

ANNUAL
REPORT
1988



Business

partner

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

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PROFILE

The Caisse de dépôt et placement du Québec, a totally autonomous institution in its investment management operations, was formed in 1965 to manage the funds arising from various public pension and insurance plans. Its mandate is to ensure that the funds under its administration generate a profit through sound investments and also to support Québec's economic development. To achieve these objectives, it uses the best investment vehicles available, including bonds, shares and convertible securities, mortgages, real estate and short-term investments. The Caisse is one of North America's major financial institutions. Its principal place of business is located in the heart of Montréal, a first-class financial center.

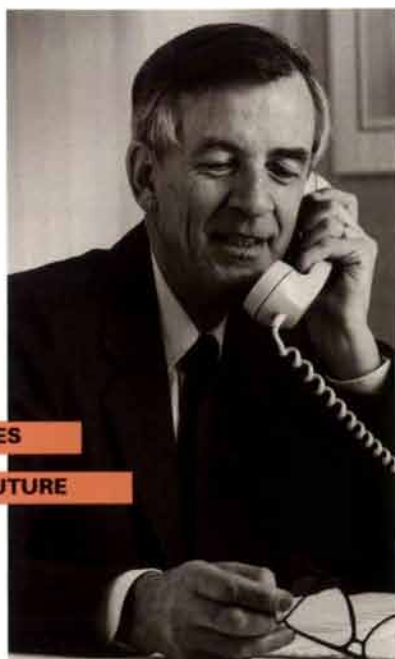
Front cover:

Representatives of the Caisse and the Société immobilière Trans-Québec are seen finalizing a partnership agreement and financing proposal to be submitted to a partner.

HIGHLIGHTS**OF THE YEAR**

	1988	1987
	<i>(in millions of dollars)</i>	
ASSETS UNDER MANAGEMENT		
Total book value	30,059	27,459
Excess market value over book value of investments	1,739	1,455
Total market value	31,798	28,914
BREAKDOWN OF ASSETS UNDER MANAGEMENT		
Investments		
Bonds	16,249	15,760
Shares and convertible securities	10,422	9,187
Mortgages	1,773	1,699
Real estate investments	809	598
Short-term investments	2,033	1,173
Total investments	31,286	28,417
Other assets	512	497
Total market value	31,798	28,914
DEPOSITORS' HOLDINGS		
Régie des rentes du Québec	14,111	13,500
Commission administrative des régimes de retraite et d'assurances	7,916	6,883
Régie de l'assurance automobile du Québec	4,459	4,051
Commission de la santé et de la sécurité du travail	2,716	2,235
Commission de la construction du Québec	2,362	2,100
Other depositors	60	30
Total depositors' holdings	31,624	28,799
Liabilities	174	115
Total market value	31,798	28,914
NET DEPOSITORS' INCOME	2,633	2,868
EXCESS DEPOSITORS' WITHDRAWALS OVER DEPOSITS	92	465
INTERNAL RATE OF RETURN ON TOTAL DEPOSITORS' HOLDINGS	10.5%	4.7%

THE CHAIRMAN'S MESSAGE



UNDERTAKING CHALLENGES

TOGETHER FOR THE FUTURE

1988 was a good year. This came as a surprise to many forecasters who had made glum predictions in the wake of the stock market crash of fall 1987.

In the light of this, the Caisse achieved excellent results for 1988. It obtained an overall rate of return of 10.5%, versus the inflation rate of 4%. Consequently, assets under management rose to over \$31.3 billion at market value.

All of the Caisse's investment vehicles contributed positively towards boosting assets. In particular, the bond investment portfolio's rate of return reached 10.3%, or 1.1% above the reference index. The mortgage portfolio also stood out, achieving a return of 10.2%, versus 8.3% for the reference index. Equities yielded a return of over 10.4%, bringing the seven-year return to 13.2%, or 1% higher than the market index. In addition, it is most satisfying to note that Canadian stock market indices have regained their pre-October 1987 level. Consequently, the Caisse's confidence in the stock market at the

end of 1987 and the beginning of 1988 has proven to be justified. At year-end, the Caisse's total investments, at book value, included \$16,276 million in bonds (55.1%), \$8,777 million in shares and other convertible securities (29.7%), \$1,803 million in mortgages (6.1%), \$656 million in real estate (2.2%) and \$2,035 million in money market securities or short-term investments (6.9%). At market value, bonds represented 51.9%, shares and convertible securities 33.3%, mortgages 5.7%, real estate 2.6% and money market securities 6.5%.

On bond and money markets, the Caisse showed ingenuity and innovation, taking advantage of new investment tools and obtaining income from previously untried sources. For example, the Caisse facilitated the international promotion of securities issued or guaranteed by the Québec government by arranging large-scale transactions related to these securities. It also established a policy for lending securities by concluding repurchase agreements, which resulted in increasing the liquidity of the secondary market for Québec securities.

For its management of short-term investments, the Caisse extended its range of investments by using bankers' acceptance futures. It thereby became one of the first institutions to trade these securities listed at the Montréal Exchange and to conclude forward interest rate swaps, traded over the counter. In its foreign exchange transactions, the Caisse also concluded currency swaps, notably with other institutions of Montréal's financial community.

This active management approach is proof of the Caisse's constant efforts to maximize its return and clearly illustrates the financial expertise of its specialists who are certainly among the best in the institutional investment sector from several points of view.

The efficient use of resources - strongly backed by a sound asset mix policy - and with first-class tactics and logistics services, allowed us to consistently surpass market indices for the current financial cycle, to exceed the 4% rate of inflation year after year, to generate investment income of \$2.63 billion and to achieve net assets exceeding the \$30 billion mark. This record amount of assets, although unthinkable only just a few years ago, only places us in 47th position among North American fund managers and in 8th position among financial institutions in Canada.

The globalization of markets requires the support of high-calibre financial institutions for the promotion and development of national companies on foreign markets. Given this environment, the Caisse is playing an increasingly fundamental role in the enrichment of our society. Since there is decidedly a worldwide trend towards the forming of big entities, the large financial institutions represent pillars on which economic activity is based. The Caisse is resolutely fulfilling this role, in particular by highlighting the unique potential of its partners and using to the fullest the information gathered and contacts made over the years.

This network is a major asset for creating our own businesses and industries and making them stronger and more vigorous, capable of acting in the economic and financial circles on the international scene in the 21st century. Now more than ever, the key to success will be **to work together and to undertake challenges together.**

In 1988, growing Québec medium-sized businesses reaped the benefits of a very vigorous financial market where many companies competed in the niche of investments of \$500,000 and over. The Caisse has continued to assume a leadership role in this area by offering constant support to Québec entrepreneurs and business-people.

Moreover, the Caisse contemplated the possibility of actively participating in the growth of small businesses in outlying areas with capital requirements under \$500,000. It thus joined with other national financial institutions and local investors to launch investment companies in the Québec City and Estrie regions, with funding amounting to some \$20 million. The Caisse believes that the future involvement of institutional investors in this niche, i.e. the funding of businesses in their start-up stage, should be through the creation of companies concerned with consolidating, developing and promoting sectors of excellence.

The wave of mergers and acquisitions and the growing number of takeover bids have led the Caisse to ensure that minority shareholder rights are fully respected and to be vigilant concerning the actions of certain companies that affect the quality of stock markets or do not appear to be equitable.

Last fall, the Caisse's investment departments participated in a strategic planning activity in cooperation with the members of the Board. This has allowed a consensus to be arrived at on various matters which will doubtless be reflected in the investment policy, in particular with respect to corporate investments, real estate investments and the acquisition of bonds on European markets.

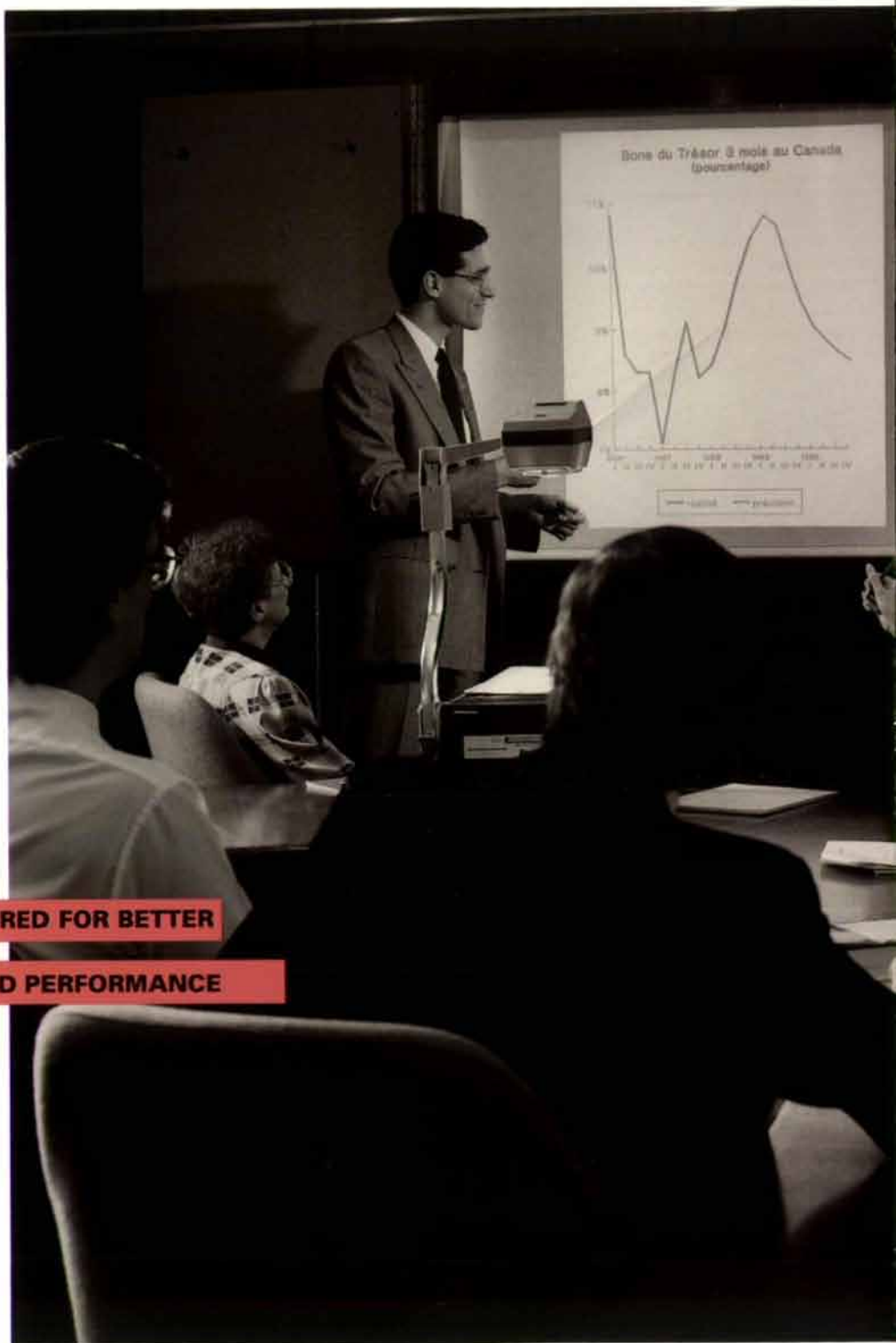
On behalf of the Board and myself, I would like to make special mention of the sustained efforts of the Caisse's employees to establish a standard of excellence for the Institution whose reputation is growing all the time. By their enthusiasm and devotion, as well as their willingness and commitment to work for an improved standard of living for their fellow citizens in Québec, the highly competent men and women who make up the Caisse honourably carry out the responsibilities conferred on them by our depositors for millions of Quebecers. I would sincerely like to thank them.



Jean Campeau
Chairman of the Board
and General Manager

Montréal, February 27, 1989

THE ECONOMIC ENVIRONMENT



FORECASTING IS REQUIRED FOR BETTER

MANAGEMENT AND PERFORMANCE

Our economists are seen discussing economic trends and forecasts which will help managers better anticipate the evolution of financial markets.



World economic growth exceeded most forecasts in 1988. The fairly rapid expansion occurred in spite of uncertainties arising from the stock market crash and a gradual but significant tight-

ening of monetary policy in many industrialized countries. Economic activity remained vigorous in Europe and Japan despite a sharp increase in local currencies over the previous three years, mainly owing to a recovery in domestic demand.

THE AMERICAN ECONOMY

Rapid growth in spending in Europe and Japan was the principal contributor to U.S. economic growth during the year. The volume of American exports, which increased by 18%, had a large direct impact on production. Moreover, machinery and equipment expenditures grew by 13% as manufacturers sought to increase production capacity in order to satisfy the strong domestic and foreign demand for U.S. goods.

Finally, the rise in production resulted in considerable employment growth all year long, which clearly sustained consumption. The U.S. economy therefore maintained a rapid pace during the year despite the serious impact of a drought on agricultural production. In fact, lower farm output meant that overall growth in each of the last three quarters was reduced by roughly one percentage point.

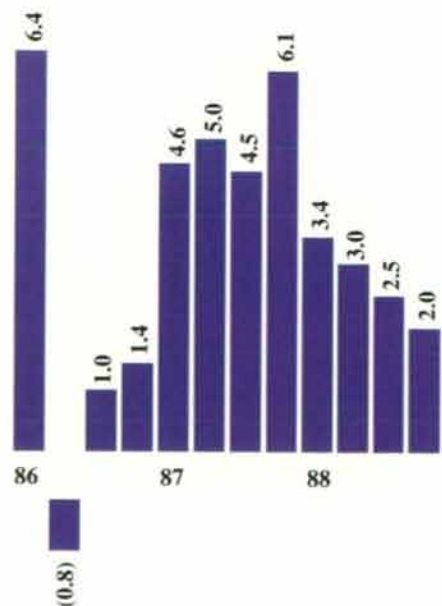
Food prices increased as a result of the drought, leading to fears of higher inflation. These were further fueled by the strength of industrial activity reflected by a significant rise in production capacity utilization and a sizeable drop in unemployment, two leading indicators of inflation.

Nevertheless, inflation remained moderate in response to lower oil prices, a more stable dollar, smaller than expected wage increases and greater competition arising from the globalization of markets.

1

REAL GNP GROWTH IN THE U.S.

(percentage change over previous quarter annualized)



Source: Data Resources Inc.

THE CANADIAN ECONOMY

Canadian economic growth also remained buoyant, mostly as a result of a 17% climb in investment spending, the largest increase in over twenty years. Investment activity led to higher employment and consequently encouraged consumption. Housing starts remained surprisingly vigorous in the light of steady interest rate hikes. This development ensued from rapid employment growth and the high level of consumer confidence about the economy.

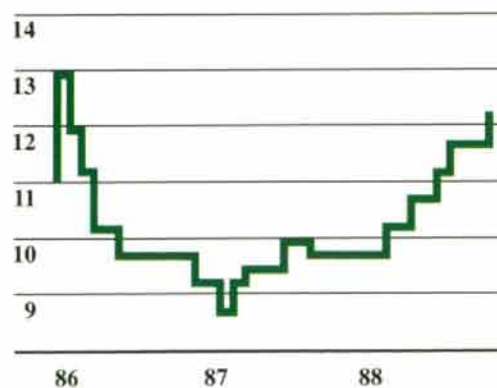


Domestic demand nevertheless slowed down during 1988 because of a marked tightening in monetary policy so that by

year-end, overall growth had also weakened. Moreover, foreign demand had a negative effect on Canada's performance because of the dollar's strength and the sizeable increase in capital goods imported related to the surge in expenditures for machinery and equipment. The Canadian dollar's strength and the decline in oil prices translated into a slight decline in the inflation rate despite sustained demand growth, the drought-related increase in certain food prices and the coming into force of substantial indirect taxes. The Bank of Canada's monetary policy, whose chief objective for the previous two years had been to reduce inflation, was progressively tightened during 1988, pushing short-term interest rates to their highest levels since early 1986 and contributing greatly to the Canadian dollar's rise.

2

BANK PRIME RATE
(in percentage)



Source: Bank of Canada

THE QUÉBEC ECONOMY

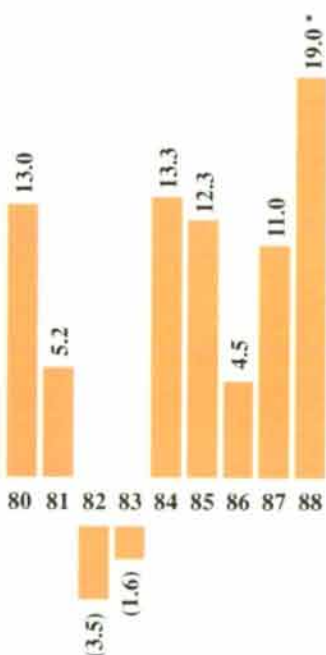
In Québec, growth last year was comparable to the national average, after an above-average performance in 1987 as a result of record activity in the housing sector.

The decline in housing starts last year appeared to be substantially larger in Québec than elsewhere in the country only because the 1987 level was clearly exceptional, as indicated by a high increase in vacancies. The housing slowdown, however, was offset by a more sizeable increase in investment spending in the province than in the rest of Canada.

International demand conditions favourable to Québec-based commodities, the high degree of confidence in the province's prospects prevailing in recent years, a substantial increase in capital expenditures by Hydro-Québec, the generally high industrial capacity utilization rates as well as free-trade-related expenditures all contributed to this rapid surge in investment spending in 1988.

3

NON-RESIDENTIAL INVESTMENT IN QUÉBEC
in current dollars
(percentage change)



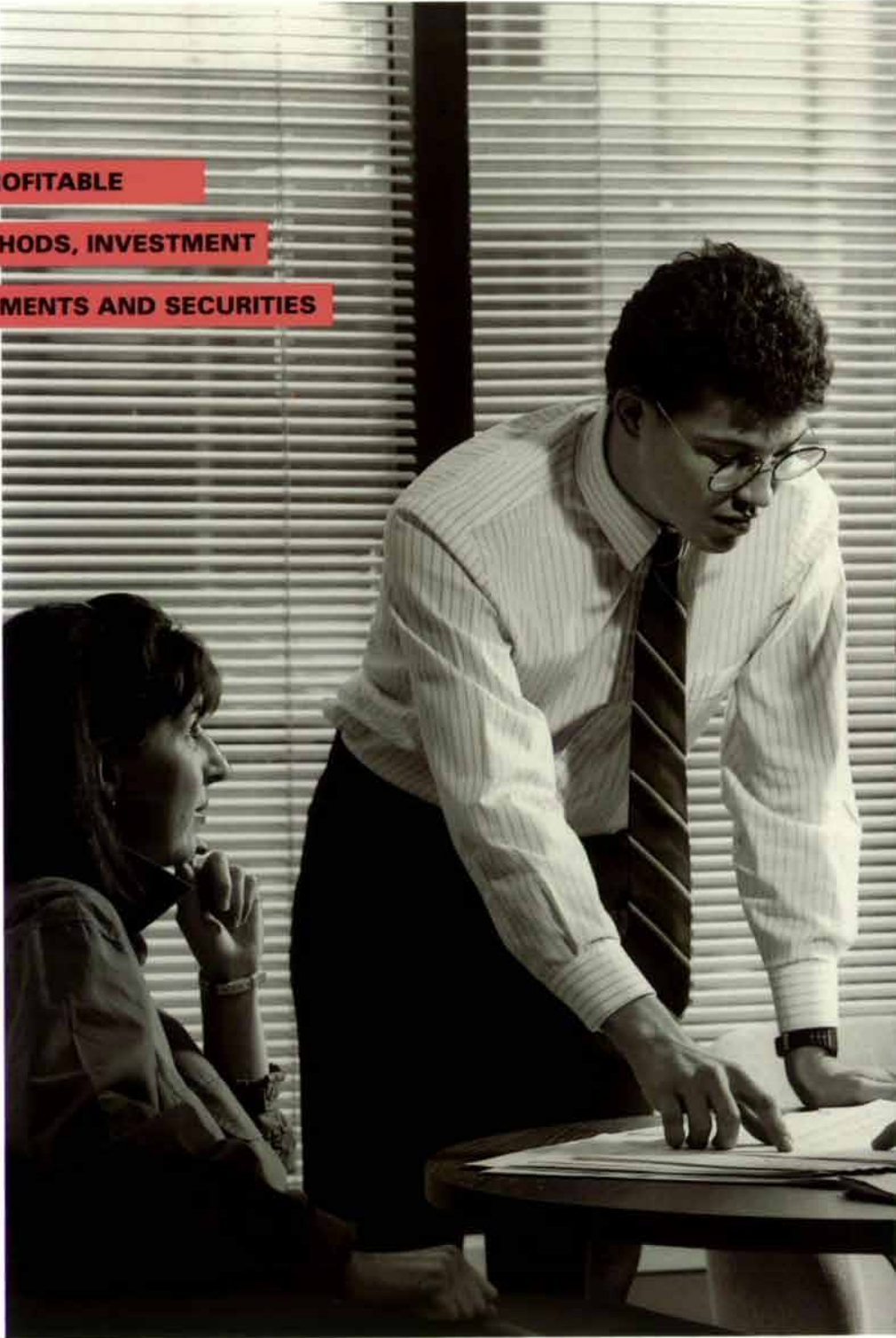
*estimate
Sources: Conference Board of Canada and the Caisse

ASSET MIX

CHOOSING THE MOST PROFITABLE

MANAGEMENT METHODS, INVESTMENT

VEHICLES, SEGMENTS AND SECURITIES



Investments largely depend on asset mix decisions to obtain maximum return on funds under management.



The returns generated by funds under management mainly depend on two types of decisions. The first decision is to determine the asset mix by investment category and the second is to strategically select the financial instruments, methods of management, segments and securities appropriate for each investment category. Once the asset mix strategy has been determined for the various pension and insurance plans, i.e. according to our medium- and long-term investment policy, then the tactical asset mix strategy is implemented. The latter strategy consists of departing from the target asset mix by picking certain financial assets instead of others,

based on the economic environment and a relative evaluation of financial markets.

Asset mix management strategies followed during the past year can be briefly summarized as follows: after allocating close to 4% of assets for the purchase of equities at the end of 1987, that is following the crash, the Caisse allocated another 1% to equities at the beginning of the spring, after selling bond investments. During the summer, the Caisse mainly accumulated reserves in short-term securities, which were then massively reinvested - representing close to 5% of funds - in bonds at the end of 1988.

4

EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT

as at December 31

(at book value - in percentage)

(at market value - in percentage)

83.7	16.3	69	18.7	81.3
80.8	19.2	74	17.6	82.4
88.1	11.9	79	17.8	82.2
75.5	24.5	84	27.6	72.4
75.8	24.2	85	29.0	71.0
71.9	28.1	86	32.3	67.7
68.8	31.2	87	34.3	65.7
68.3	31.7	88	35.7	64.3

- Variable income securities
- Fixed income securities

RETURN

Table 5 shows the internal rate of return obtained on total depositors' holdings for the year just ended, for the last four years and for the inflation rate slowdown cycle of 1982 to 1988. Also shown is the



time-weighted rate of return for each type of investment, which helps evaluate the fund manager's contribution to the growth of funds. This does not take into account the timing variable for the receipt of deposits over which the fund manager has no influence.

INTERNAL RETURN

The Caisse obtained a 10.5% internal rate of return for total funds under its administration in 1988, which was 6.5% higher than the inflation rate of 4%.

The results for the last four years and for the inflation rate slowdown cycle, which has lasted for seven years now, are 13.1% and 16%, respectively. Without taking into account inflation, the internal returns in real terms have also been quite good at 8.9% and 10.6%, which are higher rates than those historically recorded for very long periods.

5**RETURN***(at market value - in percentage)*

	1988	Compound average annual rate for the period	
		1985-1988	1982-1988
Internal rate of return			
Total depositors' holdings	10.5	13.1	16.0
Time-weighted rate of return			
Financial assets			
Bonds	10.3	13.2	17.5
Mortgages	10.2	12.1	14.8
Canadian equities	10.4	12.7	13.2
Foreign equities	9.2	22.5	n.a.
Real estate investments	14.9	14.6	n.a.
Short-term investments	9.7	n.a.	n.a.

TIME-WEIGHTED

RETURN

The bond portfolio achieved a return of 10.3% in 1988, or 112 basis points higher than the McLeod, Young, Weir (MYW) medium-term reference index. Also, the mortgage portfolio's return of 10.2% was 188 basis points higher than the MYW mortgage index's 8.3% return. As for equities, the Canadian portfolio generated a return of 10.4%, compared to 11.1% for the TSE 300 index. The foreign equity portfolio had a return of 18.3% in U.S. dollars, but 9.2% in Canadian dollars after taking into account the appreciation of the Canadian dollar. For the real estate investments portfolio, the return has remained highly satisfactory at 14.9%, or 7.6% in terms of current return and 7.3% in terms of added value, representing an increase of 0.4% compared to last year. Finally, the return of the money market investments portfolio amounted to 9.7%, compared to 9.4% for the MYW reference index for 91-day Canada Treasury bills.

An analysis of results obtained for the inflation rate slowdown cycle indicates that the returns for the three

principal types of assets were 17.5% for bonds, 13.2% for Canadian equities and 14.8% for mortgages, exceeding those of the reference indices which reached 15.1%, 12.2% and 14.3%, respectively.

As for the real estate and foreign equity portfolios, which were created more recently, i.e. four years ago and five years ago, respectively, results show that the value added to the internal return of the Caisse's portfolio has been very positive, with returns of 14.6% and 22.5% for the last four years.

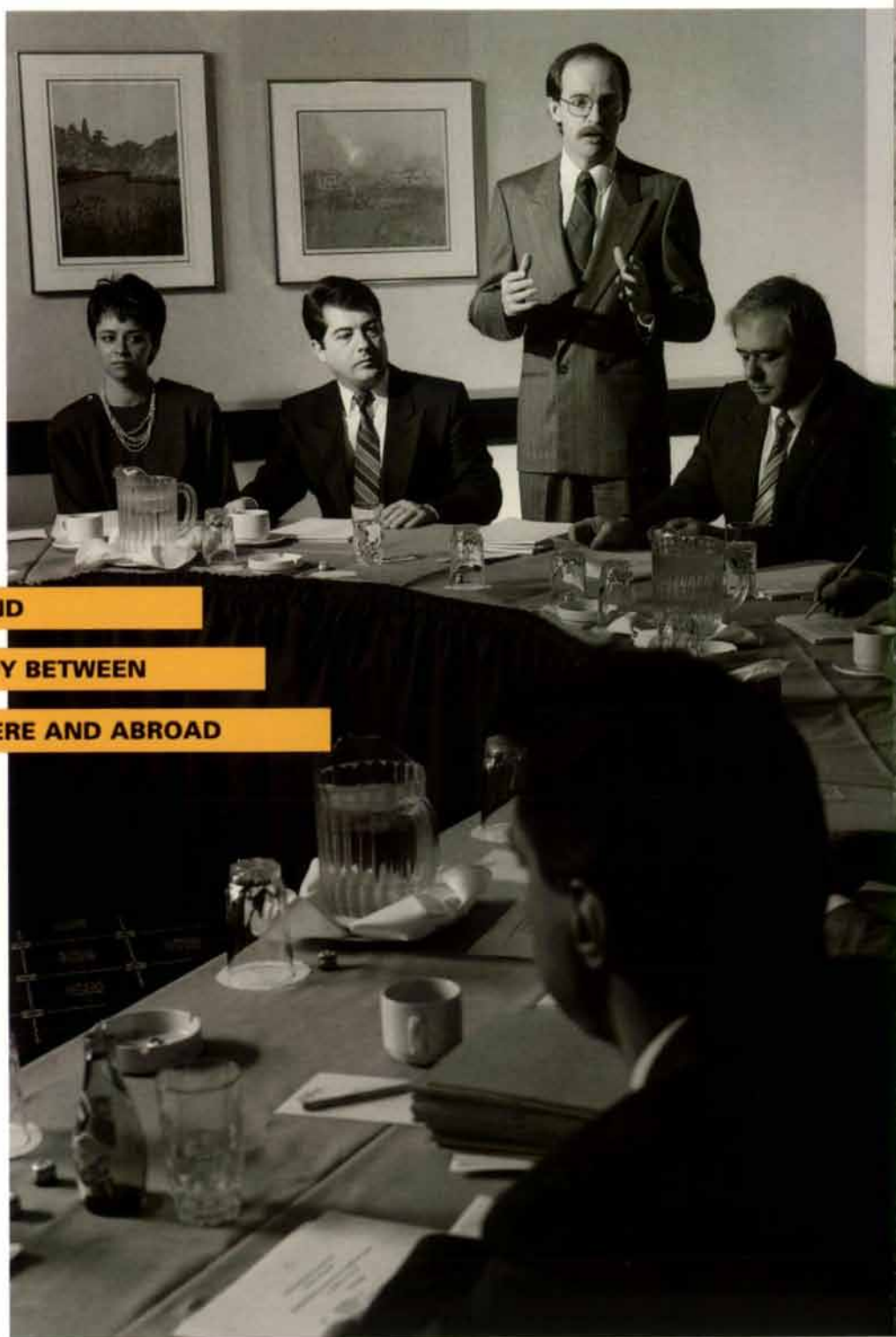
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RETURN OF FINANCIAL INDICES

Indices	1988	1985-1988	1982-1988
MYW Bond - Medium Term	9.2	11.6	15.1
MYW Mortgage	8.3	10.6	14.3
TSE 300	11.1	12.5	12.2
CIWI (Capital International World Index)	13.5	27.4	—
MYW Canada Treasury bills (91 days)	9.4	9.3	10.5



VARIABLE INCOME SECURITIES

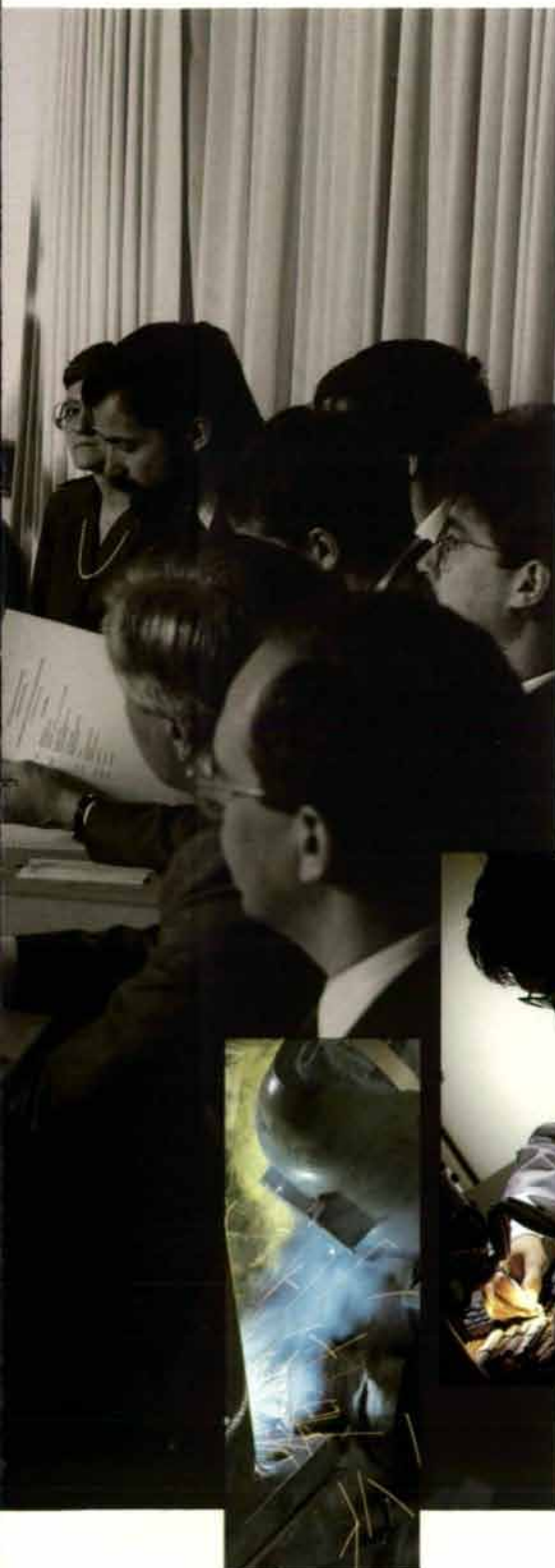


CREATING FINANCIAL AND

ECONOMIC SYNERGY BETWEEN

COMPANIES HERE AND ABROAD

Through its corporate and equity investments, the Caisse is a major partner and shareholder of small, medium-sized and large businesses.



Overall, it was a good year for the principal world stock markets, which recorded better results than in 1987. In local currencies, the Japanese and German markets performed best, followed by the North American markets and the U.K. market.

This general improvement is the result of the strength of the world economy and the relative stability of bond markets arising from inflation rates which were still favourable.

Despite rising short-term interest rates, uncertainty about the continuation of the current economic cycle and the fact that the turnover remained much lower than that of the previous year, U.S. and Canadian stock markets still produced returns of 16.5% and 11.1%, respectively. Leveraged buyouts and other financial transactions (takeovers, purchases of shares, special dividends) largely contributed towards stimulating markets, investors being chiefly interested in the value of securities and reacting to any news which could influence prices.

CANADIAN

STOCK MARKETS

On the Canadian market, behaviour was quite different, according to each sector. Thus, as a result of the increased stability of the U.S. dollar and the absence of inflationary fears, golds recorded negative results, i.e.

-27.3%, eliminating almost all of the gains of the previous year. On the other hand, the metals and minerals sector, stimulated by high base metal prices, yielded a return of 26.7% and financial services provided a return of 25.5% further to the improvement of the situation concerning bank loans to developing countries. Finally, the communications sector's strong performance at 35.3% is due to the sustained growth of earnings, numerous reorganizations and real or potential takeovers.

The structure of the Canadian equity portfolio was not fundamentally changed during the past year. The Caisse benefitted from opportunities to buy or sell securities which appeared to be undervalued or overvalued and increased the proportion of shares held in the golds and energy sectors, while slightly decreasing its investments in the financial services sector.

7

STOCK MARKET INDICES IN 1988 (total return in percentage)

Index	Location	In local currency	In Canadian dollars
XXM	Montréal	11.3	11.3
TSE 300	Toronto	11.1	11.1
Standard & Poors' 500	United States	16.5	6.8
CIWI	United Kingdom	9.6	-2.9
CIWI	West Germany	35.4	10.5
CIWI	Japan	39.5	24.1

The year ended with net acquisitions totalling approximately \$500 million.

This net growth was divided between the indexed portfolio, composed of TSE 35 index securities, and corporate investments in small, medium-sized and large Québec businesses at 75% and 25%, respectively. Thus, as at December 31, the indexed portfolio's market value amounted to \$933 million and that of the corporate investments portfolio rose to \$1,821 million.

Moreover, during the year, the portfolio based on a selection of sectors according to stock market cycle fluctuations and the research portfolio (based on a selection of stocks included in each stock market sector) generated returns close to those of the index, closing at slightly

1988 compared to \$6,723 million in the previous year.

INTERNATIONAL

STOCK MARKETS

The increase in the proportion of foreign equities in the Caisse's total assets, at market value, attests to its policy of diversifying its investments internationally. The objective of this policy is to optimize the return on investment, given the potential risk, and to take advantage of an international perspective. Thus, investments in foreign equities, which were non-existent at the end of 1983, had a market value of \$1,429 million at the end of 1988, representing 4.5% of the Caisse's total assets at market value. The Caisse's investments in the international stock markets include four portfolios, each having its own method of management: a global management portfolio entrusted to external managers who, subject to special restrictions, can invest anywhere except in Canada; a U.S. equity portfolio managed by an internal team; a portfolio of four funds, indexed to the United States, the United Kingdom, continental Europe and Asia sub-indices of the world index, the proportions of which are controlled by the internal team; and an international corporate investments portfolio. At year-end, the market value of these portfolios amounted to \$534 million, \$177 million, \$687 million and \$31 million, respectively. As for the performance of international markets, the Capital International World Index (CIWI) had a return of 23.8% in U.S. dollars for 1988 and 13.5% in Canadian dollars, taking into consideration the Canadian dollar's appreciation. Stronger than anticipated economic

growth in Japan and West Germany, with market returns of 39.5% and 35.4% in local currencies, respectively, had a significant impact on this result. In the United Kingdom, very strong economic growth, accompanied by a deterioration of inflation and of the trade balance, forced the central bank to significantly tighten its policy in the second half of the year. Consequently, the U.K. stock market did not keep pace with the other markets, producing a return of only 9.6% in local currency. Despite the strength of economic growth in the United States, the U.S. market's return was only 16.5%, worries about inflation having contributed to restrict higher gains.

As for foreign currencies, the improvement of the U.S. trade balance during the first half of the year and the strength of the U.S. economy drove up short-term interest rates during this period. This contributed to a considerable appreciation of the dollar during the summer. The reversal of these factors during the second half of the year coupled with pessimism regarding the new U.S. administration's ability to reduce the budget deficit pushed the dollar down. However, the U.S. dollar ended the year at a higher level than at the end of 1987.

During the year, the Caisse invested \$202 million in foreign equities, 22% of which was in the United States, 5% in the United Kingdom, 6% in continental Europe and 67% in Asia. For 1988, the annual return of the foreign equity portfolio, which was lower than that of the CIWI (world index), was affected by the Caisse's outside managers whose results were lower than the index for this period, albeit each for different reasons. As at December 31, the geographic breakdown of the foreign equity portfolio was as follows: 33% in the United States, 9% in the United Kingdom, 17% in continental Europe and 41% in Asia.

8

XXM INDEX IN 1988



XXM: Montréal

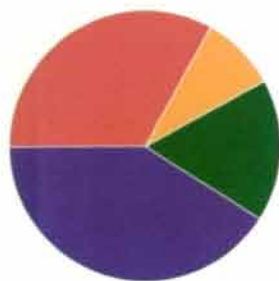
above this index on an annual basis.

The market value of these two portfolios as at December 31 reached \$5,035 million and \$1,162 million, respectively.

At the end of 1988, the consolidated Canadian equity portfolio amounted to \$8,951 million at market value versus \$7,938 million at the end of 1987. Its book value was \$7,371 million in

GEOGRAPHICAL BREAKDOWN OF FOREIGN EQUITY INVESTMENTS

as at December 31, 1988
(at market value -
in percentage)



- United States 33
- United Kingdom 9
- Continental Europe 17
- Asia 41

CORPORATE INVESTMENTS

The Caisse favours the growth of well-managed businesses by providing companies with sustained support and making large investments in their share capital, without exceeding 30%, however. Through their activities here and abroad, these companies contribute to Québec's economic development. The objective of the long-term association and privileged relationship between the Caisse and its partners is to obtain a competitive financial return and interesting added value by optimizing the profitability of companies.

The Caisse is proud to be associated with such a dynamic and prosperous group of businesses, which are often leaders in their sector of activity and make a significant contribution to the development of their environment. By its representation on the boards of directors of the companies in which it invests and by the aggressive management of its investments, the

Caisse strives to play an important role in supporting its partners in their medium- and long-term planning, without participating in their day-to-day management, however. It thus contributes towards maximizing its financial return and economic impact.

LARGE BUSINESSES

The Caisse has continued to promote the development of both its existing and new partners in its investment activities, preferring equity financing rather than debt financing. Its investments have mainly been used to finance the major expansion projects of partners such as Groupe Canam Manac, Memotec Data and Métro-Richelieu, among others.

In 1987, in addition to its usual corporate investments, the Caisse introduced private and special transactions aimed at providing tailor-made financing for companies, allowing portfolio diversification and achieving a higher financial return than the market in the medium and long term. It is in this perspective that it acquired units of resource royalties of Enerplus Resources, allowing it to maintain a profitable investment in the field of energy resources production and to receive net proceeds from the sale of petroleum and gas products. It also contributed to setting up the limited partnership, Capital de participation québécois, whose objective is to offer debt financing for acquisition projects, when circumstances warrant it. In 1988, the Caisse made corporate investments and special transactions aggregating \$158 million and involving 11 companies. In the active management of its portfolio, it also proceeded to sell investments amounting to \$29 million.

As at December 31, the market value of corporate investments in large businesses totalled \$1,653 million. These investments comprised 32 businesses operating in 20 different sectors of economic activity. In managing the portfolio risk, the

Caisse continued to favour a combination of investments in the form of common share capital and hybrid-type securities (securities eventually giving access to property and providing minimum benefits). Thus, at year-end, the breakdown of the portfolio was 85.2% for common shares or equivalent securities and 14.8% for hybrid investment vehicles.

Already, 1989 looks like it will be an active year given the scope of the projects under consideration. The Caisse intends to promote and even accelerate its partners' growth by helping them to prepare for free trade, the globalization of markets and the development required to prosper in the new economy that is emerging.

SMALL AND MEDIUM-SIZED

BUSINESSES

Early in 1988, the Caisse determined that it would increase its participation in the expansion of the province's economy by granting greater financial support to well-managed, vigorous and profitable small businesses located in the different regions of Québec.

In fact, as a result of playing an important role in the funding of Québec's medium-sized businesses over the last few years, the Caisse had observed an obvious lack of sources of capital for a market which it could not serve directly, namely small businesses seeking investments under \$500,000.

Similarly to its experience in 1981 when it decided to participate in the funding of medium-sized companies seeking over \$500,000 in capital, the Caisse intends to develop a new niche, i.e. the funding of small businesses with the cooperation of its partners and through investment companies.



Investment Companies

One of the major achievements in 1988 was definitely the creation of investment companies to promote the harmonious growth of small businesses. Each regional company that was created during the year has its own territory. Future companies would also have a separate niche, such as a territory or sector of activity.

The Caisse believes that its association with other national investors, including the National Bank, Financière Entraide-Coopérants, the Fonds de solidarité des travailleurs du Québec and local or specialized participants, also interested in investing in industrial, manufacturing, commercial or financial companies in their regions, coupled with the management of investment companies by experienced managers in each region, should ensure the success of this undertaking.

Two of the investment companies, located in Québec City and in Sherbrooke, are known as Capidem Québec and Capital Estrie, respectively. Commitments were made at year-end for the creation of a third company in the heart of Québec, covering the regions of Trois-Rivières and Drummondville.

Together, they have capital of over \$28 million at their disposal and their objective will be to promote the development of over one hundred small businesses in the coming years.

The Caisse pursued its program of financing medium-sized businesses by equity investments and debentures. Thus, in 1988, it concluded 15 private financings totalling \$37.8 million. Of this number, three transactions reaching \$8 million were still under negotiation as at December 31. Also, as in 1987, the Caisse continued to be active on the secondary market for QSSP issues of medium-sized businesses offering interesting growth potential in the medium and long term, by investing over \$8.2 million in 24 companies. There was a considerable number of redemptions and reimbursements of matured financings during the year, reaching \$21.7 million.

Also, for administrative purposes, four investments with a market value of \$16.5 million as at December 31, 1987 were transferred to other portfolios, including three to the portfolio of corporate investments in large businesses and one to the stock market portfolio.

At year-end, the portfolio of corporate investments in small and medium-sized businesses aggregated \$206.8 million at market value and involved not less than 91 businesses. The Caisse's partners carried out some 36 merger or acquisition projects in 1988, creating over 500 jobs in Québec. Moreover, they invested over \$70 million in capital projects, also in Québec.

Those 91 businesses, which chose the Caisse as their business partner to ensure their accelerated and smooth development, have made the Institution the largest participant in the funding of medium-sized businesses in Québec and one of the major investors of this nature in Canada.

INTERNATIONAL

CORPORATE INVESTMENTS

The objective of this particular sector, which is at its modest beginnings, is to form long-term associations with foreign companies that are getting established in Québec or are expanding here and with Québec companies that want to carry out investment projects outside the country, all involving the Caisse's participation. At the same time, the Caisse is associated with foreign financial institutions having the same objectives and able to create synergy with its partners.

The year's activities centered around the development of relations with current partners and the seeking out of foreign investment vehicles.

These international relations will also be beneficial for the Caisse's Québec partners.

In 1988, the international corporate investments portfolio rose by \$2.5 million subsequent to an investment of \$12.5 million in an American company specialized in financial engineering and the sale of another investment of \$10 million.

REAL ESTATE

INVESTMENTS

The Caisse's real estate investments portfolio rose by \$163.7 million in 1988 to \$692.7 million, representing a growth rate of 31%. Its market value as at December 31 amounted to \$881.7 million. The market value of land and building assets is certified annually by a recognized valuation firm.

The sectorial and regional diversification of investments was particularly marked during the year, as well as the increase in business combinations involving Québec partners.

Major acquisitions were made in the industrial sector, including the purchase of 40 properties in Saint-Laurent. This latter acquisition, in which the Caisse's interest amounted to 45%, was carried out with the pension funds of Domtar and of the policemen of Montréal, as well as Société immobilière Trans-Québec (S.I.T.Q.) and the Guaranty Trust Company. In this same investment sector, the Caisse and the S.I.T.Q. also entered into a long-term agreement with a developer, Cytren, by acquiring a 50% interest in land as well as in commercial and industrial buildings in Longueuil and Saint-Laurent. Another agreement was concluded with Groupe Désourdy for the purchase of industrial land in Blainville.

This type of association is aimed at efficiently increasing the real estate investments portfolio at reasonable

prices and as work on site is completed.

In the residential field, the Caisse concluded a development agreement with another developer, Prével, after purchasing land in Anjou for an initial investment of approximately \$16 million.

The Institution's regional presence was reinforced by the acquisition of four shopping centers in Alma, Jonquière, Chicoutimi and Rimouski with three partners, i.e. Westcliff, Les Coopérants and Société immobilière Trans-Québec. Two other shopping centers were acquired in Thetford Mines and Cowansville with S.I.T.Q. acting as the manager and partner.

The regional breakdown of real estate investments is as follows: 27.6% in downtown Montréal, 42.5% in the metropolitan Montréal region, 13.9% in Québec City, 9.1% in other regions of the province and 6.9% outside of Québec.

In addition, development began on land which had been part of the portfolio in 1987: the Édifice Mérici building in Québec City, the World Trade Center building on Saint-Jacques Street in Montréal and condominium units on Île des Soeurs (Nun's Island).

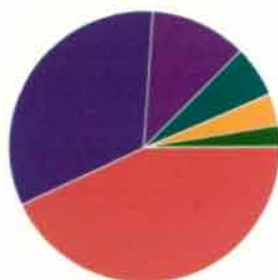
Large investments were made with the objective of increasing the value of the existing portfolio. Thus, major work is underway at 1200 McGill College, Westmount Square and the hotel at Place Dupuis. After the renovation, the latter will be renamed Hôtel des Gouverneurs and will be the first establishment of that Québec hotel chain on the island of Montréal. Last, the Caisse undertook steps which will allow it to diversify its portfolio both in the United States

and Europe over the coming years.

As at December 31, 1988, the breakdown of the real estate investments portfolio at market value was as follows: office buildings, 43.1%, commercial, 33%; industrial, 11.5%; residential, 5.8%; undeveloped land, 3.8% and hotels, 2.8%.

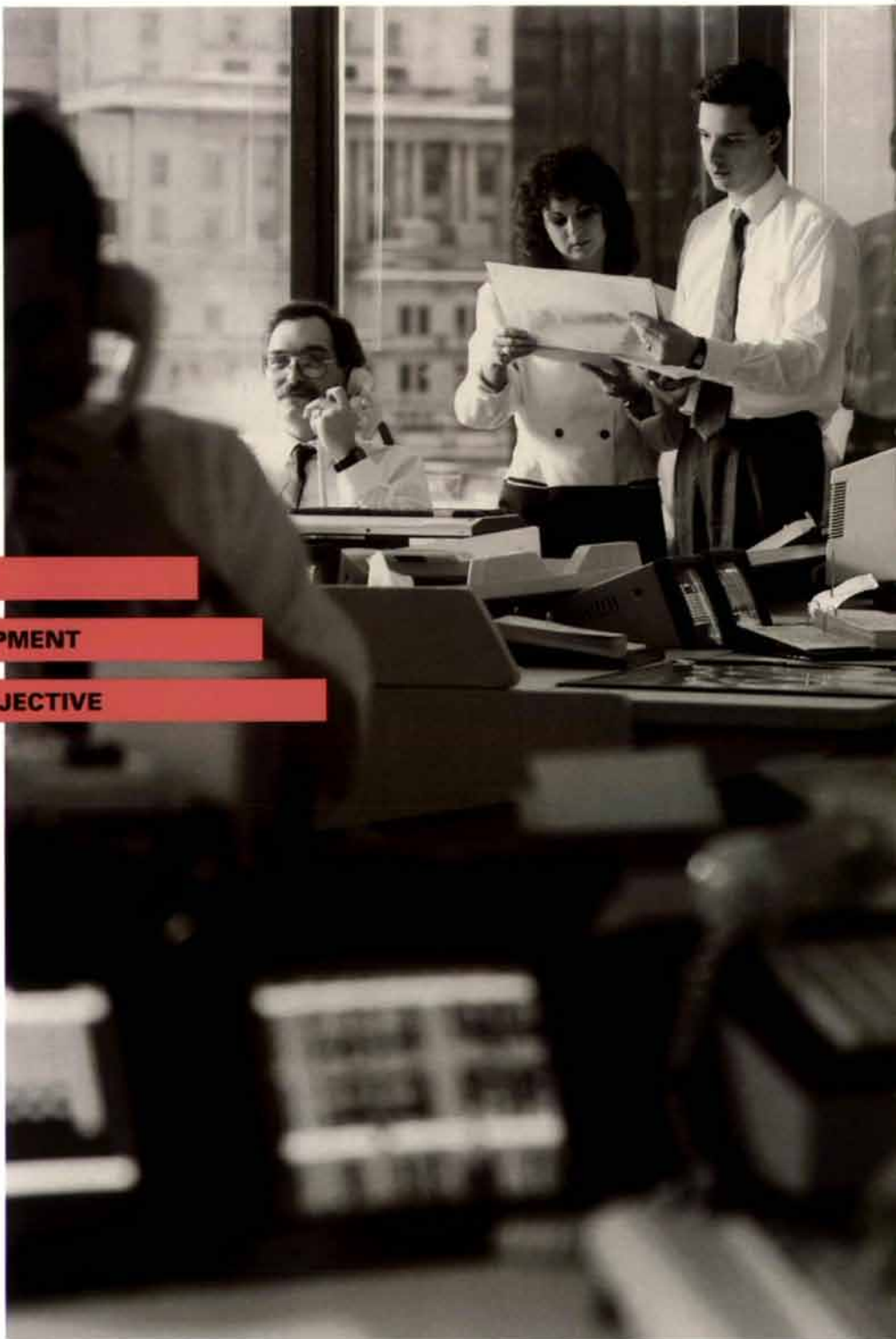
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BREAKDOWN OF REAL ESTATE INVESTMENTS
as at December 31, 1988
(at market value -
in percentage)



■	Office buildings 43.1
■	Commercial 33.0
■	Industrial 11.5
■	Residential 5.8
■	Undeveloped land 3.8
■	Hotels 2.8

FIXED INCOME SECURITIES



PROMOTING QUÉBEC'S

ECONOMIC DEVELOPMENT

IS A MAJOR OBJECTIVE

The Caisse invests in government, municipal, health care institution, school board and government corporation bonds.



In early 1988, worries about inflation had abated somewhat but the sustained vigor of the economy brought them back and continued to maintain them. In fact, interest rates, which had dropped at the beginning of the year, began to climb again in the United States and Canada.

The uncertainty stemming from the stock market crash of October 1987 continued to make an impact, requiring constant attention to monitor all fluctuations in the bond market. Last, the environment in 1988 was also marked by the internationalization of markets, which has resulted in markets continuously influencing each other.

BOND INVESTMENTS

During the year, a major part of the bond investment program was devoted to issues by the Québec government, Hydro-Québec and several other issuers of the public sector which are guaranteed by the Québec government. The Caisse, in addition to contributing to maintaining a quality secondary market for securities issued or guaranteed by the Québec government, introduced a repurchase policy for the lending of securities to allow this market's liquidity to be increased. In addition,

owing to the size of its portfolio, it facilitated the international promotion of these securities by participating in various large-scale transactions. The Institution bought or sold Québec public sector securities amounting to over \$5.7 billion in 1988, satisfying the needs of both buyers and sellers. Being active on two large markets, namely the U.S. and Canadian markets, offers opportunities to improve



the profitability of investments since the two economies behave differently according to the fiscal and monetary policies adopted in each country.

The fixed income securities portfolio comprises securities classified on a permanent investment basis, but actively managed, and securities acquired on a temporary basis. These latter, which are very liquid, are

mainly used for controlling the duration factor, as well as for participating in the market for Québec securities and allowing a more vigorous asset mix for the Caisse overall. Thus, the percentage of securities held on a temporary basis can fluctuate up or down. At year-end, it reached 19% of the total fixed income securities portfolio.

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SUMMARY OF BOND AND MORTGAGE PORTFOLIOS ACCORDING TO TYPE OF ISSUER

as at December 31, 1988

Securities	At market value		Average nominal rate (%)	Average maturity (years)	Modified duration (volatility)
	(M\$)	(%)			
Permanent investment basis					
Issued by the gouvernement du Québec	8,201.1	45.5	10.23	8.88	4.99
Government guaranteed	2,414.0	13.4	9.77	9.87	5.27
Guaranteed by grants	755.8	4.2	11.10	5.90	3.71
Municipalities and school boards	1,245.4	6.9	11.03	5.92	3.71
Corporate and other	150.6	0.9	11.21	4.05	2.67
Mortgages	1,813.1	10.1	10.83	4.14	2.77
Temporary investment basis					
Government issued or guaranteed					
Canada	1,843.2	10.2	10.14	10.04	5.72
United States	1,326.0	7.4	8.48	12.91	6.70
Others	256.7	1.4	9.91	11.85	3.64
	18,005.9	100.0	10.19	8.62	4.82

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SUMMARY OF ACQUISITIONS OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC AND QUÉBEC PUBLIC SECTOR IN 1988

(at par value - in millions of dollars)

	Amount of issues			Acquisitions by the Caisse on the Canadian market	
	Canadian market	Other markets	Total	Amount	(%)
Gouvernement du Québec					
Regular issue	2,866.3	372.4	3,238.7		
Refunding	20.3	359.6	379.9		
	2,886.6	732.0	3,618.6	650.0	22.52
Hydro-Québec and other government corporations					
Regular issue	1,340.0	860.8	2,200.8		
Refunding	131.0	350.2	481.2		
	1,471.0	1,211.0	2,682.0	275.0	18.69
Municipalities and guaranteed by grants					
Regular issue	927.4	87.6	1,015.0	218.5	23.56
	5,285.0	2,030.6	7,315.6	1,143.5	21.64

Investments in Québec public sector bonds issued during 1988 amounted to \$1.14 billion. Of this amount, \$650 million was allocated to Québec government securities, \$150 million to Hydro-Québec issues and \$344 million to other issuers in this sector, including \$100 million to the Société d'habitation du Québec and \$25 million to the Société québécoise d'assainissement des eaux.

As at December 31, 1988, bond investments in the portfolio had a market value of \$16.2 billion, an average maturity of 9.13 years, an average coupon rate of 10.11% and, according to this management technique, a modified duration of 5.05 years.

MORTGAGE INVESTMENTS

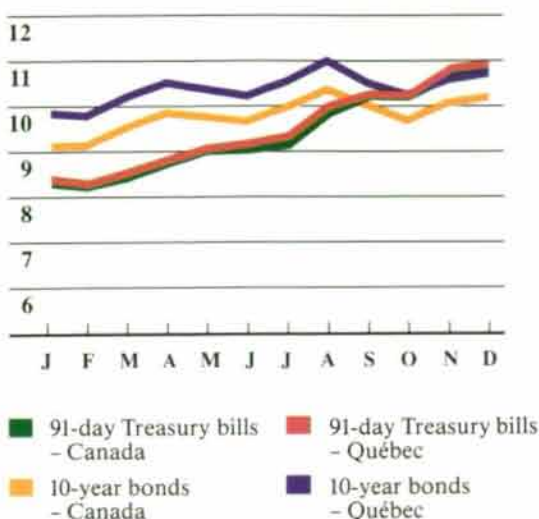
Supported by the vigor of Québec's economy and by the confidence of consumers and investors, the real estate market was buoyant. In the residential sector, first-time home buyers continued to play a major role. The number of housing starts was quite high and the resale market was quite strong. The commercial and industrial sectors achieved record results, which demonstrated the confidence of developers and investors. The absorption level of industrial, office and retail business space was high and sale and rental activity was intense.

Mortgage rates remained quite stable during most of the year. However, a general increase, begun in the second quarter, caused residential rates to exceed 12% by the year-end.

As a result, mortgage lenders were very active. The large availability of funds continued to spark lively competition regarding interest rates and loan amounts.

The Caisse's mortgage loans are made in Québec. During the year, the Institution granted loans totalling \$331 million, allocated between the residential, commercial and industrial sectors. It also took steps towards meeting its objective to promote new

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EVOLUTION OF YIELD IN 1988
(in percentage)



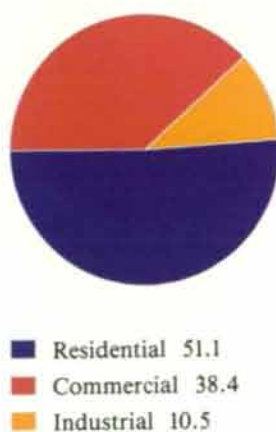
Sources: Bank of Canada and the Caisse

construction projects and ensure the accessibility of its loans in all regions.

The main financing arrangements concluded during the year were related to the following achievements: the construction of Édifice Mérici, an office building in Québec City in which the Caisse holds another share through its subsidiaries; the construction of Colonnades Pointe-Claire, a real estate complex including an office building and stores; the expansion and renovation of Carrefour Baie-des-Chaleurs, a shopping center located in New Richmond, and the permanent financing of Carrefour Super-Carnaval in Trois-Rivières, jointly with the Imperial Life Assurance Company.

The Caisse is an active participant in social housing programs, such as those of the Société d'habitation et de développement de Montréal and the Canadian Mortgage and Housing Corporation. The terms and

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BREAKDOWN OF MORTGAGE INVESTMENTS
as at December 31, 1988
(at market value - in percentage)



conditions of these loans are competitive with those offered on the market. Among other items, it financed several housing cooperatives by means of indexed mortgage loans.

A large number of mortgage investments in the residential sector were made through four representatives: Fiducie Desjardins, Sherbrooke Trust, Trust Général du Canada and Trust Prêt et Revenu. With their business network and different branches, these trust companies can better serve the market and particularly the residential sector and multi-unit housing having less than 5 units.

At year-end, the Caisse's mortgage investments totalled \$1.8 billion at market value, i.e. 5.7% of the overall portfolio. They were allocated in the following sectors: residential, 51.1%; commercial, 38.4% and industrial, 10.5%.

The maturity and duration of the portfolio were considerably reduced during the year as a result of the high

proportion of new short-term loans and the sale of investments for approximately \$46 million, of which the average maturity was 17.2 years. This strategy to shorten the average maturity was implemented in connection with the overall management of the fixed income securities portfolio.

The Caisse also pursued another major objective by reinforcing its presence in the industrial sector to ensure a better diversification of the types of properties on which its loans are made and to intensify its support to Québec businesses. The proportion of financing in this sector thus clearly increased and



represented 10.5% of the whole portfolio at year-end.

As at December 31, 1988, the average interest rate on loans granted by the Caisse was 11.11%, whereas the average maturity and modified duration were 4.14 and 2.77 years, respectively.

MONEY MARKET INVESTMENTS

Fears about an upswing of inflation led the Bank of Canada to adopt a tight monetary policy in 1988. Thus, the interest rates for 91-day Canada Treasury bills rose by 250 basis points during the year, reaching 10.9% on December 31. The Bank of Canada made even more significant interventions during the second half of the year, when the demand growth rate apparently exerted pressure on costs and prices. This situation was accentuated by the effects of deregulation and the globalization of markets in recent years. Consequently, investments continued to become more mobile, increasing the fluctuation of interest rates and of currencies. The Canadian dollar was thus able to appreciate by 10% compared to the U.S. dollar.

Faced with growing uncertainty respecting interest rates, the Caisse sought out an increasing variety of new investment vehicles for hedging purposes. While continuing to assume an innovative role in Montréal's financial circles, it tried to optimize its return by controlling the risks related to all of its investment decisions. The risks are well identified and are constantly reevaluated. They are associated with the volatility of interest rates, the negotiability of the various investments, the issuers' credit quality and last, the currency of the investment.

The management of short-term investments involves three main facets: treasury (funds invested for a very short term), the portfolio investment as such and foreign exchange operations. Owing to the materiality of the treasury facet, the Caisse's

Canadian money market portfolio grew significantly during most of the year, exceeding \$2 billion on the average. The active management of these strategic reserves was realized by means of investments in very liquid securities and a considerably higher turnover than in 1987, even reaching \$32 billion. Moreover, as for the portfolio as such, the Caisse continued its operations on the Québec and Canada Treasury bills markets in addition to supporting its Québec partners by being very active in markets for financial institution and corporate securities. The turnover for institutions already in Montréal has increased and the Caisse explored new avenues with institutions which have recently become established in Québec or which are now doing so, especially certain banks. In addition to cash markets, the Caisse used new vehicles, including bankers' acceptance futures. At the Montréal Exchange, it was one of the first institutions to trade these listed securities. It has also concluded forward interest rate swaps, which are similar except that they are traded over the counter.

As for foreign exchange transactions, in addition to forward exchange contracts, which it has been using for a long time, the Caisse concluded currency swaps with members of Montréal's financial community in order to hedge the risks associated with its foreign equity and bond portfolios.

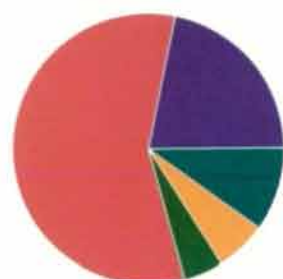
For 1989, the Caisse's orientation towards progressively penetrating the international sector allows it to envisage multi-currency transactions, as well as to continue to

use new derivative products, to hedge the risks mentioned above.

As at December 31, the total money market investments portfolio amounted to \$2.1 billion at par value and the average weighted maturity was 90 days.

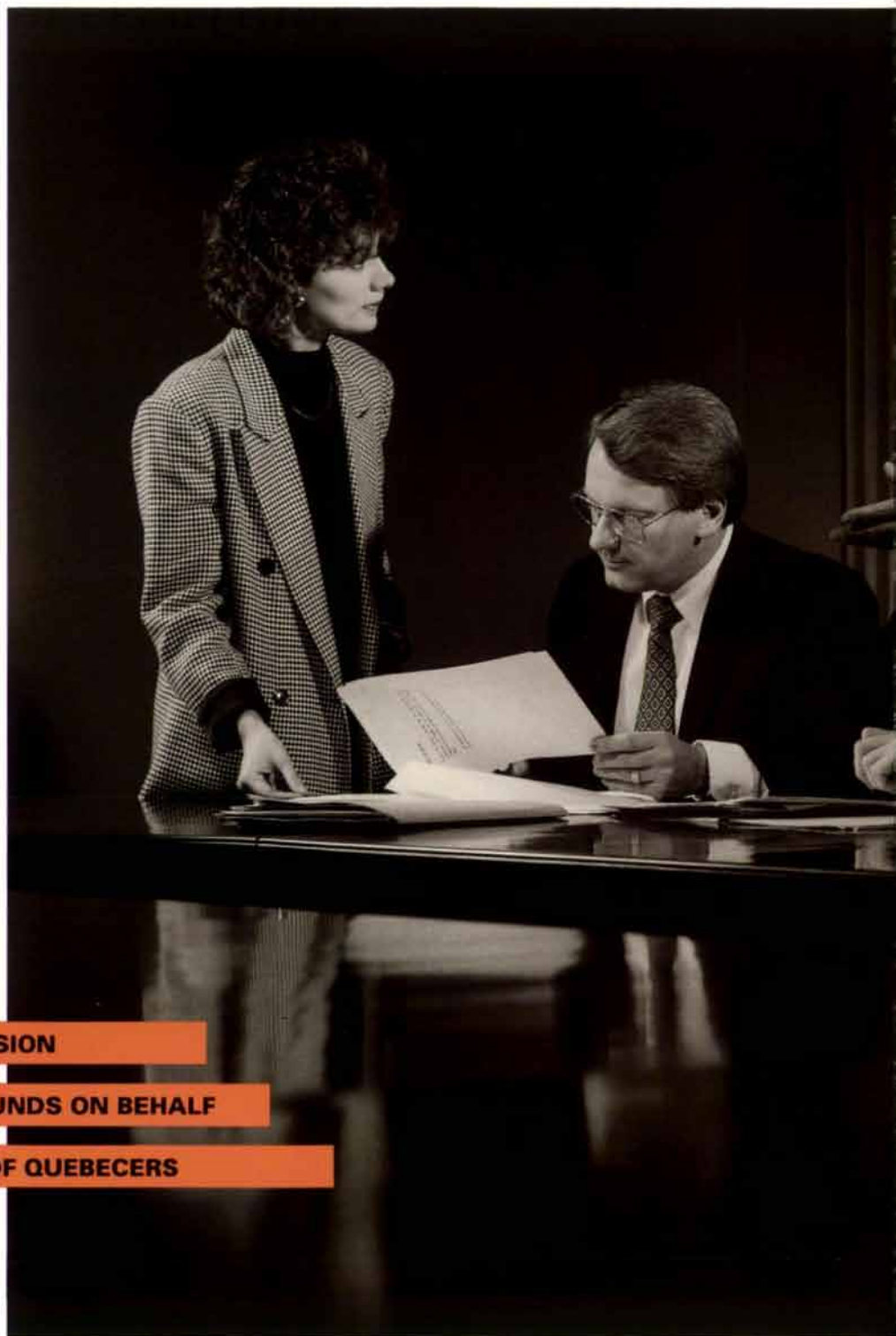
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BREAKDOWN OF SHORT-TERM INVESTMENTS
as at December 31, 1988
(at par value -
in percentage)



■	Treasury bills	57.6
■	Financial institution papers	21.5
■	Government corporation notes	10.1
■	Commercial papers	6.3
■	Other	4.5

DEPOSITORS



MANAGING PUBLIC PENSION

AND INSURANCE FUNDS ON BEHALF

OF MILLIONS OF QUEBECERS

The Caisse periodically discusses and exchanges views with its depositors to be better informed about their needs and to update them concerning results obtained.



As at December 31, 1988, the market value of depositors' holdings with the Caisse reached \$31.6 billion, an increase of \$2.8 billion during the year. The book value of these holdings totalled \$29.9 billion, up \$2.5 billion over 1987 as a result of a partial reinvestment of income which amounted to \$2.6 billion. However, net withdrawals of \$92 million were recorded. Net contributions of \$658 million made by some deposi-

tors did not entirely offset the effect of withdrawals totalling \$750 million made by others, including \$742 million by the Régie des rentes du Québec alone.

The Caisse is entrusted with the funds contributed to various public pension funds and insurance plans by over 3.9 million Quebecers, under legislation adopted by the National Assembly.

While the administration of these plans is assumed by the organizations concerned, the Caisse has the legal responsibility and the mandate to oversee the investment, protection and growth of their respective assets. The Caisse receives funds in the form of demand, term or participation deposits, at the depositor's option. Demand and term deposits constitute indebtedness towards depositors and bear interest. Participation deposits give the holder a share in the net equity and net income of a particular Fund. Their value varies according to the value of the Fund to which they are allocated.

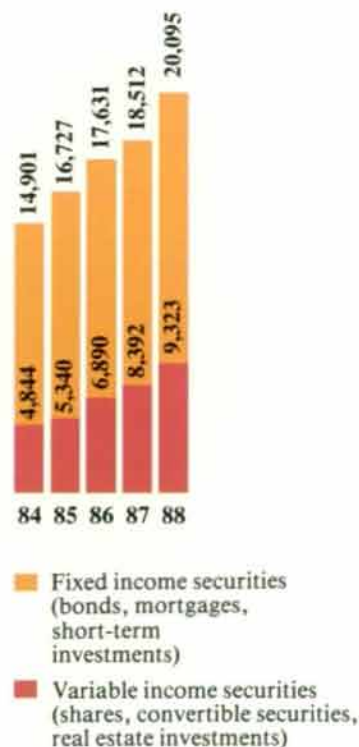
The Caisse has nine Funds: the General Fund and eight Individual Funds. The General Fund is a pooled fund which includes several

depositors, while each Individual Fund has only one. Of its 11 depositors, seven accumulate reserves to meet future commitments and the other four entrust the Caisse with liquid assets.

Throughout the year, the Caisse continued to meet periodically with its depositors in order to be better informed of their needs for liquid assets and to update them on results obtained.

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EVOLUTION OF INVESTMENTS
as at December 31
(at book value -
in millions of dollars)



GENERAL FUND

Régie des rentes du Québec (R.R.Q.)

The principal depositor to the Caisse's General Fund, the R.R.Q., manages the universal pension plan for Quebecers, created in 1965. Despite an increase in its holdings of \$481 million at book value during the year, the Régie des rentes du Québec had to withdraw \$742 million from its \$1,222 million in income to meet current requirements during 1988. In 1987, \$673 million was withdrawn, representing a 49.6% utilization of funds in 1987, versus 60.7% in 1988. At year-end, its holdings deposited with the Caisse, standing at \$14.1 billion at market value, accounted for 44.6% of total depositors' holdings. As a result of the 0.2% per annum increase in contributions implemented in 1987 for a five-year period, the contribution rate for 1989 rose from 4% to 4.2% of contributory earnings.

This increase will slow down the rate of withdrawals expected to be made by the Régie during future years.

Régie de l'assurance automobile du Québec (RAAQ)

The RAAQ, formed in 1977, is the second largest depositor to the General Fund. It manages the general plan which provides insurance against injuries caused by traffic accidents. Its principal mandate is to reduce the risk of accidents and to achieve this, it has three plans of action which include controlling access to the road system, promoting road safety and compensating victims of traffic accidents. In 1988, for the first time since its inception, the Régie had to withdraw \$8 million from some \$377 million in investment income. This situation stems from a drop in contributions which is mainly attributable to the year-long installment payments for licence



plate renewals and the three-year program for the investment of \$200 million in the road infrastructure intended to upgrade safety. As at December 31, 1988, the market value of the Régie de l'assurance automobile du Québec's holdings reached \$4.5 billion, or \$4.2 billion at book value. The plan represents 14.1% of total depositors' holdings with the Caisse and 23.9% of the General Fund at market value.

Fonds d'assurance-prêts agricoles et forestiers (FAPAF)

The FAPAF has been one of the unitholders in the General Fund since 1978. Its role consists in securing the reimbursement of losses on farm loans. Therefore, it maintains a minimum reserve of \$10 million as collateral for the loans it secures.

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DEPOSITORS

as at December 31, 1988

	Abbreviation	First deposit	Number of contributors ¹	Depositors' holdings ²
Régie des rentes du Québec	R.R.Q.	1966	3,095,000	14,110.5
Commission administrative des régimes de retraite et d'assurances	CARRA			
Government and Public Employees Retirement Plan	RREGOP	1973	380,000	7,861.7
General Retirement Plan for Mayors and Councillors of Municipalities		1975	750	22.3
Individual plans		1977	115	31.5
Régie de l'assurance automobile du Québec	RAAQ	1978	3,900,000	4,458.8
Commission de la santé et de la sécurité du travail	C.S.S.T.	1973	171,252	2,716.1
Commission de la construction du Québec	C.C.Q.			
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	107,000	2,362.4
Fonds d'assurance-prêts agricoles et forestiers	FAPAF	1978	1,758	11.0
Régie des assurances agricoles du Québec		1968	45,065	27.2
Régie des marchés agricoles du Québec		1967	66	1.7
Régie de l'assurance-dépôts du Québec		1969	1,378	20.4

¹estimate

²at market value - in millions of dollars

BREAKDOWN OF THE FUNDS' ASSETS ACCORDING TO TYPE OF INVESTMENT

as at December 31, 1988
(in millions of dollars)

Type	At book value				Net change	At market value
	General Fund ¹	Individual Funds	Total	% of total		Total
Bonds	10,599.3	5,621.2	16,220.5	54.2	646.1	16,192.7
Mortgages	644.6	1,198.2	1,842.8	6.1	75.5	1,813.2
Shares and convertible securities	4,523.1	4,213.8	8,736.9	29.2	794.1	10,372.4
Real estate investments	293.4	292.6	586.0	2.0	136.5	749.0
Short-term investments	1,327.3	645.0	1,972.3	6.6	833.9	1,970.2
Net deposits in the General Fund	—	59.9	59.9	0.2	28.3	59.9
	17,387.7	12,030.7	29,418.4	98.3	2,514.4	31,157.4
Other assets	303.9	195.9	499.8	1.7	9.6	499.8
1988	17,691.6	12,226.6	29,918.2	100.0	2,524.0	31,657.2
1987	16,815.3	10,578.9	27,394.2	100.0	2,400.2	28,849.8
Net change	876.3	1,647.7	2,524.0	—	—	2,807.4

¹The assets of the General Fund have been reduced by total demand deposits of the Individual Funds and accrued interest.

Other Depositors

The Régie des assurances agricoles du Québec, the Régie de l'assurance-dépôts du Québec and the Régie des marchés agricoles du Québec are not included among the unitholders in the General Fund. However, they entrust the Caisse with liquid assets in the form of demand or term deposits totalling \$49.3 million.

INDIVIDUAL FUNDS

Government and Public Employees (RREGOP)

The Government and Public Employees Retirement Plan was set up in 1973 for public sector employees including civil servants as well as employees of the education and social affairs sectors. It is managed by the Commission administrative des régimes de retraite et d'assurances (CARRA). Since its creation, the plan has accumulated \$7.3 billion, representing 24% of the total holdings of the Caisse's depositors and making the RREGOP the second largest depositor with the Caisse. At market value, this amounts to \$7.9 billion, or

25% of depositors' holdings. During 1988, the plan's holdings increased by \$941 million at book value, of which \$328 million arose from new contributions and the balance from reinvested income. The RREGOP, the plan which brings in the largest amount of contributions to the Caisse, features two accounts: one for unionized employees (Fund 301) and another for non-unionized employees (Fund 302).

Individual Plans and Plan for Mayors and Councillors of Municipalities

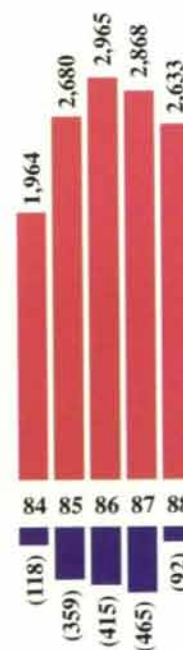
CARRA also administers other plans, including those mentioned above. Assets are invested in Individual Funds 303 and 304 and total \$31.5 and \$22.3 million respectively, at market value.

Commission de la construction du Québec (C.C.Q.)

The Caisse also manages the holdings of certain other supplemental pension plans, including the plan for employees of the construction industry. The type of benefits paid out by this plan

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DISTRIBUTION OF TOTAL DEPOSITORS' NET INCOME AND CONTRIBUTIONS (in millions of dollars)



■ Net income (investment income less administrative expenses)
■ Net contributions (deposits less withdrawals)

and the source of contributions which characterize it make it rather special. As at December 31, this plan's assets totalled \$2.4 billion at market value, allocated among three accounts: the

active participants' account (Fund 311 - which includes all non-retired employees), the retired participant's account (Fund 312 - which includes all retired employees of the industry)

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BREAKDOWN OF TOTAL DEPOSITORS' HOLDINGS

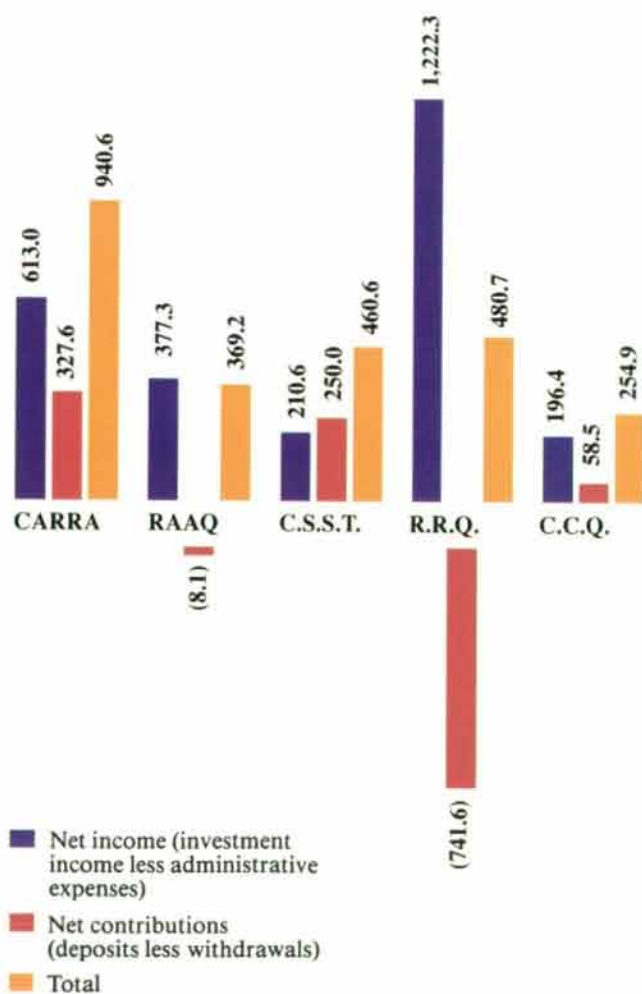
as at December 31
(at market value - in percentage)

	1988	1987	1986	1985	1984
Régie des rentes du Québec	44.6	46.9	48.5	49.6	50.9
Commission administrative des régimes de retraite et d'assurances	25.0	23.9	22.7	21.7	20.3
Régie de l'assurance automobile du Québec	14.1	14.1	13.7	13.2	12.2
Commission de la santé et de la sécurité du travail	8.6	7.8	8.2	8.7	9.5
Commission de la construction du Québec and other depositors	7.7	7.3	6.9	6.8	7.1

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DISTRIBUTION OF EACH DEPOSITOR'S NET INCOME AND CONTRIBUTIONS IN 1988

(in millions of dollars)



and the additional contributions account (Fund 313 - which includes non-retired employees who pay additional contributions). With the addition of employees from most other trades, contributions to Fund 313 were almost four times higher in 1988. Also, during the year, a \$255 million increase was recorded for the plan, based on income of \$196 million and contributions of \$59 million.

As a result of an increase in the contribution rate to the basic plan for employees and employers (Fund 311) effective in 1987, the Commission was able to bring in new funds of \$65 million and consequently reverse the withdrawal trend which had prevailed since 1983.

Commission de la santé et de la sécurité du travail (C.S.S.T.)

Since 1973, the C.S.S.T. has entrusted to the Caisse the funds it accumulates to meet workmen's compensation and occupational illness benefits it is required to pay. The Commission receives contributions from all employers for insurance against accidents occurring in their sector of activity. As at December 31, 1988, the C.S.S.T. had assets of \$2.7 billion at market value, representing close to 8.6% of total depositors' holdings. The Commission's holdings at book value increased by \$461 million, which includes income of \$211 million. The C.S.S.T. thereby brought in new contributions and offset the withdrawal trend begun in 1984. Furthermore, the Commission committed itself to reducing the rate of accidents by 10%. With the increase in the contribution rate up from \$2.50 to \$2.75 in 1988, the fund will now be able to stabilize and maybe even begin to grow.

ADMINISTRATION



ADMINISTRATIVE EXPENSES

Administrative expenses, which are allocated among the various Funds on a pro rata basis according to the market value of investments, amounted to \$17.5 million in 1988. Salaries and professional fees constituted the highest expenditure item, representing 65.7% of annual expenses. The other major components were rent and insurance, totalling 14.5%, and equipment and supplies, aggregating 5.7%. In addition, the expenses directly related to investment management services performed by other financial institutions were charged against the investment income of the Funds as follows: \$3.66 million to the General Fund and \$2.79 million to the various Individual Funds.

HUMAN RESOURCES

The favourable job market situation allowed our Institution to successfully complete its recruitment program. Having acquired rich and varied work experiences, the Caisse's personnel offers a strong profile of professional training which will ensure high calibre services for years to come.

Close to 80% of the professionals and management staff hold a bachelor's degree and over 30% of them also have a graduate degree to their credit.

Almost 30% of fund managers and other investment specialists have successfully completed at least one of the levels of the Certified Financial Analyst (CFA) program. In the support and technical staff categories, almost one third of the Caisse's employees have completed or soon will complete an undergraduate degree.

As a result of their experience and the quality of their training, the employees are able to adequately meet the Caisse's ambitious objectives.

INFORMATION SYSTEMS

By about mid-year, the Caisse completed the conversion of all of its information and data systems. This conversion was made necessary as a result of an increased turnover and a higher number of users. A new centralized system is now fully operational. Moreover, the security and emergency contingency plan has been upgraded.

The Caisse has also followed up its applications development program to meet the needs of the Canadian and international stock markets, as well as money market requirements.

As for microprocessing, it has continued its equipment acquisition program while ensuring the support and training required for all personnel to allow the efficient operation and appropriate use of work tools.

COMMUNICATIONS

During the year, the Caisse pursued its communications activities aimed at supplying maximum information to various interested parties and the public, while keeping in mind the private nature of negotiations leading to financial transactions. The Caisse's growing reputation, as well as certain key financial files, such as Inco and Noverco and the launching of the Capidem Québec and Capital Estrie investment companies, have resulted in an upsurge of press relations and public relations activities in Québec and elsewhere and, in particular, in Toronto and New York.

The Caisse has also maintained its communications activities with its clientele in the medium-sized

business niche by publishing the quarterly bulletin called "Savoir-faire", as well as by holding "Entre partenaires" business meetings and participating, in different ways, in various events related to corporate financing.

The Caisse also publishes an analysis of economic trends and forecasts semi-annually in June and December. This publication, "Cycles et tendances", is continually growing in popularity. It is available upon request.

The Caisse has also launched "Collection Recherche", a publication whose objective is to promote reflection and analysis in the investment field. Distributed to a specialized clientele, the first issue is called "La diversification en actions internationales pour un investisseur canadien".

Health

In 1988, the Caisse continued to implement measures provided for under the Act respecting the protection of non-smokers in certain public places which came into force during the previous year.

**MEMBERS OF THE
BOARD OF DIRECTORS**

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Serge Piquette
Mortgage Investments

Normand Provost
Corporate Investments
- Small and Medium-Sized Businesses

Adel Sarwat
International Stock Market Investments

Alain Tessier
Accounting

BALANCE SHEET
as at December 31, 1988

1988 1987
(in millions of dollars)

COMBINED SUMMARY

FINANCIAL STATEMENTS

ASSETS		
Investments		
Bonds	16,276	15,627
Shares and convertible securities	8,777	7,957
Mortgages	1,803	1,714
Real estate investments	656	491
Short-term investments	2,035	1,173
	29,547	26,962
Other assets	512	497
	30,059	27,459
LIABILITIES		
	174	115
DEPOSITORS' HOLDINGS		
General Fund	17,664	16,774
Individual Funds	12,221	10,570
	29,885	27,344
	30,059	27,459

STATEMENT OF INCOME
for the year ended December 31, 1988

1988 1987
(in millions of dollars)

INCOME		
Investment income	2,501	2,271
Gains and losses on sale of investments	148	613
Other income	1	1
	2,650	2,885
EXPENDITURE		
Administrative expenses	17	17
NET DEPOSITORS' INCOME	2,633	2,868
ALLOCATION OF INCOME		
Interest on demand and term deposits	18	16
Net income allocated to participation deposit holders	2,615	2,852

Note: Combined financial statements are provided in the FINANCIAL STATEMENTS AND FINANCIAL STATISTICS booklet of the 1988 Annual Report.

For information: (514) 842-3261

Should you wish to obtain an additional copy of this report, please contact Communications.

Ce rapport peut aussi être obtenu en français sur demande.

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