
CDPQ's Lack of Efficiency

Montreal, June 15, 2023 – While the Caisse de dépôt et placement du Québec (CDPQ) ended its financial year with the biggest loss since the 2008 debacle, its top executives shared \$10.6 million in bonuses on the grounds that they had outperformed the market average. However, a study unveiled today by the Centre for Productivity and Prosperity – Walter J. Somers Foundation of HEC Montréal throws a spanner in the CDPQ's works: had they been evaluated on the basis of a more rigorous analysis process, the conclusions might not have been the same.

"The findings of this fourth part of the Productivity in the Quebec Public Sector series are clear, explains Robert Gagné, Director of the CPP and co-author of the study: the CDPQ is performing well enough to ensure that depositors are able to meet their short- and long-term financial obligations, but its ability to generate returns since the financial debacle of 2008 has been weak. In short, there is every indication that the CDPQ is not effectively fulfilling the mandate entrusted to it by the government."

From 2008 to 2014, CDPQ managers were unable to significantly outperform their benchmarks, meaning that depositors achieved returns roughly equivalent to those obtained on the markets. And if the CDPQ has managed to distinguish itself in subsequent years, it has done so at the cost of a significant increase in operating expenses, and by relying essentially on the performance of the private equity portfolio – investments for which performance measurement is approximate, and the rigor of which remains to be demonstrated.

The analysis highlights the incomplete nature of CDPQ managers' performance evaluation process. "Because it determines benchmarks in such a way as to evaluate the performance of its managers solely on the basis of the average performance of the markets in which it is present, the CDPQ consciously ignores alternative investment strategies likely to produce better returns, explains Jonathan Deslauriers, co-author of the study. In the absence of an adequate comparative framework, it is very difficult to determine whether the CDPQ is effectively managing the mandate entrusted to it on the basis of the information it publishes".

To gauge the effectiveness of CDPQ managers, the researchers turned to CPPIB, the organization that manages the assets of the Canada Pension Plan. "CPPIB uses a more neutral approach to evaluate the performance of its managers, explains Robert Gagné. In short, CPPIB uses a benchmark index representing a passive investment strategy on the bond and stock markets, a strategy that involves a certain amount of risk, but one that is easily reproducible at low cost. It's not perfect, but at least the organization is moving away from the circular logic currently lacking in the CDPQ's evaluation process".

Using this index to evaluate the effectiveness of CDPQ's managers, the researchers conclude that its active management never succeeded in outperforming the return theoretically associated with the passive strategy specific to the CPPIB index. In the director's view, this sends a clear signal to the CDPQ management: "rather than simply evaluating its performance on the basis of the average return obtained in the markets in which it is active, the CDPQ should propose alternative measures to enable depositors to assess whether active management of their funds is ultimately more profitable than a passive strategy that minimizes operating costs. Only under such conditions can the CDPQ legitimately claim to be efficient".

To learn more:

[Productivité du secteur public québécois : La Caisse de dépôt et placement du Québec](#)

Source:

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