CDPQ – first half 2023 results

CDPQ

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CDPQ this week (16 August) presented an update of its results as at 30 June 2023. Over 6 months, CDPQ generated an average return of 4.2%, in line with that of its benchmark portfolio's 4.1%.

Over 5 years, the average annualized return was 6.0%, above the benchmark portfolio's 5.0%, which represents over $18 billion in value added for its depositors.

Over 10 years, the average annualized return was 7.9%, also higher than its benchmark portfolio's 7.0%, producing nearly $30 billion in value added.

CDPQ manages the funds of 48 depositors and adapts investment strategies to meet their objectives, taking into account their different risk tolerances and investment policies.

The total portfolio's 6-month, 5-year and 10-year returns represent the weighted average of these funds.

As at 30 June 2023, the returns of CDPQ's 8 largest depositors ranged from 3.8% to 5.2% for 6 months. Their annualized returns ranged from 4.4% to 6.8% over 5 years and 6.5% to 8.9% over 10 years.

Charles Emond (pictured right), President and Chief Executive Officer of CDPQ, said: "Over the last 3 years, we've adjusted our portfolio to reinforce our capacity to withstand market volatility. This enabled us to generate returns that ensure the financial strength of our depositors' plans.

"The many contradictory signals confronting investors—the direction of inflation, rates, employment and markets—make the environment challenging. This invites us to remain vigilant and emphasizes the importance of diversification and adopting a long-term approach."

As at June 30, 2023, CDPQ posted an average return of 4.2% over six months and 6.0% over five years

- Net assets rose to $424 billion from $402 billion as at December 31, 2022
- Sustained level of activities in Québec

Fixed Income: Performance stimulated by higher rates

Benefiting from interest rates that are now higher than in past years, bond markets recovered in the first 6 months from their counter-performance during 2022, in the wake of recent historic rate hikes.

CDPQ posted a 3.9% 6-month return, outpacing the 3.2% of its benchmark index with a performance stimulated by credit activities, notably the performance of corporate credit and emerging country sovereign debt.

Over 5 years, the asset class recorded an annualized 1.1% return due to central banks' efforts to significantly tighten monetary conditions to control soaring inflation.

This result is higher than its benchmark index's 0% return, due to all five segments in credit.

Results by asset class

As at June 30, 2023		10 years			5 years			6 months		
	Net assets[1]	Investment results[1]	Return	Index	Investment results[1]	Return	Index	Investment results[1]	Return	Index
	$B	$B	%	%	$B	%	%	$B	%	%
Fixed Income	126.7	18.1	2.6	1.7	1.7	1.1	0.0	4.6	3.9	3.2
Real Assets	104.3	39.7	7.6	7.6	20.1	4.8	4.4	1.8	1.8	-3.1
Equities	191.8	152.9	11.8	10.5	81.1	10.1	9.3	11.3	6.4	9.1
CDPQ return[2]	**424.2**	**209.9**	**7.9**	**7.0**	**98.6**	**6.0**	**5.0**	**16.2**	**4.2**	**4.1**

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

Real Assets

Infrastructure: Continued performance in an inflationary context

In the first 6 months, the portfolio once again demonstrated its ability to perform in a context of high inflation. During this period, it posted a 4.7% return, higher than its benchmark index's -2.1%.

The renewable energy, telecommunications and transportation sectors, to which CDPQ has been exposed for many years, are significant vectors of performance.

Over 5 years, the annualized return was 9.6%, driven by the same sectors as in the first 6 months. This performance is well above the index's 5.7% return.

Real Estate: Repositioning in real estate mitigates the effect of rising rates

Over 6 months, the portfolio's return was -1.5%, compared with -4.3% for its benchmark index. The rapid and significant rise in interest rates affected the entire market and its sectors, as reflected by the benchmark.

However, the portfolio's shift toward the logistics segment offset the more mitigated performance of the office sector, which is undergoing a structural transformation in light of new work habits.

Over 5 years, the annualized return was 1.0%, below the index's 3.1%, attributable to the weak performance of the Canadian shopping centre sector, in which Ivanhoé Cambridge, CDPQ's real estate subsidiary, was historically overweighted.

Note that since the portfolio's repositioning over the last 3 years, the performance has greatly improved.

Equities

Equity Markets: High, more diversified return in historically concentrated markets

Over 6 months, the portfolio recorded a 10.6% return, in line with its benchmark index's 10.7%, despite the markets' historical overconcentration in 7 major high-growth tech stocks, which for example represented 80% of the S&P 500's gains in the first half of the year.

The portfolio's performance proved comparable, but more diversified than that of the markets.

Over 5 years, the annualized return was 7.1%, below the index's 7.5% return. This difference, which is explained by the portfolio's more limited exposure to major tech stocks at the beginning of the 5-year period, has progressively diminished during the last 3 years following the portfolio's strategic evolution.

This repositioning allows the portfolio to benefit from the potential of these stocks, while avoiding an exacerbated overconcentration as seen in the markets.

Private Equity: Higher financing costs felt after several years of strong returns

In the first 6 months, the portfolio's return was 1.4%, below its benchmark's 7.2%, following the exceptional results of recent years.

In the short term, the portfolio was constrained by higher financing costs, which influenced the performance of certain private companies.

Over 5 years, the portfolio posted a 15.4% return, outperforming its index's 11.9%. The judicious choice of sectors, including technology, health care and insurance, explains these results for the period.

Québec: Large-scale projects and local company growth

In Québec, CDPQ maintained a good level of activity despite a particularly low volume of transactions observed worldwide. Following are some recent achievements of note by CDPQ's teams, which leverage a wide range of tools to contribute to Québec's economic development:

Major real estate and infrastructure projects:

- Achievement of a milestone in delivering the REM with the commissioning of the South Shore Branch between Gare Centrale Station and Brossard on July 31, 2023. Once completed, the 67-km project will represent the longest automated light metro line in the world.
- Mandate awarded to Ivanhoé Cambridge by CDPQ, following the conclusion of an agreement in principle with the Government of Québec, to conduct a feasibility study on converting part of the old Royal Victoria Hospital site into a world-class university campus.
- A $355-million investment to acquire 50% of the A25 Concession, a 7.2-km network comprised of a toll road and bridge on the A25 in Montréal from Transurban, an Australian company.
- Participation in financing the new Île-aux-Tourtes bridge by underwriting $75 million of Groupe Nouveau Pont Île-aux-Tourtes' bond issue.
- A $145-million loan by subsidiary Otéra Capital for a multi-residential project located in the heart of Montréal's Golden Square Mile.

Support for growing Québec's companies and expertise:

- Participation in Previan's acquisition of Sensor Networks, an American supplier of sensing tools and technologies.
- A $125-million investment to accelerate the growth of Workleap (previously GSoft), which offers software that improves the employee experience of 16,000 companies located in over 100 countries.
- Renewal of the collaboration with the Quebec Emerging Manager Program to accelerate the development of emerging managers, bringing CDPQ's commitment to $250 million, or $50 million per year for five years.

Expertise and leadership recognized globally

In the first 6 months of the year, CDPQ received various distinctions that illustrate the quality of its work and the accomplishments of its teams:

- In sustainability, CDPQ ranked first in the world, alongside three other international investors, in the Global SWF's 2023 Governance, Sustainability and Resilience ranking, a benchmark that assesses the governance, sustainability and resilience practices of 200 sovereign wealth and pension funds worldwide.
- In real estate, Ivanhoé Cambridge received nine awards at the IPE Real Assets Global Awards, which recognize global leaders in the industry, including Investor of the Year, as well as ESG and Environmental Sustainability.
- In infrastructure, CDPQ ranked first in the Global Investor 50 list, a showcase of the world's largest institutional investors in infrastructure based on the size of their

assets, compiled by Infrastructure Investor magazine.

Financial reporting

As at 30 June 2023, the annualized costs incurred for CDPQ's activities, which include internal operating expenses, external management fees and transaction costs, were estimated at 55 cents per $100 of net average assets, compared with 48 cents as at 31 December 2022.

The difference with 2022 is primarily explained by the increase in external performance fees related to increased returns. CDPQ's cost ratio compares favourably with that of the industry.

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