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

DBRS Morningstar
July 2, 2021

Contents

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Ratings

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

* Guaranteed by Caisse de dépôt et placement du Québec.

Rating Update

On July 2, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating of Caisse de dépôt et placement du Québec (CDPQ) at AAA. DBRS Morningstar also confirmed CDP Financial Inc.'s (CDP Financial) Long-Term Debt rating at AAA as well as its Canadian Short-Term Promissory Notes, U.S. Commercial Paper Notes, and Euro Commercial Paper Notes ratings at R-1 (high). All trends are Stable. The ratings are supported by a legislative framework that results in a substantial and captive asset base, a low-recourse debt burden, ample liquidity, and strong operating performance.

CDPQ achieved a total return of 7.7% in 2021, driven by a strong performance in equity portfolios, including public and private equities, as well as a high return from fixed income investments. On a relative basis, the overall portfolio underperformed its benchmark (BM) by 150 basis points (bps), primarily because of the impact of the Coronavirus Disease (COVID-19) on some investments in real estate. Net assets increased by $25.4 billion to $365.5 billion in 2020 as a result of $25.4 billion in net investment results, in addition to $0.6 billion in net contributions by depositors, offset by operating expenses of $0.6 billion. Net returns measured over both a five-year and a 10-year investment horizon have outperformed their BMs by 20 and 40 bps, respectively.

CDPQ's investment approach has remained largely unchanged in recent years. The key pillars of the strategy are optimizing performance for clients, contributing to the economic development of Québec, increasing global presence, affirming the leadership in stewardship investing, and capitalizing on technology trends. In 2020, CDPQ formalized a new focus to seek technological innovations for its investment opportunities and advancement of its operations. Management continues to enhance its risk management and depositor relationship management functions. CDPQ's credit profile continues to benefit from a diverse and captive group of depositors that has continued to grow in recent years. In 2020, the board reviewed and confirmed CDPQ's strategic directions and team execution priorities of each investment group, which are in line with the previous plan. In 2020, CDPQ appointed a new president and chief executive officer (CEO), implemented key changes in the organization structure, and created CDPQ Global to raise further its international profile and deploy an integrated approach as it continues to globalize its investments.

Debt with recourse to CDPQ increased to $22.1 billion in 2020, or 5.7% of adjusted net assets. Despite the slight increase, the recourse debt burden remains well below the board-approved limit of 10% of adjusted net assets, providing considerable room for cyclical fluctuations in asset values. CDPQ meets the DBRS Morningstar criteria for commercial paper (CP) liquidity support, as outlined in the Appendix to the DBRS Morningstar methodology *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers* under the heading "Self-Liquidity for Canadian Public Pension Funds and Related Exclusive Asset Managers' CP Programs." CDPQ's liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized commercial paper (CP) program limit, which is consistent with DBRS Morningstar's policy on backup liquidity support for pension plans and provides considerable short-term financial flexibility.

The USD 4.0 billion credit facility guaranteed by CDPQ for general corporate purposes was renewed in 2020 and remained undrawn as at December 31, 2020.

Financial Information

	For the year ended December 31				
($ billions)	**2020**	**2019**	**2018**	**2017**	**2016**
Net depositor assets	365.5	340.1	309.5	298.5	270.7
Recourse debt [1]	22.1	21.1	15.5	13.8	14.4
As a share of adjusted net assets (%) [2]	5.7	5.8	4.8	4.4	5.0
Portfolio return (%)	7.7	10.4	4.2	9.3	7.6
BM return (%)	9.2	11.9	2.4	9.2	5.8

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

Issuer Description

Created in 1965, CDPQ is a public-sector entity with the mandate to manage funds for 42 public and parapublic depositors. Depositors include public-sector pension and insurance plans and some government entities. CDP Financial is a wholly owned subsidiary of CDPQ set up to develop financing programs to meet the needs of CDPQ's investment groups. The ratings on the debts issued by CDP Financial are predicated on the unconditional and irrevocable guarantees provided by CDPQ.

Rating Considerations

Strengths

1. Exclusive legislated mandate to manage the assets

CDPQ has an exclusive mandate to manage a large pool of assets on behalf of public-sector depositors. The eight largest depositors, which account for 96.3% of net assets, are required to deposit their funds with CDPQ. The broad base of depositors provides a degree of diversification with respect to depositors' contributions. In recent years, CDPQ has worked to improve its depositor relationships through enhanced services/support, which has led to high depositor satisfaction.

2. Large base of unencumbered assets and low debt

CDPQ had net assets of $365.5 billion as at December 31, 2020, while recourse debt amounted to 5.7% of adjusted net assets, which provides a significant cushion against adverse market movements. In addition, the substantial net assets have provided CDPQ with the scale necessary to develop robust investment and risk management functions and achieve a high degree of diversification.

3. Substantial liquidity

CDPQ maintains a large pool of marketable fixed-income securities that can be readily converted to meet financial obligations. It has prudent policies and procedures in place that require sufficient liquidity to ensure all of its liquidity commitments to the capital markets and its depositors are met and it could rebalance its portfolios as well as deploy capital opportunistically during a period of market stress. CDPQ also has the ability to issue CP globally in various currencies such as USD, CAD, and Euros and has access to repurchase agreements, which enables it to quickly generate liquidity if necessary. In addition, CDPQ has a committed USD 4 billion credit facility, which was renewed in 2020 and remained undrawn as at December 31, 2020.

4. No direct responsibility for depositors' liabilities

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

Challenges

1. Legislative changes could weaken depositor relationships

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

2. Challenging investment environment

CDPQ's investment management skills will continue to be tested as it navigates the emergence from the coronavirus pandemic. The more contagious variants, the varying degrees of public health measures taken to control the spread of the virus around the globe, and the pace of the vaccine rollout will continue to affect investment performance valuations in sectors relying on direct consumer interactions; however, t the same time, these factors will create new opportunities in sectors that have benefitted from an acceleration of behavioral changes such as the more rapid digitalization of the economy. Furthermore, high valuations in public and private markets along with persistent low interest rates could challenge investment returns and lead to an increased exposure to riskier assets. Riskier assets can offer potentially higher long-term results, but may also add more volatility to the valuation of the asset base in the short term. However, this challenge is mitigated by CDPQ's diversified portfolio, disciplined approach, history of strong investment returns, and a low recourse debt burden that provides considerable room for asset-base movements.

Investment Performance

CDPQ generated $25.4 billion in net investment income, or a return of 7.7%, in 2020, driven by a strong performance in equity portfolios, including public and private equities, as well as a high return from fixed income investments. On a relative basis, the overall portfolio underperformed its benchmark (BM) by 150 basis points (bps), primarily because of the impact of the pandemic on some investments in real estate.

CDPQ's real estate portfolio suffered a 15.6% loss in 2020, partly attributed to a large exposure to shopping centres and offices, which were hard hit by containment measures and remote working. However, the share of retail and offices in the real estate portfolio has been declining in the past years, and currently stands at 17.4% and 22.8%, respectively, as Caisse has been diversifying away towards logistics, industrial areas, and mixed-used projects, which continue to perform well. CDPQ's public equity portfolio posted strong returns of 8.3% that were slightly below its BM of 12.9% in 2020. CDPQ's public equity investment style favors quality and defensive equities which built resilience to its portfolios during a downturn; however, this affected performance in 2020 when the market rallied on growth stocks, particularly those in the technology sector. The private equity portfolio on the other hand, generated a return of 20.7% surpassing its BM of 9.9%, attributed to strong performance in investments in technology, healthcare, and services sectors that complement the defensive tilt of the public equity portfolio. Caisse also reviewed and implemented key steps to capitalize on the investment opportunities in technology transformation, which will lead to a stronger drift towards this area in the portfolio. The fixed income portfolio generated a 9.0% return, which outperformed its BM of 8.2%. It benefited from rate cuts in various markets and high yields from the credit portfolio, while the credit strength of its investments relatively held up in 2020. Infrastructure generated strong returns as the shift in environmental, social, and governance (ESG) initiatives and working from home became tailwind for renewable energy and telecommunication facilities.

Despite the underperformance in 2020,] CDPQ has generally outperformed its BM since the end of the 2008 financial crisis. Over the last five years, CDPQ has achieved an average annual return of 7.8%, which exceeded the BM average return of 7.6%. CDPQ attributes much of this success to its efforts to enhance the investment selection process, its globalization strategy and its focus on quality assets.

Investment Returns

	Five-Year	Ten-Year	For the year ended December 31				
	Average	**Average**	**2020**	**2019**	**2018**	**2017**	**2016**
Portfolio (%)	7.8	8.6	7.7	10.4	4.2	9.3	7.6
BM (%) [1]	7.6	8.2	9.2	11.9	2.4	9.2	5.8

1. CDPQ’s policy portfolio BM is weighted using actual portfolio class weightings.

Investment Returns

For the year ended December 31

Percentage	2020 Return	2020 BM	2020 Variance	2019 Return	2018 Return	2017 Return	2016 Return
Fixed Income							
Rates [1]	8.6	8.2	0.4	4.8	2.3	1.8	
Credit [1]	8.9	7.8	1.1	10.9	2.3	5.1	
Bonds [1]							3.1
Real estate debt [1]							2.6
Short-term investments	1.0	0.9	0.1	1.7	1.5	0.6	0.5
Long-term bonds	11.6	11.6	0.0	12.6	0.0	8.0	2.1
Real return bonds [2]	12.8	13.0	(0.2)	8.0	(0.1)	0.8	2.8
Total	**9.0**	**8.2**	**0.8**	**8.9**	**2.1**	**3.5**	**2.9**
Real Assets							
Real estate	(15.6)	1.7	(17.3)	(2.7)	7.8	8.0	10.4
Infrastructure	5.1	0.5	4.6	7.1	11.2	10.1	11.1
Total	**(7.0)**	**(0.2)**	**(7.2)**	**1.0**	**9.0**	**8.7**	**10.6**
Equities							
Public equity	8.3	12.9	(4.6)	17.2	(0.9)	13.7	9.4
Global quality mandate	4.4	12.3	(7.9)	18.2	6.4	9.5	4.0
Canada mandate	(1.7)	5.6	(7.3)	20.5	(7.2)	7.9	22.7
Growth markets mandate	23.2	17.6	5.6	17.2	(7.9)	28.4	5.9
Alternative Beta mandate	5.4	14.2	(8.8)	17.3	(0.7)	14.7	4.6
Relationship Investing mandate	6.8	13.9	(7.1)				
Global Value mandate	0.6	14.2	(13.6)	12.1			
Private equity	20.7	9.9	10.8	10.5	16.6	13.0	14.0
Total	**12.4**	**12.7**	**(0.3)**	**10.4**	**3.5**	**13.6**	**10.4**
Other Investments							
Active overlay strategies (millions) [3]	n/a	n/a	n/a	206	(163)	(125)	28
Consolidated Asset allocation (CAD millions) [4]	841	n/a	n/a	n/a	n/a	n/a	n/a
ABTNs (CAD millions) [5]							140
Portfolio	**7.7**	**9.2**	**-1.5**	**10.4**	**4.2**	**9.3**	**7.6**

1. As of January 1, 2017, the bonds and real estate debt portfolios were closed and transferred to the rates and credit portfolios.
2. In 2016, real return bonds moved to Fixed Income from Inflation-Sensitive Investments.
3. Closed on January 1, 2020.
4. Consolidated Asset Allocation activities include the Asset Allocation specialized portfolio and allocations to other specialized portfolios.
5. Closed on June 1, 2017.

Investment and Risk Management

Investment Allocations and Strategy

CDPQ manages depositors' funds in accordance with the depositors' asset allocations and investment policies, which are based upon the depositors' objectives/purposes, return requirements, risk tolerances, and investment horizons. Depositors allocate funds across 10 specialized portfolios, which are managed in accordance with specific investment policies that define, among other things, the investment philosophy and universe, the BM, value-added objectives, and concentration and risk limits. CDPQ also offers customized advisory service that allows depositors to tailor their exposures in line with their long term needs.

The portfolio BM represents the weighted average (WA) of the depositors' asset allocations. The BM asset allocation shifted slightly in 2020, in line with Caisse's strategy to allocate more funds to private investments including equities, credit and infrastructure. The actual asset allocation shifted generally in line with the BM, with the Fund overweighed in private markets, except for real estate, which was underweighted in 2020.

The core elements of CDPQ's investment strategy have remained stable in recent years, and revolve around the following main orientations:

- Optimization of clients' portfolio performance.
- Contribution to the economic development of Québec.
- Increase in global presence.
- Leadership in stewardship investing
- Capitalization on technological trends

Caisse formalized a new focus on technology trends in its strategic orientations in 2020, and is looking to create value by seeking investment opportunities in the areas where promising technology innovation are transforming the economy, as well as managing technology risks where they may have an impact on its current portfolio and business operations.

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

CDPQ continues to expand its international footprint as it grows in size, and in order to support an integrated approach, it created CDPQ Global in 2020. The role of CDPQ Global is to steer the globalization strategy and to approach the various markets with a cross-functional perspective. From 2015 to 2020, the share of the portfolio invested directly in Canada has fallen to 32% from 46%. Furthermore, to support globalization of its portfolio as well as growth in less-liquid asset classes, CDPQ has sought to build and enhance its relationships with other institutional investors and asset managers. Through these relationships, CDPQ expects to access better investment opportunities and improve asset returns.

In recent years, illiquid private market assets have supported returns in the low-yield environment. While CDPQ has had a large real estate footprint for many years, it has quickly expanded into infrastructure. Over the last five years, CDPQ's infrastructure holdings have more than doubled to $31.7 billion as at year-end (YE) 2020, and management expects that they will continue to increase over the next few years. More significantly, CDPQ has begun to move into greenfield infrastructure investments to give it an edge in a highly competitive infrastructure investment market. CDPQ established CDPQ Infra in 2015 to serve as the operational subsidiary that will hold existing and new brownfield investments and carry out greenfield infrastructure projects like the light-rail network in Montréal (Réseau express métropolitain), which broke ground in the spring of 2018. While greenfield investments are notably higher risk, CDPQ expects traditional brownfield infrastructure investments will continue to account for the bulk of the infrastructure portfolio's holdings. Infrastructure also fits into a broader globalization theme. With the focus on globalizing its investment portfolios, CDPQ has invested heavily around the world, particularly in growth markets in the Asia Pacific and Latin America regions, where the share in its infrastructure portfolio increased to 33.9% at the end of 2020 from 22.6% in 2015.

In 2017, the board approved an investment strategy to address the global challenge of climate change. CDPQ was the first Canadian pension asset manager to include climate change as one of its targets. It has committed to a carbon-neutral portfolio by 2050 and it has joined forces with 13 other global asset managers to found the Net-Zero Alliance, an initiative convened by the United Nations and the Principles for Responsible Investment, to address the goals of the Paris Agreement. By actively involving in industry initiatives and forming alliances, CDPQ can continue to influence changes and solidify its leadership position in ESG matters. CDPQ exceeded the low-carbon investment target for 2020 by adding \$2.0 billion low-carbon assets over the past year, bringing its total investment in low-carbon assets to \$36.0 billion. It has also achieved a 38% reduction in the portfolio carbon intensity, already exceeding its target of 25% set for 2025.

Portfolio Composition

		Actual Portfolio Composition				
		As at December 31				
Percentage	**BM 2020** [1]	**2020**	**2019**	**2018**	**2017**	**2016**
Fixed Income						
Rates [2]	11.0	8.4	9.2	10.7	13.4	
Credit [2]	18.0	20.6	19.5	18.2	17.0	
Bonds [2]						25.2
Real estate debt [2]						4.3
Short-term investments	1.1	0.4	0.3	0.3	0.6	2.3
Long-term bonds	0.9	0.9	0.9	0.9	1.0	1.0
Real return bonds [3]	0.2	0.2	0.4	0.4	0.4	0.4
Total	**31.2**	**30.5**	**30.3**	**30.5**	**32.4**	**33.2**
Real Assets						
Real estate	12.5	9.8	11.7	12.4	11.5	11.8
Infrastructure	8.5	8.8	8.2	7.3	5.4	5.4
Total	**21.0**	**18.6**	**19.9**	**19.7**	**16.9**	**17.2**
Equities						
Public equity	33.2	32.6	34.4	35.1	37.6	37.5
Private equity	14.6	17.8	14.8	13.9	12.5	11.3
Total	**47.8**	**50.4**	**49.2**	**49.0**	**50.1**	**48.8**
Other Investments						
Active overlay strategies [4]			0.2	0.2	0.2	0.2

Asset allocation	0.0	0.5	0.4	0.6	0.4	0.6
ABTN [5]						
Total	**0.0**	**0.5**	**0.6**	**0.8**	**0.6**	**0.8**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

1. The portfolio BM composition is the weighted average of the depositors' BM portfolios.
2. As of January 1, 2017, the bonds and real estate debt portfolios were closed and transferred in the rates and credit portfolios.
3. In 2016, real return bonds moved to fixed income from real assets.
4. Closed on January 1, 2020.
5. Closed on June 1, 2017.

Leverage and Debt

In 2020, CDPQ's investment-related liabilities decreased by 11.6% to $45.4 billion, largely driven by a smaller position in securities sold under repurchase agreements and CP, which were partially offset by an increase in term notes outstanding.

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

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

CDPQ, like other DBRS Morningstar-rated pension fund asset managers, makes use of derivatives to achieve various portfolio objectives; however, as at full-year 2020, liability positions remained small relative to the overall portfolio. CDPQ manages counterparty risk related to its over-the-counter derivative positions by setting credit quality standards and concentration limits, monitoring counterparties daily, netting under International Swaps and Derivatives Association master agreements, and exchanging collateral under credit support annexes.

The Board's policy limits recourse debt to 10% of adjusted net assets. Recourse debt, measured at fair value, increased by 4.6% to $22.1 billion in 2020, equivalent to 5.7% of adjusted net assets. The rise was driven by the refinancing of two maturities with two larger size USD medium-term note issuances in 2020, offset by the lower use of commercial paper. So far in 2021, CDPQ has issued one five-year USD 1 billion medium term note series; this is also its inaugural green bond offering. Recourse debt remains well below the 10% board limit, providing considerable room for cyclical fluctuations in asset values.

CDPQ's CP programs have authorized limits of $3.0 billion and USD 10.0 billion. It has policies in place overseeing the intended use of the program and requirements to stagger maturities. CDPQ meets the DBRS Morningstar criteria for CP liquidity support, as outlined in the Appendix to DBRS Morningstar's

Rating Canadian Public Pension Funds & Related Exclusive Asset Managers methodology. The liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit, which is consistent with DBRS Morningstar's policy on backup liquidity support for pension plans and provides considerable short-term financial flexibility.

As an additional source of liquidity, CDPQ maintains a USD 4.0 billion credit facility for general corporate purposes. The credit facility was renewed in 2020 and remained undrawn as at year end.

Investment-Related Liabilities and Capital Market Debt

(CAD millions)	As at December 31				
	2020	**2019**	**2018**	**2017**	**2016**
Accounts payable from pending trades	3,290	1,537	1,113	2,102	1,687
Securities sold short	2,761	3,787	7,802	5,096	5,676
Securities sold under repurchase agreements	14,716	23,527	12,539	15,972	21,555
Derivatives	1,591	1,022	2,057	659	1,083
Loans	942	368	290	364	189
Short-term promissory notes payable	5,983	8,794	5,921	4,556	4,813
Term notes	16,113	12,332	9,598	9,198	9,574
Total	**45,396**	**51,367**	**39,320**	**37,947**	**44,577**
Recourse debt [1]	**22,096**	**21,126**	**15,519**	**13,754**	**14,387**
As a share of adjusted net assets (%) [2]	5.7	5.8	4.8	4.4	5.0

1. Recourse debt comprises capital market debt on a fair-value basis.
2. Net assets adjusted by adding back recourse debt.

Capital Market Debt Outstanding

As at December 31, 2020					
(CAD millions)			Face Value		**Effective Interest Rate**
	Maturity	**Currency**	**Currency of Issue**	**Equivalent CAD [1]**	**(%)**
Canadian Short-Term Promissory Notes (Program Size $3 billion)	< 1 year	CAD		707	0.20
U.S. Commercial Paper Notes (Program Size USD 10 billion)	< 1 year	USD		5,279	0.30
Senior Notes	Jun 2021	USD	2,000	2,548	2.13
Senior Notes	Mar 2022	USD	2,000	2,548	2.75
Senior Notes	April 2023	USD	2,000	2,548	1.00
Senior Notes	Jul 2024	USD	2,000	2,548	3.15
Senior Notes	Jun 2025	USD	2,500	3,185	0.88
Senior Notes	Nov 2039	USD	1,250	1,593	5.60

1. Face value converted to Canadian dollars as at December 31, 2020.

Risk Management

CDPQ has a robust risk management framework and practices. The board has instilled risk management into the culture and has adopted an integrated risk management policy. This policy sets out the broad risk management framework, roles and responsibilities, risk budgets, limits, and key methodologies and processes.

For investment activities, each specialized portfolio is governed by a separate investment policy that prescribes overall management style, return targets, key risk and concentration limits. These policies are supplemented by additional policies, procedures, and processes that address specific risk areas (e.g., liquidity, valuations, etc.). Operationally, investment groups are responsible for managing their investment risk and are supported by various risk management functions. Within each investment group, a Business Unit Risk Manager (BURM) is assigned to support the investment decision-making process by carrying out supporting analysis, influencing strategy, and providing a linkage to the risk management department as the BURMs report to the CRO. Further supporting the investment groups and the BURMs is the independent risk management department, which carries out risk measurement and analysis on individual transactions as well as across assets groups.

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

CDPQ estimates the absolute risk for its portfolio by calculating the value at risk (VaR) using the historical simulation method. In 2020, CDPQ revised the observation history of the risk factors used to calculate the VaR, changing from a fixed number of 3,000 days to a longer period of time that goes from 2006 to the reporting date. As at December 31, 2020, CDPQ estimated the VaR over a one-year horizon with a 95% confidence level to be 14.0% of the portfolio, which was higher than the estimate of 13.6% for the BM and higher than the 2019 VaR estimate of 13.0% of the actual portfolio, reflecting less-defensive positioning in the asset allocation portfolio and the gradual increase to private equity.

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

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

Liquidity Management

Liquidity management falls within CDPQ's broader risk management framework and investment risk management framework. Under the risk policies, CDPQ is expected to maintain ample liquidity so as to be able to meet all expected and unexpected liquidity requirements that could arise in a severe stress scenario. Policies also specify minimum liquidity levels and how liquidity is to be maintained. The board places considerable emphasis on liquidity and the desire to be well positioned to deploy capital during the next downturn or market correction. The overall liquidity of the plan and corresponding issues are reported to the board's Investment and Risk Management Committee regularly and reviewed internally by the Liquidity and Debt Financing Committee. As at December 2020, CDPQ had close to $50 billion in liquidity in the form of Canadian and U.S. government securities, money market securities, and provincial debt. Under the most severe stress-testing scenarios, which include significant reductions in asset prices and margin/collateral calls, this level of liquidity continues to be ample. CDPQ also maintains further liquidity in the form of other non-government debt and public equities.

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

Valuation of Private Market Assets

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

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

Depositors and Net Assets

In 2020, net assets attributable to depositors rose by $25.4 billion, or 7.5%, to $365.5 billion. Growth was driven by $25.4 billion in net investment income and $0.6 billion in net contributions by depositors, offset by $0.6 billion in operating expenses. Overall, strong investment returns from CDPQ generally satisfy or exceed the depositors' needs.

As at YE2020, CDPQ managed $365.5 billion in net assets for 42 public and parapublic-sector depositors, and a further $127.1 billion in assets are managed or administered for other clients, though they are not consolidated in CDPQ's financial statements. The assets under administration have grown by 40.6% from $90.4 billion in 2018, mainly as a result of a significant increase in assets administered by MCAP Commercial LP (rated BBB with a Stable trend by DBRS Morningstar), a subsidiary of Otéra Capital, itself one of CDPQ's subsidiaries. The eight largest depositors account for 96.3% of net assets and are required by provincial law to deposit their funds with CDPQ, resulting in a highly captive asset base for CDPQ.

- **Public-Sector Pensions ($191.9 Billion):** Three of the eight largest depositors relate to broad public-sector pension plans. The major government-sector pension plans are cost shared. Two of the depositors are for employee contributions, while the third, the Retirement Plans Sinking Fund, is the government's share of pension contributions. The employees' share of the pension plans is generally well funded, while the employer share of the pension fund is slightly underfunded. An agreement between the government and labour groups in 1999 set a 2020 target for improving the government's share of the funding status. The Government and Public Employees Retirement Plan is a moderately mature plan with the ratio of active-to-retired members in the range of 1.9 times.

- **Québec Pension Plan ($87.8 Billion):** The Québec Pension Plan (QPP) has 4.2 million contributors and 2.1 million beneficiaries receiving $15.1 billion in benefits annually. The enhanced QPP plan, which gradually phases in an increased contribution rate and maximum pensionable earning over five years, was announced in 2018 and began in January 2019. The additional plan is aimed to boost the retirement income of pension earners in the future. Net contributions remain marginally positive.

- **Construction Industry Pension Plan ($27.6 Billion):** In Québec, construction workers and their employers are required to contribute to a supplementary pension plan that they jointly manage. The plan has 174,000 contributors and 100,000 beneficiaries receiving $0.9 billion in benefits annually.

- **Public Sector Insurance Plans ($32.3 Billion):** CDPQ manages the investments held by the provincial workplace safety and insurance board and the provincial automobile insurance program (Québec has a public-private insurance system whereby a provincial program compensates road accident victims). The workplace insurance scheme covers 4.0 million workers, while the auto insurance scheme covers 5.5 million drivers. Collectively, they paid out $3.4 billion in benefits in 2020.

- **Government Debt Sinking Fund ($12.0 Billion):** The Generations Fund was established in 2006 to accumulate funds to support the Province's debt-reduction goals. In 2020, the Government of Québec continued depositing funds in the Generation Fund despite a budget deficit as a result of economic contraction and significant fiscal support to Québec's residents and businesses. Maintaining contributions to the fund ensures the goal of debt reduction until 2027–28 and it highlights the Generations Fund as an important tool to achieve this goal. The provincial government expects to keep contributing its dedicated source of revenues to the fund and they do not plan for withdrawals to repay borrowings in medium term until 2025–26.

Net contributions were modestly positive in the years prior to 2016, ranging between $1.2 billion and $2.4 billion. The addition of six new depositors in 2016 led to net contributions, increasing to approximately double that of previous years; these were stable within a range of $3.2 billion to $4.3 billion. Since 2018, mainly because the government of Québec started to draw on the Generations Fund to repay borrowings, withdrawals surpassed contributions in 2018 and 2019. In 2020, depositors net contributed to the Fund again at $0.6 billion, primarily driven by the contributions made by the Generations Fund, which was offset by withdrawals made by the Government and Public Employees Retirement Plan and the Fonds de la santé et de la sécurité du travail.

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

Change in Net Assets

(CAD millions)	For the year ended December 31				
	2020	**2019**	**2018**	**2017**	**2016**
Investment results	26,013	32,721	13,261	25,782	19,499
Expenses	(653)	(945)	(886)	(650)	(619)
Net investment results	**25,360**	**31,776**	**12,375**	**25,132**	**18,880**
Operating Expenses	(609)	(630)	(585)	(536)	(463)
Net contributions (withdrawals)	632	(548)	(791)	3,170	4,304
Increase (decrease) in net assets	**25,383**	**30,598**	**10,999**	**27,766**	**22,721**
Net assets	**365,492**	**340,109**	**309,511**	**298,512**	**270,746**

Depositors' Net Assets

	For the year ended December 31					
(CAD billions)	**First Deposit**	**2020**	**2019**	**2018**	**2017**	**2016**
Pension Plans						
Government and Public Employees Retirement Plan	1973	82.4	76.8	70.4	68.5	63.6
Retraite Québec	1966	87.8	81.6	72.6	69.3	62.2
Retirement Plans Sinking Fund	1994	99.4	93.0	83.2	78.5	65.4
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	27.6	25.8	23.3	22.4	20.7
Pension Plan for Management Personnel	1973	10.1	9.1	8.0	6.9	11.0
Other	1977-2017	9.1	8.7	7.9	7.2	6.5
Total		**316.4**	**295.1**	**265.4**	**252.7**	**229.5**
Insurance Plans						
Commission des normes de l'équité, de la santé et de la sécurité au travail	1973	18.8	18.1	16.6	16.2	15.4
Société de l'assurance automobile du Québec	1978	13.4	13.0	12.1	11.9	11.3
Other	1967-2005	2.8	2.8	2.4	2.3	1.9
Total		**35.1**	**33.9**	**31.1**	**30.4**	**28.6**
Other						
Generations Fund	2007	12.0	9.2	11.3	13.8	11.2
Other	1992-2012	2.0	1.9	1.7	1.6	1.5
Total		**14.0**	**11.1**	**13.0**	**15.4**	**12.7**

Net Assets	**365.5**	**340.1**	**309.5**	**298.5**	**270.7**

About CDPQ

CDPQ is one of Canada's largest institutional investment managers, with $365.5 billion in net assets as at December 31, 2020. CDPQ manages assets on behalf of public-sector entities in Québec, which include pension plans, insurance plans, and other public-sector entities.

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

While CDPQ continues to hold $68.3 billion in assets in Québec, its investment decisions are not driven by political or economic development considerations. Its investments in the Province are driven by commercial and investment considerations. Given its long history of investing in Québec and its scale, CDPQ continues to be viewed as among the best-informed investors in Québec.

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

Governance

CDPQ is governed by a 14-member board that includes independent and non-independent members. The Act limits the board to 15 members, at least two-thirds of whom must be independent directors and three-quarters of whom must be Québec residents. The legislative framework does not require depositors to be represented on the board. Board members are appointed by the Province on the recommendation of the existing board, which conducts a selection and screening process to ensure the prospective members have the skills and attributes necessary to complement those of the existing board. The board is composed of professionals with significant executive-level experience in a range of industries, including investment management, finance, insurance, economics, and government. Board members are appointed to terms of up to five years, which may be renewed to a combined total of 10 years.

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

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

In 2021 Jean St-Gelais was appointed as independent member of the board. Mr. St-Gelais will become chairman of the board at the end of the mandate of Robert Tessier in October 2021.

Management

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

At the beginning of 2020 the Board appointed Charles Emond as President and Chief Executive Officer for a five-year mandate after Michael Sabia announced his departure in 2019. Mr. Emond has a long track record in the financial sector.

CDPQ now has close to 1,400 direct employees and more than 1,100 people are employed by its two real estate subsidiaries, Ivanhoé Cambridge and Otéra Capital, with another 90 employed by its infrastructure subsidiary, CDPQ Infra. The organization has been expanding and seeking to hire top talent in the sectors and regions in which it operates. CDPQ has subsidiaries with offices in New York, Washington, D.C., Paris, Singapore, Shanghai, Mexico City, Sydney, London, New Delhi, and São Paulo.

Ranking and Guarantees

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

CDPQ irrevocably guarantees the full payment of principal and interest with respect to the debentures and CP programs of CDP Financial. Should CDP Financial fail to make required payments, investors would be able to seek payment from CDPQ without first exhausting recourse to CDP Financial. Governing legislation permits guarantors to terminate guarantees after three years under certain circumstances.

However, CDPQ will waive its right to revoke its guarantee. Obligations under the guarantee will not accelerate unless there is a default by CDP Financial and CDPQ. DBRS Morningstar has received a legal opinion stating that the guarantee is enforceable and is provided in accordance with board resolutions and governing bylaws and that the net assets of CDPQ (net of certain forms of deposits that represent a negligible fraction of assets) would be available to satisfy obligations arising under the guarantee.

Rating History

	Current	2020	2019	2018	2017	2016
Caisse de dépôt et placement du Québec						
Issuer Rating	AAA	AAA	AAA	AAA	AAA	AAA
CDP Financial Inc.						
Long-Term Debt	AAA	AAA	AAA	AAA	AAA	AAA
Canadian Short-Term Promissory	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)
U.S. Commercial Paper Notes	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)
Euro Commercial Paper Notes	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)

Previous Action

- Confirmed, July 3, 2020.

Related Research

- *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers*, April 30, 2021.
- *North American Structured Finance Flow-Through Ratings*, January 4, 2021.

Commercial Paper Limit

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

Previous Report

- Caisse de dépôt et placement du Québec and CDP Financial Inc.: Rating Report, July 3, 2020.

Notes:
All figures are in Canadian dollars unless otherwise noted.

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

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

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

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