which included the following:

- Reviewed various aspects of the financial statements with the Finance group and the co-auditors, the Auditor General of Québec and EY, including:
  - The process used to prepare financial statements;
  - The valuation of investments;
  - Treasury items, including liquidity, leverage and financing;
  - The confirmation that an audit of returns had been performed by an external firm to ensure that their calculation and presentation comply with industry standards.
- Reviewed the quarterly results, budget monitoring reports and year-end budget estimates.

- Reviewed the report on the financial certification process that enables the President and Chief Executive Officer and the Executive Vice-President and Chief Financial and Operations Officer to certify publicly that the disclosure controls and procedures and the internal financial reporting controls are adequate and effective.
- Recommended that the Board adopt the financial statements as at June 30 and December 31.
- Reviewed preparatory work on the Annual Report and the news releases announcing la Caisse's financial results.
- Arranged for the Chair of la Caisse's Audit Committee to attend meetings of the real estate subsidiaries' audit committees and reviewed the committees' annual activity reports.
- Discussed the audit report with the co-auditors following their year-end audit.
- Discussed with the co-auditors their plan for auditing la Caisse's financial statements and their internal quality control procedures.
- Reviewed and recommended to the Board an update to the External Auditor Independence Policy, monitored its application and approved EY's fees.
- Held regular discussions with the Executive Vice-President and Chief Financial and Operations Officer without the presence of other members of senior management.
- Met regularly with the co-auditors to discuss various aspects of their mandate without the presence of senior management.

In 2018, following a call for tenders, the Committee recommended the appointment of the firm EY as co-auditor of the books and accounts of la Caisse for a five-year mandate beginning in 2019. The Committee also recommended to the Board the appointment of EY as auditor of the books and accounts of certain subsidiaries of la Caisse, also for a five-year mandate.

Internal Audit

In 2018, the Committee carried out the following activities with the Internal Audit group:

- Reviewed and approved the 2018-2020 Internal Audit Plan.
- Revised and recommended to the Board an update to the Internal Audit Charter.
- Reviewed Internal Audit's progress reports prepared under the Internal Audit Plan to address such matters as internal control mechanisms, risk management processes and optimal use of resources.
- Monitored the implementation of Internal Audit's recommendations by Caisse senior management.
- Monitored activities carried out by the internal audit units of the real estate subsidiaries.
- Reviewed the results of the institution's continuous audit program.
- Validated that the Internal Audit team was able to act independently from Caisse senior management.
- Held periodic discussions with the Vice-President, Internal Audit, without the presence of senior management.

Internal controls and plan for the optimal use of resources

The Committee reviewed many aspects of internal controls and the optimal use of resources in 2018. It carried out the following activities:

- Reviewed the plan to ensure optimal use of resources and monitored and analyzed the effects of all the activities implemented under the plan.
- Reviewed the results from work to assess the design and effectiveness of internal financial reporting controls and disclosure controls and procedures, including those of the real estate subsidiaries and CDPQ Infra.
- Monitored technological projects to update financial reporting systems.
- Monitored international tax management activities.
- Reviewed the results of the evaluation carried out by members addressing the effectiveness of Committee operations.
- Reviewed and recommended to the Board changes in delegations of authority.

Risk management

The Investment and Risk Management Committee helped the Audit Committee fulfill its duty to implement a risk management process. The Committee therefore carried out the following activities to monitor investment and risk management work:

- Discussed with the Executive Vice-President, Legal Affairs and Secretariat:
  - Reports on compliance with the Act respecting the Caisse, depositors' investment policies and the specialized portfolios' investment policies;
  - Reports on legal proceedings involving la Caisse or its real estate subsidiaries.
- Received copies of the Investment and Risk Management Committee's minutes of meetings.
- Arranged for the Chair of the Audit Committee to attend the meetings of the Investment and Risk Management Committee.

USE OF EXTERNAL EXPERTS

The Audit Committee did not use the services of external experts in 2018. It nevertheless endorsed senior management's use of external firms for an independent review of the fair value of certain investments.

Report
of the Governance and Ethics Committee

HIGHLIGHTS

1
Reviewed the performance evaluation process used for the Board.

2
Reviewed, in co-operation with the Human Resources Committee, the skills and experience profiles of independent directors.

GOVERNANCE AND ETHICS COMMITTEE

MANDATE

The Committee ensures that la Caisse adheres to the highest standards of governance and ethics. For a full description of the Governance and Ethics Committee's mandate, consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2018)

The composition of the Committee was reviewed in 2018.

It consisted of three independent members:

- Chair: François R. Roy
- Members: Wendy Murdock and Robert Tessier

ACTIVITY REPORT

Number of meetings in 2018: 6

Composition of the Board and its committees

- Reviewed the composition of the Board and recommended the appointment of an independent member.
- Reviewed the composition of its committees and made a recommendation to the Board.

Activities of the Board and its committees

- Reviewed the performance evaluation process used for the Board, its chairman, the committees and their chairs, including directors' self-assessments; analyzed the results and made recommendations to improve certain processes, as necessary.
- Reviewed an orientation program for new directors designed to ensure the harmonious and swift integration of new members onto the Board of Directors.
- Reviewed the continuing education program for directors.
- Reviewed, in co-operation with the Human Resources Committee, the skills and experience profiles of independent directors and made recommendations to the Board.
- Reviewed the mandates of the Board of Directors and its committees.
- Obtained assurance that the Board had all the information and time required to analyze issues affecting la Caisse.
- Maintained a program involving presentations and discussions outside the formal framework of Board meetings, to allow directors to discuss matters among themselves and with senior management.
- Verified throughout the year that discussion sessions are held in each committee and by the Board without the presence of senior management.

Rules of ethics and professional conduct

Regarding rules of ethics and professional conduct, the Committee's activities included the following:

- Reviewed the Policy on Harassment and Misconduct and recommended it to the Board.
- Reviewed the Code of Ethics and Professional Conduct applicable to officers and employees of la Caisse and reviewed the report on how the rules on ethics and professional conduct were being applied at la Caisse and studied the procedure for disclosing wrongdoings.
- Reviewed the Code of Ethics and Conduct for Directors.
- Reviewed the rules of ethics applied by la Caisse to manage legal constraints related to its shareholding in public companies.
- Reviewed the rules on declarations of interests, verified that the declarations complied with the provisions in effect, and transmitted the declarations to the authorities designated under the Act respecting the Caisse.
- Reviewed reports on transactions involving securities of companies that have ties with Caisse directors.

Caisse activities

- Reviewed the report on donations and sponsorships provided by la Caisse during the year and reviewed the annual budget for such activities.
- Reviewed the process for appointing members to the Boards of Directors of certain private and public companies in which la Caisse invests.
- Studied the report on responsible investment activities.
- Studied the report on designating members to the Boards of Directors of companies in which la Caisse invests.

USE OF EXTERNAL EXPERTS

The Governance and Ethics Committee did not use the services of external experts in 2018.

Report
of the Human Resources Committee

HIGHLIGHTS

1
Review of the changes to la Caisse's teams to favourably position the institution in a rapidly changing and increasingly competitive market.

2
Review of la Caisse's performance management program to strengthen team alignment with the objectives of la Caisse's strategic plan, including a review of the incentive compensation program, which now includes a climate factor.

3
Review of the leadership and next generation development program including promotion of promising young talent.

HUMAN RESOURCES COMMITTEE

MANDATE

The mandate of the Human Resources Committee is to review the orientations and strategies used by la Caisse to manage its human resources, including performance evaluation, succession planning and executive compensation, as well as its general human resources practices. For a full description of the mandate of the Human Resources Committee, please consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2018)

The Committee is composed of four independent members:

- Chair: Elisabetta Bigsby
- Members: Robert Tessier, Ivana Bonnet-Zivcevic and Sylvain Brosseau

ACTIVITY REPORT

Number of meetings in 2018: 8

President and Chief Executive Officer

The Committee reviewed Mr. Sabia's objectives for 2018 as President and Chief Executive Officer and recommended that the Board of Directors approve them. Furthermore, the Committee reviewed the performance evaluation and total compensation conditions for the President and Chief Executive Officer and recommended them to the Board of Directors for approval.

Senior executives

La Caisse operates in an environment that requires developing and maximizing talent to build the next generation of leaders in the organization and foster new ways of doing business. To withstand growing market turbulence and increasing competition, the Committee examined and recommended to the Board of Directors certain changes, with three objectives, which were:

- Continuing to strengthen collaboration among teams;
- Emphasizing innovation;
- Being alert to the best opportunities and acting with agility to seize or create them.

These changes specifically included appointments to new positions, promotions and added responsibilities. Thus, Macky Tall was appointed Head of Liquid Markets and President and Chief Executive Officer, CDPQ Infra. Maxime Aucoin was promoted to Executive Vice-President, Investment Strategy and Innovation and was entrusted with responsibility for our new Innovation Team. Ani Castonguay was promoted to Executive Vice-President, Public Affairs. Moreover, in addition to supervising external management activities within the liquid asset classes, Mario Therrien is now responsible for developing strategic partnerships in developed markets. Lastly, Claude Bergeron became responsible for all depositor-related activities, in addition to his risk management responsibilities.

The Committee also reviewed the appointment of Emmanuel Jaclot to Executive Vice-President, Infrastructure as well as the appointment of Alexandre Synnett to Executive Vice-President, Digital Technology and Operations, reporting to Maarika Paul, Executive Vice-President and Chief Financial and Operations Officer. This appointment was made following the departure of Pierre Miron, who held the position of Executive Vice-President, Information Technology and Operations.

In addition, the Committee reviewed the performance evaluation and total compensation for senior executives and recommended both to the Board for approval.

Key strategies and policies for integrated talent management

During 2018, the Committee discussed several key strategies and policies for integrated talent management. To that end, among other things, the Committee:

- Reviewed the performance management program for the various teams as well as incentive compensation, more specifically to continue to strengthen alignment of performance and compensation with la Caisse's strategy;
- Integrated a climate factor in the incentive compensation evaluation process;
- Supported deployment of a leadership program for la Caisse's current and future leaders;
- Examined risk mitigation measures regarding talent management as well as talent management indicators, including indicators of gender diversity within la Caisse and, more specifically, within investment teams.

Committee operations

The Committee reviewed the results of the evaluation carried out by its members, addressing the effectiveness of the Committee's operations.

Use of external experts

In implementing the incentive compensation program, the Committee and the Board used the services of Hugessen Consulting, an independent consulting firm recognized for its expertise in the compensation of pension fund personnel. The Committee takes Hugessen Consulting's recommendations into account but makes its own decisions, which may be based on information other than the firm's recommendations.

COMPENSATION POLICY

Committee's work on compensation

During 2018, the Committee, with advice from Hugessen Consulting, ensured that the Compensation Policy adopted in 2010 met its strategic objectives of paying for long-term performance, offering competitive compensation and linking the interests of management and depositors. The Committee reviewed how la Caisse's Compensation Policy was applied; it analyzed the proposed performance incentive compensation and proposals for implementation of co-investment and ensured that the proposals were aligned with Compensation Policy and market practices.

Accordingly, the Committee notably analyzed the amount of incentive compensation to be awarded under the incentive compensation program and recommended it to the Board for approval.

As previously indicated, in 2018, the Committee undertook, with a view to sound governance, a review of incentive compensation. This exercise consisted of reviewing each of its components in light of la Caisse's strategy and culture, taking market practices and trends into consideration. The Committee concluded, with corroboration by its consultant, Hugessen Consulting, that the incentive compensation meets the Compensation Policy's objectives, which are to pay for performance, offer competitive compensation and link the interests of management and depositors. In addition, with a view to continuous improvement and alignment with the evolution of la Caisse's culture and strategic plan, certain modifications will be made to incentive compensation starting with the 2019 fiscal year:

- An increase in the weighting of the component linked to la Caisse's overall return to further encourage collaboration among sectors and the link with depositors' interests.
- Increased preponderance of the Individual Contribution component to recognize both the achievement of individual objectives that support strategic objectives and targeted behaviours in line with la Caisse's culture.

Moreover, the Committee received an update on compensation market trends with regard to salary reviews. It also discussed the salary conditions of la Caisse's employees for 2019 and recommended them to the Board for approval.

Framework

La Caisse's Compensation Policy was adopted in accordance with Schedule A of the regulation governing the internal management of la Caisse (the Internal Bylaw). This schedule:

- Defines the maximum levels of total employee compensation and the reference markets;
- States that the data reflecting the reference-market profile must be compiled by a recognized independent firm through an annual survey and must be administered and analyzed according to a methodology and rules generally accepted in the field;
- Stipulates that la Caisse's payroll must not exceed 100% of the salary-scale midpoint.

Reference markets and compensation levels[1]

For the position of President and Chief Executive Officer, the reference market consists of a sample of the seven largest Canadian pension funds, as listed in Table 34 on page 94. For this position, total compensation must be between the median and third quartile (75th percentile) of the reference market, depending on whether la Caisse's performance has been average or superior.

For investment-related positions, the Canadian institutional investment market serves as the reference. A representative sample must include institutions, insurance companies, trust companies, pension funds, investment advisors, brokerage firms and fund managers or their counterparts in similar industries. The current sample comprises the 37 organizations listed in Table 36 on page 95. For these positions, total compensation must fall below the upper decile (90th percentile) of the reference market. For the executive vice-presidents in investment roles, a reduced sample of that described above is used. It groups together 15 firms whose assets under management are greater than $20 billion. The list is provided in Table 35 on page 94.

For non-investment positions, the Québec market serves as the reference, and must notably include public-sector jobs. It therefore contains a representative sample of large public- and private-sector Québec firms and financial-sector companies. The current sample comprises the 49 organizations listed in Table 37 on page 95. For these positions, total compensation must be within the third quartile (75th percentile) of the reference market.

The reference markets for positions located outside Canada were established according to principles similar to those listed previously.

1. For compensation purposes, the first quartile ranges from the 1st to the 25th percentile, the second quartile from the 26th to the 50th percentile, the third quartile from the 51st to the 75th percentile and the fourth quartile from the 76th to the 100th percentile.

In 2018, la Caisse retained the services of Willis Towers Watson for benchmarking its reference markets and engaged McLagan's services regarding positions based outside Canada.

Strategic objectives of the Compensation Policy

La Caisse must rely on highly skilled employees to fulfill its mission, which is to receive moneys on deposit as provided by the Act and manage them with a view to achieving an optimal return on capital within the framework of depositors' investment policies, while at the same time contributing to Québec's economic development.

The total Compensation Policy therefore has the following three objectives:

1. **Pay for performance:** incentive compensation aligned with the returns delivered to depositors. This goal has four key components:
   - Long-term focus: to compensate consistent performance over several years.
   - Risk-return balance: encourage measured risk-taking conducive to sustainable, long-term returns for depositors, while taking into account their risk tolerance.
   - Overall evaluation: to strike a balance between individual contribution, portfolio performance or achievement of business plans, and Caisse performance.
   - Emphasis on la Caisse's overall perspective: to place greater emphasis on employees' contributions to la Caisse's strategic priorities and overall performance, with a greater weighting on leadership and targeted behaviours.
2. **Offer competitive compensation:** to attract, motivate and retain employees with experience and expertise that allow la Caisse to achieve its strategic objectives, within the guidelines in the Internal Bylaw, as described above.
3. **Link the interests of management and depositors:** to ensure that their individual and team efforts are conducive to la Caisse's long-term success.

La Caisse's incentive Compensation Policy complies with the Principles for Sound Compensation Practices issued by the Financial Stability Forum (FSF) and endorsed by the G20 nations: effective compensation governance; alignment of compensation with long-term, measured risk-taking; and regular review of compensation practices.

Components of total compensation

La Caisse's employees receive total compensation based on four components:

1. Base salary
2. Incentive compensation
3. Pension plan
4. Benefits

FIGURE 30

PERFORMANCE INCENTIVE COMPONENTS

BASED ON ACHIEVEMENT OF INDIVIDUAL OBJECTIVES →	Individual contribution
BASED ON ACHIEVEMENT OF BUSINESS OBJECTIVES OR RETURNS ON THE SPECIALIZED PORTFOLIOS OF EACH UNIT →	Portfolio return or business plan achievement
BASED ON ACHIEVEMENT OF LA CAISSE'S RETURN OBJECTIVES →	Caisse overall return

Base salary

Under the Internal Bylaw, the average base salary must not exceed the salary-scale midpoint. Within these parameters, annual base salaries are set according to the salary conditions prevailing on the reference markets.

Each year, the Human Resources Committee submits the payroll budget to the Board for approval.

For 2018, the Board of Directors approved the following recommendations made by la Caisse's senior management:

- maintain 2018 salary scales close to the median of the reference markets, as measured by recognized external firms;
- grant a merit increase budget, which is under the median of the market increase forecasts.

Incentive compensation

In the investment industry, incentive compensation is an essential part of the total compensation package for employees working in the sector because it aligns financial incentives with clients' performance objectives.

Incentive compensation at la Caisse serves to recognize performance, attainment of objectives and contribution to the achievement of strategic orientations. Incentive compensation is an important part of total compensation, so it directly influences the total compensation level and its position relative to the reference market.

Performance is measured over a period of five years. This five-year horizon reinforces a sustained performance and is consistent with the long-term investment strategy.

This incentive compensation program recognizes consistent performance with incentive compensation and requires eligible employees to defer a portion of this incentive compensation into a co-investment account over a three-year period (see page 91). This mechanism continues to link the interests of management to those of depositors by varying these amounts according to the absolute return generated for depositors.

For the relevant employees in the International Private Equity team in international subsidiaries, a part of the incentive compensation is awarded as performance units instead of being entirely awarded as annual incentive compensation. This supports the deployment of the direct International Private Equity strategy, which has resulted in a significant increase in the proportion of direct investments completed by the internal teams. This mechanism aims to recognize the various compensation structures present in the private equity sector and in countries where la Caisse is present internationally. This allows placing increased emphasis on the quality of the transactions completed by internal private equity teams, year after year, in establishing incentive compensation. It also provides la Caisse with the opportunity to internalize expertise developed in direct investment rather than pay higher fees to external funds. In addition, it fosters attracting, retaining and motivating sought-after talent.

Components of performance incentive compensation

Performance incentive compensation is never guaranteed; it always depends on the evaluation of performance criteria as established by the incentive compensation program. Accordingly, employees receive performance incentive compensation based on the three components outlined in Figure 30 on page 88.

TABLE 31

POSITIONING OF TOTAL COMPENSATION BY POSITION TYPE

Position type	Maximum total compensation under the Bylaw[1]	Average positioning of the total compensation awarded in 2018 relative to the reference markets under the Bylaw
Investment positions	90th percentile	Between the 21st and 66th percentile and, on average, at the 46th percentile
Non-investment positions	75th percentile	

1. Maximum total compensation refers to percentile positions found in Schedule A of the Internal Bylaw.

Regarding the Return component, namely the return on the specialized portfolios, the objective of all portfolios is to outperform their benchmark indexes. The three less-liquid portfolios, namely Real Estate, Infrastructure and Private Equity, as well as the Equity Markets portfolio, also have an absolute-return target.

Moreover, a component linked to the carbon footprint intensity reduction target has been added for the first time in 2018 to support la Caisse's strategy to address climate change.

Results since 2014

Over the last five years, la Caisse has had major accomplishments, a good number of which have been presented in previous sections of this report. The Human Resources Committee wishes to highlight some of these achievements.

- Over five years, la Caisse has generated an annualized return of 8.4% for its depositors and net investment results of $98.7 billion. This performance exceeded that of its benchmark, resulting in added value of $16.7 billion.
- In 2018, in uncertain times for investors, la Caisse generated net investment results of $11.8 billion, with a return of 4.2%, compared to 2.4% for its benchmark. The added value of $5.3 billion generated demonstrates the effectiveness of the strategy implemented to build a robust and resilient portfolio, for the benefit of all Quebecers. Specifically, performance by the Equity Markets portfolio proved the appropriateness of the quality-based orientation when selecting securities.
- In Québec, since 2014, la Caisse has completed investments and commitments totalling $21.2 billion, including $7.3 billion in 2018. It has greatly supported the private sector, which today represents 70% of its assets in Québec, totalling $44.3 billion out of a total of $63.8 billion. To maximize its impact on both the economy and companies, la Caisse continued to implement its strategy's three pillars – growth-creating projects, growth and globalization, and innovation and the next generation – with an increasing accent on development of Québec's new economy.
- In addition to its absolute-return management approach, la Caisse has deployed considerable capital to increase its real estate, infrastructure, private equity and credit assets over the last few years. This strategy has been beneficial because these investments have provided solid returns, year after year. The Infrastructure and Private Equity portfolios performed particularly well in 2018, with high returns, sharply above their benchmark, generating high added value.
- To seize the best business opportunities, la Caisse has established partnerships with leading players around the world. This has allowed it to build innovative investment platforms and to conclude key transactions in several countries. For the last five years, la Caisse has thus increased its presence in international markets, notably in growth markets, by approximately $116 billion.
- In conjunction with its strategy to fight climate change, la Caisse has made solid investments that contribute to the transition to a low-carbon economy and enabled it to exceed its initial objective of increasing low-carbon assets in the very first year. Sustained efforts have also been made to reduce the carbon intensity of its overall portfolio in order to achieve the objectives it has set.

Performance incentive compensation for 2018

Taking into account performance incentive compensation both awarded and deferred, employees' total compensation in 2018 was slightly below the median of the reference markets for an 8.4% performance over five years.

More specifically, a study by Willis Towers Watson showed that the employees' total compensation ranked between the 21st and 66th percentiles of the reference markets (where the 100th percentile represents the highest compensation in the market), depending on the position, the specific performance of the portfolios and the compensation awarded for these positions (see Table 31, page 89).

The opinion presented by Hugessen Consulting to la Caisse's Board of Directors stated:

"We reviewed la Caisse's returns and benchmark indexes for 2018, as well as the factors that contributed to its return, and we are satisfied with them. We can confirm that the value-added calculations, the 2018 return multiples, the 2014-2018 average return multiples and the 2018 incentive compensation multiples are consistent with la Caisse's incentive compensation program. In our opinion, the total amount of incentive compensation awarded under the program in 2018 is reasonable in the prevailing market conditions and given la Caisse's performance in 2014, 2015, 2016, 2017 and 2018."

Co-investment: deferred performance incentive compensation

The purpose of co-investment is to better align the interests of those employees with the most influence on la Caisse's financial and organizational performance with the interests of depositors over the long term. The value of the deferred and co-invested performance incentive varies – upward or downward – along with la Caisse's average absolute overall return during the incentive deferral period.

At the end of each three-year period, as required by the Income Tax Act, the deferred amount, plus or minus the average return credited for the period, will be paid to each participant as a deferred incentive payment with restrictions. Figure 32 illustrates this mechanism.

Senior executives have three years to contribute at least the equivalent of their base salary to the co-investment account.

For the President and Chief Executive Officer, as well as senior executives, the minimum threshold of the total incentive compensation that must be deferred in a co-investment account is 55%. For all vice-presidents and senior vice-presidents, as well as for intermediate and senior investment employees, the minimum threshold is 35%. Lastly, for managers and high-level professionals, the minimum threshold is 25%.

La Caisse offers such employees the option of deferring and co-investing an additional portion of their incentive compensation into the co-investment account. This voluntary participation increased the deferred and co-invested amounts in 2018 by more than 10%.

Performance units: long-term program applicable to international subsidiaries only

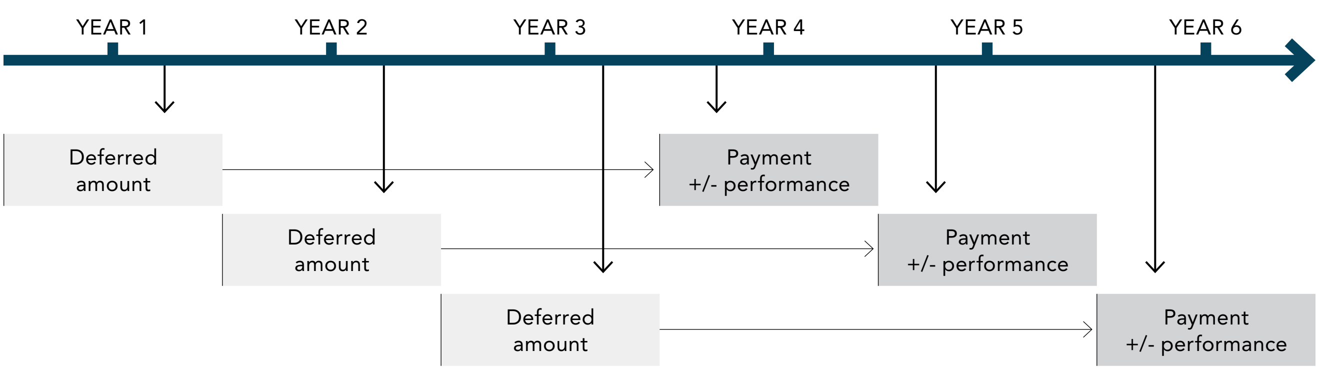
For private equity employees in international offices who hold eligible positions, a portion of their incentive compensation is made up of long-term performance units, instead of being awarded only through performance incentive compensation. To be equitable and take into account the performance units that are granted, the potential incentive compensation for eligible employees is therefore lower than that of other investment employees.

The purpose of the performance units is to support the investment strategy in the direct international private equity sector over a long-term horizon. This component is in line with the practices in this industry and reflects la Caisse's strategy to increase the proportion of direct investments in its Private Equity portfolio. It allows for increased emphasis on the quality of the transactions completed by internal private equity teams, year after year, in establishing incentive compensation. It also provides la Caisse with the opportunity to internalize expertise developed in direct investment rather than pay higher fees to external funds.

The value of the performance units awarded will rise and fall according to the absolute return of the designated portfolio during a five-year performance period.

FIGURE 32

DEFERRED AND CO-INVESTED PERFORMANCE INCENTIVES



At the end of this period, the units acquired will be settled based on the achievement of performance objectives established at the time they were granted and converted into performance factors that have a threshold and a maximum cap. When the performance over five years is less than the threshold, no amounts are payable.

Pension plan

Depending on their positions, all employees based in Canada are members and contribute to one of two defined-benefit pension plans: the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). In addition, managers and professionals in strategic positions participate in the Régime additionnel de retraite (RAR) and senior executives participate in the Supplemental Pension Plan for Designated Officers (SPPDO). Under these two plans, they are entitled, as of the normal age of retirement, to receive a total annual pension equal to 2% of their eligible earnings for each year or fractional year of plan membership, taking into account the annual tax limits imposed by the Canada Revenue Agency for each year they were not RAR or SPPDO members.

Some senior executives will have additional years of services recognized under the SPPDO, depending on the circumstances of their promotion or hiring.

Benefits

Employees enjoy a range of competitive benefits, including group insurance (such as medical, dental and life insurance). Moreover, senior executives benefit from specific benefits paid as an allowance. La Caisse also requires senior executives to undergo annual health checkups.

Review of the President and Chief Executive Officer's performance and total compensation

Performance review

At the beginning of 2018, the Committee recommended to the Board for review and approval a series of non-financial individual objectives proposed by the President and Chief Executive Officer.

A series of major business objectives aimed to achieve targets aligned with la Caisse's strategy and business plan.

- A first major objective was to help transform the organization and implement the organizational changes necessary to optimize delivery of the strategy adopted, while creating two new teams. The first team is dedicated to the development of strategic partnerships and the resulting investment opportunities, and the second team is responsible for identifying and generating new investment opportunities, thus becoming the global innovation driver within la Caisse.
- A second objective was to ensure that the investment strategy was adapted to an increasingly competitive market environment, while deploying the strategy to fight climate change.
- A third objective consisted of maximizing la Caisse's impact in Québec by supporting solid and promising Québec companies, notably in the new economy, by undertaking growth-creating projects to energize Québec's economy.
- A fourth objective consisted of pursuing la Caisse's globalization by continuing to deploy its assets internationally in an efficient manner.
- A fifth objective consisted of investing in the development of talent by focusing on organizational culture and promoting development of the next generation at all levels of the organization.

In its evaluation of these individual objectives, the Board determined that the President and Chief Executive Officer had surpassed the objectives that he had been given at the beginning of the year and that his performance during 2018 greatly exceeded their expectations of him.

Review of total compensation

The compensation and the other employment conditions of the President and Chief Executive Officer are based on parameters set by the government after consultation with the Board of Directors.

In accordance with his request, Mr. Sabia has received no salary increase since he was appointed in 2009. In 2018, Mr. Sabia's base salary remained unchanged at $500,000.

The President and Chief Executive Officer's annual incentive compensation was determined on the basis of the same three components as in 2017, presented in Figure 33.

Like all other members of senior management covered by the incentive compensation program, the President and Chief Executive Officer is required to defer a minimum of 55% of his incentive compensation in a co-investment account.

This year, the component linked to la Caisse's overall return corresponds to the return over the five-year period from 2014 to 2018. The annualized return for this period is 8.4%, with $16.7 billion of value added in relation to the benchmark portfolio.

This return represents a solid performance over five years.

As for the component based on the organization's objectives, in the past five years under Mr. Sabia's leadership, la Caisse:

- Built a robust and resilient portfolio that performs well in turbulent markets while mitigating risks, as confirmed in 2018;
- Pursued the investment strategy that focuses on globalization, the creation of long-term partnerships, absolute-return management, less-liquid assets and credit activities;
- Increased its support of Québec companies in their growth and international expansion and investment in Québec's new economy with major transactions completed in new economy sectors;
- Commenced work on all branches of the Réseau express métropolitain (REM);
- Continued deployment of the investment strategy to address climate change with the completion of several significant transactions in the renewable energy and sustainable industry sectors in Québec and around the world.

In conclusion, Michael Sabia has exercised strong leadership during a year where market uncertainly steadily increased. The President and Chief Executive Officer mobilized teams that stayed the course on la Caisse's strategy to generate solid results in the long term. The Committee and the Board believe that Mr. Sabia has continued to deliver remarkable performance and has greatly surpassed the objectives that were set for him.

The Board of Directors awarded Mr. Sabia $3,300,000 of incentive compensation and he elected to defer an amount of $1,980,000 into the co-investment account. In 2021, Mr. Sabia will be eligible to receive the deferred incentive compensation related to this amount, increased or decreased according to la Caisse's average absolute return over the three-year period, between 2019 and 2021.

In 2018, Mr. Sabia received his deferred incentive compensation amount for 2015. The amount of this deferred incentive compensation totalled $2,044,640 and included the return credited since 2015.

The other employment conditions to which Mr. Sabia is entitled are aligned with la Caisse's policies and comply with the parameters set out in the Internal Bylaw. He received $40,000 in annual perquisites and is a member of la Caisse's Employee Group Insurance Plan.

FIGURE 33

PERFORMANCE INCENTIVE COMPONENTS OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

CAISSE OVERALL RETURN	⟶	Based on the level of attainment of la Caisse's return objectives
ACHIEVEMENT OF THE ORGANIZATION'S OBJECTIVES	⟶	Based on the level of attainment of the organization's objectives
INDIVIDUAL CONTRIBUTION	⟶	Based on the level of attainment of individual objectives

When he was appointed in 2009, Mr. Sabia waived membership in any pension plan. He also waived any severance pay, regardless of cause. Even so, given that membership in the basic pension plan is mandatory under the provisions of the Pension Plan of Management Personnel (PPMP, under Retraite Québec rules), Mr. Sabia is obliged to be a member despite his waiver. In 2018, contributions to the mandatory basic plan represented an annual cost to la Caisse of $18,874.

Compensation of the President and Chief Executive Officer and the five most highly compensated executives for 2016-2018

La Caisse's Board of Directors recognizes the importance of qualified leadership and firmly believes that the policies and programs it has endorsed make it possible to:

- Offer competitive compensation in a market where competition for talent is intense and where la Caisse must compete globally to generate the expected returns;
- Achieve the strategic objectives that enable la Caisse to fulfill its mission.

Pursuant to the Act respecting the Caisse de dépôt et placement du Québec, la Caisse discloses, for itself and its wholly owned subsidiaries, the compensation of the President and Chief Executive Officer as well as that of the five most highly compensated executives reporting directly to him (see Table 38, p. 96).

TABLE 34

REFERENCE MARKET – PRESIDENT AND CHIEF EXECUTIVE OFFICER

- Alberta Investment Management Corporation (AIMCo)
- British Columbia Investment Management Corporation (BCI)
- CPP Investment Board
- Healthcare of Ontario Pension Plan (HOOPP)
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- Public Sector Pension Investment Board (PSP Investments)

TABLE 35

REFERENCE MARKET – INVESTMENT EXECUTIVE VICE-PRESIDENT POSITIONS

- Addenda Capital
- Alberta Investment Management Corporation (AIMCo)
- British Columbia Investment Management Corporation (BCI)
- Canada Post Pension Plan
- Connor, Clark & Lunn Financial Group
- CPP Investment Board
- Desjardins Global Asset Management
- Healthcare of Ontario Pension Plan (HOOPP)
- Hydro-Québec Pension Plan
- Mawer Investment Management
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- Public Sector Pension Investment Board (PSP Investments)
- Sun Life Financial
- Workplace Safety and Insurance Board (Ontario)

TABLE 36

REFERENCE MARKET – INVESTMENT POSITIONS

- Addenda Capital
- Air Canada Pension Plan
- Alberta Investment Management Corporation (AIMCo)
- Alberta Teachers' Retirement Fund Board
- ATB Financial
- Axium Infrastructure
- Bimcor
- British Columbia Investment Management Corporation (BCI)
- Canada Post Pension Plan
- Canadian Broadcasting Corporation Pension Plan
- Canadian Western Bank
- CN Investment Division
- Connor, Clark & Lunn Financial Group
- CPP Investment Board
- CWB Wealth Management
- Desjardins Global Asset Management
- Healthcare of Ontario Pension Plan (HOOPP)
- HSBC Bank
- Hydro-Québec Pension Plan
- Insurance Corporation of British Columbia
- Intact Investment Management
- Investment Management Corporation of Ontario
- Mawer Investment Management
- MD Financial Management
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- OPSEU Pension Trust
- Public Sector Pension Investment Board (PSP Investments)
- Richardson GMP
- Sun Life Financial
- TELUS Pension Plan
- The Canadian Medical Protective Association
- The Civil Service Superannuation Board (Manitoba)
- The Great-West Life Assurance Company
- University of Toronto Asset Management Corporation
- Vestcor
- Workers' Compensation Board of Alberta

TABLE 37

REFERENCE MARKET – NON-INVESTMENT POSITIONS

- AbbVie Canada
- Addenda Capital
- Agropur Dairy Cooperative
- Aimia
- Air Canada
- Alcoa Canada
- Bank of Montreal
- Bell Canada
- Bombardier
- Bombardier Aerospace
- Bombardier Transportation
- Broadridge Financial Solutions
- Cadillac Fairview Corporation
- Canadian National Railway Company
- CGI Group
- Cirque du Soleil
- CN Investment Division
- COGECO
- Desjardins Group
- Énergir
- Fonds de Solidarité FTQ
- General Electric Canada
- Holt Renfrew
- Hydro-Québec
- IBM Canada
- Intact Financial Corporation
- Intact Investment Management
- Keurig Canada
- Kruger
- Laurentian Bank
- Loto-Québec
- Manulife Financial
- MasterCard Canada
- Merck Canada
- Molson Coors Canada
- Northbridge Financial Corporation
- Pfizer Canada
- Power Corporation of Canada
- Public Sector Pension Investment Board (PSP Investments)
- RGA Canada
- Rio Tinto Alcan Canada
- Royal Bank of Canada
- Saputo
- SNC-Lavalin
- SSQ Financial Group
- TELUS
- TMX Group
- UAP
- VIA Rail Canada

TABLE 38

SUMMARY OF THE COMPENSATION OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2016-2018

This table summarizes total compensation as awarded. Specifically, it sets out the incentive compensation awarded for the year, divided between the proportion paid for the year and the amount co-invested (deferred), as well as the value of pension plan participation, if applicable. Total compensation awarded provides a better understanding of the alignment with la Caisse's performance. Compensation for 2017 and 2016, as applicable, is presented on the same basis.

Name and main position	Year	Base salary A	Incentive compensation paid for the year B	Co-investment amount for the year[1] C	Incentive compensation awarded for the year D=B+C	Pension value[2] E	Other compensation[3] F	Total compensation awarded for the year G=A+D+E+F
Michael Sabia President and Chief Executive Officer	2018	$ 500,000	$ 1,320,000	$ 1,980,000	$ 3,300,000	$ 20,000	$ 48,100	$ 3,868,100
	2017	$ 500,000	$ 1,160,000	$ 1,740,000	$ 2,900,000	$ 20,000	$ 48,500	$ 3,468,500
	2016	$ 500,000	$ 1,160,000	$ 1,740,000	$ 2,900,000	$ 20,000	$ 48,900	$ 3,468,900
Macky Tall Head of Liquid Markets and President and Chief Executive Officer, CDPQ Infra	2018	$ 485,000	$ 1,113,700	$ 811,300	$ 1,925,000	$ 92,200	$ 42,000	$ 2,544,200
	2017	$ 445,000	$ 978,700	$ 646,300	$ 1,625,000	$ 84,600	$ 42,300	$ 2,196,900
	2016	$ 420,000	$ 940,000	$ 760,000	$ 1,700,000	$ 63,000	$ 41,700	$ 2,224,700
Stephane Etroy[4] Executive Vice-President, Private Equity	2018	£ 440,000	£ 591,300	£ 722,700	£ 1,314,000	£ 10,000	£ 391,700	£ 2,155,700
	2017	£ 419,000	£ 565,740	£ 691,400	£ 1,257,140	£ 9,500	£ 335,700	£ 2,021,340
	2016	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Emmanuel Jaclot[5] Executive Vice-President, Infrastructure	2018	€ 248,000	€ 504,900	€ 617,100	€ 1,122,000	€ 10,000	€ 5,600	€ 1,385,600
	2017	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2016	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anita M. George[6] Executive Vice-President, Strategic Partnerships – Growth Markets	2018	INR 40,301,000	INR 25,871,400	INR 31,620,600	INR 57,492,000	N/A	INR 795,100	INR 98,588,100
	2017	INR 39,116,000	INR 24,211,000	INR 29,591,300	INR 53,802,300	N/A	INR 795,100	INR 93,713,400
	2016	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Claude Bergeron Chief Risk Officer and Head of Depositor Relations	2018	$ 431,000	$ 400,000	$ 600,000	$ 1,000,000	$ 138,000	$ 41,900	$ 1,610,900
	2017	$ 400,000	$ 352,000	$ 528,000	$ 880,000	$ 128,000	$ 42,300	$ 1,450,300
	2016	$ 400,000	$ 405,000	$ 495,000	$ 900,000	$ 112,000	$ 38,800	$ 1,450,800

1. As mentioned on page 91 of this Annual Report, under the incentive compensation program, executives must defer a minimum of 55% of their awarded incentive compensation into a co-investment account.
2. The pension value is based on a calculation that allocates the total pension value over the period corresponding to the executive's career. This value is calculated by Willis Towers Watson.
3. Amounts indicated include employer contributions to group insurance premiums, perquisites and the health care account. This category may also include other allocated amounts, depending on the executive.
4. For Stephane Etroy, "Other compensation" includes the value of performance units awarded (£308,000 in 2018 and £252,000 in 2017), as well as an allocation of £77,500 per year. In addition to the total compensation awarded, there are temporary allowance installments (£410,000 in 2018 and £290,000 in 2017) until December 2020. This executive's compensation is presented in pounds sterling.
5. For Emmanuel Jaclot, in addition to total compensation awarded, he receives a temporary allowance of €280,000 in annual installments until May 2023. This executive's compensation is presented in euros.
6. The compensation of this executive is presented in Indian rupees.

TABLE 39

SUMMARY OF THE DEFERRED AND CO-INVESTED COMPENSATION OF THE PRESIDENT AND CEO AND OF THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2015-2018

Name and main position	Fiscal year	Deferred and co-invested compensation[1]	Cumulative return at the time of payment	Previously co-invested compensation disbursed in 2018[2]
Michael Sabia President and Chief Executive Officer	2018	$ 1,980,000		
	2017	$ 1,740,000		
	2016	$ 1,740,000		
	2015	$ 1,683,000	$ 361,640	$ 2,044,640
Macky Tall Head of Liquid Markets and President and Chief Executive Officer, CDPQ Infra	2018	$ 811,300		
	2017	$ 646,300		
	2016	$ 760,000		
	2015	$ 415,000	$ 89,175	$ 504,175
Stephane Etroy Executive Vice-President, Private Equity	2018	£ 722,700		
	2017	£ 691,400		
	2016	N/A		
	2015	£ 87,500	£ 18,802	£ 106,302
Emmanuel Jaclot Executive Vice-President, Infrastructure	2018	€ 617,100		
	2017	N/A		
	2016	N/A		
	2015	N/A	N/A	N/A
Anita M. George Executive Vice-President, Strategic Partnerships – Growth Markets	2018	INR 31,620,600		
	2017	INR 29,591,300		
	2016	N/A		
	2015	N/A	N/A	N/A
Claude Bergeron Chief Risk Officer and Head of Depositor Relations	2018	$ 600,000		
	2017	$ 528,000		
	2016	$ 495,000		
	2015	$ 372,000	$ 79,935	$ 451,935

1. The amounts appearing in the table refer to the portion of the incentive compensation from previous years and the current year, which is deferred over a three-year period. As required by the Income Tax Act, these amounts must be disbursed after three years.
2. Disbursed co-investments correspond to the sum of the deferred compensation and the return earned during the three-year period. The returns earned correspond to the weighted average return on la Caisse's depositors' funds expressed as a percentage, as published by la Caisse for each of its fiscal years and each of its six-month periods, compounded over a three-year period.

TABLE 40

PENSION SUMMARY OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES[1]

This table summarizes the values recognized for financial statement purposes for the President and CEO and the five most highly compensated executives who participate in a defined benefit pension plan[1].

Name and main position	Years of credited service[2]	Annual benefits payable[3] ($) At year-end	At age 65	Accrued obligation at start of year[4] ($)	Change due to compensatory items[5] ($)	Change due to non-compensatory items[6] ($)	Accrued obligation at year-end[4] ($)
Michael Sabia[7] President and Chief Executive Officer	9.8	28,900	28,900	0	0	0	0
Macky Tall Head of Liquid Markets and President and Chief Executive Officer, CDPQ Infra	14.5	106,300	253,000	960,700	283,100	(98,500)	1,145,300
Claude Bergeron Chief Risk Officer and Head of Depositor Relations	38.2	336,300	387,000	2,814,200	344,400	(343,800)	2,814,800

1. The table above presents the changes in value of the pension plan benefits for senior executives, in compliance with accounting rules. These values are presented for information purposes as the value reflected in the compensation summary is determined following current benchmarking practices. The following executives do not participate in a defined benefit pension plan: Stephane Etroy, Anita M. George and Emmanuel Jaclot.
2. This is the number of years of credited service in the basic plan.
3. Annual benefits equal the amount of pension payable under the basic plan and the supplemental plan at year-end or at age 65.
4. The obligations do not include those of the basic plan because employer and employee contributions are remitted to Retraite Québec, which assumes the liability for the benefits. La Caisse's contribution was $18,874 per executive in 2018.
5. The change due to compensatory items includes the annual cost of pension benefits, base salary changes in relation to the salary increase assumption used, plan changes or the award of additional years of service.
6. The change due to non-compensatory items includes amounts attributable to the interest accrued on the obligation at the beginning of the year, actuarial gains and losses associated with non-compensatory items and changes in actuarial assumptions.
7. When Mr. Sabia was appointed in 2009, he waived membership in any pension plan. Under Retraite Québec rules, however, membership in the Pension Plan of Management Personnel is mandatory, as described at www.retraitequebec.gouv.qc.ca/en/.

TABLE 41

SUMMARY OF SEVERANCE PAY FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Precipitating event	Theoretical amount payable
Michael Sabia[1] President and Chief Executive Officer	Contract termination	$ 0
Macky Tall[2] Head of Liquid Markets and President and Chief Executive Officer, CDPQ Infra	Non-voluntary termination	$ 1,250,000
Stephane Etroy[3] Executive Vice-President and Head of Private Equity	Non-voluntary termination	£ 785,000
Emmanuel Jaclot[4] Executive Vice-President, Infrastructure	Non-voluntary termination	€ 638,000
Anita M. George[5] Executive Vice-President, Strategic Partnerships – Growth Markets	Non-voluntary termination	N/A
Claude Bergeron[6] Chief Risk Officer and Head of Depositor Relations	Non-voluntary termination	$ 998,000

1. When Mr. Sabia was appointed in 2009, he waived any severance plan, regardless of cause.
2. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance equal to his annual base salary, increased by an amount equal to his annual target incentive compensation and, if applicable for the current year, the amount of his target incentive and the average of the target incentive for the last three years corresponding to his responsibilities as President and Chief Executive Officer of CDPQ Infra, prorated to the months worked during the months preceding the termination of his employment.
3. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance equal to 18 months of his annual base salary, allocation and cost of benefits and, if applicable for the current year, the benefit includes the incentive compensation corresponding to the average of his incentive compensation for the previous four years, prorated to the months worked during the months preceding the termination of his employment.
4. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance equal to 18 months of his annual base salary and, if applicable for the current year, the incentive compensation corresponding to the average of the incentive compensation of the last four years, prorated to the months worked during the months preceding the termination of his employment.
5. This executive's employment contract does not provide special conditions related to the termination of her employment.
6. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance equal to his annual base salary, increased by an amount equal to his annual incentive compensation and the annual amount related to his perquisites.

TABLE 42

REFERENCE MARKETS AND CAISSE TOTAL COMPENSATION FOR 2018 FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES[1]

Main position	Maximum total compensation based on reference market[2]	Total compensation awarded in 2018[3]
President and Chief Executive Officer	$ 5,818,000	$ 3,868,100
Head of Liquid Markets and President and Chief Executive Officer, CDPQ Infra	$ 4,442,000	$ 2,544,200
Executive Vice-President and Head of Private Equity[4]	£ 5,361,000	£ 2,155,700
Executive Vice-President, Infrastructure[4]	€ 4,043,000	€ 1,385,600
Executive Vice-President, Strategic Partnerships – Growth Markets[5]	N/A	INR 98,588,100
Chief Risk Officer and Head of Depositor Relations	$ 2,009,000	$ 1,610,900

1. Willis Towers Watson, *Compensation of the President and Chief Executive Officer Study and Global Market Compensation Study*, Caisse de dépôt et placement du Québec, 2018.
2. As stipulated in the Internal Bylaw, potential total compensation at the 75th percentile of the respective reference markets was used for the President and Chief Executive Officer and non-investment positions. The 90th percentile of the reference market was used for investment positions.
3. These amounts reflect the total compensation awarded in 2018 (Table 38, column G). This compensation was awarded for an 8.4% five-year annualized net return (2014 to 2018).
4. With limited market data, the maximum total compensation based on the reference market does not include the pension component or any form of "carried-interest" incentive compensation program.
5. Due to the nature of this position, market data are not available.

Report
of the Investment and Risk Management Committee

HIGHLIGHTS

1
Reviewed and recommended to the Board changes to the Integrated Risk Management Policy.

2
Reviewed investment policies for certain specialized portfolios and recommended changes to the Board.

THE INVESTMENT AND RISK MANAGEMENT COMMITTEE

The Board of Directors established the Investment and Risk Management Committee to help the Audit Committee fulfill its duty to implement a risk management process.

MANDATE

The Committee's mandate is to ensure that risk management policies are in place with the objective of achieving an optimal risk-return relationship. For a complete description of the Committee's mandate, consult the Governance section of la Caisse's website (www.cdpq.com).

COMPOSITION (as at December 31, 2018)

The Committee's composition was reviewed in 2018.

It consisted of five independent members:

- Chair: Jean La Couture
- Members: Sylvain Brosseau, Patricia Curadeau-Grou, Gilles Godbout and Wendy Murdock
- Guest member: François Joly, Chair of the Audit Committee

The Chairman of the Board attends the Committee meetings.

ACTIVITY REPORT

Number of meetings in 2018: 11

The Committee introduced various mechanisms to provide the Audit Committee and the Board with the necessary assurance regarding the implementation of a risk management process. The Committee:

- Provided a report on its activities to the Board after each meeting;
- Made copies of its minutes available to the Audit Committee and the Board;
- Invited the Chair of the Audit Committee to attend each meeting.

Risk management guidelines and policies

In 2018, the Committee fulfilled its responsibilities in ways that included the following:

- Reviewed reports on specialized portfolio reporting.
- Reviewed the investment policies of certain specialized portfolios and recommended changes to the Board.

- Revised and recommended to the Board market risk limits and objectives for la Caisse's overall portfolio and for each of the specialized portfolios, as well as major mandates and concentration limits for la Caisse's overall portfolio.
- Reviewed and recommended to the Board changes to the Integrated Risk Management Policy, to reflect changes to methodology and to the limits of certain specialized portfolios.
- Reviewed indexes and frameworks for the Real Estate, Equity Markets and Credit specialized portfolios.
- Revised the Currency Management Policy.
- Reviewed the oversight and use of derivative financial instruments.
- Revised and recommended to the Board an increase in the minimum liquidity reserves.
- Reviewed and discussed the report of the Operational Risk Internal Committee.
- Reviewed, at each Committee meeting, risk-return reports for la Caisse as a whole, including the overall portfolio's positioning with respect to risk levels, the benchmark portfolio and strategic orientations.
- Reviewed the Risk Group's business plan.

Investment proposals

- Reviewed and recommended investment proposals under the Board's authority, considering the analysis submitted by the team responsible for the transaction, the project's risk analysis and, more specifically, its impact on the risk level and concentration of the specialized portfolio concerned and la Caisse's overall portfolio, as well as the investment's compliance with the risk oversight policies and guidelines.
- Discussed the risk-return relationship for each investment proposal submitted to the Committee.
- Received follow-up reports on investment proposals authorized by the Board as well as investments that were authorized by la Caisse's senior management but did not come under the Board's purview.

Depositors

- Analyzed the certificates of compliance with the depositors' investment policies and the specialized portfolios' investment policies.

USE OF THE SERVICES OF EXTERNAL EXPERTS

The Investment and Risk Management Committee did not use the services of external experts in 2018.

Board of Directors and Executive Committee

Organizational Structure

La Caisse's Board of Directors consists of the Chairman, the President and Chief Executive Officer, depositors' representatives and independent members. The Act respecting the Caisse stipulates that at least two thirds of the directors, including the Chairman, must be independent.

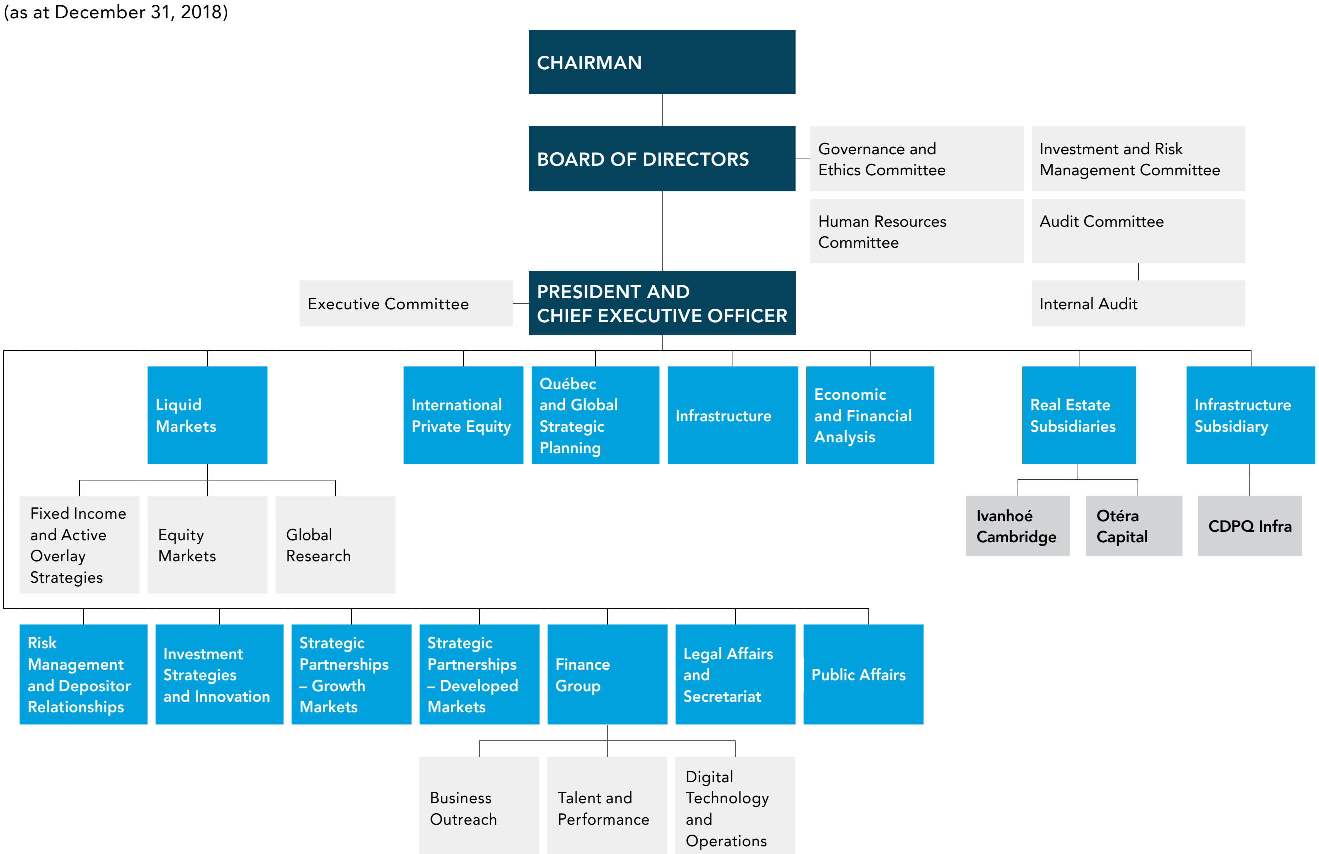
The Executive Committee is composed of the President and Chief Executive Officer and senior officers from la Caisse's various units. As at December 31, 2018, la Caisse employed 1,178 employees in all of its offices. Of this number, 1,045 employees were located in its offices in Québec.

To support its globalization strategy and generate promising investment opportunities, la Caisse also opened offices in several countries over the past few years. As at December 31, 2018, 133 employees worked in these international offices.

La Caisse also has real estate subsidiaries, Ivanhoé Cambridge and Otéra Capital, that had over 1,400 employees at the end of 2018, and an infrastructure subsidiary, CDPQ Infra, which acts as owner-operator of infrastructure projects and had 49 employees at the end of 2018. These subsidiaries are overseen by their own Boards of Directors (see Figures 44 and 45, p. 105).

FIGURE 43

ORGANIZATIONAL STRUCTURE
(as at December 31, 2018)



REAL ESTATE AND INFRASTRUCTURE SUBSIDIARIES

Real estate investments, which take the form of equities and debt, involve primarily office buildings, shopping centres and residential, industrial and logistics properties in key cities worldwide. The holdings are divided into two sectors: Real Estate and Real Estate Debt. The Real Estate sector consists of the assets of Ivanhoé Cambridge, a global real estate industry leader. The Real Estate Debt sector consists of the holdings of Otéra Capital, one of the largest commercial real estate financing companies in Canada.

Figure 44 presents the organizational structure of the real estate operations. More information on the real estate subsidiaries can be found at www.ivanhoecambridge.com and www.oteracapital.com.

The infrastructure subsidiary established in 2015, CDPQ Infra, aims to effectively and efficiently carry out major public infrastructure projects. Figure 45 presents the organizational structure of CDPQ Infra. More information on CDPQ Infra's operations can be found at www.cdpqinfra.com.

FIGURE 44

ORGANIZATIONAL STRUCTURE – REAL ESTATE SUBSIDIARIES
(as at December 31, 2018)

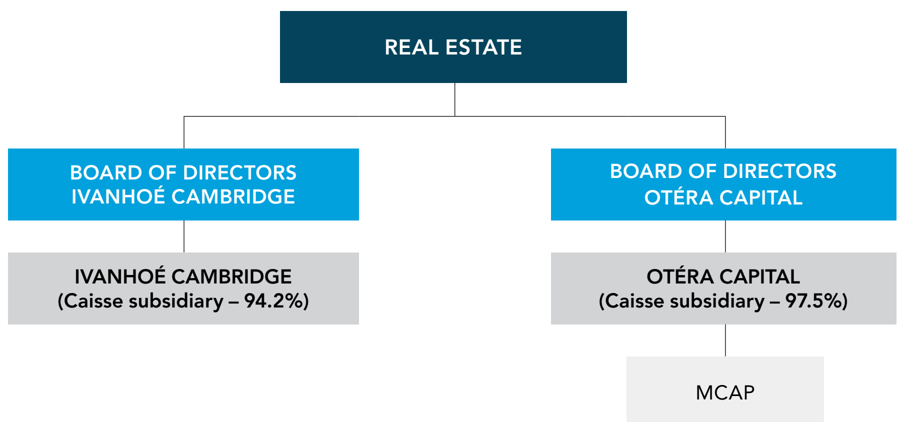
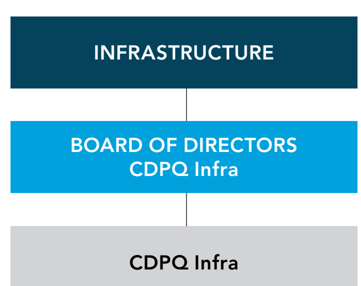


FIGURE 45

ORGANIZATIONAL STRUCTURE – INFRASTRUCTURE SUBSIDIARY
(as at December 31, 2018)



Board of Directors[1]

ROBERT TESSIER
Chairman of the Board
Caisse de dépôt et placement du Québec

Committees: Governance and Ethics /
Human Resources
Member since March 2009

ELISABETTA BIGSBY
Corporate Director

Committee: Human Resources (Chair)
Member since November 2009

IVANA BONNET-ZIVCEVIC
President and Chief Executive Officer
Crédit Agricole CIB in Italie

Committee: Human Resources
Member since December 2017

SYLVAIN BROSSEAU
President and Chief Executive Officer
Walter Global Asset Management

Committees: Investment and Risk Management
Human Resources
Member since July 2018

PATRICIA CURADEAU-GROU
Corporate Director

Committee: Investment and Risk Management
Member since October 2013

MICHEL DESPRÉS
President and Chief Executive Officer
Retraite Québec
Member since March 2016

GILLES GODBOUT
Corporate Director

Committees: Audit /
Investment and Risk Management
Member since January 2013

FRANÇOIS JOLY
Corporate Director

Committees: Audit (Chair) /
Investment and Risk Management (Guest Member)
Member since March 2013

JEAN LA COUTURE
President, Huis Clos Ltée,
Conflict and Litigation Advisors

Committee: Investment
and Risk Management (Chair)
Member since January 2013

DIANE LEMIEUX
President and Chief Executive Officer
Commission de la construction du Québec
Member since December 2014

WENDY MURDOCK
Corporate Director

Committees: Investment and Risk Management
Governance and Ethics
Member since March 2016

FRANÇOIS R. ROY
Corporate Director

Committees: Audit /
Governance and Ethics (Chair)
Member since December 2009

MICHAEL SABIA
President and Chief Executive Officer
Caisse de dépôt et placement du Québec
Member since March 2009

1. Bertrand Cesvet sat on the Board of Directors until April 2018.

The biographies of the members of the Board of Directors can be found on la Caisse's website at www.cdpq.com.

Executive Committee[1,2]

MAXIME AUCOIN
Executive Vice-President,
Investment Strategies and Innovation

CLAUDE BERGERON
Chief Risk Officer
and Head of Depositor Relations

ANI CASTONGUAY
Executive Vice-President,
Public Affairs

MARTIN COITEUX[1]
Chief Economist

MARC CORMIER
Executive Vice-President,
Fixed Income and
Active Overlay Strategies

CHARLES ÉMOND[2]
Executive Vice-President,
Québec and Global Strategic Planning

STEPHANE ETROY
Executive Vice-President
and Head of Private Equity
CDPQ London

ANITA M. GEORGE
Executive Vice-President,
Strategic Partnerships –
Growth Markets
CDPQ India

EMMANUEL JACLOT
Executive Vice-President,
Infrastructure
CDPQ London

MAARIKA PAUL
Executive Vice-President
and Chief Financial and
Operations Officer

MICHAEL SABIA
President and Chief Executive Officer

OONA STOCK
Executive Vice-President,
Talent and Performance

ALEXANDRE SYNNETT
Executive Vice-President,
Digital Technology and Operations

MACKY TALL
Head of Liquid Markets and
President and Chief Executive Officer,
CDPQ Infra

MARIO THERRIEN
Senior Vice-President,
Strategic Partnerships –
Developed Markets

KIM THOMASSIN
Executive Vice-President,
Legal Affairs and Secretariat

1. Martin Coiteux joined la Caisse in January 2019.
2. Charles Émond joined la Caisse in February 2019.

The biographies of the members of the Executive Committee can be found on la Caisse's website at www.cdpq.com.

Sustainable Development Report

Sustainable
Development Report

2016-2018 ACTION PLAN

In 2016, la Caisse published the third edition of its Sustainable Development Action Plan, comprising 26 actions over a three-year period.

These actions addressed five of the government's eight major sustainable development priorities. Our 2016-2018 Sustainable Development Action Plan can be consulted at www.cdpq.com.

In 2018, la Caisse accomplished numerous activities that resulted in positive and sustainable social and environmental changes. This report presents a summary of these actions. Actions taken in the plan's first two years are also identified. Detailed information on completed measures can be found in previous Caisse reports.

Objective
Strengthen eco-responsible practices

ACTION 1

Measure / Take stock of procurement practices

Indicator / Take stock of procurement practices before December 31, 2017

This measure was completed in 2016.

Measure / Propose measures to improve procurement practices, as required

Indicator / At least one agreement signed with social economy businesses before December 31, 2017

This measure was completed in 2017.

ACTION 2

Measure / Set objectives for increasing the waste diversion rate at Canadian managed properties

Indicator / Obtain a waste diversion rate of at least 60% by 2020

The overall waste reclamation rate at Ivanhoé Cambridge has reached 58.8%.

Indicator / Obtain a waste diversion rate at Édifice Jacques-Parizeau that is better than the average for properties managed by Ivanhoé Cambridge

The overall waste reclamation rate at Édifice Jacques-Parizeau has reached 67.9%.

Measure / Set objectives for reducing the material resources used at managed properties

Indicator / Develop a reduction objective by December 31, 2016

This measure was completed in 2016.

ACTION 3

Measure / Continue implementing the Information Management and Security program for la Caisse as a whole

Indicator / Program deployed in 100% of units before December 31, 2018

This measure was completed in 2017.

Measure / Continue reducing the mass of paper documents

Indicator / Destroy at least 600 boxes per year

1,810 boxes were destroyed in 2018.

Indicator / Maintain a ratio of boxes received to boxes destroyed of less than one

With 520 new boxes sent to the warehouse, the ratio was achieved.

Measure / Train new employees on good document management practices

Indicator / At least six information sessions organized for new employees each year

All new employees must attend a mandatory session on document management practices at la Caisse. A total of seven sessions were held in 2018.

ACTION 4

Measure / Take stock of how employees travel for their professional trips, in and outside the city of Montréal

Indicator / Take stock before December 31, 2018

In 2018, work was completed on a status report on work-related air travel by employees.

La Caisse conducted an employee survey on sustainable mobility.

Measure / Develop a communication plan targeting employees' work-related and personal travel habits

Indicator / Execute a communications plan on work-related personal travel before December 31, 2017

This measure was completed in 2017.

ACTION 5

Measure / Conduct a review of the occupation strategy for Édifice Jacques-Parizeau

Indicator / Complete the pilot renovation project before December 31, 2017

This measure was completed in 2017.

Measure / Foster eco-responsible practices when developing and redeveloping commercial buildings

Indicator / Achieve an environmental certification renewal rate of at least 90% per year

In 2018, there were no environmental certification renewals for properties managed by Ivanhoé Cambridge.

Indicator / Achieve an environmental certification rate for managed properties of at least 70% per year

In 2018, 89% of properties managed by Ivanhoé Cambridge held environmental certifications.

LEGEND

- Indicator achieved
- Indicator in progress
- Indicator not achieved
- Indicator postponed

ACTION 6

Measure / Integrate specific environmental and sustainable development criteria for products into calls for tenders

Indicator / 100% of tenders require a description of sustainable development initiatives

This measure was introduced in 2016 and the indicators have consistently been at 100%.

Measure / Encourage the use of cloud services in order to provide IT services in a shared environment

Indicator / Increase the percentage of cloud applications deployed by 2% from the 2016 numbers

This measure was completed in 2017.

Measure / Optimize employee work stations in favour of mobile and more efficient IT equipment, and continue its deployment

Indicator / At least 95% of the targeted work stations replaced by mobile IT equipment by December 31, 2017

In 2018, over 95% of the targeted work stations have been replaced with mobile IT equipment.

Measure / Ensure that an eco-responsible process is implemented for dealing with IT equipment that has reached its end of life

Indicator / Each year, 100% of outdated computer equipment is sent to social economy businesses

All IT equipment identified as outdated in 2018 was given to non-profit organizations.

ACTION 7

Measure / Provide training to designated employees on how to manage events sustainably

Indicator / Training taken

This measure was completed in 2016.

Measure / Take stock of la Caisse's current practices and see where they can be improved

Indicator / Stock taken

Stock was taken of ecoresponsible practices in the organization of major events at la Caisse, and an analysis was performed of the use of single-use water bottles.

Measure / Develop an action plan for implementing best practices

Indicator / An action plan has been developed

A checklist was developed for the organization of events and responsible practices. It will be distributed in 2019.

Objective

Strengthen consideration of sustainable development principles

ACTION 8

Measure / Prepare and distribute informative articles and documents on specific issues related to responsible investment

Indicator / Publish at least two informative articles or documents on issues related to responsible investment for 2017 and 2018

La Caisse has developed and distributed, internally or externally, documents on several issues, such as its statement on international tax and its investment strategy to address climate change. It also joined the Expert Panel on Sustainable Finance, which produced a report on the subject.

Measure / Organize internal activities on various subjects related to responsible investment

Indicator / Organize at least two activities by December 31, 2018

Several presentations have been made at la Caisse each year on various themes in responsible investment.

ACTION 9

Measure / Continue and improve the internship program to develop a new generation of professionals

Indicator / Hire at least seven interns per session

La Caisse hired 108 interns in 2018, representing a significant increase in the number of internships offered (77 interns in 2017).

Indicator / Introduce at least two measures to improve the internship program by December 2018

This measure was completed in 2017.

Measure / Continue hiring students each summer, offering them quality jobs in a large organization

Indicator / Hire at least 30 students each summer

51 students were hired in the summer of 2018.

Indicator / Reach at least 80% "Satisfactory" or "Very satisfactory" ratings in the satisfaction survey

100% of the students and 98% of the team leaders reported that they were satisfied or very satisfied with the experience.

ACTION 10

Measure / Based on the gender diversity profile developed for each department, develop measures to enhance the representation of women, as required

Indicator / Introduce at least two concrete actions to foster diversity, for each targeted team, by December 31, 2017

This measure was completed in 2016.

Measure / Propose, support and promote women candidates and employees at la Caisse to enhance their visibility provincially, nationally and internationally

Indicator / Introduce at least two initiatives per year spotlighting women at la Caisse

Many initiatives are carried out each year to promote women's leadership. In 2018, la Caisse continued its mentoring program, which is supported by executive committee members, with 15 women identified in the organization. Furthermore, it formed a cohort of 14 women to participate in L'Effet A's Défi 100 jours program.

Objective

Continue developing knowledge and skills on sustainable development

ACTION 11

Measure / Prepare and distribute informative articles on sustainable development

Indicator / At least two informative articles per year on sustainable development

Several informative articles were released, in particular on the contribution investors can make to the fight against climate change and on their global development initiatives, following meetings of the G7.

Measure / Organize internal activities on various subjects related to sustainable development

Indicator / At least one internal activity organized on different subjects related to sustainable development for 2017 and 2018

Lunchtime conferences were held on the subject of sustainable growth.

Objective

Strengthen access to and participation in cultural life as a lever of social, economic and territorial development

ACTION 12

Measure / Organize guided visits of the art collection for employees and members of the greater community

Indicator / Organize at least three guided visits per year

In 2018, 18 guided visits were organized for external groups and Caisse employees.

Measure / Invite artists for lunchtime conferences

Indicator / At least one artist invited per year

Zita Cobb, Founder and Chief Executive Officer of Shorefast, gave a conference on her growth-creating artistic project on Fogo Island.

Measure / Protect and restore works in la Caisse's art collection

Indicator / Establish an action plan as a follow-up to the report on conservation of la Caisse's photograph collection

This measure was completed in 2017.

ACTION 13

Measure / Participate in the internationalization of la Caisse's art collection

Indicator / Exhibit works by Québec artists in at least 50% of the international offices

Almost all of la Caisse's international offices now exhibit contemporary Québec art.

ACTION 14

Measure / Develop employees' critical thinking about art through workshops that encourage dialogue and interaction

Indicator / At least one workshop given by December 31, 2017

This measure was completed in 2017.

Measure / Encourage la Caisse's employees to become involved in the promotion of Québec art and culture

Indicator / At least three meetings of the art committee per year

The art committee held four meetings in 2018. Seven employees (excluding the curator) and an external consultant attend the meetings of the art committee.

ACTION 15

Measure / Integrate cultural considerations into decisions on leasehold improvements and property modernizations and restorations

Indicator / At least three initiatives promoting culture to the general public by December 31, 2018

Several initiatives were undertaken in 2018: the Unis Vert l'Art exhibition at the Fairmont The Queen Elizabeth hotel (artworks made from hotel artefacts), integration of an immense glass structure into the renovation of Place Ville Marie's Esplanade and the opening of the Esplanade onto McGill College Avenue.

Measure / Develop partnerships with various organizations in order to protect and showcase our cultural heritage

Indicator / At least two collaborative projects per year

Three-year partnerships were entered into with the McCord Museum and the Pointe-à-Callière Museum, as well as with Héritage Montréal and Unis Vert l'Art.

Objective

Cooperate on sustainable development nationally and internationally, in particular within the Francophonie

ACTION 16

Measure / Regularly scan the environment for undertakings in which la Caisse could participate

Indicator / Perform a scan each quarter

Scans were performed on a quarterly basis, as well as on other occasions, on the Principles for Responsible Investment website and on the websites of securities authorities and various international groups (FSB, OECD, SEC, etc.).

Measure / Identify relevant initiatives for la Caisse and participate in them

Indicator / Participate in at least 10 initiatives by December 31, 2018

Each year la Caisse participates in many positioning activities related to responsible investment issues. In 2018, it participated in:

- A pilot task force of the **United Nations Environment Programme – Finance Initiative** (UNEP FI) on analyses of climate change scenarios;
- A global collaborative commitment activity on climate change with large greenhouse gas emitters – **Climate Action 100+**;
- The implementation of a collaborative project to make advances on some of the G7's objectives on diversity, infrastructure and climate change – the **Investor Leadership Network**;
- The signing, with international peers, of a commitment to take action to reduce GHG emissions in la Caisse's portfolio and disclose such action – **Investor Agenda**.

ACTION 17

Measure / Renew commitments to various associations: Canada Green Building Council, France Green Building

Indicator / Renew 100% of the memberships

The partnership with the Canada Green Building Council – Québec Chapter was renewed.

Measure / Participate in the sustainable development committees of professional associations (BOMA, ICSC, REALPAC)

Indicator / Participate in at least 75% of the sustainable development committees of the professional associations in which Ivanhoé Cambridge is a member

Participation in the REALPAC, ICSC, CPEQ (collectif RSE), GRESB, BOMA committees.

Objective

Support the development of green and responsible business practices and models

ACTION 18

Measure / Continue the responsible investment approach in Private Equity

Indicator / Presentation on responsible investment given to Private Equity groups

This measure was completed in 2017.

Indicator / Support the development of an ecosystem that supports businesses in the social economy

A three-year agreement was signed with SVX to support the emergence and growth of entrepreneurial projects in social and environmental innovation.

ACTION 19

Measure / Implement the Green Space Leader program

Indicator / At least five more participants in 2017

A total of two chains were identified as Green Space Leaders. Since implementing this program has presented several challenges, no further deployment is planned. Other approaches to mobilizing tenants and customers to take action on the environment are being analyzed.

Measure / Develop and implement "green leases"

Indicator / Implementation of a "green lease" by December 31, 2018

"Green leases" are available for shopping centres and office buildings managed by Ivanhoé Cambridge. Our "green lease" for shopping centres was recognized by the Institute for Market Transformation in 2018.

Objective

Foster investment and financial support to ease the transition to a green and responsible economy

ACTION 20

Measure / Actively participate in responsible investment events

Indicator / Participate in at least nine events on responsible investment by December 31, 2018

Each year, Caisse employees participate in numerous events. In 2018, this included:

› A panel at the PRI Climate Forum in Toronto and in Montréal – May and June 2018;

› Interview with a past Secretary-General of the United Nations, conducted by Michael Sabia as part of the Conference of Montréal – June 2018;

› Participation in the Global Climate Action Summit and PRI in Person in San Francisco – September 2018;

› A panel at the Colloque sur l'investissement responsable PRI-Québec City 2018 – November 2018;

› Participation in RI Americas in New York – December 2018.

Measure / Continue developing responsible investment requirements for external managers

Indicator / Review external managers' ESG integration requirements by December 31, 2018

All potential external managers and those with contracts up for renewal completed la Caisse's questionnaire on integrating ESG factors. Conversations were then organized with some of them to discuss their results.

An evaluation of external managers' responsible investment practices was conducted. Furthermore, la Caisse used these interviews to talk about its strategy on climate change.

Objective

Efficiently manage natural resources in a concerted manner to support economic vitality and maintain biodiversity

ACTION 21

Measure / Improve how water is managed in buildings managed by Ivanhoé Cambridge

Indicator / Improve the quality of water meters by December 31, 2017

In 2018, an inventory was made of properties whose water meters need to be upgraded. Targets will then be established based on comparable properties.

Indicator / Share policies on managing water, energy and air with business partners by December 31, 2018

The partners managing Ivanhoé Cambridge properties received a report card on their buildings, identifying which indicators need improvement and stating current policy.

Objective

Conserve and promote biodiversity, ecosystems and ecological services by improving the interventions and practices of society

ACTION 22

Measure / Participate in greening and biodiversity initiatives on the Island of Montréal

Indicator / At least four greening projects by December 31, 2018

A total of six greening initiatives were undertaken by la Caisse and Ivanhoé Cambridge as part of this action plan. Two actions were taken in 2018 in collaboration with Moment donné.

Moreover, as part of la Caisse's participation in the 375,000 Trees project alongside Earth Day, over 87,000 trees were planted to offset GHG emissions related to construction of the REM.

Objective

Help recognize, develop and maintain skills, particularly among the most vulnerable

ACTION 23

Measure / Continue social reintegration initiatives

Indicator / Support at least five organizations with missions to foster social reintegration

Support provided to 30 organizations that help the homeless.

Objective

Support and promote the activities of community organizations and social economy enterprises that make a contribution to social inclusion and reduce inequalities

ACTION 24

Measure / Recognize employees' involvement through visibility on the internal newsletter or through a donation to the organization of up to $1,000

Indicator / At least 40 donations by la Caisse linked to employee involvement

In 2018, organizations in which 46 employees were involved each received donations of up to $1,000 as part of the Community program.

Indicator / Philanthropy communications plan developed and executed by December 31, 2017

This measure was completed in 2017.

Measure / Encourage employees to share their expertise with organizations through the Bénévoles d'affaires platform

Indicator / At least 15 more employees paired with non-profit organizations by 2018

In 2018 there were five successful pairings and eight new registered employees, for a total of 17 pairings since 2016.

A new project was begun to encourage young employees to embrace community involvement. The objective of the Impact 20-35 community is to create links between young people at la Caisse and non-profit organizations. Bénévoles d'affaires is taking part in the project.

Indicator / At least one article published on the intranet each year, beginning in 2017

A communication campaign was developed to mobilize young Caisse employees around the Impact 20-35 project.

Measure / Create opportunities for collective commitment in support of causes by encouraging employees who organize team volunteer activities

Indicator / Establish a committee for the Centraide campaign by December 31, 2017

In 2018, a renewed committee of 16 people representing all la Caisse's teams was formed in order to stimulate employee involvement in the Centraide campaign. Their efforts paid off handsomely, since over 561 employees contributed to the campaign, compared to 530 last year.

Indicator / Receive the committee's recommendations by December 31, 2017

A report was produced on the actions and results of the 2018 Centraide campaign. Recommendations were made for the next campaign.

ACTION 25

Measure / Implement a volunteer program in partnership with NPOs

Indicator / Propose a volunteer program through donation and sponsorship partnerships by December 31, 2017

This measure was completed in 2017.

Objective

Optimize the production of renewable forms of energy for the benefit of all Quebecers

ACTION 26

Measure / Assess the feasibility of solar panel projects at our commercial properties.

Indicator / Feasibility study completed

This measure was completed in 2016. Subsequent work was underway in 2018 to propose a strategy for renewable energy.

Financial Report

Change in Assets

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Net assets attributable to depositors grew from $200.1 billion as at December 31, 2013 to $309.5 billion as at December 31, 2018, an increase of $109.4 billion over five years. This growth was primarily due to net investment results of $98.7 billion, in addition to depositors' net contributions of $10.7 billion (see Table 49, p. 121).

During 2018, net assets attributable to depositors increased by $11.0 billion to $309.5 billion, compared to $298.5 billion as at December 31, 2017. This increase was due to $11.8 billion of net investment results, which was offset by $0.8 billion in depositors' net withdrawals.

TOTAL ASSETS

As at December 31, 2018, total assets reached $350.0 billion, compared to $337.2 billion at the end of 2017 (see Table 46). This $12.8-billion increase was due to the reinvestment of investment income and net gains realized on financial instruments at fair value. The liabilities to total assets ratio is stable, having increased to 12% as at December 31, 2018, compared to 11% as at December 31, 2017. La Caisse's liabilities consist primarily of securities sold under repurchase agreements, securities sold short and the financing programs issued by its subsidiary, CDP Financial, which are used to finance investments.

ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION

La Caisse and its subsidiaries administer and manage assets entrusted to them by clients and on their behalf. These assets are not included in la Caisse's Consolidated Statement of Financial Position. La Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and transferred mortgages.

As at December 31, 2018, la Caisse's assets under management and administered assets totalled $90.4 billion, up $4.4 billion from one year earlier (see Table 47).

This growth came primarily from the portfolio administered by MCAP, a subsidiary of Otéra Capital. This company administers more than $68.2 billion of Canadian residential, commercial and construction mortgages.

TABLE 46

FINANCIAL INFORMATION –
FINANCIAL POSITION
(as at December 31 – in millions of dollars)

	2018	2017
ASSETS		
Investments	**342,004**	331,050
Other assets	**7,999**	6,100
Total assets	**350,003**	337,150
LIABILITIES		
Investment liabilities	**38,207**	35,845
Other liabilities	**2,285**	2,793
Total liabilities	**40,492**	38,638
Net assets	**309,511**	298,512

TABLE 47

FINANCIAL INFORMATION –
TOTAL ASSETS UNDER MANAGEMENT
(as at December 31 – in millions of dollars)

	2018	2017
Total assets	**350,003**	337,150
Assets under management	**19,589**	20,349
Assets under administration	**70,814**	65,636
Assets under management and assets under administration	**90,403**	85,985
Total assets under management	**440,406**	423,135

NET INVESTMENT RESULTS

Over five years, net investment results amounted to $98.7 billion. The Equities asset class contributed the most, generating results of $59.1 billion, including $41.5 billion from Equity Markets and $17.7 billion from Private Equity. In addition, Real Assets contributed $20.2 billion and Fixed Income contributed $16.7 billion.

In 2018, net investment results of $11.8 billion (see Table 48) came mainly from the Real Assets and Equities, at $4.8 billion each, and Fixed Income, at $1.9 billion.

NET WITHDRAWALS BY DEPOSITORS

Total net withdrawals by depositors as at December 31, 2018 were $0.8 billion, mainly due to net withdrawals of $3.0 billion made by the Government of Québec's Generations Fund.

TABLE 48

FINANCIAL INFORMATION – NET INVESTMENT RESULTS
(for periods ended December 31 – in millions of dollars)

	2018	2017
Net investment income	**9,336**	8,926
Operating expenses	**(585)**	(536)
Net income	**8,751**	8,390
Net gains on financial instruments at fair value	**3,039**	16,206
Net investment results	**11,790**	24,596

TABLE 49

FINANCIAL INFORMATION – SUMMARY OF CHANGES IN NET ASSETS
(for the period from 2014 to 2018 – in billions of dollars)

	2018	2017	2016	2015	2014	5 years
Net assets, beginning of year	**298.5**	270.7	248.0	225.9	200.1	**200.1**
Net investment results	**11.8**	24.6	18.4	20.1	23.8	**98.7**
Net contributions (net withdrawals) by depositors	**(0.8)**	3.2	4.3	2.0	2.0	**10.7**
Net assets, end of year	**309.5**	298.5	270.7	248.0	225.9	**309.5**

Analysis of Operating Expenses and External Management Fees

Operating expenses represent portfolio management and administration costs. External management fees are amounts paid to institutional fund managers, active in the stock markets, to manage securities belonging to la Caisse.

For 2018, operating expenses totalled $585 million, compared to $536 million in 2017. The increase — less than in previous years — once again stems from the continued execution of an investment strategy focused on globalization, less-liquid assets and credit activities, which requires adding new expertise.

Over the last five years, the hiring of talent in global markets and targeted sectors made a significant contribution to the $16.7 billion of value added generated during the period, as well as to the $5.3 billion of value added generated in 2018. The Private Equity and Infrastructure portfolios performed particularly well in absolute terms and relative to their benchmark indexes, both in 2018 and over five years. The Credit portfolio also posted noteworthy performance in 2018. In addition, several key transactions completed by la Caisse in 2018 were made possible through the collaboration of teams in its international offices, in particular Techem and FNZ in Europe, Azure Power Global and CLP India in India, and an infrastructure investment platform in Colombia.

External management fees totalled $95 million, up $9 million from 2017, mainly due to an increase in the value of the investments managed externally in certain markets.

Operating expenses and external management fees amounted to $680 million in 2018, compared to $622 million in 2017. This amount represents 22 cents per $100 of average net assets (see Figure 50).

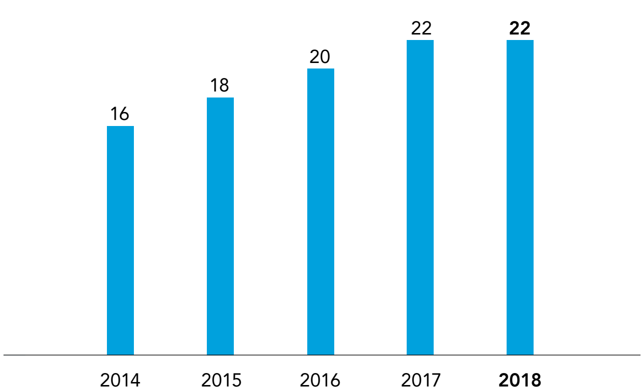
Following four years of growth, operating expenses and external management fees, at 22 cents per $100 of average net assets, were relatively unchanged from the previous year and compare favourably with the industry. Over the last five years, operating expenses and external management fees grew at an average annual rate of 1 cent per $100 of average net assets, in line with the execution of the strategies indicated above and the increase in externally managed securities.

OPERATIONAL EFFICIENCY

La Caisse periodically reviews its procedures to maintain tight control over its operating expenses. It aims to maintain operating expenses at a level that, taking into account its investment mix, is comparable to that of institutional fund managers of the same size with similar operations. La Caisse has been benchmarking its costs by asset class for many years.

FIGURE 50

OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES EXPRESSED PER $100 OF DEPOSITORS' AVERAGE NET ASSETS
(for periods ended December 31 – in cents)



CDP Financial

CDP Financial is a wholly owned subsidiary of la Caisse. Its transactions are designed to optimize the cost of financing the operations of la Caisse and its subsidiaries, to diversify their sources of financing and to match financed assets in terms of currencies and interest rates. To achieve its objectives, it has various financing programs on the local and international institutional markets it uses for short-, medium- and long-term borrowing.

SHORT-TERM BORROWING

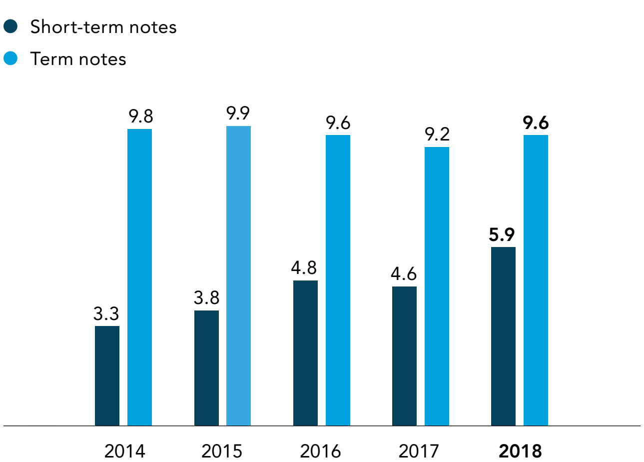
As at December 31, 2018, short-term financing totalled $5.9 billion, with $1 billion denominated in Canadian dollars and $3.6 billion denominated in U.S. dollars. In 2018, the average maturity of the borrowings denominated in Canadian dollars was 62 days, and transactions totalled $6.0 billion. The average maturity for borrowings denominated in U.S. dollars was 58 days, with transactions totalling $20.6 billion.

TERM BORROWING

As at December 31, 2018, the fair value of CDP Financial's outstanding term notes totalled $9.6 billion, compared to $9.2 billion at the end of 2017 (see Figure 51). The $0.4-billion increase from 2017 is in large part due to the appreciation of the U.S. dollar relative to the Canadian dollar.

FIGURE 51

BREAKDOWN OF LIABILITIES – CDP FINANCIAL
(fair market value as at December 31 – in billions of dollars)



CREDIT FACILITY

During the year ended December 31, 2018, CDP Financial renewed a credit facility with an authorized maximum amount of US$4 billion with a banking syndicate formed of 10 financial institutions. This credit facility is fully guaranteed, unconditionally and irrevocably, by la Caisse. No amount was drawn on this credit facility during the year.

BREAKDOWN BY CURRENCY

As at December 31, 2018, the financing can be broken down as follows: Debt instruments denominated in U.S. dollars represent 79%, while 13% are denominated in Canadian dollars and 8% are denominated in euros.

CREDIT RATING AGENCIES REAFFIRM LA CAISSE'S FINANCIAL STRENGTH

Dominion Bond Rating Services (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's (S&P) reaffirmed their investment-grade credit ratings with a stable outlook in 2018. In addition, Fitch Ratings Inc. (Fitch) issued an initial credit rating for CDP Financial and la Caisse in early 2019. The highest rating, AAA, was granted, with a stable outlook (see Table 52). The credit ratings of CDP Financial and la Caisse were published in July, August and September 2018, and in February 2019.

TABLE 52

CREDIT RATINGS

	Short-term	Long-term
DBRS	R-1 (high)	AAA
Fitch	F1+	AAA
Moody's	Prime-1 (Aaa)	Aaa
S&P	A-1 + A-1 (HIGH)	AAA

Significant Accounting Principles

La Caisse's consolidated financial statements include the accounts of the General Fund, of the individual funds, and of the specialized portfolios as well as the accounts of its subsidiaries that exclusively offer services related to financing, administrative and management activities. Net assets attributable to depositors presented in the Consolidated Statement of Financial Position reflect the combined net value of the accounts of each of the depositors of la Caisse. Note 2 to the Audited Consolidated Financial Statements as at December 31, 2018 describes the significant accounting policies used by la Caisse.

FINANCIAL REPORTING

The consolidated financial statements of la Caisse are presented in accordance with the prevailing accounting standards, namely International Financial Reporting Standards (IFRS), as stipulated in the Act respecting the Caisse de dépôt et placement du Québec.

EXTERNAL AUDIT

In accordance with the Act respecting the Caisse, the co-auditors audited all of la Caisse's accounting records and issued an unqualified auditors' report for each of the 69 financial statements.

Significant IFRS accounting standards applicable to the consolidated financial statements of la Caisse

<u>Investment entities</u>

Under IFRS 10, Consolidated Financial Statements, the subsidiaries that constitute an investment for an investment entity must be presented and measured at fair value. Accordingly, la Caisse, qualified as an investment entity, does not consolidate its subsidiaries, particularly its real estate, real estate debt, private equity, infrastructure and fixed income subsidiaries. Valuation of these investments is based on a corporate valuation technique in accordance with IFRS.

<u>Fair value measurement</u>

IFRS 13, Fair Value Measurement, provides a single source of guidelines for all fair value measurements. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The main techniques for measuring investments, including measuring la Caisse's non-consolidated subsidiaries, are described in Note 7 to the Consolidated Financial Statements on page 149.

Financial measures

As part of issuing certain information included in the Annual Report, la Caisse uses and presents both measures in accordance with IFRS and other financial measures inconsistent with IFRS. La Caisse is of the opinion that these measures provide relevant information, complementary to the analysis of its financial reporting (see General Notes 3 and 6 on p. 185).

Adoption of new IFRS

As of January 1, 2018, la Caisse has applied IFRS 9, Financial Instruments, which covers the classification and measurement of financial assets and liabilities and the impairment of financial assets and hedge accounting.

The impact is limited to a new classification of financial instruments, to additional disclosure and to a change in the accounting methodology for interest income and expenses. Financial instruments continue to be measured at fair value through profit or loss.

New IFRS standards as of January 1, 2019

IFRS 16 – Leases, establishes a single lease accounting model for lessees. Under this model, lessees recognize most leases on the Consolidated Statement of Financial Position.

In 2018, la Caisse analyzed the impact of adopting IFRS 16. Adopting the standard will increase assets and liabilities by around $310 million on the date the standard enters into force. La Caisse will adjust the disclosures made in financial statements and the related control processes, as required.

Fair Value Measurement

FAIR VALUE MEASUREMENT POLICY

Investment valuation is a process whereby a fair value is assigned to each of la Caisse's investments with a view to preparing the consolidated financial statements. Measurement of investments at fair value is performed periodically in accordance with la Caisse's Investment Valuation Policy, which is approved by the Board of Directors. This comprehensive policy is further supported by the valuation directive and protocols that indicate the valuation methodology to be applied for each type of investment. The policy and directive also establish governance for the valuation and reporting process. Application of the policy is the responsibility of the Valuation Committee, which reports to the Executive Committee and is supported by a valuation team. The Valuation Committee approves compliance with the policy and the fair value of la Caisse's investments semi-annually. Accordingly, the Valuation Committee recommends these fair values to the Audit Committee. The policy complies with the standards and practices of Canadian and international valuation bodies and demonstrates a rigorous governance framework for financial instrument valuation processes.

Under the policy, when fair value is determined by external valuators or third parties, the Valuation Committee, with the support of the Valuation team, verifies the qualifications, experience and independence of these parties. It also reviews the valuation techniques, the significant inputs used in calculating fair value, and the results and conclusions to ensure that they are in compliance with recognized valuation standards.

In addition, to ensure the reasonableness of the fair value determined, la Caisse performs back-testing, compares the established fair value with values of comparable transactions and uses external valuators.

Co-auditors have access to all valuation files as part of the audit of the year-end consolidated financial statements.

CONCEPTUAL FRAMEWORK

IFRS define fair value and provide guidelines on measurement and disclosures related to fair value. Entities are required to maximize the use of relevant observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value must be established by assuming that the investments are available for sale, that is, that the fair value of investments corresponds to an exit price at the date of the financial statements. The purpose of the accounting standards is to define a single conceptual framework that can be used in all situations requiring fair value measurement.

La Caisse considers that IFRS constitute a coherent framework for fair value measurement. Nevertheless, these restrictive standards do not take into account the fact that, in accordance with the very long-term investment horizon adopted by its main depositors, la Caisse has the means and intends to hold certain investments until their optimal value is attained.

As such, the fair value established as at December 31, 2018 for investments in liquid and less-liquid markets reflects the general volatility of the financial markets, and this may differ from the economic value of long-term investments.

Note 7 to the Consolidated Financial Statements, on page 149, describes the fair value measurement techniques.

Consolidated Financial Statements

Management's Responsibility for Consolidated Financial Reporting

The preparation and presentation of the consolidated financial statements of la Caisse de dépôt et placement du Québec ("la Caisse") are the responsibility of management. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and incorporated into the CPA Canada Handbook. We ensure that the financial information in the Annual Report is consistent with the information in the consolidated financial statements.

The consolidated financial statements include amounts that are based on management's best estimates and judgment, with due regard for their relative importance. Moreover, when preparing the financial information, management has made decisions regarding the information to be presented as well as estimates and assumptions that affect the information presented. Future results may differ considerably from our current estimates, as changes to financial markets or other events could have an impact on the fair value of the investments.

In our responsibility for the reliability of financial information, we rely on disclosure controls and procedures and internal controls over financial reporting. In particular, these controls include a clear definition of responsibilities, delegation of powers, allocation of duties, ethical standards, employee hiring and training criteria as well as policies, guidelines and procedures designed to ensure that transactions are duly authorized, assets are properly measured and safeguarded, and proper records are maintained.

Moreover, la Caisse's internal audit group audits the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the consolidated financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which la Caisse is subject, including the *Act respecting the Caisse de dépôt et placement du Québec*.

Each year, we certify that the design of the internal control over financial information is sufficient and that the design and operation of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of la Caisse, as necessary.

The Auditor General of Québec and Ernst & Young LLP (the "co-auditors") have audited the consolidated financial statements of la Caisse as at December 31, 2018 and 2017 and for the years then ended and their report covers the nature and scope of the audit and expresses their opinion. The co-auditors have unrestricted access to the Audit Committee to discuss any matter related to their audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks, and evaluation of major transactions. Moreover, it approves the consolidated financial statements and the Annual Report.

The Board of Directors approved the consolidated financial statements as at December 31, 2018 and 2017 and for the years then ended. It is assisted in its responsibilities by the Audit Committee, of which all members are independent directors. This Committee meets with management and the co-auditors, examines the consolidated financial statements, and recommends the approval thereof to the Board of Directors.

MICHAEL SABIA

President and Chief Executive Officer

Montréal, February 19, 2019

MAARIKA PAUL, FCPA, FCA, CBV, ICD.D

Executive Vice-President and
Chief Financial and Operations Officer

Independent Auditors' Report

To the National Assembly

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of la Caisse de dépôt et placement du Québec and its subsidiaries (the "Group"), which comprise the Consolidated Statements of Financial Position as at December 31, 2018 and 2017 and the Consolidated Statements of Comprehensive Income, the Consolidated Statements of Changes in Net Assets Attributable to Depositors and the Consolidated Statements of Cash Flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017 and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of this auditors' report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's 2018 Annual Report:

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. Future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Group. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements
As required by the *Auditor General Act* (CQLR, chapter V-5.01), we report that, in our opinion, these accounting standards have been applied for the current fiscal year on a basis consistent with that of the preceding year, except for the accounting policy changes related to financial instruments explained in Note 2.

Auditor General of Québec,

Guylaine Leclerc FCPA auditor, FCA

Guylaine Leclerc, FCPA auditor, FCA

Canada, Montréal, February 19, 2019

Ernst & Young LLP

Ernst & Young LLP [1]

[1] CPA auditor, CA, public accountancy permit no. A112431

Canada, Montréal, February 19, 2019

Consolidated Statements of Financial Position

(in millions of Canadian dollars)	**December 31, 2018**	December 31, 2017
ASSETS		
Cash	**675**	947
Amounts receivable from transactions being settled	**4,587**	2,447
Advances to depositors	**903**	1,056
Investment income, accrued and receivable	**1,352**	1,395
Other assets	**482**	255
Investments *(Note 4)*	**342,004**	331,050
Total assets	**350,003**	337,150
LIABILITIES		
Amounts payable on transactions being settled	**1,113**	2,102
Other financial liabilities	**1,172**	691
Investment liabilities *(Note 4)*	**38,207**	35,845
Total liabilities excluding net assets attributable to depositors	**40,492**	38,638
Net assets attributable to depositors	**309,511**	298,512

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors,

MICHAEL SABIA

FRANÇOIS JOLY

Consolidated Statements of Comprehensive Income

For the years ended December 31

(in millions of Canadian dollars)	**2018**	2017
Investment income *(Note 9)*	**10,222**	9,576
Investment expense *(Note 9)*	**(886)**	(650)
Net investment income *(Note 9)*	**9,336**	8,926
Operating expenses *(Note 11)*	**(585)**	(536)
Net income	**8,751**	8,390
Net gains on financial instruments at fair value *(Note 10)*	**3,039**	16,206
Investment result before distributions to depositors *(Note 10)*	**11,790**	24,596
Distributions to depositors	**(12,222)**	(9,844)
Net income and comprehensive income attributable to depositors	**(432)**	14,752

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Net Assets Attributable to Depositors

For the years ended December 31

(in millions of Canadian dollars)	Demand deposits	Term deposits	Distributions payable to depositors	Participation deposits	Net assets attributable to depositors
Balance as at December 31, 2016	728	6	1,373	268,639	270,746
Attributions and distributions					
Net income and comprehensive income attributable to depositors	–	–	–	14,752	14,752
Distributions to depositors	9,242	–	602	–	9,844
Participation deposits					
Issuance of participation deposit units	(19,484)	–	–	19,484	–
Cancellation of participation deposit units	6,432	–	–	(6,432)	–
Net deposits					
Net contributions	3,170	–	–	–	3,170
BALANCE AS AT DECEMBER 31, 2017	88	6	1,975	296,443	298,512
Attributions and distributions					
Net income and comprehensive income attributable to depositors	**–**	**–**	**–**	**(432)**	**(432)**
Distributions to depositors	**11,691**	**–**	**531**	**–**	**12,222**
Participation deposits					
Issuance of participation deposit units	**(14,566)**	**–**	**–**	**14,566**	**–**
Cancellation of participation deposit units	**4,290**	**–**	**–**	**(4,290)**	**–**
Net deposits					
Net withdrawals	**(791)**	**–**	**–**	**–**	**(791)**
BALANCE AS AT DECEMBER 31, 2018	**712**	**6**	**2,506**	**306,287**	**309,511**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)	**2018**	2017
Cash flows from operating activities		
Net income and comprehensive income attributable to depositors	**(432)**	14,752
Adjustments for:		
Unrealized net (gains) losses on commercial paper, term notes and loans payable	**591**	(483)
Distributions to depositors	**12,222**	9,844
Net changes in operating assets and liabilities		
Amounts receivable from transactions being settled	**(2,140)**	1,451
Advances to depositors	**153**	12
Investment income, accrued and receivable	**43**	(222)
Other assets	**(227)**	(61)
Investments	**(10,594)**	(23,415)
Amounts payable on transactions being settled	**(989)**	415
Other financial liabilities	**481**	155
Investment liabilities	**671**	(6,587)
	(221)	(4,139)
Cash flows from financing activities		
Net change in commercial paper payable	**2,386**	270
Issuance of commercial paper payable	**5,443**	7,663
Repayment of commercial paper payable	**(6,649)**	(8,084)
Net change in loans payable	**(80)**	176
Net contributions (net withdrawals)	**(791)**	3,170
	309	3,195
Net increase (decrease) in cash and cash equivalents	**88**	(944)
Cash and cash equivalents at the beginning of the year	**947**	1,891
Cash and cash equivalents at the end of the year	**1,035**	947
Cash and cash equivalents comprise:		
Cash	**675**	947
Securities purchased under reverse repurchase agreements	**360**	–
	1,035	947
Supplemental information on cash flows from operating activities		
Interest and dividends received	**10,115**	9,787
Interest paid	**(800)**	(539)

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

(Tabular amounts are presented in millions of Canadian dollars, unless otherwise indicated.)

01
CONSTITUTION AND NATURE OF OPERATIONS

La Caisse de dépôt et placement du Québec ("la Caisse"), a legal person established in the public interest within the meaning of the *Civil Code of Québec,* is governed by the *Act respecting the Caisse de dépôt et placement du Québec* (CQLR, chapter C-2) (the "Act").

La Caisse is domiciled in Québec, Canada. Its head office is located at 65 Sainte-Anne, Québec City, Canada and its main office is located at 1000 Place Jean-Paul-Riopelle, Montréal, Canada.

La Caisse's mission is to receive moneys on deposit as provided by the Act and to manage them with a view to achieving an optimal return on depositors' capital within the framework of the depositor investment policies while also contributing to Québec's economic development.

CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared for the purposes of presenting la Caisse's financial position, financial performance and cash flows. La Caisse's consolidated financial statements include the accounts of the General Fund, of the individual funds, and of the specialized portfolios as well as the accounts of its subsidiaries that exclusively offer services related to financing, administrative and management activities. In preparing the consolidated financial statements, all intercompany transactions and balances have been eliminated.

The investing activities of the depositors in la Caisse's various specialized portfolios are concluded through the participation deposit units of individual funds.

GENERAL FUND

The General Fund comprises cash and cash equivalent activities that include the management of demand deposits, term deposits, and the financing activities of la Caisse.

INDIVIDUAL FUNDS

The individual funds consist mainly of diversified investments in specialized portfolios. Each individual fund is dedicated to a single depositor who invests in the participation deposits of individual funds.

The individual funds of depositors are as follows:

Fund 300: Québec Pension Plan Fund, administered by Retraite Québec

Fund 301: Government and Public Employees Retirement Plan, administered by Retraite Québec

Fund 302: Pension Plan of Management Personnel, administered by Retraite Québec

Fund 303: Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (formerly Special Plans), administered by Retraite Québec

Fund 305: Pension Plan of Elected Municipal Officers (PPEMO), administered by Retraite Québec

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Volet à prestations déterminées, administered by the Comité de retraite

Fund 307: Fonds d'assurance automobile du Québec, administered by the Société de l'assurance automobile du Québec

Fund 310: Régime de retraite des chauffeurs d'autobus de la Société de transport de Laval, administered by the Comité de retraite (created January 1, 2017)

Fund 311: Supplemental Pension Plan for Employees of the Québec Construction Industry – General Account, administered by the Commission de la construction du Québec

Fund 312: Supplemental Pension Plan for Employees of the Québec Construction Industry – Retirees Account, administered by the Commission de la construction du Québec

Fund 313: Supplemental Pension Plan for Employees of the Québec Construction Industry – Supplementary Account, administered by the Commission de la construction du Québec

Fund 314: Deposit Insurance Fund, administered by the Autorité des marchés financiers

CONSTITUTION AND NATURE OF OPERATIONS (continued)

Fund 315: Dedicated account, administered by La Financière agricole du Québec

Fund 316: Retirement Plans Sinking Fund – RREGOP (RPSF-RREGOP), administered by the ministère des Finances, Government of Québec

Fund 317: Retirement Plans Sinking Fund – PPMP (RPSF-PPMP), administered by the ministère des Finances, Government of Québec

Fund 318: Retirement Plans Sinking Fund – Others (RPSF-Others), administered by the ministère des Finances, Government of Québec

Fund 326: Crop Insurance Fund, administered by La Financière agricole du Québec

Fund 328: Survivor's Pension Plan, administered by the Secrétariat du Conseil du trésor

Fund 329: Fonds d'assurance-garantie, administered by la Régie des marchés agricoles et alimentaires du Québec

Fund 330: Fonds de la santé et de la sécurité du travail, administered by the Commission des normes, de l'équité, de la santé et de la sécurité du travail

Fund 331: Régime de retraite des employés du Réseau de Transport de la Capitale, administered by the Comité de retraite (created January 1, 2017)

Fund 332: Fonds des cautionnements des agents de voyages – cautionnements individuels, administered by the Office de la protection du consommateur

Fund 333: Compensation Fund for Customers of Travel Agents, administered by the Office de la protection du consommateur

Fund 335: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2020, administered by the Comité de retraite

Fund 336: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2030, administered by the Comité de retraite

Fund 337: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2040, administered by the Comité de retraite

Fund 338: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2050, administered by the Comité de retraite

Fund 339: Fonds d'indemnisation des services financiers, administered by the Autorité des marchés financiers

Fund 340: Régimes de retraite de la Ville de Terrebonne, administered by the Comité de retraite conjoint des Régimes de retraite de la Ville de Terrebonne

Fund 342: Régime de retraite de l'Université du Québec, administered by the Comité de retraite du Régime de retraite de l'Université du Québec

Fund 343: Parental Insurance Fund administered by the Conseil de gestion de l'assurance parentale (inactive since June 1, 2017)

Fund 344: Réserve administered by La Financière agricole du Québec

Fund 347: Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec, administered by the Investment Committee

Fund 351: Generations Fund, administered by the ministère des Finances, Government of Québec

Fund 353: Superannuation Plan for the Members of the Sûreté du Québec – Participants' Fund (SPMSQ-part.), administered by Retraite Québec

Fund 354: Superannuation Plan for the Members of the Sûreté du Québec – Employers' Fund (SPMSQ-empl.), administered by the ministère des Finances, Government of Québec

Fund 361: Pension Plan of the non-teaching Staff of the Commission des écoles catholiques de Montréal, administered by the Secrétariat du Conseil du trésor

Fund 362: Régime de retraite pour certains employés de la Commission scolaire de la Capitale, administered by the Secrétariat du Conseil du trésor

Fund 363: Régime de retraite des employés de la Ville de Laval, administered by the Comité de retraite

Fund 367: Territorial Information Fund, administered by the ministère des Finances, Government of Québec

Fund 368: Education and Good Governance Fund – Capitalized Fund (EGGF-CF), administered by the Autorité des marchés financiers

Fund 369: Accumulated Sick Leave Fund, administered by the ministère des Finances, Government of Québec

CONSTITUTION AND NATURE OF OPERATIONS (continued)

Fund 371: Accumulated Sick Leave Fund – ARQ, administered by the Agence du revenu du Québec

Fund 372: Fonds commun de placement des régimes de retraite de l'Université Laval, administered by the Comités de retraite

Fund 373: Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges, administered by Retraite Québec

Fund 374: Fiducie globale Ville de Magog, administered by the Comité de retraite mixte

Fund 376: Régime de retraite des employées et employés de la Ville de Sherbrooke, administered by the Comité de retraite des employées et employés de la Ville de Sherbrooke

Fund 378: Pension Plan of Peace Officers in Correctional Services – Employees' Contribution Fund administered by Retraite Québec

Fund 383: Régime complémentaire de retraite des employés réguliers de la Société de transport de Sherbrooke, administered by the Comité de retraite

Fund 384: Régime de retraite des cadres de la Ville de Québec, administered by the Bureau de la retraite

Fund 385: Régime de retraite des employés manuels de la Ville de Québec, administered by the Bureau de la retraite

Fund 386: Régime de retraite des fonctionnaires de la Ville de Québec, administered by the Bureau de la retraite

Fund 387: Régime de retraite du personnel professionnel de la Ville de Québec, administered by the Bureau de la retraite

Fund 388: Régime de retraite des policiers et policières de la Ville de Québec, administered by the Bureau de la retraite

Fund 389: Régime de retraite des pompiers de la Ville de Québec, administered by the Bureau de la retraite

Fund 393: Régime de retraite de la Corporation de l'École Polytechnique, administered by the Comité de retraite

Fund 395: Retirement Plan for the Mayors and Councillors of Municipalities, administered by Retraite Québec

SPECIALIZED PORTFOLIOS

The specialized portfolios consist of common funds in which the individual funds may invest in the form of participation deposits. La Caisse's specialized portfolios are as follows:

- Short Term Investments (740)
- Rates (765)
- Credit (766)
- Long Term Bonds (764)
- Real Return Bonds (762)
- Infrastructure (782)
- Real Estate (710)
- Equity Markets (737)
- Private Equity (780)
- Asset Allocation (771)
- Active Overlay Strategies (773)

02
SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The accounting policies described below have been applied consistently to all reporting periods presented, with the exception of matters pertaining to the adoption of IFRS 9.

ADOPTION OF NEW IFRS

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments,* which replaced IAS 39 – *Financial Instruments: Recognition and Measurement.* The new standard addresses the classification and measurement of financial assets and financial liabilities as well as the impairment of financial assets and hedge accounting. As of January 1, 2018, the date of initial application, la Caisse has applied IFRS 9 retrospectively without restating comparative information for the financial instruments recognized, as permitted by the standard.

Under IAS 39, all of la Caisse's financial instruments had been designated at fair value through profit or loss (FVTPL) and measured at fair value, except for derivative financial instruments and securities sold short, which had to be classified as held for trading and measured at fair value.

The adoption of IFRS 9 has the following impacts:

- The financial assets and liabilities of la Caisse are managed and their performance is evaluated on a fair value basis. Consequently, as of the IFRS 9 adoption date, all of la Caisse's financial assets must be classified at FVTPL and measured at fair value. The financial liabilities of la Caisse will continue to be designated at FVTPL and measured at fair value, while derivative financial instruments and securities sold short must continue to be classified at FVTPL and measured at fair value. The FVTPL measurement of la Caisse's financial assets and financial liabilities have therefore not changed following the adoption of IFRS 9.
- When the change in the fair value of financial liabilities designated at FVTPL is attributable to a change in la Caisse's own credit risk, it is presented separately in the Consolidated Statements of Comprehensive Income unless doing so creates or enlarges an accounting mismatch, when appropriate.
- Under IAS 39, interest income and interest expense had been recognized using the effective interest method, which included amortization of the premium or discount. Following the adoption of IFRS 9, interest income and interest expense are recognized using the prescribed coupon rate method, which excludes amortization of the premium or discount. This change in method had no impact on the opening balances in the consolidated financial statements.

The adoption of IFRS 9 did not have any other impacts.

PRESENTATION AND MEASUREMENT BASIS

La Caisse measures all of its financial instruments, including investments in unconsolidated subsidiaries, joint ventures, associates and structured entities at FVTPL. Subsidiaries that solely provide services related to financing, administrative and management activities are consolidated in accordance with the guidance set out in IFRS 10 – *Consolidated Financial Statements*.

The Consolidated Statements of Financial Position are presented based on liquidity.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors approved la Caisse's consolidated financial statements and the publication thereof on February 19, 2019.

FUNCTIONAL AND PRESENTATION CURRENCY

La Caisse's consolidated financial statements are presented in Canadian dollars, which is the functional currency.

SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCY TRANSLATION

Financial assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the reporting date. Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date.

Translation differences on investments and investment liabilities at fair value and on other monetary financial assets and liabilities are presented under "Net gains on financial instruments at fair value" in the Consolidated Statements of Comprehensive Income.

USE OF JUDGMENTS AND ESTIMATES

In preparing la Caisse's consolidated financial statements in accordance with IFRS, management must make judgments, estimates and assumptions that affect the application of the significant accounting policies described below and the amounts reported in the Consolidated Statements of Financial Position and the Consolidated Statements of Comprehensive Income.

JUDGMENT

Qualification as an investment entity
Judgment is required when qualifying la Caisse as an investment entity. La Caisse meets the three mandatory criteria of the IFRS 10 definition: 1) Obtain funds from one or more depositors; 2) Commit to its depositors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and 3) Measure and evaluate the performance of its investments on a fair value basis.

IFRS 10 also suggests four typical characteristics be considered in assessing whether an entity qualifies as an investment entity: 1) Have more than one investment; 2) Have more than one depositor; 3) Have investors that are not related parties; and 4) Have ownership interests in the form of equity or similar interests. La Caisse does not satisfy the third typical characteristic of an investment entity because la Caisse and the depositors are related. However, la Caisse nonetheless qualifies as an investment entity, as management believes that having depositors related to the investment entity does not compromise la Caisse's mission of investing for returns from capital appreciation, investment income, or both, for its depositors.

Fair value hierarchy of financial instruments
Management must use judgment in determining the significance of each input used when establishing the classification into the fair value hierarchy, as explained in Note 7.

Interests in entities
Management must use judgment in determining whether la Caisse has control, joint control or significant influence over certain entities, as explained in Note 17, and over the holding of interests in structured entities. Judgment on the relationship between la Caisse and any entity in which la Caisse holds an interest is exercised upon initial investment and must be reassessed when facts and circumstances indicate that there are one or more changes to the elements of control.

La Caisse holds interests in a structured entity when voting or similar rights are not the dominant factor in deciding who controls the entity.

La Caisse controls a subsidiary, including a structured entity, only if the IFRS 10 criteria are met: 1) It has decision-making authority regarding the entity's relevant activities; 2) It has exposure or rights to variable returns from its involvement with the entity; and 3) It has the ability to use its power to affect the amount of the returns. When management determines decision-making authority, several factors are taken into account, including the existence and effect of actual and potential voting rights held by la Caisse that are exercisable, the holding of instruments that are convertible into voting shares, the existence of contractual agreements through which the relevant activities of the entity can be directed, as well as other circumstances that affect decision-making.

La Caisse has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the entity. It is deemed to have significant influence when it holds 20% or more of the voting rights of an entity but does not have control or joint control. La Caisse has joint control over a joint venture when there is a contractual or implicit arrangement whereby decisions about relevant activities require the unanimous consent of the parties sharing control and when these parties have rights to the net assets of the arrangement.

ESTIMATES AND ASSUMPTIONS

The main estimates and assumptions, which are presented in Note 7, involve the fair value measurement of investments and investment liabilities classified in Level 3 of the fair value hierarchy. Actual values may differ from the estimated values.

SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS

La Caisse's financial instruments include cash, amounts receivable from transactions being settled, advances to depositors, accrued and receivable investment income, investments, amounts payable on transactions being settled, other financial liabilities, investment liabilities and net assets attributable to depositors.

CLASSIFICATION AND MEASUREMENT

Financial instruments are categorized based on their nature and characteristics. Classification is determined upon initial recognition, which is the date on which la Caisse is subject to the contractual provisions of the instrument. La Caisse's financial assets and liabilities are managed and their performance is evaluated on a fair value basis. Consequently, all of la Caisse's financial assets must be classified at FVTPL while its financial liabilities are designated at FVTPL. Derivative financial instruments and securities sold short must be classified at FVTPL.

Corporate debt commitments are classified at FVTPL when one of the following criteria is met: 1) The commitments are designated as financial liabilities at FVTPL or la Caisse has a practice of selling the loans resulting from its commitments; or 2) The corporate debt commitments can be settled net in cash.

Financial instruments are initially and subsequently recognized at fair value. All changes in the fair value of financial instruments are presented under "Net gains on financial instruments at fair value" in the Consolidated Statements of Comprehensive Income. When the change in the fair value of financial liabilities designated at FVTPL is attributable to changes in la Caisse's own credit risk, it is presented separately in the Consolidated Statements of Comprehensive Income unless doing so creates or enlarges an accounting mismatch, when appropriate. Income and expenses are presented under "Net investment income" in the Consolidated Statements of Comprehensive Income.

FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined for each financial instrument, which could be a stand-alone asset or liability (e.g., a share or bond) or a group of assets and liabilities (e.g., an ownership interest in a subsidiary or associate). Upon initial recognition, the best evidence of the fair value of a financial instrument is the transaction price, which is the fair value of the consideration received or given. Subsequently, the fair value of a financial instrument is determined using the fair value hierarchy described in Note 7.

La Caisse applies appropriate valuation techniques based on a financial instrument's characteristics, the availability of inputs, and the assumptions that would be used by market participants, focusing on maximizing the use of relevant observable inputs while minimizing the use of unobservable inputs. The valuation techniques are applied consistently. Fair value information is provided in Note 7.

Cash
Cash is the cash deposited with recognized financial institutions and bears interest at market rates.

Investments
Investments include cash equivalents, fixed-income securities, variable-income securities, interests in unconsolidated subsidiaries and derivative financial instruments.

Cash equivalents include securities purchased under reverse repurchase agreements. These securities meet the definition of cash equivalents because they are used for cash management purposes, are readily convertible into a known amount of cash, have negligible risk of fair value changes and have initial maturities of three months or less. These financial instruments bear interest at market rates.

Fixed-income securities include short-term investments, securities purchased under reverse repurchase agreements, corporate debt and bonds. Purchases and sales of fixed-income securities are recorded at the transaction date, except for purchases and sales of corporate debt, which are recorded at the settlement date.

Variable-income securities comprise equities and convertible securities of public companies, private companies (including investment funds, private investment funds and infrastructure funds), and hedge funds. Purchases and sales of equities, convertible securities and hedge funds are recorded at the transaction date, whereas purchases and sales of private investment funds and infrastructure funds are recorded at the settlement date.

Interests in unconsolidated subsidiaries represent la Caisse's investment in controlled entities that are not consolidated under IFRS 10. La Caisse's investment in these entities may be in the form of equity instruments or debt instruments.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment liabilities
Investment liabilities include securities sold under repurchase agreements, securities sold short, commercial paper payable, loans payable, term notes payable and derivative financial instruments.

Securities sold short are commitments made by la Caisse to purchase securities from third parties to cover its positions. La Caisse may short-sell equities and bonds.

Derivative financial instruments
In managing its investments, la Caisse conducts transactions involving various derivative financial instruments for discretionary purposes or to manage the risks associated with exchange rate, interest rate and market fluctuations. Derivative financial instruments whose fair value is favourable are presented under "Investments" in the Consolidated Statements of Financial Position, while those whose fair value is unfavourable are presented under "Investment liabilities" in the Consolidated Statements of Financial Position.

Transactions being settled
Transactions with counterparties for the sale or purchase of securities that have not yet been settled at the reporting date are presented respectively under "Amounts receivable from transactions being settled" and "Amounts payable on transactions being settled" in the Consolidated Statements of Financial Position.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

La Caisse derecognizes financial assets when all of the contractual rights to the assets have expired or when the contractual rights to receive the cash flows from the financial assets have been transferred and when la Caisse has transferred substantially all of the risks and rewards of the financial asset such that it no longer retains control over the asset. If la Caisse considers that it retains substantially all of the risks and rewards of a transferred financial asset, that asset is not derecognized from the Consolidated Statements of Financial Position and, if appropriate, a corresponding financial liability is recorded. Financial assets that have been transferred but not derecognized are presented in Note 14. Financial liabilities are derecognized when the related obligation is discharged, cancelled or expired.

Securities purchased under reverse repurchase agreements and sold under repurchase agreements
La Caisse enters into transactions to purchase and sell securities, i.e., short-term investments and bonds, that it agrees to resell to or repurchase from the counterparty at a future date.

The purchased securities are not recognized in the Consolidated Statements of Financial Position because the counterparty retains the risks and rewards of the securities. The cash amounts disbursed are derecognized, and a corresponding asset is recorded in investments under "Securities purchased under reverse repurchase agreements".

The sold securities are not derecognized from the Consolidated Statements of Financial Position because la Caisse retains the risks and rewards of the securities. The cash amounts received are recognized, and a corresponding liability is recorded in investment liabilities under "Securities sold under repurchase agreements".

Lending and borrowing of securities
La Caisse conducts securities lending and borrowing transactions involving equities. These transactions are generally guaranteed by the securities received from the counterparties or pledged by la Caisse, respectively. Loaned securities are not derecognized from, and borrowed securities are not recognized in, the Consolidated Statements of Financial Position because la Caisse or the counterparty, respectively, retains the risks and rewards of the securities. Income and expenses resulting from securities lending and borrowing transactions are presented under "Investment income" and "Investment expense," respectively, in the Consolidated Statements of Comprehensive Income.

SIGNIFICANT ACCOUNTING POLICIES (continued)

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Net assets attributable to depositors consist of demand deposits, term deposits, distributions payable to depositors and participation deposits.

Demand deposits and term deposits
Demand deposits bear interest at a variable rate and are repayable on demand. Term deposits bear interest at a fixed or variable rate and are repayable at maturity. Demand deposits and term deposits represent la Caisse's indebtedness towards the depositors in accordance with the *Regulation respecting the terms and conditions of deposits, funds and portfolios of the Caisse de dépôt et placement du Québec* (Regulation).

Distributions payable to depositors
Under the Regulation, distributions payable to depositors represent the net income or net loss arising from the specialized portfolios as well as the net realized gains or losses upon cancellation of the participation units of specialized portfolios held by the individual funds that are recorded at the end of the month and are paid into the demand deposit accounts of depositors at the beginning of the following month. Distributions may also be made through the issuance of participation deposit units of individual funds.

Participation deposits
Participation deposits are expressed in participation units for each individual fund. Each participation unit gives the holder an interest in the fund's net assets. The per-unit value of the net assets is determined by dividing the individual fund's net assets by the number of outstanding units. Depositors can purchase or cancel participation deposit units at that value at the beginning of each month. The difference between the proceeds of cancellation and the carrying value at issuance is recovered in the depositor's demand deposit account. In addition, holders of participation deposit units are entitled to receive distributions. Participation deposit units are financial instruments defined as depositor's equity in the Regulation and are subordinate to all other categories of financial liabilities.

NET INCOME

DIVIDEND AND INTEREST INCOME AND EXPENSE

Dividend income is recognized when la Caisse obtains the right to the dividend, generally on the ex-dividend date. Distributions from funds are recognized as income on the settlement date. Dividend expense from equities sold short is recorded when the shareholders obtain the right to the dividend. Dividend income and expenses are presented under "Investment income" and "Investment expense" respectively in the Consolidated Statements of Comprehensive Income.

Interest income and expenses are recognized as amounts are earned or incurred using the prescribed coupon rate method. Interest income includes the difference between the purchase price and the resale price in the case of securities purchased under reverse repurchase agreements. Interest income and expenses are presented under "Investment income" and "Investment expense" respectively in the Consolidated Statements of Comprehensive Income.

EXTERNAL MANAGEMENT FEES

External management fees are amounts paid to external financial institutions, mainly institutional fund managers active in international stock markets, for the management of securities owned by la Caisse. The base fees and performance-related fees of external managers are presented under "Investment expense" and "Net gains on financial instruments at fair value" respectively in the Consolidated Statements of Comprehensive Income.

INCOME TAX

Under federal and provincial income tax legislation, la Caisse is exempt from income tax in Canada. Income from foreign affiliates is subject to withholding taxes in certain countries. Withholding taxes are presented under "Net investment income" in the Consolidated Statements of Comprehensive Income.

OPERATING EXPENSES

Operating expenses consist of all the expenses incurred to manage and administer la Caisse's investments and are presented separately in the Consolidated Statements of Comprehensive Income.

SIGNIFICANT ACCOUNTING POLICIES (continued)

NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE

Gains and losses realized on investments and investment liabilities represent the difference between settlement value and value at initial recognition and are calculated on a first-in, first-out basis. Gains and losses realized on derivative financial instruments represent payments and receipts. Unrealized gains and losses on financial instruments include net changes in fair value for the year as well as the reversal of prior-year unrealized gains and losses that were realized during the year. Realized and unrealized gains and losses are presented under "Net gains on financial instruments at fair value" in the Consolidated Statements of Comprehensive Income.

Transaction costs directly attributable to the acquisition, sale and issuance of a financial instrument are presented under "Net gains on financial instruments at fair value" in the Consolidated Statements of Comprehensive Income. Transaction costs include commissions, stock exchange fees as well as professional and legal fees related to investing and financing activities.

DISTRIBUTIONS TO DEPOSITORS

Under the Regulation, distributions to depositors consist of the annual net income or loss from the specialized portfolios as well as the net gains or losses realized on the cancellation of participation units of the specialized portfolios held by the individual funds. Distributions to depositors are recorded as finance costs and presented separately in the Consolidated Statements of Comprehensive Income.

03
NEW IFRS STANDARDS

ISSUED BUT NOT YET IN EFFECT

IFRS 16 – Leases: Effective Date – January 1, 2019
In January 2016, the IASB issued a new standard, IFRS 16 – *Leases,* which will replace the current standard and interpretations on lease accounting. IFRS 16 establishes a single lease accounting model for lessees. Under this model, lessees recognize most leases on their consolidated statements of financial position. This new standard is to be applied retrospectively as of its effective date. As a result of adopting this standard, assets and liabilities will increase by $310 million at the effective date.

No other newly issued or amended standard not yet in effect for the year is expected to have an impact on the consolidated financial statements.

04

INVESTMENTS AND INVESTMENT LIABILITIES

A) INVESTMENTS

The following table presents the fair values of the investments. The geographic allocation is determined according to the country of the issuer's principal place of business. The allocation of interests in unconsolidated subsidiaries is determined according to the country of the underlying investments, while the allocation of derivative financial instruments is determined according to the currency in which the instrument will be settled:

	December 31, 2018			December 31, 2017		
	Canada	**Foreign**	**Fair value[2]**	Canada	Foreign	Fair value[2]
Investments						
Cash equivalents						
Securities purchased under reverse repurchase agreements	**360**	**–**	**360**	–	–	–
Total cash equivalents	**360**	**–**	**360**	–	–	–
Fixed-income securities						
Short-term investments	**116**	**106**	**222**	118	158	276
Securities purchased under reverse repurchase agreements	**4,540**	**3,735**	**8,275**	4,583	5,705	10,288
Corporate debt[1]	**793**	**1,356**	**2,149**	1,129	1,457	2,586
Bonds						
Governments	**33,840**	**9,299**	**43,139**	49,490	6,058	55,548
Government corporations and other public administrations	**5,940**	**393**	**6,333**	5,996	440	6,436
Corporate sector[1]	**9,944**	**9,042**	**18,986**	11,786	5,384	17,170
Bond funds	**–**	**1,552**	**1,552**	–	1,551	1,551
Total fixed-income securities	**55,173**	**25,483**	**80,656**	73,102	20,753	93,855
Variable-income securities						
Equities and convertible securities						
Public companies	**26,042**	**80,230**	**106,272**	32,020	83,434	115,454
Private companies	**3,600**	**13,498**	**17,098**	3,332	11,863	15,195
Hedge funds	**–**	**2,247**	**2,247**	–	2,322	2,322
Total variable-income securities	**29,642**	**95,975**	**125,617**	35,352	97,619	132,971
Interests in unconsolidated subsidiaries						
Investments in real estate holdings	**18,343**	**32,228**	**50,571**	17,518	26,210	43,728
Investments in real estate debt	**13,395**	**–**	**13,395**	11,991	–	11,991
Private equity investments	**2,989**	**23,286**	**26,275**	3,951	15,794	19,745
Infrastructure investments	**2,991**	**16,586**	**19,577**	1,138	10,301	11,439
Investments in fixed-income securities	**4,019**	**11,924**	**15,943**	3,405	6,696	10,101
Investments in hedge funds	**108**	**5,501**	**5,609**	109	3,889	3,998
Stock market investments	**1,041**	**1,753**	**2,794**	937	1,582	2,519
Total interests in unconsolidated subsidiaries	**42,886**	**91,278**	**134,164**	39,049	64,472	103,521
Derivative financial instruments *(Note 6)*	**28**	**1,179**	**1,207**	3	700	703
Total investments	**128,089**	**213,915**	**342,004**	147,506	183,544	331,050

1. An amount of $1,410 million was reclassified from corporate sector bonds to corporate debt as at December 31, 2017.
2. The total acquisition cost of the investments amounts to $289,453 million as at December 31, 2018 ($275,870 million as at December 31, 2017).

EQUITIES IN GROWTH MARKETS

La Caisse has Qualified Foreign Institutional Investor status and obtained an investment quota to access the Chinese capital markets. Although la Caisse has a long-term investment strategy, it must meet the conditions set by the regulatory authorities in the event of a repatriation of invested capital. As at December 31, 2018, the fair value of securities invested in China amounted to $1,629 million ($2,466 million as at December 31, 2017).

B) INVESTMENT LIABILITIES

The following table presents the fair values of investment liabilities. The geographic allocation of non-derivative financial liabilities is determined using the country of the issuer's principal place of business, while the allocation of derivative financial instruments is determined according to the currency in which the instrument will be settled:

		December 31, 2018			December 31, 2017	
	Canada	**Foreign**	**Fair value[1]**	Canada	Foreign	Fair value[1]
Investment liabilities						
Non-derivative financial liabilities						
Securities sold under repurchase agreements	**9,856**	**2,683**	**12,539**	12,430	3,542	15,972
Securities sold short						
Equities	**91**	**433**	**524**	384	224	608
Bonds	**3,976**	**3,302**	**7,278**	291	4,197	4,488
Commercial paper payable	**5,921**	**–**	**5,921**	4,556	–	4,556
Loans payable	**128**	**162**	**290**	129	235	364
Term notes payable	**9,598**	**–**	**9,598**	9,198	–	9,198
Total non-derivative financial liabilities	**29,570**	**6,580**	**36,150**	26,988	8,198	35,186
Derivative financial instruments *(Note 6)*	**35**	**2,022**	**2,057**	36	623	659
Total investment liabilities	**29,605**	**8,602**	**38,207**	27,024	8,821	35,845

1. The total acquisition cost of the investment liabilities amounts to $33,493 million as at December 31, 2018 ($33,443 million as at December 31, 2017).

05
ALLOCATION OF NET ASSETS ATTRIBUTABLE TO DEPOSITORS

The following table presents the allocation of net assets attributable to depositors according to la Caisse's total specialized portfolios offering:

	December 31, 2018	December 31, 2017
Fixed income		
Short Term Investments	**867**	1,892
Rates	**32,985**	40,065
Credit	**56,378**	50,645
Long Term Bonds	**2,863**	2,935
Real Return Bonds	**1,192**	1,187
	94,285	96,724
Real assets		
Infrastructure	**22,741**	16,177
Real Estate	**38,225**	34,260
	60,966	50,437
Equities		
Equity Markets	**108,301**	112,179
Private Equity	**42,927**	37,332
	151,228	149,511
Other		
Asset Allocation	**1,611**	1,356
Active Overlay Strategies	**586**	563
	2,197	1,919
Customized strategies of individual funds[1] and cash activities	**835**	(79)
Net assets attributable to depositors	**309,511**	298,512

1. The customized strategies consist of direct holdings of derivative financial instruments by the individual funds for the customized management of the desired exposure by each depositor.

06
DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates according to an underlying item, which require very little or no initial investment and are settled at a future date. The underlying item may be of a financial nature (interest rate, foreign currency or stock market security or index) or may be a commodity (precious metal, produce or oil). Certain derivative financial instruments are settled through clearing houses. La Caisse uses, among others, the derivative financial instruments described below.

Forward contracts are commitments that enable the purchase or sale of an underlying item, the quantity and price of which are determined in the contract, which includes a predetermined maturity date. Forward contracts have customized terms and conditions negotiated directly between the parties on the over-the-counter market. Futures contracts have terms and conditions determined by an exchange market.

Options are contracts traded on over-the-counter or exchange markets and that give the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity at a strike price stipulated in advance, either at a determined future date or at any time before a specified maturity date.

Swaps are derivatives traded on over-the-counter markets whereby two parties agree to exchange a series of cash flows according to predetermined conditions that include a notional amount, payment dates and a term to maturity.

Warrants are contracts traded on over-the-counter or exchange markets that enable the purchase of an underlying item, the price of which is determined in the contract, which includes a predetermined maturity date.

The notional amount is the amount to which a rate or price is applied to determine the amounts of cash flows to be exchanged periodically.

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the fair values and the notional amounts of the derivative financial instruments held by la Caisse:

	December 31, 2018			December 31, 2017		
	Fair value			Fair value		
	Assets	**Liabilities**	**Notional amount**	Assets	Liabilities	Notional amount
Exchange markets						
Interest rate derivatives						
Futures contracts	**–**	**–**	**120,930**	–	–	119,618
Equity derivatives						
Futures contracts	**–**	**–**	**24,394**	–	–	22,909
Options	**61**	**29**	**1,080**	58	11	6,079
Warrants	**1**	**–**	**15**	3	–	10
Commodity derivatives						
Futures contracts	**3**	**1**	**845**	1	1	1,034
Options	**–**	**–**	**–**	1	–	27
Total exchange markets	**65**	**30**	**147,264**	63	12	149,677
Over-the-counter markets						
Interest rate derivatives						
Swaps	**65**	**3**	**1,860**	95	–	1,606
Swaps settled through a clearing house	**–**	**–**	**115,320**	–	–	49,951
Forward contracts	**28**	**4**	**4,376**	–	6	1,497
Options	**152**	**5**	**2,807**	2	–	18,794
Currency derivatives						
Swaps	**–**	**107**	**1,695**	5	38	662
Forward contracts	**333**	**1,332**	**59,226**	288	329	41,189
Options	**164**	**72**	**18,361**	21	43	5,928
Credit default derivatives						
Swaps settled through a clearing house	**–**	**–**	**18,805**	–	–	11,642
Equity derivatives						
Swaps	**311**	**389**	**14,149**	197	213	15,420
Options	**89**	**115**	**7,630**	32	18	4,301
Warrants	**–**	**–**	**3**	–	–	9
Total over-the-counter markets	**1,142**	**2,027**	**244,232**	640	647	150,999
Total derivative financial instruments	**1,207**	**2,057**	**391,496**	703	659	300,676

07
FAIR VALUE MEASUREMENT

A) THE POLICIES, DIRECTIVES, PROTOCOLS AND PROCEDURES RELATED TO FAIR VALUE MEASUREMENT

La Caisse's valuation procedures are governed by the *Caisse Investment Valuation Policy*, which is approved by the Board of Directors. This general policy is further supported by the valuation directive applicable to private investments and the valuation protocols that stipulate the valuation process and methodology for each type of investment held by la Caisse. The general policy and the directive also establish the governance framework for the valuation and reporting process. Application of the policy is the responsibility of the Valuation Committee, which reports to the Executive Committee, supported by a valuation team. The Valuation Committee approves compliance with the policy and the fair values on a semi-annual basis. Subsequently, the Valuation Committee recommends the fair values to the Audit Committee. For valuations of private investments, consisting of private equity investments and infrastructure investments as well as specialized financing, the policy provides for an external review, over a period of three years, of substantially all the fair value of these investments. External reviews include valuations by independent valuators, observations of comparable transactions in the market, or valuations by a partner.

The policy also includes directives to be followed when using prices from external sources such as broker quotes and net asset values provided by external administrators of the funds or general partners.

When fair value is determined by external valuators or third parties, the Valuation Committee, supported by the valuation team, verifies the qualifications, experience and independence of these parties. It also reviews the valuation techniques, the significant inputs used in calculating fair value, and the results and conclusions to ensure that they are in compliance with recognized valuation standards.

In addition, to ensure the reasonableness of the fair value determined, la Caisse conducts backtesting, compares the established fair value with values of comparable transactions, including the values of comparable public companies, and uses the services of external valuators.

B) FAIR VALUE VALUATION TECHNIQUES

The following paragraphs describe the main valuation techniques used to measure la Caisse's financial instruments.

SHORT-TERM INVESTMENTS, SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS, SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, COMMERCIAL PAPER PAYABLE, LOANS PAYABLE AND TERM NOTES PAYABLE

The fair value of these financial assets and liabilities is determined using a discounted cash flow technique that primarily uses observable inputs such as the interest rate curves and credit spreads that make up the discount rates.

CORPORATE DEBT

The fair value of the corporate debt is determined using a discounted cash flow technique that primarily uses observable and unobservable inputs such as the interest rate curves and credit spreads that make up the discount rates. La Caisse may also use prices published by brokers in active markets for identical or similar instruments.

BONDS

The fair value of bonds, with the exception of bond funds, is determined using prices published in active markets for identical or similar instruments. The fair value of bonds that have no published prices is determined using either a discounted cash flow technique or broker quotes. Discounted cash flow valuations use observable and unobservable inputs such as the interest rate curves and credit spreads that make up the discount rates.

EQUITIES AND CONVERTIBLE SECURITIES

Public companies
The fair value of equities and convertible securities of public companies is determined based on closing prices observed on major stock exchanges, which represent the active market.

The fair value of an ownership interest in a subsidiary or associate whose securities are listed is determined using a business valuation technique based on observable and unobservable inputs.

FAIR VALUE MEASUREMENT (continued)

Private companies
The fair value of equities of private equity investment companies, with the exception of private investment funds, is primarily determined according to the market approach, which includes techniques based on comparable company multiples and comparable transaction multiples. La Caisse identifies comparable companies based on their industry, size, financial position and strategy and selects an appropriate multiple for each comparable company identified. This technique uses observable and unobservable inputs such as earnings before interest, taxes, depreciation and amortization (EBITDA) multiples and other multiples.

The fair value of equities of private infrastructure investment companies, with the exception of infrastructure investment funds, is primarily determined using a discounted cash flow technique and corroborated by the market approach. This technique uses observable and unobservable inputs such as discount rates that take into account the risk associated with the investment as well as future cash flows.

La Caisse may also use information about recent transactions carried out in the market for valuations of private equity investments and infrastructure investments.

FUNDS

The fair value of bond funds, hedge funds, investment funds, private investment funds and infrastructure funds is determined using the net assets provided by the administrator or by the general partner, unless there is an indication that the fair value differs from the value of the net assets provided. La Caisse ensures that the valuation techniques used by the fund's administrator or general partner to determine the fair value of the net assets are in compliance with IFRS. Furthermore, the fair value of the net assets is adjusted to reflect purchases and sales of fund units between the fund's financial statement date and the valuation date when there are securities of publicly listed corporations where the closing price is adjusted to the quoted price of the underlyings or when there are other indications requiring judgment to be made.

INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

The fair value of la Caisse's interests in various unconsolidated subsidiaries is determined using an enterprise valuation technique.

Investments in real estate holdings
The fair value resulting from the enterprise value technique is determined using a commonly used method, i.e., the comparable company multiples method, which is supported by observable and unobservable inputs such as the price-to-book value ratio. This value is determined annually by an independent external firm. Enterprise value attributed to equity instruments reflects, among other things, the fair value of the assets and liabilities held directly by these subsidiaries, which include investment property, other real estate investments, which mainly include real estate funds and ownership interests held in companies, liabilities associated with investment property, as well as the fair value resulting from the quality of the portfolio and the integrated management of the platform of these subsidiaries.

The fair value of interests in the form of debt instruments in these subsidiaries is determined using the discounted cash flow technique, which is supported mainly by observable inputs such as the interest rates and credit spreads that make up the discount rates.

The fair value of investment property, which is measured according to the highest and best use, is determined and certified semi-annually by external, recognized and independent chartered real estate appraisers. Valuations are carried out in compliance with the valuation standards in effect in each market. The valuation techniques used are based primarily on two recognized methodologies, namely, the discounted cash flow technique and the capitalization of revenue technique. These techniques use observable and unobservable inputs such as lease terms and conditions, operating expenses, residual value and rates of return, discount rates and capitalization rates. Values observed for comparable transactions are used to determine the representative fair value range and support the fair value determined.

The fair value of other real estate investments is determined based on characteristics specific to these assets, whose value is based on net assets which may be provided by an administrator or available in a published financial statement. The net asset value is adjusted to reflect external factors or when there are other indications requiring judgment to be exercised.

The fair value of financial liabilities associated with investment property is determined based on the discounted cash flow technique. This technique uses observable and unobservable inputs such as the interest rates and credit spreads that make up the discount rates.

Investments in real estate debt
Enterprise value reflects the fair value of the assets held directly by these subsidiaries, which primarily include commercial mortgages. The fair value of interests in the form of equity instruments in these subsidiaries corresponds to the net assets in the audited financial statements.

The fair value of interests in the form of debt instruments in these subsidiaries is determined using the discounted cash flow technique. This valuation primarily uses observable inputs such as the interest rates and credit spreads that make up the discount rates.

The fair value of commercial mortgages is determined using the discounted cash flow technique and are divided into risk categories, according to the loan-to-value ratio, and for which an appropriate discount rate is determined. Commercial mortgage valuations are reviewed annually by an independent external firm.

FAIR VALUE MEASUREMENT (continued)

Private equity, infrastructure, fixed-income securities, hedge funds, and stock markets
Enterprise value reflects the fair value of assets held directly by these subsidiaries, which include bonds, corporate debt, equities of private companies, equities of public companies as well as funds whose valuation techniques are described above.

The fair value of interests in specialized finance activities included in fixed-income security investments is determined using a discounted cash flow technique. This valuation technique uses observable and unobservable inputs such as discount rates that reflect the risk associated with the investment.

La Caisse may also use information about recent transactions carried out in the market for valuations of these financial assets.

SECURITIES SOLD SHORT

The fair value of bonds and equities that are sold short is determined using the fair value of the security that is sold short. The techniques for valuing these securities have been described above.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is determined according to the type of derivative financial instrument. The fair value of derivative financial instruments traded on exchange markets and derivative financial instruments traded on over-the-counter markets that are settled through a clearing house is determined, respectively, using the prices on the major stock exchanges representing the active market and clearing house prices. The fair value of the other derivative financial instruments traded on over-the-counter markets is determined using recognized and commonly used valuation techniques such as the discounted cash flow technique or other financial models. These techniques require the development and use of assumptions that take into account observable and unobservable inputs such as the interest rate curves and credit spreads that make up the discount rates as well as foreign exchange rate curves, prices of the underlying, and volatility.

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Demand deposits
The fair value of demand deposits is determined based on their nominal value, as they are repayable at any time at the option of the issuer without penalty.

Term deposits and distributions payable to depositors
The fair value of term deposits and distributions payable to depositors is determined using the discounted cash flow technique. This valuation technique mainly uses observable inputs such as the interest rate curves and credit spreads that make up the discount rates.

Participation deposits
The fair value of depositor participation deposits stems from a valuation of all the financial assets and liabilities held by la Caisse.

C) FAIR VALUE HIERARCHY

La Caisse's financial instruments at FVTPL are classified according to the below-described fair value hierarchy, based on the lowest level of significant input used in measuring fair value.

Level 1: The fair value calculation of the financial instrument is based on observable prices (unadjusted) in active markets that the entity can access at the measurement date for identical assets or liabilities.

Level 2: The fair value of the financial instrument is calculated using valuation techniques for which the significant inputs are observable, either directly or indirectly.

Level 3: The fair value of the financial instrument is calculated using valuation techniques for which the significant inputs are unobservable. This level includes financial instruments whose valuation is based on prices observed for similar financial instruments, substantially adjusted to reflect the characteristics specific to the financial instrument being measured and available market data.

Classification into the fair value hierarchy levels is determined upon initial measurement of the financial instrument and is reviewed on each subsequent measurement date. Transfers between levels of the fair value hierarchy are measured at fair value at the beginning of each fiscal year.

FAIR VALUE MEASUREMENT (continued)

The following tables present an allocation of the fair value of financial instruments into the three levels of the fair value hierarchy:

				December 31, 2018
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts receivable from transactions being settled	–	4,587	–	4,587
Advances to depositors	–	903	–	903
Investment income, accrued and receivable	–	1,352	–	1,352
Investments				
Cash equivalents	–	360	–	360
Short-term investments	–	222	–	222
Securities purchased under reverse repurchase agreements	–	8,275	–	8,275
Corporate debt	–	76	2,073	2,149
Bonds	–	69,288	722	70,010
Equities and convertible securities				
Public companies	105,631	641	–	106,272
Private companies	–	1,138	15,960	17,098
Hedge funds	–	1,947	300	2,247
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	12,254	38,317	50,571
Investments in real estate debt	–	10,613	2,782	13,395
Private equity investments	–	–	26,275	26,275
Infrastructure investments	–	–	19,577	19,577
Investments in fixed-income securities	–	7,174	8,769	15,943
Investments in hedge funds	–	5,609	–	5,609
Stock market investments	–	1,041	1,753	2,794
Derivative financial instruments	65	1,142	–	1,207
	105,696	126,622	116,528	348,846
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	1,113	–	1,113
Other financial liabilities	–	1,172	–	1,172
Investment liabilities				
Securities sold under repurchase agreements	–	12,539	–	12,539
Securities sold short	516	7,278	8	7,802
Commercial paper payable	–	5,921	–	5,921
Loans payable	–	290	–	290
Term notes payable	–	9,598	–	9,598
Derivative financial instruments	30	2,007	20	2,057
	546	39,918	28	40,492
Net assets attributable to depositors				
Demand deposits	–	712	–	712
Term deposits	–	6	–	6
Distributions payable to depositors	–	2,506	–	2,506
Participation deposits	–	306,287	–	306,287
	–	309,511	–	309,511

TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY

During the year ended December 31, 2018, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of $237 million were transferred from Level 1 to Level 2, of $62 million from Level 1 to Level 3, of $306 million from Level 2 to Level 1, of $645 million from Level 2 to Level 3, and of $1,077 million from Level 3 to Level 2.

FAIR VALUE MEASUREMENT (continued)

				December 31, 2017
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts receivable from transactions being settled	–	2,447	–	2,447
Advances to depositors	–	1,056	–	1,056
Investment income, accrued and receivable	–	1,395	–	1,395
Investments				
Short-term investments	–	276	–	276
Securities purchased under reverse repurchase agreements	–	10,288	–	10,288
Corporate debt	–	572	2,014	2,586
Bonds	–	80,562	143	80,705
Equities and convertible securities				
Public companies	114,643	811	–	115,454
Private companies	–	279	14,916	15,195
Hedge funds	–	1,920	402	2,322
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	9,327	34,401	43,728
Investments in real estate debt	–	9,649	2,342	11,991
Private equity investments	–	169	19,576	19,745
Infrastructure investments	–	–	11,439	11,439
Investments in fixed-income securities	–	5,535	4,566	10,101
Investments in hedge funds	–	3,998	–	3,998
Stock market investments	–	937	1,582	2,519
Derivative financial instruments	59	642	2	703
	114,702	129,863	91,383	335,948
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	2,102	–	2,102
Other financial liabilities	–	691	–	691
Investment liabilities				
Securities sold under repurchase agreements	–	15,972	–	15,972
Securities sold short	602	4,488	6	5,096
Commercial paper payable	–	4,556	–	4,556
Loans payable	–	364	–	364
Term notes payable	–	9,198	–	9,198
Derivative financial instruments	12	617	30	659
	614	37,988	36	38,638
Net assets attributable to depositors				
Demand deposits	–	88	–	88
Term deposits	–	6	–	6
Distributions payable to depositors	–	1,975	–	1,975
Participation deposits	–	296,443	–	296,443
	–	298,512	–	298,512

TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY

During the year ended December 31, 2017, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of $217 million were transferred from Level 1 to Level 2, of $12 million from Level 2 to Level 1, of $2,130 million from Level 2 to Level 3, and of $395 million from Level 3 to Level 2.

D) LEVEL 3: RECONCILIATION BETWEEN OPENING AND CLOSING BALANCES

For financial instruments classified in Level 3 of the hierarchy, reconciliations between the opening and closing balances as at December 31, 2018 and 2017 are as follows:

2018	Opening balance (assets / (liabilities))	Gains (losses) recognized in comprehensive income[2]	Purchases	Sales	Settlements	Transfers	Closing balance (assets / (liabilities))	Unrealized gains (losses) on financial instruments held at year-end[2]
Corporate debt	**2,014**	**(53)**	**638**	**(209)**	**(317)**	**–**	**2,073**	**(54)**
Bonds	**143**	**45**	**–**	**–**	**(16)**	**550**	**722**	**38**
Equities and convertible securities	**15,318**	**1,804**	**3,284**	**(3,359)**	**–**	**(787)**	**16,260**	**1,218**
Interests in unconsolidated subsidiaries	**73,906**	**7,554**	**20,399**	**(4,253)**	**–**	**(133)**	**97,473**	**7,436**
Derivative financial instruments[1]	**(28)**	**(2)**	**–**	**(1)**	**11**	**–**	**(20)**	**(1)**
Securities sold short	**(6)**	**(2)**	**–**	**–**	**–**	**–**	**(8)**	**(2)**

2017	Opening balance (assets / (liabilities))	Gains (losses) recognized in comprehensive income[2]	Purchases	Sales	Settlements	Transfers	Closing balance (assets / (liabilities))	Unrealized gains (losses) on financial instruments held at year-end[2]
Corporate debt	1,256	(13)	581	(24)	(101)	315	2,014	(11)
Bonds	127	(3)	59	(38)	(10)	8	143	(3)
ABTNs	3,970	9	–	–	(3,979)	–	–	–
Equities and convertible securities	13,616	683	4,347	(2,933)	–	(395)	15,318	954
Interests in unconsolidated subsidiaries	59,995	3,748	15,011	(6,653)	–	1,805	73,906	3,884
Derivative financial instruments[1]	(72)	(2)	–	(2)	46	2	(28)	(1)
Securities sold short	(9)	1	2	–	–	–	(6)	2

1. The assets and liabilities related to derivative financial instruments are presented on a net basis.
2. Presented under "Net gains on financial instruments at fair value" in the Consolidated Statements of Comprehensive Income.

E) LEVEL 3: FAIR VALUE MEASUREMENT BASED ON REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS

In certain cases, the assumptions used in the valuation techniques are based on unobservable inputs or observable inputs adjusted significantly to reflect the characteristics specific to the financial instrument being measured. While la Caisse considers its fair value measurements to be appropriate, the use of reasonably possible alternative assumptions could result in different fair values. For a given measurement date, it is possible that other market participants could measure a same financial instrument at a different fair value, with the valuation techniques and inputs used by these market participants still meeting the definition of fair value. The fact that different fair value measurements exist reflects the judgment, estimates and assumptions applied as well as the uncertainty involved in determining the fair value of these financial instruments.

FAIR VALUE MEASUREMENT (continued)

The following tables present quantitative information on the primary valuation techniques and unobservable inputs for the main financial instruments classified in Level 3 of the fair value hierarchy that are subject to the sensitivity analysis in Note 7f as well as those that are excluded from the analysis:

				December 31, 2018
	Fair value	Valuation techniques	Unobservable inputs	Range (weighted average)
Included in the sensitivity analysis				
Corporate debt	1,861	Discounted cash flows	Credit spreads	1.2% to 11.1% (3.9%)
			Discount rates	7.5% to 9.3% (7.8%)
Equities of private companies				
Private equity investments	5,191	Comparable company multiples	EBITDA multiples	6.8 to 16.5 (11.4)
Infrastructure investments	3,642	Discounted cash flows	Discount rates	6.0% to 10.3% (9.7%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	38,317	Comparable company multiples	Price-to-book value ratios	1.06
		Discounted cash flows	Discount rates	4.8% to 13.3% (6.4%)
			Credit spreads	0.0% to 12.0% (1.6%)
		Capitalization of revenue	Capitalization rates	4.1% to 12.6% (5.3%)
		Net real estate assets	Discounts to net asset value	0.0% to 17.5% (5.1%)
Private equity investments	4,263	Comparable company multiples	EBITDA multiples	8.5 to 13.0 (12.2)
Infrastructure investments	10,682	Discounted cash flows	Discount rates	7.2% to 13.0% (9.0%)
Investments in fixed-income securities	6,525	Discounted cash flows	Discount rates	6.4%
			Credit spreads	0.9% to 9.4% (4.6%)
	70,481			
Excluded from the sensitivity analysis				
Financial instruments[1]	46,019	Recent transactions[2]	n.a.	n.a.
		Broker quotes[3]	n.a.	n.a.
		Net assets[3]	n.a.	n.a.
Net financial instruments classified in Level 3	116,500			

n.a.: not applicable

1. The fair value of the financial instruments presented in this item includes corporate debt, bonds, equities, interests in unconsolidated subsidiaries, derivative financial instruments, and securities sold short.
2. When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, la Caisse did not conduct a sensitivity analysis.
3. When fair value is determined using broker quotes or net asset value, this value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

FAIR VALUE MEASUREMENT (continued)

	Fair value	Valuation techniques	Unobservable inputs	December 31, 2017 Range (weighted average)
Included in the sensitivity analysis				
Corporate debt	1,488	Discounted cash flows	Credit spreads	1.1% to 2.5% (2.0%)
			Discount rates	8.0%
Equities of private companies				
Private equity investments	3,258	Comparable company multiples	EBITDA multiples	7.5 to 11.5 (9.6)
Infrastructure investments	3,318	Discounted cash flows	Discount rates	6.0% to 11.9% (10.5%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	34,401	Comparable company multiples	Price-to-book value ratios	1.06
		Discounted cash flows	Discount rates	4.8% to 13.3% (6.4%)
			Credit spreads	0.0% to 10.5% (1.7%)
		Capitalization of revenue	Capitalization rates	4.1% to 11.6% (5.3%)
		Net real estate assets	Discounts to net asset value	0.0%
Private equity investments	7,353	Comparable company multiples	EBITDA multiples	7.5 to 13.0 (11.0)
Infrastructure investments	10,620	Discounted cash flows	Discount rates	6.8% to 12.5% (8.8%)
		Comparable company multiples	EBITDA multiples	10.8
Investments in fixed-income securities	3,404	Discounted cash flows	Credit spreads	1.0% to 9.2% (4.5%)
	63,842			
Excluded from the sensitivity analysis				
Financial instruments[1]	27,505	Recent transactions[2]	n.a.	n.a.
		Broker quotes[3]	n.a.	n.a.
		Net assets[3]	n.a.	n.a.
Net financial instruments classified in Level 3	91,347			

n.a.: not applicable

1. The fair value of the financial instruments presented in this item includes corporate debt, bonds, equities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.
2. When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, la Caisse did not conduct a sensitivity analysis.
3. When fair value is determined using broker quotes or net asset value, this value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a ensitivity analysis.

FAIR VALUE MEASUREMENT (continued)

F) SENSITIVITY ANALYSIS OF FAIR VALUE

The following analysis shows the sensitivity of fair value measurements to reasonably possible alternative assumptions for the significant unobservable inputs presented in the preceding tables of Note 7e. La Caisse identified reasonably possible alternative assumptions using its judgment and knowledge of the markets. The following table shows the increases and decreases in fair value that would result from these alternative assumptions for the main financial instruments classified in Level 3 of the fair value hierarchy that are subject to a sensitivity analysis:

	December 31, 2018		December 31, 2017	
	Increase	**Decrease**	Increase	Decrease
Sensitivity of fair value	**4,691**	**(4,348)**	4,153	(3,871)

As at December 31, 2018, the fair value sensitivity analysis above shows an increase in fair value of $2,800 million ($2,445 million as at December 31, 2017) and a decrease in fair value of $2,551 million ($2,236 million as at December 31, 2017) attributable to investments in real estate holdings.

There is a correlation between unobservable inputs and the determination of fair value. Therefore, an increase (decrease) in discount rates, credit spreads, capitalization rates and discounts to net asset value would result in a decrease (increase) in fair value. Furthermore, an increase (decrease) in EBITDA multiples and price-to-book value ratios would result in an increase (decrease) in fair value. There is no predictable correlation between unobservable inputs.

08
OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset and a financial liability must be offset in the Consolidated Statements of Financial Position when la Caisse has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the financial asset and settle the financial liability simultaneously with the counterparty. La Caisse has a legally enforceable right of set-off when this right is exercisable in the normal course of business and in the event of default, insolvency or bankruptcy.

Amounts receivable from and amounts payable on transactions being settled, securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and derivative financial instruments traded on over-the-counter markets in accordance with agreements of the International Swaps and Derivatives Association (ISDA) are subject to master netting agreements that do not meet the criteria for offsetting in the Consolidated Statements of Financial Position as they give a right of set-off that is enforceable only in the event of default, insolvency or bankruptcy.

Securities purchased under reverse repurchase agreements and securities sold under repurchase agreements settled through a clearing house satisfy the offsetting criteria. Derivative financial instruments traded on exchange markets as well as those settled by clearing houses through brokers also satisfy offsetting criteria.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The following tables present information about financial assets and liabilities that are offset and not offset in the Consolidated Statements of Financial Position and that are subject to master netting agreements or similar arrangements:

						December 31, 2018
	Gross amounts recognized	**Amounts offset**	**Net amounts presented in the Consolidated Statement of Financial Position[1]**	**Amounts subject to master netting agreements**	**Collateral received/ pledged[2]**	**Net amounts**
Financial assets						
Amounts receivable from transactions being settled	**4,587**	**–**	**4,587**	**(498)**	**–**	**4,089**
Securities purchased under reverse repurchase agreements	**10,859**	**(2,224)**	**8,635**	**(6,869)**	**(1,759)**	**7**
Derivative financial instruments[3]	**1,257**	**(36)**	**1,221**	**(981)**	**(114)**	**126**
	16,703	**(2,260)**	**14,443**	**(8,348)**	**(1,873)**	**4,222**
Financial liabilities						
Amounts payable on transactions being settled	**1,113**	**–**	**1,113**	**(933)**	**–**	**180**
Securities sold under repurchase agreements	**14,763**	**(2,224)**	**12,539**	**(6,434)**	**(6,102)**	**3**
Derivative financial instruments[3]	**2,111**	**(36)**	**2,075**	**(981)**	**(1,016)**	**78**
	17,987	**(2,260)**	**15,727**	**(8,348)**	**(7,118)**	**261**

						December 31, 2017
	Gross amounts recognized	Amounts offset	Net amounts presented in the Consolidated Statement of Financial Position[1]	Amounts subject to master netting agreements	Collateral received/ pledged[2]	Net amounts
Financial assets						
Amounts receivable from transactions being settled	2,447	–	2,447	(670)	–	1,777
Securities purchased under reverse repurchase agreements	10,288	–	10,288	(5,508)	(4,763)	17
Derivative financial instruments[3]	753	(26)	727	(426)	(128)	173
	13,488	(26)	13,462	(6,604)	(4,891)	1,967
Financial liabilities						
Amounts payable on transactions being settled	2,102	–	2,102	(1,458)	–	644
Securities sold under repurchase agreements	15,972	–	15,972	(4,720)	(11,246)	6
Derivative financial instruments[3]	697	(26)	671	(426)	(212)	33
	18,771	(26)	18,745	(6,604)	(11,458)	683

1. Net amounts presented in the Consolidated Statements of Financial Position or in Notes 4a and 4b.
2. The financial collateral received or pledged cannot include a net amount per counterparty less than zero. The total amounts of financial collateral received or pledged are presented in Notes 14 and 15.
3. The amounts presented in this item include amounts receivable and payable related to derivative financial instruments presented, respectively, under “Investment income, accrued and receivable” and “Other financial liabilities”.

09
NET INVESTMENT INCOME

The following table presents the investment income and expense of the financial instruments at FVTPL:

	2018			2017		
	Dividend income (expense)	**Interest income (expense)**	**Net investment income**	Dividend income (expense)	Interest income (expense)	Net investment income
Cash management activities	**–**	**23**	**23**	–	17	17
Investing activities						
Short-term investments	**–**	**4**	**4**	–	15	15
Securities purchased under reverse repurchase agreements	**–**	**144**	**144**	–	43	43
Corporate debt	**–**	**152**	**152**	–	183	183
Bonds	**–**	**2,661**	**2,661**	–	1,975	1,975
Equities and convertible securities	**3,655**	**–**	**3,655**	4,226	7	4,233
Interests in unconsolidated subsidiaries	**2,530**	**973**	**3,503**	2,204	839	3,043
	6,185	**3,957**	**10,142**	6,430	3,079	9,509
Other			**80**			67
Total investment income			**10,222**			9,576
Investment liability activities						
Securities sold under repurchase agreements	**–**	**(249)**	**(249)**	–	(115)	(115)
Securities sold short	**(14)**	**(87)**	**(101)**	(17)	(48)	(65)
Financing activities						
Commercial paper payable	**–**	**(106)**	**(106)**	–	(58)	(58)
Loans payable	**–**	**(3)**	**(3)**	–	(2)	(2)
Term notes payable	**–**	**(369)**	**(369)**	–	(356)	(356)
	(14)	**(814)**	**(828)**	(17)	(579)	(596)
Other expenses						
External management fees			**(58)**			(54)
Total investment expense			**(886)**			(650)
Net investment income			**9,336**			8,926

10
INVESTMENT RESULT BEFORE DISTRIBUTIONS TO DEPOSITORS

The following table presents the net investment income, net gains (losses) on financial instruments at FVTPL as well as operating expenses:

	2018			2017		
	Net investment income ***(Note 9)***	**Net gains (losses)[1]**	**Total**	Net investment Income *(Note 9)*	Net gains (losses)[1]	Total
Cash management activities	**23**	**3**	**26**	17	4	21
Investing activities						
Short-term investments	**4**	**14**	**18**	15	(14)	1
Securities purchased under reverse repurchase agreements	**144**	**214**	**358**	43	(239)	(196)
Corporate debt	**152**	**13**	**165**	183	(178)	5
Bonds	**2,661**	**(172)**	**2,489**	1,975	(390)	1,585
Equities and convertible securities	**3,655**	**(2,713)**	**942**	4,233	12,982	17,215
Interests in unconsolidated subsidiaries	**3,503**	**8,171**	**11,674**	3,043	2,907	5,950
Net derivative financial instruments	**–**	**(462)**	**(462)**	–	(5)	(5)
Other	**80**	**62**	**142**	67	(55)	12
	10,222	**5,130**	**15,352**	9,576	15,012	24,588
Investment liability activities						
Securities sold under repurchase agreements	**(249)**	**(283)**	**(532)**	(115)	518	403
Securities sold short	**(101)**	**(763)**	**(864)**	(65)	200	135
Financing activities						
Commercial paper payable	**(106)**	**(416)**	**(522)**	(58)	258	200
Loans payable	**(3)**	**(17)**	**(20)**	(2)	11	9
Term notes payable	**(369)**	**(412)**	**(781)**	(356)	378	22
Other						
External management fees	**(58)**	**(37)**	**(95)**	(54)	(32)	(86)
Transaction costs	**–**	**(163)**	**(163)**	–	(139)	(139)
	(886)	**(2,091)**	**(2,977)**	(650)	1,194	544
	9,336	**3,039**	**12,375**	8,926	16,206	25,132
Operating expenses *(Note 11)*			**(585)**			(536)
Net investment result before distributions to depositors			**11,790**			24,596

1. For the year ended December 31, 2018, the net gains (losses) included $7,980 million in net realized gains and $4,941 million in net unrealized losses (for the year ended December 31, 2017, net realized gains of $9,822 million and net unrealized gains of $6,384 million).

11
OPERATING EXPENSES

The following table presents the operating expenses:

	2018	2017
Salaries and employee benefits	**377**	331
Information technology and professional services	**59**	64
Maintenance, equipment and amortization	**55**	54
Data services and subscriptions	**21**	21
Rent	**18**	18
Other expenses	**37**	32
	567	520
Safekeeping of securities	**18**	16
	585	536

12
RISK IDENTIFICATION AND MANAGEMENT

RISK MANAGEMENT POLICIES, DIRECTIVES AND PROCEDURES RELATED TO INVESTMENT ACTIVITIES

La Caisse is responsible for managing deposits in accordance with service agreements and depositor investment policies, the investment policies for specialized portfolios and the integrated risk management policy. To do so, it has implemented various policies, directives and procedures to oversee the management of the risks relating to its operations.

The integrated risk management policy is adopted by la Caisse's Board of Directors. The purpose of this policy is to promote a rigorous risk management culture and practices that help la Caisse carry out its mission on behalf of its depositors. The integrated risk management policy defines market risk, concentration risk, credit risk, counterparty risk associated with derivative financial instruments, and financing-liquidity risk.

Specifically, this policy aims to:

- Establish the guiding principles that support la Caisse's integrated risk management framework and promote a sound risk management culture at all levels of the organization
- Set out the risk management model and governance structure
- Define the roles and responsibilities of stakeholders
- Establish oversight of the main risks to which la Caisse is exposed

La Caisse's governance and risk management are based on the following twelve guiding principles:

- A risk tolerance framework
- The roles of the Board of Directors and senior executives
- A client-centric approach that focuses on the needs of depositors
- A long-term investment strategy
- Liquidity and financing management
- In-depth knowledge of assets and markets
- Independent functions and stakeholder accountability
- Collaboration for comprehensive risk management
- Operational excellence
- Use of derivative financial instruments and counterparty risk management
- Oversight of new investment activities and new financial instruments
- A responsible investment framework

RISK IDENTIFICATION AND MANAGEMENT (continued)

The levels of control and parties responsible for risk management governance are as follows:

1. Investment groups have the primary responsibility for managing the risks related to their operations.
2. Independent teams and internal committees are responsible for supporting investment group employees and setting appropriate control mechanisms.
3. The Board of Directors and its committees ensure a management framework is adopted, and the Internal Audit group ensures execution and compliance with the established risk management framework.

The integrated risk management policy sets out risk limits and authorization levels for la Caisse as a whole as well as limits applicable to cross-functional activities. In addition, la Caisse develops and periodically reviews the specialized portfolio investment policies that are designed to oversee the work of the specialized portfolio managers. A separate investment policy sets out investment strategy, management style, eligible investments, target returns, benchmark index, and concentration and risk limits.

Furthermore, each investment group must adopt an investment strategy. Strategic investment planning (SIP) seeks to strengthen the decision-making process by achieving a better matching of return to risk when choosing investments. SIP sets future directions, strengthens the collaboration and information sharing processes required to make strategic investment decisions and ensures a better alignment between the directions and strategies. The SIP process is conducted annually and includes the following steps: 1) Diagnostic and strategic directions; 2) Strategic plans; 3) Review and approval and 4) Execution and accountability. Investment plans are presented to the Investment-Risk Committee (IRC) for approval and are communicated to the Executive Committee and Board of Directors.

La Caisse is exposed to various financial risks. Detailed information regarding these risks is presented in the following sections.

MARKET RISK

Market risk is the risk of financial loss arising from fluctuations in the fair value of financial instruments. Volatility in financial instrument prices stems from changes in market risk factors, in particular interest rates, credit spreads, exchange rates, share prices and commodity prices. La Caisse uses derivative financial instruments to manage market risks.

La Caisse manages all market risks according to an integrated approach for all specialized portfolios. The main factors contributing to risk, such as industry sector, geographic region and issuer, are taken into account. La Caisse's market risks are managed and calculated according to factors that can influence the fair value of investments and investment liabilities.

La Caisse measures its market risk using Value-at-Risk (VaR), which is based on a statistical estimate of the volatility of the fair value of each position and of correlations between market risk factors. VaR is a statistical estimate of the potential financial loss that could be incurred by la Caisse's actual portfolio, based on a predetermined confidence level and a given exposure period. The market VaR is estimated with a 95% confidence level over an exposure period of one year. To summarize, VaR indicates the level of loss that the actual portfolio of la Caisse could exceed in 5% of cases. La Caisse estimates VaR for each instrument held in its specialized portfolios and aggregates the information for la Caisse's actual portfolio.

The historical-simulation method is used to measure VaR. This method is based mainly on the assumption that the future will be similar to the past. It requires that historical data series on all the risk factors needed to estimate the returns on financial instruments be available. In the absence of historical data, alternative methods are used.

The calculation results obtained by applying this methodology do not make it possible to estimate the amount of loss, based on a specific event, that would be incurred by la Caisse's portfolio if this event re-occurred. For example, if future conditions and market risk factors were substantially different from past economic conditions, actual losses could differ substantially from estimated losses. Moreover, these estimates at a given date do not take into account all possible losses resulting from exceptional market events or losses that could arise over and above the 95% confidence level. Consequently, in light of these limitations, la Caisse's actual portfolio losses could exceed the estimates.

A history of 3,000 days of observation of risk factors is used to measure the volatility of returns and the correlation between the return of financial instruments. Moreover, due to the methodology, the effects on the portfolio of the unfavourable events seen over a one-month horizon are repeated several times during the year.

Two risk measures are calculated and analyzed:

- The absolute risk of the actual portfolio represents the total risk associated with the categories of financial instruments that make up la Caisse's actual portfolio.
- The absolute risk of the benchmark portfolio targeted by depositors represents the total risk of the benchmark indexes associated with the categories of financial instruments that make up la Caisse's benchmark portfolio.

The absolute risks of la Caisse's actual and benchmark portfolios are measured regularly and used to calculate the absolute risk ratio, which is subject to certain limitations. The absolute risk ratio is obtained by dividing the absolute risk of the actual portfolio by the absolute risk of the benchmark portfolio.

The absolute risk of the actual portfolio and the absolute risk of the benchmark portfolio, including the risk associated with the underlying investments of unconsolidated subsidiaries whose risk is managed by la Caisse, as a percentage of net assets, according to a 95% confidence level and a history of 3,000 days, are as follows:

	December 31, 2018			December 31, 2017		
	Absolute risk of the actual portfolio %	**Absolute risk of the benchmark portfolio %**	**Absolute risk ratio**	Absolute risk of the actual portfolio %	Absolute risk of the benchmark portfolio %	Absolute risk ratio
Value at risk	**13.7**	**13.8**	**0.99**	13.4	13.6	0.99

Moreover, when managing market risk, la Caisse uses stress tests that allow it to evaluate the consequences of specific circumstances on the returns of la Caisse's actual portfolio based on historical, hypothetical or risk factor sensitivity scenarios. Using various types of scenarios, stress tests measure the gains or losses in value of a financial instrument following a change in one or more often-related risk factors, such as share prices, interest rates, rate spreads, exchange rates, commodity prices and market volatility.

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk is integrated into the VaR measurement.

La Caisse uses a dynamic management approach for the main currencies of developed countries. Dynamic management is used to protect certain specialized portfolios when the Canadian dollar appears to be significantly undervalued or overvalued compared to its equilibrium value according to the valuation models. Dynamic hedging should therefore be less frequent, but the duration of the hedge, being unforeseeable, may vary widely and last for a few weeks to several months. Certain specialized portfolios may therefore be partially hedged against foreign exchange risk.

When managing currency risk, la Caisse uses derivative financial instruments to manage its exposure to currencies. Moreover, currency risk can be managed by way of natural hedging activities, including the financing of investments in the same currency.

The net exposure to foreign currencies takes into account the effects of currency derivatives, natural hedging and the underlying investments in currencies of unconsolidated subsidiaries whose currency risk is managed by la Caisse. La Caisse's net exposure to foreign currencies, as a percentage of net assets including purchases and cancellations of participation units of the specialized portfolios completed at the beginning of each month, is as follows:

	December 31, 2018 %	December 31, 2017 %
Canadian dollar	**45**	51
U.S. dollar	**27**	23
Euro	**7**	7
Pound sterling	**4**	3
Yen	**2**	2
Australian dollar	**1**	2
Other	**14**	12
	100	100

RISK IDENTIFICATION AND MANAGEMENT (continued)

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk is integrated into the VaR measurement.

PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors that affect all similar financial instruments traded on the market. This risk is integrated into the VaR measurement.

CONCENTRATION RISK

La Caisse analyzes overall concentration risk for the entire group of specialized portfolios it manages. The integrated risk management policy sets out exposure limits according to category of financial instrument and according to issuer for growth markets and for certain countries. Moreover, the investment policies of the specialized portfolios set out specific limits for each issuer, industry sector, and geographic region.

The concentration limit by issuer is 3% of la Caisse's total assets, with the exception of securities issued by the Canadian or U.S. governments or by their agencies and that feature an explicit guarantee or those issued by a Canadian province or territory of Canada or a ministry or agency thereof or by sovereign issuers rated AAA, which are not included in the concentration limit. Concentration by issuer is monitored monthly or upon initiation of a transaction requiring approval of the IRC or the Board of Directors, as appropriate.

The following table presents the principal geographic concentrations as a percentage of total net exposure, established according to the country of the issuers' principal place of business, after the effects of certain derivative financial instruments and including the underlying investments in unconsolidated subsidiaries whose concentration risk is managed by la Caisse:

	December 31, 2018 %	December 31, 2017 %
Canada	**36**	42
United States	**30**	28
Europe	**14**	13
Growth markets	**14**	11
Other	**6**	6
	100	100

RISK IDENTIFICATION AND MANAGEMENT (continued)

The following table presents the principal industry sector concentrations as a percentage of total net exposure, established according to the industry sector in which the issuers operate, after the effects of certain derivative financial instruments and including the underlying investments in unconsolidated subsidiaries whose concentration risk is managed by la Caisse:

	December 31, 2018	December 31, 2017
	%	%
Industry sector		
Real estate	**19**	18
Financials	**9**	10
Industrials	**12**	9
Consumer discretionary	**5**	7
Information technology	**6**	6
Energy	**5**	5
Consumer staples	**5**	5
Utilities	**6**	4
Real estate debt	**4**	4
Health care	**5**	4
Materials	**2**	3
Telecommunication services	**4**	2
Other	**3**	3
Government sector		
Government of Canada	**5**	8
Government of Québec	**4**	5
Government corporations and other public administrations in Québec	**2**	2
Other	**4**	5
	100	100

RISK IDENTIFICATION AND MANAGEMENT (continued)

CREDIT RISK

Credit risk is the possibility of incurring a loss in value should a borrower, endorser, or guarantor experience a deterioration in financial position, fail to meet an obligation to repay a loan or fail to meet any other financial commitment.

Maximum credit risk exposure is measured based on the fair value of financial instruments without taking into account guarantees or other credit enhancements. For the other items, the maximum exposure to credit risk is the total amount guaranteed or committed.

The following table presents the maximum exposure to credit risk:

	December 31, 2018	December 31, 2017
Cash	**675**	947
Amounts receivable from transactions being settled	**4,587**	2,447
Advances to depositors	**903**	1,056
Investment income, accrued and receivable	**1,352**	1,395
Investments		
Cash equivalents	**360**	–
Fixed-income securities	**80,656**	93,855
Interests in unconsolidated subsidiaries in the form of debt instruments	**27,922**	22,159
Derivative financial instruments	**1,207**	703
	117,662	122,562
Other items		
Guarantees *(Note 19)*	**397**	86
	118,059	122,648

La Caisse enters into master netting agreements *(Note 8)*, receives guarantees *(Note 15)* and may also use derivative financial instruments such as credit default swaps to reduce its total credit risk exposure.

In addition, to manage credit risk, la Caisse closely monitors changes in the credit cycle of issuers and uses a credit VaR to calculate the potential financial loss related to possible changes in the credit quality of issuers of fixed-income securities.

CONCENTRATION OF CREDIT RISK

A credit risk concentration analysis measures the fair value of all financial instruments related to a same issuer. The investment policy of the specialized portfolios sets out concentration limits according to credit rating. The credit risk analysis considers the probability of default and the recovery rate on debt securities held by la Caisse and monitors changes in the credit quality of issuers.

The following table presents the credit risk concentration according to the credit ratings of issuers of fixed-income securities and certain derivative financial instruments used to manage credit risk, as a percentage of the total exposure to credit concentration risk:

	December 31, 2018	December 31, 2017
	%	%
Credit rating		
AAA – AA	**26**	37
A	**32**	34
BBB	**18**	11
BB of lower	**19**	14
No credit rating	**5**	4
	100	100

The credit ratings of securities issued or guaranteed by governments are obtained from recognized credit rating agencies. For corporate sector securities, credit ratings are determined using an internal rating process that monitors changes in the credit cycle annually when the necessary information is available. Otherwise, la Caisse uses recognized credit rating agencies.

COUNTERPARTY RISK RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

Certain over-the-counter financial instruments give rise to counterparty risk because they are negotiated by contract without being traded or settled through a clearing house. Counterparty risk related to derivative financial instruments is the credit risk created by current or potential exposures arising from derivative financial instrument transactions where the counterparty becomes unable to honour the terms of the contracts.

To limit its exposure to the counterparty risk arising from transactions involving over-the-counter derivative financial instruments, la Caisse carries out transactions with financial institutions in accordance with management's criteria regarding the quality of the issuer. Moreover, la Caisse enters into legal agreements based on ISDA standards under which it benefits from the compensating effects between at-risk amounts and the collateral exchanged in order to limit its net exposure to this risk.

This risk is measured by counterparty, pursuant to the applicable legal agreement, from which it is possible to calculate the net exposure created by all of the over-the-counter derivative financial instruments and collateral exchanged. Actual exposure to counterparty risk is measured on a daily basis, whereas potential exposure to counterparty risk is measured on a monthly basis.

As at December 31, 2018, the legal agreements and the collateral received helped reduce exposure to the counterparty risk of over-the-counter derivative financial instruments. The maximum exposure to this risk was $61 million ($138 million as at December 31, 2017) related to 33 counterparties (29 counterparties as at December 31, 2017).

LIQUIDITY RISK

Liquidity risk is the possibility of la Caisse not always being able to honour its financial liability commitments without having to obtain funds at abnormally high prices or having to sell assets through forced liquidation. It is also the risk of la Caisse not being able to quickly sell investments without having a significant unfavourable effect on the price of the investment in question.

Liquidity is managed across all of la Caisse's cash activities. Compliance with the established rules is analyzed on a monthly basis, and the liquidity status is determined daily. Managers are responsible for evaluating the liquidity of the markets in which la Caisse obtains financing for its operations.

To ensure that sources of liquidity and potential liquidity requirements are properly aligned, la Caisse has a number of sources of liquidity in addition to its cash and cash equivalents, including receipt of investment income, the sale of bonds, sales under repurchase agreements, and liquid money market securities. In addition, la Caisse may issue commercial paper and term notes payable as well as a committed credit facility totalling US$4 billion to meet its contractual commitments and financial obligations. As at December 31, 2018, la Caisse had close to $37 billion in liquidity in the form of government bonds and money market securities ($47 billion as at December 31, 2017).

Furthermore, to manage liquidity risk, la Caisse conducts simulations of scenarios over different horizons and examines events that could lead to a liquidity crisis.

An analysis of undiscounted contractual cash flows of financial liabilities, presented in the table below, is a component of liquidity and financing management. However, this by-maturity allocation is not necessarily representative of the manner in which la Caisse manages its liquidity risk and financing requirements.

The following tables present the maturities of the undiscounted contractual cash flows of non-derivative financial liabilities, derivative financial instruments and other items:

					December 31, 2018
	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts payable on transactions being settled	–	(1,113)	–	–	(1,113)
Other financial liabilities	–	(881)	–	–	(881)
Investment liabilities					
Securities sold under repurchase agreements	–	(12,562)	–	–	(12,562)
Securities sold short	–	(659)	(3,802)	(5,540)	(10,001)
Commercial paper payable	–	(5,939)	–	–	(5,939)
Loans payable	–	(290)	–	–	(290)
Term notes payable	–	(2,746)	(3,019)	(5,680)	(11,445)
Net assets attributable to depositors					
Demand and term deposits	(712)	(6)	–	–	(718)
Distributions payable to depositors	–	(2,506)	–	–	(2,506)
	(712)	(26,702)	(6,821)	(11,220)	(45,455)
Derivative financial instruments					
Derivative instruments with net settlement	–	(4,409)	157	50	(4,202)
Derivative instruments with gross settlement					
Contractual cash flows receivable	–	72,651	1,245	1,016	74,912
Contractual cash flows payable	–	(73,629)	(1,274)	(1,105)	(76,008)
	–	(5,387)	128	(39)	(5,298)
Other items					
Commitments *(Note 19)*	(11)	(18,474)	(134)	(347)	(18,966)
Guarantees *(Note 19)*	–	(40)	(357)	–	(397)
	(11)	(18,514)	(491)	(347)	(19,363)
	(723)	(50,603)	(7,184)	(11,606)	(70,116)

					December 31, 2017
	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts payable on transactions being settled	–	(2,102)	–	–	(2,102)
Other financial liabilities	–	(576)	–	–	(576)
Investment liabilities					
Securities sold under repurchase agreements	–	(15,977)	–	–	(15,977)
Securities sold short	–	(654)	(3,043)	(1,842)	(5,539)
Commercial paper payable	–	(4,567)	–	–	(4,567)
Loans payable	–	(364)	–	–	(364)
Term notes payable	–	(348)	(5,298)	(5,499)	(11,145)
Net assets attributable to depositors					
Demand and term deposits	(88)	(6)	–	–	(94)
Distributions payable to depositors	–	(1,975)	–	–	(1,975)
	(88)	(26,569)	(8,341)	(7,341)	(42,339)
Derivative financial instruments					
Derivative instruments with net settlement	–	(1,400)	(1)	75	(1,326)
Derivative instruments with gross settlement					
Contractual cash flows receivable	–	44,289	213	594	45,096
Contractual cash flows payable	–	(44,330)	(228)	(605)	(45,163)
	–	(1,441)	(16)	64	(1,393)
Other items					
Commitments *(Note 19)*	(50)	(19,296)	(124)	(386)	(19,856)
Guarantees *(Note 19)*	–	(36)	(7)	(43)	(86)
	(50)	(19,332)	(131)	(429)	(19,942)
	(138)	(47,342)	(8,488)	(7,706)	(63,674)

Moreover, concerning net assets attributable to holders of participation deposits, the Regulation sets monthly limits for cancelling participation units, i.e., a depositor is limited to a maximum reimbursement of all their participation units in all of la Caisse's specialized portfolios of $15 million plus the proceeds of $2 million multiplied by the number of months that have elapsed since receipt of the notice of withdrawal. Any participation units that are not cancelled given the maximum amount permitted is carried forward to the first day of the subsequent month and are cancelled as soon as the limit permits. The purpose of the limits is to ensure optimal management of la Caisse's overall liquidity. Moreover, substantially all depositors are required to invest with la Caisse in accordance with the Act or the respective applicable legislation.

FINANCING-LIQUIDITY RISK

The following tables present the main terms and conditions and interest rates of the investment liabilities related to la Caisse's financing activities:

				December 31, 2018
	Currency	**Nominal value[1]**	**Maturity**	**Interest rate %**
Loans payable	**USD**	**290**	**Less than one year**	**2.37**
		290		
Commercial paper payable	**CAD**	**1,000**	**Less than one year**	**1.90**
	USD	**4,945**	**Less than one year**	**2.60**
		5,945		
Term notes payable	**USD**	**2,390**	**November 2019**	**4.40**
	EUR	**1,171**	**June 2020**	**3.50**
	CAD	**1,000**	**July 2020**	**4.60**
	USD	**2,732**	**July 2024**	**3.15**
	USD	**1,707**	**November 2039**	**5.60**
		9,000		

				December 31, 2017
	Currency	Nominal value[1]	Maturity	Interest rate %
Loans payable	USD	364	Less than one year	1.37
		364		
Commercial paper payable	CAD	1,000	Less than one year	1.12
	USD	3,571	Less than one year	1.53
		4,571		
Term notes payable	USD	2,193	November 2019	4.40
	EUR	1,128	June 2020	3.50
	CAD	1,000	July 2020	4.60
	USD	2,506	July 2024	3.15
	USD	1,566	November 2039	5.60
		8,393		

1. The amounts shown are translated into Canadian dollars and represent amounts to be repaid at maturity.

Commercial paper payable is issued at fixed rates, with maturities not exceeding 12 months, guaranteed by la Caisse's assets. The nominal value for all outstanding commercial paper may never exceed CA$3 billion and US$5 billion in accordance with the limit prescribed in the commercial paper issuance information document.

Term notes payable are repayable at maturity and guaranteed by la Caisse's assets. Certain interest-bearing fixed-rate term notes have an optional prepayment clause at the option of the issuer.

Furthermore, during the year ended December 31, 2018, la Caisse renewed its credit facility arranged with a banking syndicate for an amount of CA$5 billion, i.e., in two tranches of US$2 billion that are renewable after two and three years, respectively. The credit facility bears interest at a variable rate and is entirely secured, unconditionally and irrevocably, by la Caisse. As at December 31, 2018 and 2017, no amount had been drawn on this credit facility.

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CAPITAL MANAGEMENT

La Caisse defines its capital as net assets attributable to depositors. La Caisse's capital may fluctuate according to depositor demands for cancellations and issuances of participation deposit units and for deposits and withdrawals of demand and term deposits. La Caisse's capital management objective is to invest contributions and deposits in the best interests of the depositors in accordance with the Act in order to achieve an optimal return while respecting the depositor investment policies.

La Caisse is not subject to external capital requirements.

Furthermore, la Caisse's objective is to maintain its AAA credit rating to ensure access to capital markets at the best cost through its CDP Financial Inc. subsidiary. Consequently, the Board of Directors has limited the amount of notes that la Caisse may issue on capital markets to 10% of its net assets attributable to depositors, to which is added the fair value of outstanding notes (adjusted net assets).

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FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

La Caisse enters into securities lending and borrowing transactions as well as securities repurchase agreements whereby it transfers financial assets to counterparties. The transferred securities do not meet derecognition criteria since la Caisse retains most of the risks such as credit risk, interest rate risk, currency risk, and price risk, as well as most of the related rewards such as cash flows.

The following table presents the fair values of the financial assets transferred but not derecognized from the Consolidated Statements of Financial Position as well as the fair values of the associated liabilities:

	December 31, 2018	December 31, 2017
Financial assets transferred but not derecognized		
Bonds	**15,001**	16,143
Equities	**12,420**	9,935
	27,421	26,078
Associated financial liabilities		
Loans payable[1]	**237**	239
Securities sold under repurchase agreements[2]	**14,763**	15,972
	15,000	16,211

1. The amount presented corresponds to cash received as collateral on securities lending transactions and derivative financial instruments.
2. The net amount is presented in Notes 4 and 8.

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GUARANTEES

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of business, la Caisse pledges financial assets as collateral for transactions involving securities borrowings, securities sold under repurchase agreements and derivative financial instruments. The counterparties are authorized, by way of legal contract or market practices, to either sell or repledge these securities as collateral. On certain conditions, la Caisse may have to pledge additional collateral if the pledged securities lose value.

The following table presents the fair value of collateral pledged by la Caisse according to transaction type:

	December 31, 2018	December 31, 2017
Securities borrowing	**120**	157
Securities sold under repurchase agreements	**14,935**	15,986
Exchange-traded derivative financial instruments	**715**	1,092
Over-the-counter derivative financial instruments	**1,545**	648
	17,315	17,883

FINANCIAL ASSETS RECEIVED AS COLLATERAL

La Caisse receives financial assets as collateral for transactions involving securities lending, securities purchased under reverse repurchase agreements and derivative financial instruments. If the fair value of the collateral received decreases, la Caisse may, in certain cases, request additional collateral. La Caisse is authorized to sell or repledge as collateral certain securities in the absence of default by the counterparty. However, no security received as collateral was sold or repledged as collateral for the years ended December 31, 2018 and 2017.

The following table presents the fair value of collateral received by la Caisse according to transaction type:

	December 31, 2018	December 31, 2017
Securities lending	**12,488**	9,740
Securities purchased under reverse repurchase agreements	**10,454**	9,496
Over-the-counter derivative financial instruments	**–**	40
	22,942	19,276

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RELATED PARTY DISCLOSURES

RELATED PARTY TRANSACTIONS

La Caisse's primary related parties include unconsolidated subsidiaries, joint ventures, associates, and la Caisse's key management personnel.

La Caisse enters into various transactions with related parties. These transactions are concluded under the same conditions as those prevailing in the market with unrelated parties and are measured at fair value. Given the very nature of la Caisse's activities as an investment entity, it may make investments in several investment categories, including investments in unconsolidated subsidiaries, joint ventures and associates.

OTHER RELATED PARTIES

La Caisse is governed by the Act, and the Government of Québec appoints the Board of Director members, at least two-thirds of whom must be independent. The Government of Québec also approves the appointment of the President and Chief Executive Officer. Consequently, la Caisse has availed itself of the exemption set out in IAS 24 – *Related Party Disclosures* regarding the disclosure of transactions with a related government and with any entities related to the related government. The transactions carried out with the Government of Québec and its related entities are investment activities involving bonds issued by or guaranteed by the government and are carried out under normal market conditions through external brokers. These bonds are included in the "Governments" and "Government corporations and other public administrations" bond categories of Note 4a. In addition, la Caisse discloses information on the Government sector category in the "Government of Québec" and "Government corporations and other public administrations in Québec" items of Note 12. Furthermore, the Government of Québec and its related entities have entered into agreements related to a public infrastructure project in Québec being carried out through CDPQ Infra Inc, a subsidiary of la Caisse. These agreements were signed in the subsidiary's normal course of business.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

La Caisse's key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly. These persons are the members of the Board of Directors, the President and Chief Executive Officer, and key members of the Executive Committee.

The following table presents the compensation of la Caisse's key management personnel:

	2018	2017
Salaries and other short-term employee benefits	**9**	8
Post-employment benefits	**2**	1
Other long-term employee benefits	**7**	6
	18	15

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INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

CONSOLIDATED SUBSIDIARY

CDP Financial Inc is a wholly owned subsidiary that issues debt securities in order to finance la Caisse's investments at an optimal financing cost.

UNCONSOLIDATED SUBSIDIARIES

The subsidiaries presented in this category are entities controlled by la Caisse either directly or indirectly through subsidiaries in accordance with the criteria in IFRS 10.

INTERMEDIATE SUBSIDIARIES

As part of certain investment activities, la Caisse may use intermediate subsidiaries whose sole purpose is to hold investments for la Caisse. They are therefore not included in the information presented in the following tables, while the main underlying ownership interests in subsidiaries, joint ventures, associates and non-controlled structured entities are presented.

INTERESTS IN OTHER ENTITIES (continued)

The following table presents the ownership interests held in the main consolidated and unconsolidated subsidiaries as at December 31, 2018 as well as the comparative ownership interests as at December 31, 2017:

	Principal place of business	**December 31, 2017 Ownership interest %**	December 31, 2017 Ownership interest %
Consolidated subsidiary			
CDP Financial Inc	Canada	**100.0**	100.0
Unconsolidated subsidiaries			
Real estate debt			
Otéra Capital inc[1]	Canada	**97.5**	97.5
Energy			
Southern Star Acquisition Corporation[2]	United States	**100.0**	50.0
Tenedora de Energía Renovable Sol y Viento S.A.P.I. de C.V.[3]	Mexico	**67.1**	–
Trencap LP (Énergir)[4]	Canada	**64.7**	64.7
Hedge funds			
AIM Quantitative Global SF II Ltd	United States[9]	**100.0**	100.0
CTA ALP Fund, LP	United States	**100.0**	–
CTA FCW Fund, LP	United States	**100.0**	–
CTA JNM Fund, LP (formerly JMFFO Ltd)	United States	**100.0**	100.0
CTA QN5 Fund, LP (formerly AlphaQuest Original Ltd)	United States	**100.0**	100.0
CTA WLH Fund, LP (formerly CDP WTN Diversified Strategy Fund Limited)	United Kingdom[10]	**100.0**	100.0
DSAM Neutral LP	United Kingdom[9]	**100.0**	–
EMN CNM Fund, LP	United States	**100.0**	–
EMN ENP Fund, LP	United States	**100.0**	–
Ionic Pamli Global Credit Strategies Fund	United States[9]	**100.0**	100.0
Kildonan Quebec Fund Ltd	United States[9]	**100.0**	100.0
Newport Mount Royal Opportunity Fund Ltd	United States[9]	**–**	100.0
Private debt fund			
Global Credit Opportunities (Canada) LP	Canada	**100.0**	–
Private investment funds			
Apollo Hercules Partners LP	United States[9]	**97.6**	97.6
EC Partners LP	Singapore	**100.0**	100.0
GSO Churchill Partners LP	United States[9]	**98.0**	98.0
GSO Churchill Partners II LP	United States[9]	**98.0**	98.0
KKR-CDP Partners LP	United States[9]	**90.1**	90.1
Real estate – Ivanhoé Cambridge Group			
Careit Canada DCR GP	Canada	**94.2**	93.5
Careit Canada GP	Canada	**94.2**	93.5
IC Australia Trust	Australia	**94.2**	93.5
IC Investments US G.P.	Canada	**94.2**	93.5
IC Investments Mexico G.P.	Canada	**94.2**	93.5
Ivanhoé Cambridge Inc	Canada	**94.2**	93.5
SITQ E.U. LP	United States	**94.1**	93.4
Industrials			
CDPQ Infra Inc	Canada	**100.0**	100.0
Einn Volant Aircraft Leasing Holdings Ltd	Ireland[11]	**90.5**	90.5
Patina Rail LLP[5]	United Kingdom	**75.0**	75.0
Spinner US AcquireCo Inc (Student Transportation of America)	United States	**79.9**	–
Trust No. 2431[6]	Mexico	**43.0**	43.0
Materials			
Beaudier Ciment Inc (Ciment McInnis Inc)[7]	Canada	**57.3**	58.9
Services			
Datamars SA[8]	Switzerland	**64.8**	65.1

1. Otéra Capital inc owns 78.1% of MCAP Commercial LP.
2. Southern Star Acquisition Corporation was an unconsolidated subsidiary as at December 31, 2018 (presented in the Joint Ventures category as at December 31, 2017).
3. Voting rights amount to 60%.
4. Trencap LP owns 61.1% of Noverco Inc, which owns 100.0% of Énergir Inc., which owns 71.0% of Énergir LP.
5. Patina Rail LLP owns 40.0% of Eurostar International Limited.
6. La Caisse exercises control through a majority of the members of the Board of Directors. Trust No. 2431 owns 49.0% of ICA Operadora de Vias Terrestres, S.A.P.I. de C.V.
7. Beaudier Ciment Inc owns 67.8% of Ciment McInnis Inc (65.5% as at December 31, 2017).
8. Voting rights amount to 55.0% as at December 31, 2018 (55.5% as at December 31, 2017).
9. Constituted in the Cayman Islands in accordance with the limited partner structure.
10. Constituted in the United States.
11. Constituted in Bermuda.

INTERESTS IN OTHER ENTITIES (continued)

JOINT VENTURES

The following table presents the ownership interests held in the main joint ventures as at December 31, 2018 as well as the comparative ownership interests as at December 31, 2017:

		December 31, 2018	December 31, 2017
	Principal place of business	**Ownership interest %**	Ownership interest %
Consumer discretionary			
MED ParentCo LP	United States	**47.7**	47.7
Energy			
HEF HoldCo II, Inc	United States	**33.3**	33.3
Financials			
USI Advantage Corp[1]	United States	**26.0**	26.0
Industrials			
Delachaux SA[2]	France	**43.0**	–
DP World Canada Investment Inc	Canada	**45.0**	45.0
Information technology			
Kiwi Holdco Cayco, Ltd (FNZ)[3]	United Kingdom[4]	**72.0**	–

1. Voting rights amount to 50.0%.
2. Voting rights amount to 50.0%.
3. La Caisse exercises joint control through agreements with the other shareholders.
4. Constituted in the Cayman Islands.

INTERESTS IN OTHER ENTITIES (continued)

ASSOCIATES

The following table presents the ownership interests held in the main associates as at December 31, 2018 as well as the comparative ownership interests as at December 31, 2017:

	Principal place of business	**December 31, 2018** Ownership interest %	December 31, 2017 Ownership interest %
Consumer discretionary			
Cogeco Communications USA Inc	United States	**21.0**	–
Québecor Média Inc[1]	Canada	**–**	18.5
SGU Holdings LP	United States[10]	**46.7**	46.7
Energy			
Azure Power Global Ltd	India[11]	**40.3**	21.0
Corex Resources Ltd	Canada	**49.5**	49.5
Fluxys SA	Belgium	**20.0**	20.0
Interconnector UK Ltd	United Kingdom	**–**	33.5
Invenergy Renewables LLC[2]	United States	**53.6**	31.7
IPALCO Enterprises, Inc	United States	**30.0**	30.0
London Array Ltd, London Array Unincorporated JV	United Kingdom	**25.0**	25.0
NSW Electricity Networks Assets Holding Trust, NSW Electricity Networks Operations Holding Trust (TransGrid)	Australia	**22.5**	22.5
Suez Water Technologies and Solutions SA	France	**30.0**	30.0
Techem GmbH	Germany	**24.5**	–
Finance			
Avison Young (Canada) Inc	Canada	**33.3**	–
Catalina Holdings (Bermuda) Ltd	United States[12]	**–**	29.9
Greenstone Ltd	Australia	**30.0**	30.0
Hyperion Insurance Group Ltd	United Kingdom	**29.6**	–
Industrials			
Airport Holding Kft	Hungary	**21.2**	21.2
Alix Partners LLP	United States	**21.0**	21.0
Alvest International Equity SAS[3]	France	**39.9**	–
CAMSO Inc[4]	Canada	**–**	19.5
Fives Group[5]	France	**30.4**	–
Groupe Keolis SAS	France	**30.0**	30.0
Groupe Solmax Inc	Canada	**30.0**	30.0
Knowlton Development Corporation Inc[6]	Canada	**35.8**	–
Lightspeed POS Inc	Canada	**44.6**	44.6
Organización de Proyectos de Infraestructura, S.A.P.I. de C.V. (OPI), OPCEM, S.A.P.I. de C.V. (OPCEM)	Mexico	**45.5**	–
IPL Plastics Inc. (formerly IPL Plastics Plc)	Canada	**27.4**	26.6
PlusGrade Parent LP[7]	Canada	**39.9**	–
QPH Hold Trust, QPH Hold Co PTY Limited (Port of Brisbane)	Australia	**26.7**	26.7
Sedgwick LLP (formerly Sedgwick Inc)[8]	United States	**21.0**	29.2
TVS Logistics Services	India	**38.2**	38.2
Health care			
Image Networks Holdings Pty Ltd	Australia	**–**	30.0
Sphinx SAS (formerly Sam Topco SAS)[9]	France	**–**	49.1
Community services			
CLP India Pvt Ltd	India	**40.0**	–
Real estate services			
Groupe Foncia	France	**29.1**	29.1
Rail transport			
Bombardier Transportation (Investment) UK Limited	Germany[13]	**27.5**	30.0

1. Voting rights amount to 20.0% as at December 31, 2017.
2. Voting rights amount to 45.0%. La Caisse did not have any significant influence as at December 31, 2017.
3. Voting rights amount to 28.6%.
4. Voting rights amount to 22.2% as at December 31, 2017.
5. Voting rights amount to 20.3%.
6. Voting rights amount to 27.8%.
7. Voting rights amount to 37.5%.
8. La Caisse ceased to have significant influence in 2018 as a result of a transaction.
9. Voting rights amount to 20.0% as at December 31, 2017.
10. Constituted in Canada.
11. Constituted in Mauritius.
12. Constituted in Bermuda in accordance with the limited partner structure.
13. Constituted in the United Kingdom.

NON-CONTROLLED STRUCTURED ENTITIES

La Caisse holds interests in non-controlled structured entities, the majority of which represent private investment funds or limited partnerships. The interests held by la Caisse do not give it power over the relevant activities of these entities, as control is established by contractual agreement in favour, generally, of a general partner or administrator. The maximum exposure to loss attributable to the various interests held in the main non-controlled structured entities is limited to the fair value of the investment held by la Caisse, i.e., $25,732 million in 207 companies as at December 31, 2018 ($23,517 million in 261 companies as at December 31, 2017).

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RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following tables present changes in liabilities arising from financing activities, including non-cash changes:

			Non-cash changes		
	January 1, 2018	**Cash flows from financing activities**	**Change in foreign exchange**	**Change in fair value**	**December 31, 2018**
Commercial paper payable	**4,556**	**1,180**	**182**	**3**	**5,921**
Loans payable	**364**	**(80)**	**–**	**6**	**290**
Term notes payable	**9,198**	**–**	**607**	**(207)**	**9,598**
	14,118	**1,100**	**789**	**(198)**	**15,809**

			Non-cash changes		
	January 1, 2017	Cash flows from financing activities	Change in foreign exchange	Change in fair value	December 31, 2017
Commercial paper payable	4,813	(151)	(106)	–	4,556
Loans payable	189	176	(1)	–	364
Term notes payable	9,574	–	(372)	(4)	9,198
	14,576	25	(479)	(4)	14,118

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COMMITMENTS AND CONTINGENCIES

Given the nature of its activities, la Caisse enters into various investment purchase commitments that will be settled in the coming fiscal years in accordance with the terms and conditions in the related agreements.

For la Caisse, guarantees consist of providing guarantees, to financial institutions and corporations, on derivative financial instrument transactions, repayment of loans taken by companies in which it has an economic interest, and certain letters of credit of its subsidiaries. As part of certain investment transactions, la Caisse may also provide guarantees or issue letters of credit to third parties. The maturities of the commitments are presented in Note 12.

The commitments and guarantees are detailed as follows:

	December 31, 2018	December 31, 2017
Investment purchase commitments	**18,450**	19,314
Commitments under operating leases	**516**	542
Guarantees	**397**	86
	19,363	19,942

LITIGATION

In the normal course of business, la Caisse may be subject to legal actions. Although la Caisse cannot predict the outcomes of any ongoing legal proceedings as at December 31, 2018, it has no reason to believe that the settlement of any one of these proceedings could have a material impact on its financial position.

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SUPPLEMENTARY INFORMATION

The following statements present the financial information of the specialized portfolios:

Statement of financial position	SHORT-TERM INVESTMENTS (740) 2018	2017	RATES (765) 2018	2017	CREDIT (766) 2018	2017	LONG-TERM BONDS (764) 2018	2017
ASSETS								
Investments	**866**	1,892	**47,154**	59,599	**63,842**	67,532	**3,637**	3,697
Other financial assets	**2**	–	**3,796**	1,500	**950**	739	**44**	34
Total assets	**868**	1,892	**50,950**	61,099	**64,792**	68,271	**3,681**	3,731
LIABILITIES								
Investment liabilities	**–**	–	**17,681**	20,541	**7,203**	16,693	**818**	793
Other financial liabilities	**2**	–	**485**	546	**1,914**	1,505	**18**	9
Total liabilities excluding net assets attributable to holders of participation units	**2**	–	**18,166**	21,087	**9,117**	18,198	**836**	802
Net assets attributable to holders of participation units	**866**	1,892	**32,784**	40,012	**55,675**	50,073	**2,845**	2,929

Statement of comprehensive income	2018	2017	2018	2017	2018	2017	2018	2017
Investment income	**16**	22	**1,225**	904	**2,732**	2,057	**83**	83
Investment expense	**(1)**	–	**(275)**	(185)	**(415)**	(292)	**(1)**	–
Net investment income	**15**	22	**950**	719	**2,317**	1,765	**82**	83
Operating expenses	**–**	–	**(24)**	(19)	**(72)**	(67)	**–**	(1)
Net income	**15**	22	**926**	700	**2,245**	1,698	**82**	82
Net gains (losses) on financial instruments at fair value	**–**	–	**(175)**	(35)	**(1,112)**	563	**(84)**	141
Investment result before distributions to (recoveries from) holders of participation units	**15**	22	**751**	665	**1,133**	2,261	**(2)**	223
Recoveries (distributions)	**(15)**	(22)	**(926)**	(700)	**(2,245)**	(1,698)	**(82)**	(82)
Net income and comprehensive income attributable to holders of participation units	**–**	–	**(175)**	(35)	**(1,112)**	563	**(84)**	141

Statement of changes in net assets attributable to holders of participation units	2018	2017	2018	2017	2018	2017	2018	2017
Balance at beginning of the year	**1,892**	6,154	**40,012**	36,817	**50,073**	42,686	**2,929**	2,633
Participation units								
Units issued	**963**	2,926	**4,185**	5,684	**8,294**	7,964	**393**	356
Units cancelled	**(1,989)**	(7,188)	**(11,238)**	(2,454)	**(1,580)**	(1,140)	**(393)**	(201)
Net change in participation units for the year	**(1,026)**	(4,262)	**(7,053)**	3,230	**6,714**	6,824	**–**	155
Net income and comprehensive income attributable to holders of participation units	**–**	–	**(175)**	(35)	**(1,112)**	563	**(84)**	141
Balance at the end of the year	**866**	1,892	**32,784**	40,012	**55,675**	50,073	**2,845**	2,929

Statement of financial position	REAL RETURN BONDS (762) 2018	2017	INFRASTRUCTURE (782) 2018	2017	REAL ESTATE (710) 2018	2017	EQUITY MARKETS (737) 2018	2017
Assets								
Investments	**1,294**	1,199	**24,383**	16,236	**38,317**	34,401	**104,327**	111,125
Other financial assets	**17**	2	**64**	15	**9**	4	**5,493**	4,214
Total assets	**1,311**	1,201	**24,447**	16,251	**38,326**	34,405	**109,820**	115,339
Liabilities								
Investment liabilities	**116**	10	**1,699**	50	**19**	30	**1,341**	2,841
Other financial liabilities	**–**	6	**198**	227	**81**	111	**464**	537
Total liabilities excluding net assets attributable to holders of participation units	**116**	16	**1,897**	277	**100**	141	**1,805**	3,378
Net assets attributable to holders of participation units	**1,195**	1,185	**22,550**	15,974	**38,226**	34,264	**108,015**	111,961

Statement of comprehensive income	2018	2017	2018	2017	2018	2017	2018	2017
Investment income	**27**	23	**974**	762	**17**	190	**2,849**	2,669
Investment expense	**–**	–	**(106)**	(4)	**(1)**	–	**(101)**	(81)
Net investment income	**27**	23	**868**	758	**16**	190	**2,748**	2,588
Operating expenses	**(1)**	–	**(97)**	(74)	**(10)**	(14)	**(137)**	(135)
Net income	**26**	23	**771**	684	**6**	176	**2,611**	2,453
Net gains (losses) on financial instruments at fair value	**(27)**	(13)	**1,265**	756	**2,729**	2,363	**(3,639)**	11,104
Investment result before distributions to (recoveries from) holders of participation units	**(1)**	10	**2,036**	1,440	**2,735**	2,539	**(1,028)**	13,557
Recoveries (distributions)	**(26)**	(23)	**(771)**	(684)	**(6)**	(176)	**(2,611)**	(2,453)
Net income and comprehensive income attributable to holders of participation units	**(27)**	(13)	**1,265**	756	**2,729**	2,363	**(3,639)**	11,104

Statement of changes in net assets attributable to holders of participation units	2018	2017	2018	2017	2018	2017	2018	2017
Balance at beginning of the year	**1,185**	1,085	**15,974**	14,563	**34,264**	31,724	**111,961**	101,040
Participation units								
Units issued	**146**	154	**5,956**	1,741	**1,416**	1,222	**7,636**	7,945
Units cancelled	**(109)**	(41)	**(645)**	(1,086)	**(183)**	(1,045)	**(7,943)**	(8,128)
Net change in participation units for the year	**37**	113	**5,311**	655	**1,233**	177	**(307)**	(183)
Net income and comprehensive income attributable to holders of participation units	**(27)**	(13)	**1,265**	756	**2,729**	2,363	**(3,639)**	11,104
Balance at end of the year	**1,195**	1,185	**22,550**	15,974	**38,226**	34,264	**108,015**	111,961

	PRIVATE EQUITY (780)		ASSET ALLOCATION (771)		ACTIVE OVERLAY STRATEGIES (773)	
STATEMENT OF FINANCIAL POSITION	**2018**	2017	**2018**	2017	**2018**	2017
ASSETS						
Investments	**44,323**	36,718	**4,204**	5,072	**9,068**	7,202
Other financial assets	**156**	1,026	**1,326**	1,362	**508**	272
Total assets	**44,479**	37,744	**5,530**	6,434	**9,576**	7,474
LIABILITIES						
Investment liabilities	**1,361**	406	**3,441**	4,235	**8,957**	6,885
Other financial liabilities	**976**	838	**465**	841	**90**	16
Total liabilities excluding net assets attributable to holders of participation units	**2,337**	1,244	**3,906**	5,076	**9,047**	6,901
Net assets attributable to holders of participation units	**42,142**	36,500	**1,624**	1,358	**529**	573

Statement of comprehensive income	**2018**	2017	**2018**	2017	**2018**	2017
Investment income	**2,114**	2,760	**61**	77	**297**	18
Investment expense	**(12)**	(10)	**(69)**	(38)	**(185)**	(94)
Net investment income	**2,102**	2,750	**(8)**	39	**112**	(76)
Operating expenses	**(199)**	(178)	**(15)**	(11)	**(28)**	(33)
Net income	**1,903**	2,572	**(23)**	28	**84**	(109)
Net gains (losses) on financial instruments at fair value	**3,965**	1,427	**26**	(859)	**(247)**	(16)
Investment result before distributions to (recoveries from) holders of participation units	**5,868**	3,999	**3**	(831)	**(163)**	(125)
Recoveries (distributions)	**(1,903)**	(2,572)	**23**	(28)	**(84)**	109
Net income and comprehensive income attributable to holders of participation units	**3,965**	1,427	**26**	(859)	**(247)**	(16)

Statement of changes in net assets attributable of holders of participation units	**2018**	2017	**2018**	2017	**2018**	2017
Balance at beginning of the year	**36,500**	29,960	**1,358**	1,356	**573**	629
Participation units						
Units issued	**4,908**	7,141	**735**	940	**550**	232
Units cancelled	**(3,231)**	(2,028)	**(495)**	(79)	**(347)**	(272)
Net change in participation units for the year	**1,677**	5,113	**240**	861	**203**	(40)
Net income and comprehensive income attributable to holders of participation units	**3,965**	1,427	**26**	(859)	**(247)**	(16)
Balance at end of the year	**42,142**	36,500	**1,624**	1,358	**529**	573

FINANCIAL CERTIFICATE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, Michael Sabia, President and Chief Executive Officer of Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of Caisse de dépôt et placement du Québec ("la Caisse") for the year ended December 31, 2018.

2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the consolidated financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of la Caisse as at the closing dates of the periods presented in the Annual Filings, as well as its comprehensive income, changes in net assets attributable to depositors, and cash flows for those years.

4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for la Caisse.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, at fiscal year-end, I have:

   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:

      i) Material information relating to la Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared; and that

      ii) Information required to be disclosed by la Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.

   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the consolidated financial statements have been prepared, with a view to publication of financial information, in accordance with International Financial Reporting Standards (IFRS).

5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

5.2. **ICFR material weakness relating to design:** Not applicable.

5.3. **Limitation of scope and design:** Not applicable.

6. **Evaluation:** I have:

   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report my conclusions based on this evaluation.

   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report the following information:

      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.

      ii) Description of any material weaknesses relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes to the ICFR:** La Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2018 and ending on December 31, 2018 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee of la Caisse:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of la Caisse or its Audit Committee, any fraud that involves management or other employees who have a significant role in the ICFR.

MICHAEL SABIA
President and Chief Executive Officer

April 5, 2019

FINANCIAL CERTIFICATE OF THE EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

I, Maarika Paul, Executive Vice-President and Chief Financial and Operations Officer of Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of Caisse de dépôt et placement du Québec ("la Caisse") for the year ended December 31, 2018.

2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the consolidated financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of la Caisse as at the closing dates of the periods presented in the Annual Filings, as well as its comprehensive income, changes in net assets attributable to depositors, and cash flows for those years.

4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for la Caisse.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, at fiscal year-end, I have:
   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:
      i) Material information relating to la Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared; and that
      ii) Information required to be disclosed by la Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.

   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the consolidated financial statements have been prepared, with a view to publication of financial information, in accordance with International Financial Reporting Standards (IFRS).

5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

5.2 **ICFR material weakness relating to design:** Not applicable.

5.3. **Limitation of scope and design:** Not applicable.

6. **Evaluation:** I have:
   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report my conclusions based on this evaluation.
   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report the following information:
      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation; and
      ii) Description of any material weaknesses relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes to the ICFR:** La Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2018 and ending on December 31, 2018 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee of la Caisse:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of la Caisse or its Audit Committee, any fraud that involves management or other employees who have a significant role in the ICFR.

MAARIKA PAUL, FCPA, FCA, EEE, IAS.A
Executive Vice-President and
Chief Financial and Operations Officer

April 5, 2019

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In 2018, the Chief Financial and Operations Officer oversaw work to update existing documentation and to evaluate the design and effectiveness of internal control over financial reporting, and the Executive Committee approved the methodology for evaluating key controls. The purpose of this evaluation of internal control over the main financial processes was to ensure that la Caisse could meet its quality objectives related to financial reporting, in all material respects.

The evaluation of the design and effectiveness of internal control over financial reporting was carried out with the framework usually adopted by North American companies, namely that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013). This work enabled the Executive Committee to conclude that the design of control over financial reporting is adequate and effective, and that it provides reasonable assurance that the financial information presented in the Annual Filings, as defined by la Caisse's Financial Certification Policy, is reliable, and that la Caisse's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF FINANCIAL REPORTING CONTROLS AND PROCEDURES

Under la Caisse's Financial Certification Policy, the design and effectiveness of disclosure controls and procedures pertaining to the Annual Filings, namely the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report, must be evaluated.

As with the evaluation of internal control over financial reporting, the Chief Financial and Operations Officer also oversaw efforts to update existing documentation and to evaluate the design and effectiveness of disclosure controls and procedures, and the Executive Committee also approved the methodology for evaluating key controls.

As at December 31, 2018, the evaluation confirmed that the disclosure controls and procedures are adequate and effective, and provide reasonable assurance that all relevant information is gathered and submitted in a timely fashion to senior management, in particular to the President and Chief Executive Officer and to the Chief Financial and Operations Officer, so as to ensure that appropriate decisions concerning disclosure can be made.

The Board of Directors also approved the 2018 Annual Filings before their public disclosure.

General Notes

1. La Caisse's operations comply with the requirements of the Act respecting the Caisse de dépôt et placement du Québec[1] and investment industry practices. Its financial statements are prepared in accordance with International Financial Reporting Standards. Each year, la Caisse's co-auditors, the Auditor General of Québec and Ernst & Young LLP, audit the financial statements, the compliance of operations with laws, regulations, policies and guidelines, to the extent they deem appropriate.

2. The 2018 Annual Report Additional Information is an integral part of the 2018 Annual Report and presents, in the first section, the Tables of Returns as at December 31, 2018, for composites of la Caisse's depositors' accounts. These tables and calculations have been audited as at December 31, 2018 by Deloitte LLP for compliance with the Global Investment Performance Standards (GIPS®).

3. In this Annual Report, net assets and net investment results are defined as being, in the consolidated financial statements, net assets attributable to depositors and investment results before distributions to depositors.

4. The returns of the specialized portfolios use the time-weighted rate of return formula.

5. The benchmark indexes for the asset classes and overall portfolio are based on the weighted average of the benchmark indexes for the specialized portfolios that comprise them.

6. Unless otherwise stated, returns, which are expressed as a percentage, are presented net of transaction fees, external management fees related to investment funds, and unconsolidated real estate subsidiaries fees, but before operating expenses and other fees. They are annualized for periods of more than one year. They include the return on cash and cash equivalents and they take into account any foreign exchange hedging. The ratio of operating expenses to the average net assets of each specialized portfolio is presented in the notes in the 2018 Annual Report Additional Information.

7. Unless otherwise stated, net investment results and net assets attributable to depositors are presented net of operating expenses and other fees.

8. Some returns are expressed in basis points (b.p.s.). One hundred basis points equal 1.00% and one basis point equals 0.01%.

9. Unless otherwise stated, all figures are in Canadian dollars. The letters M and B used with dollar amounts designate millions and billions, respectively.

10. Totals (figures or percentages) may vary because of rounding of figures.

11. Unless otherwise stated, all data in the tables and figures are from studies carried out by la Caisse.

12. The tables listing the top 10 investments present, in alphabetical order, the main cash positions based on information shown in tables 7, 8, 9 and 10 of the 2018 Annual Report Additional Information.

13. To determine whether an asset is classified as a Québec investment, la Caisse uses the location of the head office of the company or of the issuer or, in the case of real estate, the location of the property.

    This classification system is widely used in the fund management industry but involves biases. Some companies are included even though their core operations are outside Québec. Similarly, companies with extensive operations in Québec are excluded if their head office is outside the province.

1. The Act respecting the Caisse de dépôt et placement du Québec is available on la Caisse's website at www.cdpq.com.

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The 2018 Annual Report and the 2018 Annual Report Additional Information are available at www.cdpq.com.
For information: 514 842-3261, info@cdpq.com
Le Rapport annuel 2018 et le document Renseignements additionnels au Rapport annuel 2018 sont aussi accessibles en français au www.cdpq.com.
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