

CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC



ANNUAL  
r e p o r t  
1994



# CONTENTS

## OVERVIEW

- 2 Highlights
- 3 Financial Review and Total Return
- 4 Mission

## SECTION HEADINGS

- 5 Message from the Chairman of the Board and Chief Executive Officer
- 9 Economic Review
- 13 Asset Mix and Returns
- 19 Investment Operations
- 35 Management of Depositors' Funds
- 41 Strategic and Administrative Activities
- 45 Board of Directors
- 46 Senior Management and Vice-Presidents
- 47 FINANCIAL STATEMENTS

## SPECIAL TOPICS

- 17 Assessing Investment Performance
- 23 Flexible Investment Management
- 27 Highlight on Corporate Governance

## TABLES AND GRAPHS

- 9 Job Creation in Québec
- 10 Growth in Real GDP in 1994
- 11 Changes in Interest Rates in the United States in 1994
- 13 Changes in Investments as Part of Net Assets
- 14 Investments at a Glance
- 15 Comparison of Return on Investments and Financial Indices
- 19 Acquisitions of New Bonds Issued by the gouvernement du Québec in 1994
- 20 Summary of Bond Portfolio
- 21 Changes in Yield Spreads on Ten-Year Bonds
- 21 Changes in Yield on Treasury Bills in 1994
- 22 Short-Term Investments
- 22 The Canadian Dollar in 1994
- 24 Foreign Equities
- 25 Cumulative Monthly Return of Three Canadian Stock Market Indices in 1994
- 26 Stock Market Indices in 1994
- 28 Changes in the Private Investments Portfolio
- 29 Geographical Breakdown of Private Investments
- 29 Sectorial Breakdown of Private Investments
- 30 Mortgages
- 31 Caisse Real Estate Group Portfolio
- 35 Changes in Foreign Investments
- 36 Depositors
- 37 Breakdown of Depositors' Holdings
- 38 Changes in Depositors' Holdings
- 38 Cash Flows of Major Depositors in 1994
- 39 Value Added to Depositors' Funds Since 1966

# HIGHLIGHTS

---

- **U.S. interest rates rose sharply.** The rate hike of over 2%, which had repercussions on almost all international bond markets, resulted in a stock market correction without however impacting negatively on the worldwide economic recovery. Long-term U.S. government bonds dropped by roughly 20% in value during the year.
  - **Market indicators posted zero or negative returns.** The Japanese stock market was the only exception, climbing roughly 13% in local currency. For the first time since 1974, Canadian stock and bond markets both posted negative returns in the same year.
  - **The Canadian dollar depreciated 5% against the U.S. dollar.** The decline was due to the Bank of Canada's expansionary policy, U.S. interest rate hikes and the uncertainty surrounding high government debt levels.
  - **On the major markets, equities and bonds had satisfactory returns.** The Canadian equities portfolio generated a 1.5% return, outperforming the TSE 300 which posted -0.2%. The return on the bond portfolio was -4.4%, which compares favourably with the -4.3% return of the ScotiaMcLeod Universe index given the widening of yield spreads between Québec and Canadian securities.
  - **Real estate investments recorded a 6.2% current return.** The temporary drop in the value of real estate assets resulted however in a negative total return which was nonetheless higher than the return obtained by the MLH+A index.
  - **Returns were equal to or above benchmark indices.** These results were achieved in five of the Caisse's seven investment classes. Overall return on investments for the year was -2.1%.
  - **Fifty-five private investments totalling \$401 million were authorized.** Over the past ten years, the Caisse's private investments in Québec companies earned an 11.4% return, outperforming the TSE 300's 9.2% return for the same period.
  - **The network of regional investment companies was expanded.** Société de capital de risque Abitibi-Témiscamingue (SOCCRAT) and Investissements 3L, which covers the regions of Laval, the Laurentians and Lanaudière, were added to the network.
  - **Three new depositors joined the Caisse.** They are the Fonds d'amortissement des régimes de retraite gouvernementaux, created by the Québec Minister of Finance, the Société des alcools du Québec and the Centre de recherche industrielle du Québec. The Caisse now has a total of 18 depositors.
  - **The Caisse published its corporate governance policy.** The Caisse thereby wanted to codify and publicize the principles governing the practices it has followed in this area in recent years.
-

# FINANCIAL REVIEW

## and total return

	1994	1993	1992	1991	1990
	(in millions of dollars)				
<b>NET ASSETS</b>					
Investments at market value					
Bonds	21,345	22,352	19,896	19,670	17,393
Shares and convertible securities	17,753	17,936	15,464	15,229	13,123
Mortgages	1,842	1,958	2,047	2,105	1,984
Real estate investments - net <sup>1</sup>	1,601	1,517	1,519	1,744	1,788
Short-term investments	1,995	2,794	1,989	1,803	1,820
<b>Total investments - net</b>	<b>44,536</b>	<b>46,557</b>	<b>40,915</b>	<b>40,551</b>	<b>36,108</b>
Other assets and liabilities	324	560	392	502	145
<b>Total net assets at market value</b>	<b>44,860</b>	<b>47,117</b>	<b>41,307</b>	<b>41,053</b>	<b>36,253</b>
<b>DEPOSITORS' HOLDINGS</b>					
Commission administrative des régimes de retraite et d'assurances - RREGOP	16,046	15,917	12,895	11,973	9,880
Régie des rentes du Québec	14,409	16,401	15,201	15,887	14,650
Société de l'assurance automobile du Québec	4,692	5,710	5,328	5,393	4,886
Commission de la construction du Québec	4,264	4,360	3,753	3,564	3,007
Commission de la santé et de la sécurité du travail	4,219	4,315	3,835	3,986	3,594
Fonds d'amortissement des régimes de retraite gouvernementaux	803	-	-	-	-
Other depositors	427	414	295	250	236
<b>Total depositors' holdings</b>	<b>44,860</b>	<b>47,117</b>	<b>41,307</b>	<b>41,053</b>	<b>36,253</b>
<b>NET DEPOSITORS' INCOME</b>					
Net income from investments	2,717	2,631	2,693	2,839	2,955
Accumulated gains and losses on the sale of investments	166	1,358	576	834	(180)
Accumulated net income	2,883	3,989	3,269	3,673	2,775
Accumulated unrealized increase (decrease) in value	(3,975)	3,661	(1,603)	2,435	(2,731)
<b>Total net depositors' income</b>	<b>(1,092)</b>	<b>7,650</b>	<b>1,666</b>	<b>6,108</b>	<b>44</b>
Net depositors' withdrawals	1,165	1,840	1,412	1,308	437

<sup>1</sup> reduced by bank and mortgage loans as well as by non-controlling interests; excludes the bonds, shares, mortgages and short-term investments in the specific real estate investments portfolio

	1994	1990 - 1994 (5 years)	1985 - 1994 (10 years)
Total return	(2.1)	7.5	10.6

market value - in percentage

Return is calculated using the time-weighted method.



The Caisse de dépôt et placement du Québec, created in 1965 by an Act of the National Assembly, is a portfolio manager that invests the funds of Québec public pension and insurance plans, and of various Québec public bodies.

---

## M i s s i o n

**The Caisse has the mandate to achieve an optimal financial return and to contribute by its activities to the vitality of the Québec economy while safeguarding the capital it manages.**

To achieve these objectives, it uses a range of traditional and innovative financial instruments: bonds, shares and convertible securities, mortgages, real estate, short-term securities and synthetic and derivative products. These vehicles are combined with active management, astute selection of investments and geographical diversification, mainly on the North American, European and Asian markets. The Caisse has its principal place of business in Montréal, a major financial centre. It is one of North America's largest financial institutions and Canada's leading public fund manager.

# MESSAGE FROM THE CHAIRMAN of the Board and Chief Executive Officer



The year 1994 was paradoxical in many respects. Indeed, now that the main statistics are available, it is clear that economic growth forecasts generally proved to be correct. Conversely, and in there lies the paradox, the markets lost value in comparison with the previous year. While the year got off to a good start, amid very encouraging forecasts and expectations that the strength of the markets over the last months of 1993 would continue, the central bank in the United States began tightening its monetary policy in February to prevent a resurgence of inflation. In other countries, especially in Canada, this policy had the inevitable effect of driving up interest rates, which had been falling until that point. The sudden shift in interest rates had an immediate impact on bond markets in general, and on Canadian bond markets in particular, where securities with maturities of ten years or more posted their worst yields since 1956.

The behaviour of the capital markets was thus very different from that of the economy. In fact, while the economy grew by a lacklustre 0.6% in 1992 as it emerged from the recession, and by only 2.2% in 1993, it achieved 4.5% growth in 1994. Although this figure is not a record, it does represent a fairly vigorous rate, which in fact surpassed the rates posted by the Group of Seven and even all industrialized nations. Moreover, although nearly all sectors grew, the strength of the Canadian economy was primarily due to external demand. Substantial gains were made in the manufacturing sector, which naturally had a positive impact on employment. Finally, industrial productivity continued to rise and corporate competitiveness improved for the third straight year. This robust economic performance should continue in 1995 but will remain heavily dependent on the economic and financial climate in the United States.

However, in contrast with the economy, the capital markets presented unusually difficult conditions for portfolio managers. Overall, the Caisse portfolio yielded a current return of 6.8%, but the absolute value of its interest-rate-sensitive portfolios declined by roughly 9%, precisely because of the conditions that caused interest rates to rise. Thus the absolute overall return for 1994 was -2.1%. In relative terms, however, that is in comparison to the benchmark indices, the Caisse recorded a good return on the major markets, namely the bond market and the Canadian equities market. Although the yield spread widened between Québec and Canadian securities, the return on the Caisse's bond portfolio was roughly equal to that of the index, while the Canadian equities portfolio outperformed the index by 103 basis points.

Portfolio performance must, however, be evaluated over a longer period. Thus, during the past ten years, the Caisse achieved an average annual return of 10.6%, or the equivalent of 8% when adjusted for inflation. The following sections of this report contain a more detailed analysis of the returns on Caisse investments.

The environment in which the Caisse had to manage its portfolios in 1994 provides an excellent example of the characteristics now being recognized as inherent to the capital markets: complexity, unpredictability, interpenetration and interdependence. Portfolio managers must constantly strive to minimize the impact of these unavoidable factors, which makes their task increasingly demanding. It is therefore imperative that traditional investment methods and techniques constantly be adapted to the contemporary challenges that today's portfolio managers face. Accordingly, it is with this in mind that the Caisse continued the work it began several years ago to ensure that it is equipped with the most advanced portfolio-management tools and systems. The business of the Caisse is evolving rapidly, as is the financial environment in which it operates, so it must constantly seek to systematize its management procedures and to optimize its resources.

It is from this standpoint that Caisse management pursued its work in analyzing potential investment gains and losses, a strategic component of portfolio management given the growing volatility of the markets. This analysis involves using historical returns to determine potential variations in the market value of portfolio securities, with a margin of error of less than one per cent. The work being carried out in this area is intended to lead to the development of efficient management tools that will be used to establish the variations that depositors are prepared to accept, depending on the needs of their beneficiaries.

It is equally important to highlight the institutionalization of personal savings, which are now largely found in pension or mutual funds. It is thus clear that an ever-increasing portion of corporate capital is held by institutional investors. In addition to giving rise to greater professionalism in the investment industry, this phenomenon has prompted investors to place greater importance on the qualitative aspects of corporate management and to include these among those factors likely to add value to their investments.

This is one of the reasons why institutional investors have taken a keen interest in corporate governance. And it is within this perspective that the Caisse itself published a policy on the matter during the year.

The Caisse indeed felt it was advisable to set out the corporate governance practices it has followed in recent years and to adapt them to the new realities facing investors and corporate managers. To achieve this objective, it took into account both the fiduciary responsibilities which it must itself assume with respect to the funds entrusted to it, and the mandate conferred upon it to ensure the growth of its depositors' capital. In so doing, it was guided by what it regards as the primary objective of corporate governance principles: to contribute to increasing the value of corporate assets for the benefit of the shareholders.



However, the Caisse is well aware that such a policy cannot meet the legitimate expectations that may exist in its regard unless all the parties concerned apply it in a constructive and cooperative spirit. Institutional investors undeniably have a role to play in assuring that a company is successful, as do the other shareholders, the members of management and the board of directors. It is therefore on this basis that the Caisse intends to pursue the implementation of its policy with the confidence that its objectives will effectively coincide with those of its business partners.

It goes without saying that one cannot discuss the importance of the Caisse's mission and the complexity of its operations without underscoring the skills of the institution's staff. While the Caisse's performance may be attributed to more than one factor, it is most important to highlight the concern, diligence and determination that Caisse personnel bring to their duties throughout the year. I therefore offer all staff members my sincerest thanks, knowing that I also speak for my colleagues on the Board of Directors.

Before closing, special thanks are due to Mr. Guy Savard, who resigned at the end of January as President and Chief of Operations, a position he had held for four years. During that time, he played a particularly active role in the activities and development of the Caisse. I would like to point out his unceasing dedication to the institution and the determination, creativity and vitality he always demonstrated in carrying out its mandate in a practical and effective manner. On behalf of the Caisse, its Board of Directors and its personnel, I thus offer him our heartfelt thanks and best wishes for continued success.

I would be remiss if I did not make special mention of the very significant contribution Mr. Louis Laberge made to the activities of the Caisse and to those of its Board of Directors. Indeed, Mr. Laberge joined the Board initially in 1970 and his term was renewed six consecutive times since then. Accordingly, he was associated

with the Caisse for a period of 25 years all together during which his sustained dedication to the institution and his unwavering support for its objectives were most commendable.

Similarly, I wish to underscore the part taken by Mr. André Trudeau as a member of the Board over the past five years; I wish to express our gratefulness for his most valuable contribution.

It is, however, with much regret that I have to report the death, in September 1994, of Mr. Raymond Sirois who had been a member of the Board since 1991; the Caisse has benefitted greatly from his wide business experience and particularly, from his dynamic participation in the proceedings of the Audit Committee of which he was the Chairman.

Lastly, the Board has welcomed six new members over the last few months, being Mesdames Francine C. Boivin and Denise Verreault and Messrs. Jean-Claude Bachand, Rodrigue Biron, Clément Godbout and Michel Sanschagrin. Given their wide-ranging experience, there cannot be any doubt as to the quality of their contribution and the effectiveness of their support to management.



Jean-Claude Delorme  
Chairman of the Board  
and Chief Executive Officer





# ECONOMIC review

In all major industrialized countries, economic growth was much stronger in 1994 than in the previous year but without any accompanying increase in inflation. Still, in the United States, fears

**Through private investments, the Caisse supports Québec businesses in their efforts to conquer new foreign markets: one need only think of Héroux, Groupe Coscient, Teleglobe, Groupe Vidéotron, and Quebecor Printing, now the second-largest commercial printer in North America.**

of an overheated economy prompted the Federal Reserve Board to raise short-term interest rates on a regular basis, which caused bond yields on all major markets to rise substantially.

## QUÉBEC

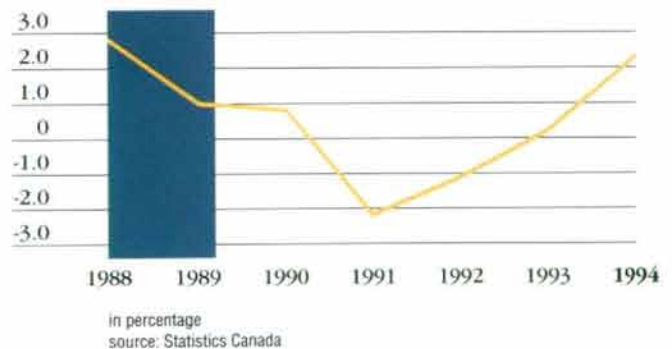
The Québec economy followed these international

trends. In spite of rising interest rates, Québec's economic growth increased in 1994 and, for the first time since the recession, was accompanied by a rapid rise in employment. As in 1993, economic growth was due mainly to vigorous international exports, which posted exceptional growth for the second consecutive year. The competitiveness of Québec companies on foreign markets, which stimulated such growth, is due partly to a sharp drop in the Canadian dollar since early 1992, especially against the currency of Canada's main trading partner, the United States. Québec also took advantage of a much smaller increase in production costs than that of its main competitors, and of the more vigorous world economy.

Strong exports boosted corporate earnings, and in turn business investment rose. Job creation revived confidence, and housing and consumer goods benefitted, leading to a sizeable gain in Québec's domestic demand. Demand was strongest in the

first half of the year, shortly after interest rates bottomed. Growth would have been even stronger had it not been for the limit on public spending imposed by budget deficits in Canada and Québec. At the beginning of the second half of 1994, however, confidence slipped, clearly impacting on housing market activity. Domestic demand eased amid pressure from interest rate hikes and a slower rate of job creation. Still, the gross domestic product increased by about 4% in 1994, fueled by international exports and stronger domestic demand in the first half.

## 1 JOB CREATION IN QUÉBEC



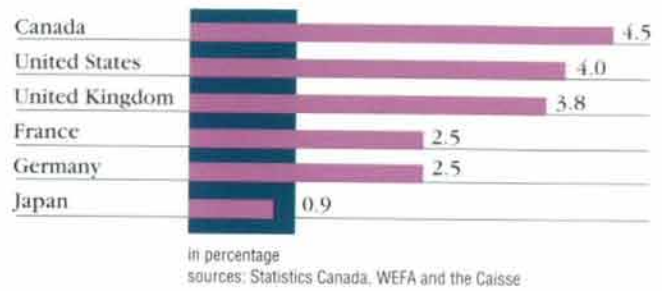
## CANADA

Overall, Canada's economy was subject to much the same trends as Québec's. Nonetheless, overall growth was a little stronger and, in terms of business investment, Canada had a definite edge over Québec. The vigour of these investments was based on greater use of productive capacity and fairly high expenditures in the energy sector in the West. Canada recorded higher growth in certain other categories of expenditures because of lower debt levels in other provinces and because their economies are less sensitive to interest rate developments. The weakening of domestic demand during the second half was therefore less pronounced in the rest of Canada than in Québec; demand even picked up in the fourth quarter.

Still, Canada's domestic economy cannot be termed very vigorous, since domestic demand grew by less than 3%, influenced by the impact of budget deficits on public spending and real interest rates in 1994.

Nevertheless, Canadian manufacturers were generally able to take advantage of their competitive position to export massively to other countries, especially the United States. Their excellent performance was due not only to their stronger competitive position but also to higher prices for certain commodities and to the generally buoyant U.S. economy, especially in the auto and housing sectors. In addition, cross-border shopping fell significantly and this, combined with strong exports, permitted a turnaround in Canada's current account.

## 2 GROWTH IN REAL GDP IN 1994



Canada's overall growth thus reached 4.5%, its best result since 1988. What is more, this strong growth did not spark inflation. On the contrary, as a result of a substantial cut in cigarette taxes, Canada's rate of inflation was almost zero, and prices in Québec even dropped. Even when the one-time impact of this tax rollback is excluded, the rate of inflation was roughly 1.5%, a result that falls in the lower portion of the inflation targets set by the central bank. The dollar continued to fall, but effective control of production costs and surplus capacity in labour and product markets contained price increases.

In spite of a lower rate of inflation than in other countries, Canadian long-term interest rates evolved similarly to rates abroad, rising in response to U.S. rates. High government deficit and debt levels and uncertainty surrounding the Canadian dollar fueled pessimism in the bond market.

The absence of inflation and the measures taken by the central bank had a greater impact on the return on short-term securities. Although in the spring, Canadian short-term interest rates shot up in the wake of U.S. rate increases, the opposite occurred in the summer and early in the fall. For the first time since 1983, certain rates stayed below the comparable U.S. rates for several weeks. Although the Canadian dollar's weakness at year-end pushed rates up again, for the year as a whole the spreads for short-term interest rates were narrower than in previous years.



### INTERNATIONAL

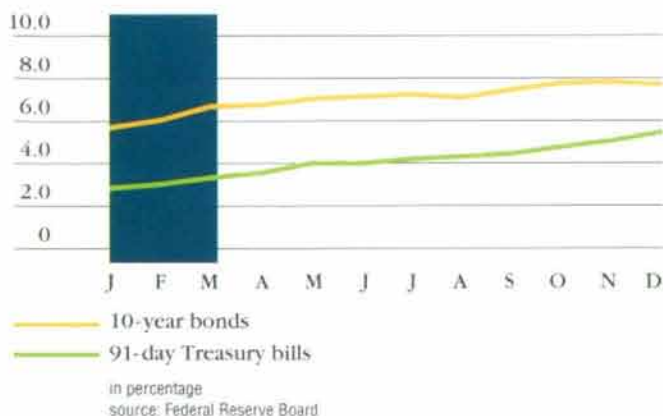
Economic growth accelerated again in the United States, even though early in the year fears of an overheating economy were already commonplace. With the exception of public spending, all components of final demand rose rapidly and moreover, companies increased their inventories to meet customer demand. Growth rose to 4%, although the central bank would have preferred to limit it to about 2.5%.

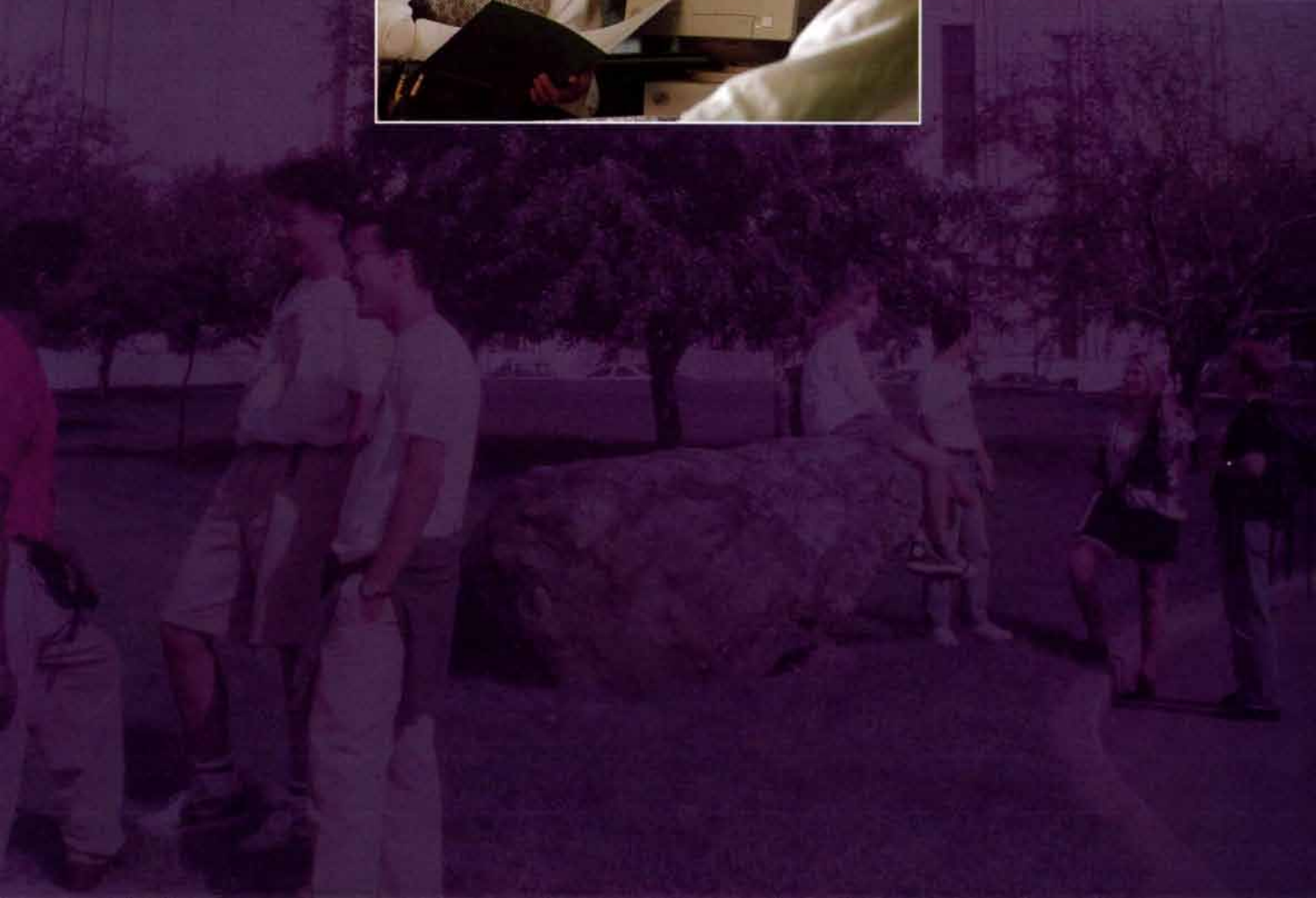
Growth was strongest in business investment, since the sudden increase in demand quickly put pressure on productive capacity; companies responded by building and modernizing plants and by replacing and purchasing equipment. Despite the intense use of resources, price pressures were limited. Although commodity prices and those of a number of industrial materials increased substantially, overall inflation was contained because it typically does not respond immediately to excess demand, such as last year's. Trade globalization probably contributed to dampening price increases in the United States last year by permitting greater substitution of imported products for domestic goods. In fact, the growth of U.S. imports, which had already been strong for two years, increased again in 1994.

The Federal Reserve Board responded by raising short-term interest rates on a regular basis to cool off the economy and to keep inflation in check. Long-term rates followed suit and rose significantly. The rate hikes in the United States stemmed from a domestic problem, but all international financial markets were affected.

Rising rates were hard to justify for Japan and Continental Europe, where only a weak upturn began in 1994. Even in the United Kingdom, where economic activity appears more solidly entrenched, the magnitude of long-term rate hikes seemed excessive. This lockstep rise of interest rates around the world, even though economies were desynchronized, was thus a salient feature of 1994. Of the major industrialized countries, Canada had the strongest growth, whereas Japan appeared to have considerable difficulty in coping with its structural problems.

**3** CHANGES IN INTEREST RATES IN THE UNITED STATES IN 1994





# ASSET MIX and returns

## ASSET MIX

Over the long term, the variation in returns from a group of funds depends in large part on the allocation of assets among the different investment categories. For instance, the weighting of equities and bonds will often have a greater impact on a portfolio's overall return than the selection of one

security over another within a given category.

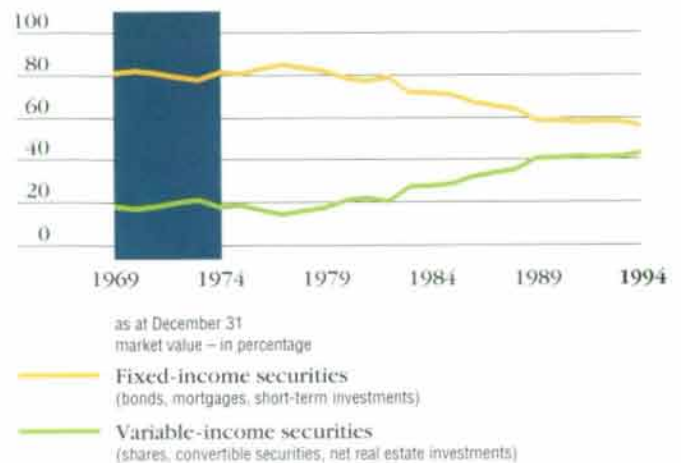
**A number of years ago, the Caisse introduced a programme that gives young university graduates their first work experience with Montréal investment dealers. To date, the programme has enabled some 70 young analysts to be hired by local brokerage firms or firms that belong to an international network.**

The major financial markets fell into a severe slump in 1994. Interest rate hikes in the United States affected almost all international bond markets, and this increase in the cost of money affected the stock markets, which had anything but a banner year. In fact,

all major market indicators posted negative or zero returns for 1994. Only the Japanese stock market stood out, with a gain of roughly 13% in local currency.

For most of Canada's fund managers, only short-term investments generated a positive return in 1994, if one excludes the impact of the dollar's decline on foreign investments. Money market securities yielded about 10% more than bonds, or 5.4% compared with -4.3%. And Canadian equities finished the year at -0.2%. International diversification did little to increase portfolio return in 1994. The main European stock market indices declined by over 10%, while in the United States, indicators showed zero growth at year-end. The hedged Morgan Stanley Capital International

## 4 CHANGES IN INVESTMENTS AS PART OF NET ASSETS

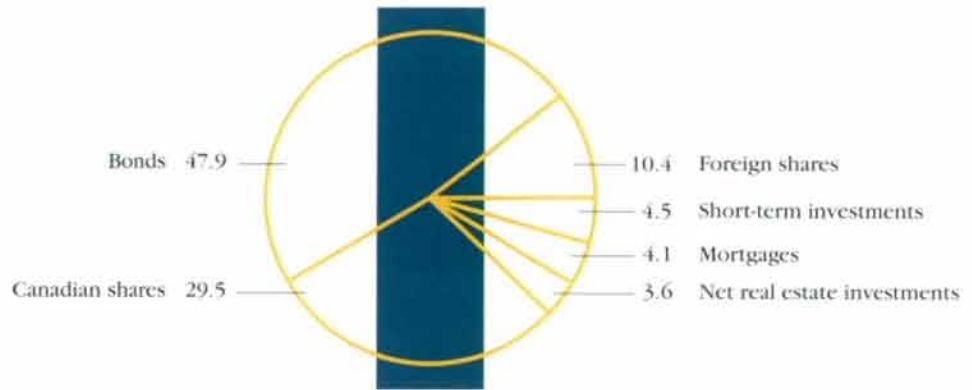


World Index rose by 0.5%, mainly because of the positive performance of the Japanese market. The Canadian dollar's decline against most other currencies, however, had a favourable impact on investments abroad. When converted into Canadian dollars, the investments comprising the World Index thus yielded an 11.3% return.

During the year, the Caisse revised investment policies in collaboration with its depositors, and introduced a structured decision-making approach to long-term asset allocation. Traditionally, benchmark portfolios were established mainly on the



**5 INVESTMENTS AT A GLANCE**



as at December 31, 1994  
market value – in percentage

basis of historical returns generated by the different investment categories. However, the returns achieved over the past 10 or 15 years have differed from these conventional trends. Long-term investment policies should therefore take other factors into account such as structural changes in the economy, the stage of the short- to medium-term cycle, the relative price of different assets, the weighting of these assets in other managers' portfolios and the quality of the available active management.

In 1994, the Caisse developed a unique grid for structuring the analysis it carries out prior to making any changes to its asset mix. The process takes into account a number of interrelated factors which enable the Caisse to evaluate its asset classes on a relative basis. This evaluation in turn helps it forecast the returns on each asset category over periods in the future.

The many analyses performed in 1994 point to the value of increasing the weighting of foreign equities in the years to come. This shift will increase diversification and enhance expected return. The heavier weighting of foreign equities will, of course, reflect outlooks for the various markets targeted.

**RETURNS**

Sharp interest rate hikes in the United States affected most of the major markets, which posted disappointing results in 1994. Rising interest rates prompted investors to seek higher rates of return, which depressed the prices of bonds and of several other financial assets. These lower values should result, however, in higher returns in the years to come. Consequently, an analysis of results achieved over a longer period provides a more accurate picture of an investment portfolio's performance.

Although the Canadian economy and corporate profits had strong showings in 1994, this vigour had already been discounted by the markets or was offset by rising interest rates.

The Caisse achieved a total return of -2.1% in 1994. This result may be broken down into a current return of 6.8% and a temporary drop of approximately 9% in the value of its assets. Since this second component of return is highly sensitive to interest-rate fluctuations, rate hikes during the year had a substantial impact on asset value. However, given the temporary nature of this impact, it is more meaningful to look beyond the short-term volatility of returns. Thus over the medium and long terms, the Caisse posted returns of 7.5% and 10.6% for the past five and ten years respectively.



The bond portfolio yielded -4.4%, compared to -4.3% for the ScotiaMcLeod Universe benchmark index. These results are due to the drop in bond values caused by rising interest rates. Indeed, when interest rates go up, the value of bonds outstanding must go down so that their yield be readjusted to that of newly-issued bonds. Since the bond portfolio of the Caisse includes a higher proportion of Québec securities than the benchmark index, variations in the yield spread between Québec and Canadian government bonds have a significant impact on the returns achieved by the Caisse in this area. Yield spreads widened in 1994, so the bond portfolio recorded a greater drop in value than the index. Over longer periods, this over-weighting in Québec bonds tends to generate returns above those of the index. In fact, had the spreads not increased in 1994, the portfolio would have outperformed the index. For the past five and ten years, the bond investments of the Caisse yielded average annual returns of 10.2% and 11.8% respectively, while the ScotiaMcLeod Universe index posted 10.3% and 11.3% over the same periods.

The Canadian equities portfolio recorded a 1.5% return, while the TSE 300 posted -0.2%. For the past five and ten years, the portfolio produced returns of 4.7% and 9.6% respectively, outperforming the TSE 300 which obtained 4.5% and 9.2%. This positive performance stems from the portfolio's sectorial weighting, which differs from that of the TSE 300, and from stock picking within the different sectors of the index.

The return on the foreign equities held by the Caisse was -1.4%, versus 0.1% for the benchmark index. Over five years, the portfolio generated a 4.9% return and over ten years, it posted 12.7%, while the index yielded 3.9% and 13.6% over the same periods. At the end of the first quarter of 1994, the Caisse split its foreign equities portfolio in two, creating a U.S. equities portfolio and a portfolio of equities held in Europe and Asia. As a result, the hedged Morgan Stanley Capital International World Index was used as the benchmark for the first quarter, and two other indices were used for the remainder of the year, namely the Standard & Poor's 500 in the case of U.S. equities and the

## 6 COMPARISON OF RETURN ON INVESTMENTS AND FINANCIAL INDICES

		Annual compound rate for the period					
		1994		1990-1994 (5 years)		1985-1994 (10 years)	
Bonds	ScotiaMcLeod Universe bond index	(4.4)	(4.3)	10.2	10.3	11.8	11.3
Canadian shares	TSE 300	1.5	(0.2)	4.7	4.5	9.6	9.2
Foreign shares	Morgan Stanley Capital International - World Index (MSCI-WI)	(1.4)	0.1	4.9	3.9	12.7	13.6
Mortgages	ScotiaMcLeod Mortgage (3 years) <sup>1</sup>	1.4	0.3	10.5	11.2	11.3	11.5
Specific real estate investments portfolio	MLH+A	(10.7)	(11.4)	(6.2)	-	3.8	-
Short-term investments	ScotiaMcLeod - Canada Treasury bills (91 days)	5.3	5.4	8.3	8.2	-	-
Tactical investments <sup>2</sup>		(0.1)	-	0.2	-	-	-
<b>TOTAL RETURN</b>		<b>(2.1)</b>	<b>-</b>	<b>7.5</b>	<b>-</b>	<b>10.6</b>	<b>-</b>
Current rate of return <sup>3</sup>		<b>6.8</b>	<b>-</b>	<b>8.5</b>	<b>-</b>	<b>9.7</b>	<b>-</b>

in percentage

<sup>1</sup> The index does not take into account any provisions for non-performing loans or for foreclosures.

<sup>2</sup> Return represents the contribution of tactical allocation to total return.

<sup>3</sup> The current rate of return is calculated at cost while the other rates of return are calculated at market value using the time-weighted method.

Morgan Stanley EAFE for the other foreign equities. The 1994 return of the world index takes this change into account. In the future, the performance of these two specific portfolios will be presented separately. Moreover, although the Caisse hedges its international investments against foreign exchange risks, it also performs active currency management; these operations had no significant impact on its results in 1994.

The Caisse achieved a 1.4% return on its mortgage portfolio, surpassing the index which posted 0.3%. For the past five and ten years, the portfolio yielded 10.5% and 11.3% respectively, against 11.2% and 11.5% for the index. The Caisse does not consider the current index to be fully satisfactory because it does not take into account any provisions for non-performing loans or for foreclosures. It intends to study this matter in the year to come so as to select a better comparative index for its mortgage investments.

Short-term investments generated a 5.3% return, versus 5.4% for the 91-day Canadian T-bill index. Over five years, the portfolio's average annual return was 8.3%, slightly above the index which posted 8.2%. Since January 1995, the Caisse has been using the new T-bill index introduced by ScotiaMcLeod.

As for the real estate portfolio, its current return remained stable compared to 1993, at 6.2%, but this result was offset by the widespread drop in property values. Real estate assets decreased in value temporarily in 1994, as a result of investors seeking higher returns particularly because of rising interest rates. The real estate portfolio's total return stood at -10.7%, as opposed to -11.4% for the MLH+A index.

Finally, tactical investments resulted in losses which reduced the overall return of the Caisse by 12 basis points. For the past five years, tactical investments have generated added value of \$297 million, thereby increasing the average annual return of the Caisse by 17 basis points.



# ASSESSING

## investment performance

**G**iven the technology and multitude of information available today, professional investors can perform just about any financial transaction. This does not make it any easier for them, however, to achieve returns that surpass certain benchmarks, which are essential for an evaluation of investment performance.

To increase a client's worth, fund managers generally proceed in two stages. First, in consultation with the client, they establish a suitable asset allocation for a given period, deciding, for example, how to weight equities and bonds in the portfolio. If managers deem certain markets unusually promising over the short term, they may depart from these reference points. Then, within each asset class, they select the most profitable securities and maturities. Clearly, these decisions must take into account the risk that each client is willing to assume.

Asset allocation is a determining factor in an analysis of performance relative to the objectives set. The portfolio of an investor who is rather conservative or needs a stable income will include far more bonds than that of a bolder investor who is prepared to accept the volatility of growth stocks. It is very difficult to compare a given portfolio with all the funds managed in Canada without taking into account its specific asset mix which depends on the needs and constraints of depositors. Pension funds vary widely; some have begun to decline,

whereas others will see their capital grow until early into the next century. Fund allocations therefore differ significantly, so it is important to compare the returns of a given pension fund with that of a group of institutions with the same characteristics in terms of asset allocation.

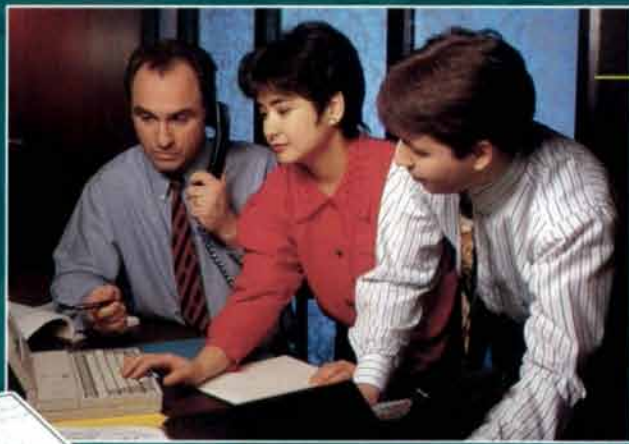
While managers allocate funds in different proportions on the major markets, they compete with one another on specific markets such as equities, mortgages, bonds, short-term securities and so on. Benchmark indices like the Dow Jones and Japan's Nikkei 225 reflect the performance of a given market as a whole. Portfolio managers use their expertise to depart from the components of these indices when they deem it advisable. They can always reproduce an index and be content to follow market variations passively. Most managers aim, however, to surpass the benchmark index by actively managing their investments.

A number of studies show that over the long term the combined performance of a group of managers is roughly comparable to the return generated by indices. But, in the short and medium term, is it better to compare these returns with a recognized index, such as Standard & Poor's or the TSE 300, or to use one of the medians obtained by the various groups of fund managers?

In the latter case, it is difficult to assess risk. Management strategies will range from the most conservative to the most daring. The composition of the portfolios may vary; certain managers of Canadian stocks will add a few U.S. equities to their portfolio, whereas others will maintain a high level of cash.

Major portfolio managers in North America prefer to compare their results with selected market indices. The target is clear, so it is fairly easy to establish the desired risk level and investment strategy. Within these indices, temporary trends may affect the performance of some subsectors; for two or three years, for example, small-cap companies may post better results than large corporations. Still, over a long period, these shifts toward certain securities or management styles tend to balance out. The main thing is to meet depositors' financial needs, increase long-term capital and protect capital. Generally speaking, achieving results above those of the selected index over the long term is a good indicator of a manager's performance.

Investment management is both science and art, and thus must be evaluated over a reasonable period. In the short run, luck sometimes favours certain investors; but chance is no substitute for ability and rigour, which yield sustainable results. For a proper evaluation, it is important to compare portfolios that have the same characteristics, to select adequate indices and to assess results over a sufficiently-long period.





# INVESTMENT operations

## BONDS

In the United States, interest rates rose sharply in 1994, bringing to an abrupt end three years of declining rates. Not since the late 1920s had the bond market seen such a severe downturn. Thirty-year bond rates, the market's barometer, rallied to 8.15% in November, up 180 basis points from January 1, and 250 points from their October 1993 low. Rising rates in 1994 pushed the value of long-term securities down by roughly 20% during the year. The turbulence extended to the international bond markets, demonstrating the high degree of correlation among financial markets.

Bond investors were concerned that strong economic growth and sustained government

demand for funds would reignite inflation, and they remained pessimistic, even though the Federal Funds rate began to rise in February. The bond market slump seems to have been worsened by the actions of investors and speculators who, in trying to limit

damage to their portfolios, in fact accentuated the decline.

The deterioration of the bond market was more pronounced in Canada than in the United States and it occurred mainly in the first half of the year. The rate of 30-year Canada bonds rose to 9.57% in June, up 223 points from the beginning of the year and 250 points from the 1993 low. As a result of chronic government debt problems, the credit ratings of several provinces were lowered and foreign-currency-denominated Government of Canada bonds were downgraded. The Canadian dollar came under pressure, and Canada-U.S. interest rate spreads widened significantly until June. In the summer, foreign investors returned in force to the Canadian markets to capitalize on high returns in a non-inflationary economy. At year-end, the 30-year Canada bond rate was 9.18%.

The spreads between Canadian and Québec interest rates followed the same trend as the Canadian-U.S. spreads. From January to June, 10-year bond spreads increased by 38 points to 109 basis points. From June to October, the spreads narrowed by 36 points, settling around their historical average of 73 points. At year-end, they then rebounded 16 points. The spreads between 10-year Québec and Canadian securities rose from 71 basis points on January 1 to 87 points on December 31, 1994. This 16-point increase had a negative impact on the performance of the Caisse's bond portfolio in 1994, but these trends tend to correct themselves in the following quarters.

Each year, the Caisse trades more than \$20 billion in bonds of Québec issuers. These transactions enhance the return on its bond portfolio and increase the liquidity of Québec bonds, giving issuers access to a more efficient market.

## 7 ACQUISITIONS OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC IN 1994

	Issued	Acquisitions	
		(\$)	(%)
Canadian market	2,372	1,405	59.2
World market <sup>1</sup>	-	-	-
Other markets <sup>2</sup>	4,863	-	-
<b>Total</b>	<b>7,235</b>	<b>1,405</b>	<b>19.4</b>

par value - in millions of dollars

<sup>1</sup> issues in Canadian dollars

<sup>2</sup> issues in various currencies or in Canadian Eurodollars

As at December 31, the bond portfolio amounted to \$21.3 billion at market value and accounted for 47.9% of total investments, compared with \$22.4 billion, or 48% of investments, at the end of 1993. The Caisse invested \$1.4 billion in the primary market for securities issued by the gouvernement du Québec. It also traded \$21.8 billion of Québec and Hydro-Québec bonds in the secondary market, against \$27.2 billion in 1993.

The Caisse adopted a new method of managing its bond investments in 1993, creating two portfolios, a strategic portfolio and a tactical portfolio. The strategic bond portfolio, which includes all Québec public sector securities as well as securities issued by the Canadian, U.S. and European governments, is the basic portfolio. The objective set for it is to outperform the benchmark index by using primarily securities of Québec issuers to reproduce certain index parameters. The portfolio is heavily

weighted in Québec public sector bonds, so its return is very sensitive to short-term fluctuations in the spread between those securities and Government of Canada bonds. Thus when the spread between Québec and Canadian securities fluctuates by one point, for instance, the portfolio's relative return varies by 2.5 points.

The volatility of these spreads creates buy or sell opportunities that enhance the portfolio's performance. This year, the Caisse took advantage of the widening spreads in the first half to purchase Québec securities on the secondary market. Thereafter, the spreads narrowed until the fall, which made it favourable to sell Québec and Hydro-Québec securities. The volume of transactions on other provinces' securities also increased, offering opportunities to add to portfolio value.

## 8 SUMMARY OF BOND PORTFOLIO

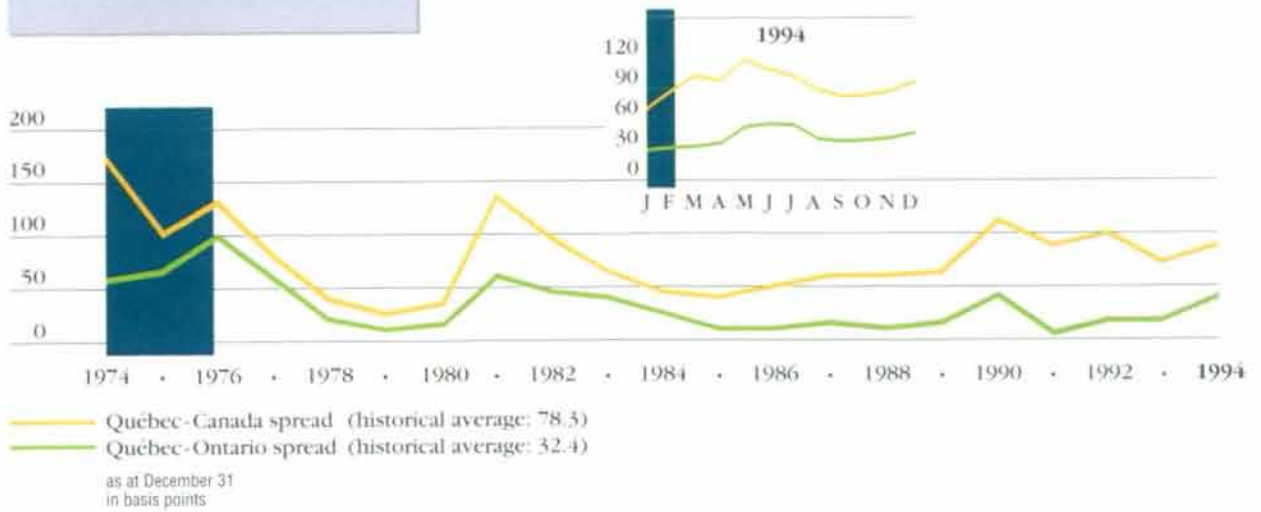
Securities	Market value		Average nominal rate <sup>1</sup>	Average maturity <sup>1</sup>	Modified duration <sup>2</sup>
		(%)	(%)	(years)	(volatility)
<b>Domestic</b>					
Government issued					
Gouvernement du Québec	9,630.3	45.1	8.33	8.39	4.85
Government of Canada	2,900.2	13.6	7.95	14.16	6.52
Other governments	176.8	0.8	8.84	21.27	8.00
Government guaranteed					
Gouvernement du Québec	5,717.0	26.8	7.65	12.06	5.89
Government of Canada	101.4	0.5	10.62	12.62	6.75
Other governments	32.0	0.1	8.48	6.18	4.56
Guaranteed by grants, municipalities and school boards					
Corporate and other	2,211.7	10.4	10.85	7.21	4.38
	185.1	0.9	8.52	6.92	4.53
	20,954.5	98.2	8.33	10.22	5.35
<b>Foreign</b>					
U.S. Government	390.6	1.8	7.64	7.25	5.27
	21,345.1	100.0	8.32	10.17	5.34

as at December 31, 1994  
in millions of dollars

<sup>1</sup> weighted as per nominal value

<sup>2</sup> weighted as per market value

**9 CHANGES IN YIELD SPREADS ON TEN-YEAR BONDS**



The Caisse used various vehicles in 1994 to convert the yield on a bond into a money market return. This innovative approach improves portfolio performance through asset swaps, which are increasingly being used by fund managers. The Caisse intends to continue using these techniques as attractive market opportunities arise.

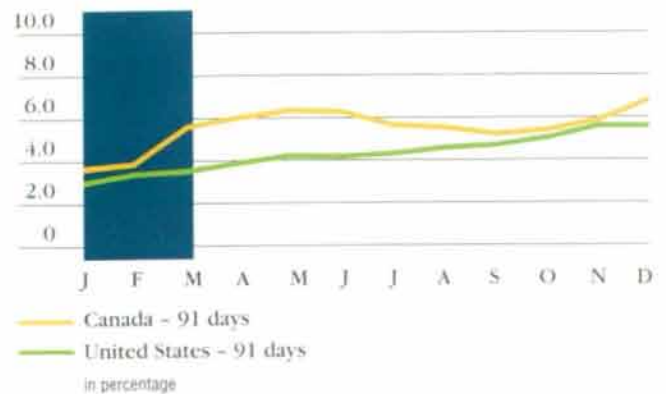
The tactical portfolio reflects forecasts by the Caisse of cyclical interest rate fluctuations in Canada and abroad. Its strategies are based on an analysis of interest rate trends and the impact of sudden rate shifts.

Early in the year, transactions focused largely on options, to take advantage of market volatility. In the second half, strategic positions were based more on forecast fluctuations in international spreads, especially between Canada and the United States and to a lesser extent between European countries. At year-end, transactions were carried out on the yield curve of Government of Canada securities.

The Caisse pays close attention to the development of decision-making models. In particular, it is developing performance indicators and more advanced systems for analyzing its management results, based on leading-edge risk-management models.

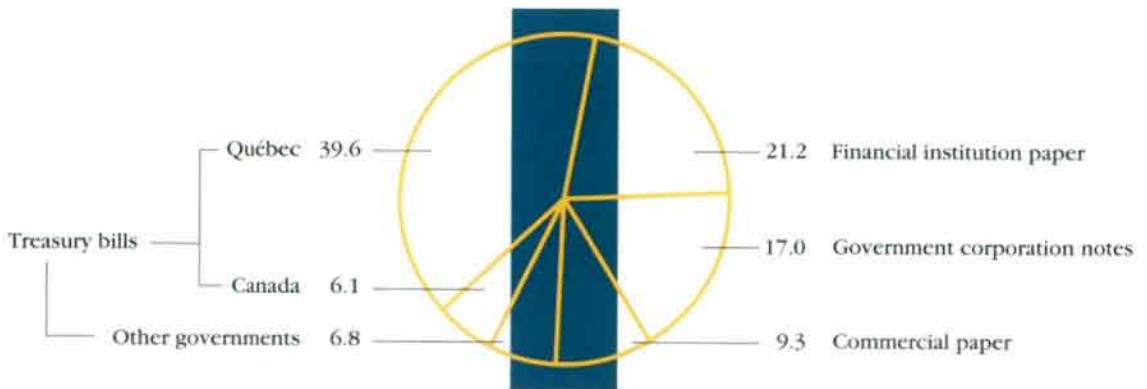
This innovative management is based on the use of financial vehicles such as the five-year Government of Canada bond futures contract recently launched by the Montréal Exchange. The Caisse supports these initiatives and the institutions promoting them, and encourages all its market partners operating in Montréal to continue to promote them.

**10 CHANGES IN YIELD ON TREASURY BILLS IN 1994**





## 11 SHORT-TERM INVESTMENTS



as at December 31, 1994  
market value - in percentage

### SHORT-TERM INVESTMENTS

Short-term interest rates in Canada and the United States rose steeply in 1994. The yields on 91-day Canadian T-bills almost doubled, going from 3.85% at the beginning of the year to 7.15% toward the end of December and closing the year at 6.81%. Canadian economic fundamentals did not justify an increase in the cost of money during the first half of the year. Still, repeated U.S. interest rate hikes and the downgrading of the bonds of several provinces and of foreign-currency-denominated federal government securities weakened the Canadian dollar and put upward pressure on interest rates until mid-year.

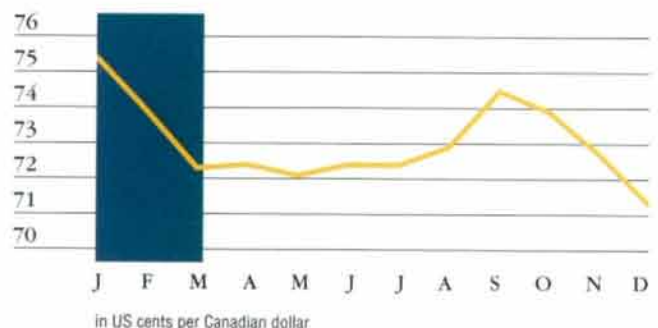
The strengthening of the Canadian dollar during the third quarter enabled the Bank of Canada to create conditions conducive to a drop in interest rates until October. Thereafter, as a result of the dollar's sharp decline, 91-day yields rebounded by 139 points in November and December, surpassing the peak they had reached in June.

In this context, the Caisse carefully monitored measures taken by the central bank, so as to position its short-term investments portfolio. The Caisse purchased Canadian and Québec T-bills, as well as financial paper issued by government corporations, and it used BAX 91-day banker's acceptance futures to control the portfolio's maturity. The main strategy adopted during the year was to take advantage of the positive carry of the upward-sloping yield curve resulting from the Bank of Canada's accommodating conditions. The Caisse was able to generate an additional return by selling very short-term securities so as to buy longer-term money market securities.

As at December 31, 1994, the market value of the Caisse's total short-term investments portfolio was \$2 billion, compared with \$2.8 billion at the end of 1993. Off-balance-sheet derivative products had a notional value equivalent to 5.8% of the short-term investments portfolio.

All transactions in Canadian dollars were carried out in Montréal. In addition to day-to-day operations involving financial paper, the Caisse made use of financial instruments traded exclusively on the Montréal Exchange, namely BAX and BAR banker's acceptance futures and the new OBX option, which is an option on BAX banker's acceptance futures.

## 12 THE CANADIAN DOLLAR IN 1994



in US cents per Canadian dollar



# FLEXIBLE INVESTMENT

## management

**T**he Caisse uses derivatives such as futures, options and swaps to take stock market positions rapidly, and to offset or reduce the risks associated with an investment or a set of investments. These risks are linked to fluctuations in exchange and interest rates or to stock and bond markets. Choosing derivatives over direct investments results in lower transaction costs, enhanced liquidity and allows investors to gain exposure to international financial markets and adjust portfolio weightings quickly and easily. The Caisse uses derivatives to increase the return on its portfolios, notably to reduce potential losses or achieve a rate of return which is more certain than that of other securities with more attractive potential returns. The Caisse also uses derivatives to hedge its portfolios against a downturn in financial markets.

The following examples are typical of how the Caisse uses derivatives:

### HEDGING AGAINST FOREIGN EXCHANGE RISK

The Caisse hedges its foreign investments against exchange risk. So if the Caisse wants, for instance, to invest in the Japanese stock market, it will have to purchase yens against Canadian dollars to settle its transaction. To hedge its position against foreign exchange risk, it will then sell yens forward on the over-the-counter market against Canadian dollars. If the dollar appreciates against the yen, the loss in value, in Canadian dollars, of the Japanese securities purchased by the Caisse will be offset by the gains achieved using derivatives, and vice-versa.

### ADJUSTING PORTFOLIO WEIGHTINGS

If the Caisse expects the stock market to outperform the bond market in the short run, it could, for instance, buy a TSE 35 futures and sell a 10-year bond futures at the Montréal Exchange. This transaction would allow it to increase very quickly the weighting of stocks versus bonds and thus benefit from an additional return.

The Caisse applies the following control procedures to ensure prudent, professional management of its derivatives transactions:

- A full team of qualified professionals with the specialized knowledge required to adequately carry out responsibilities associated with derivatives transactions: regulatory issues, trading, processing, daily settlement and accounting of transactions, production of management reports, control and supervision of activities.
- A quantitative management system which provides a daily assessment of market risks, in order for appropriate measures to be taken, as needed, so that established limits are respected. This system is managed by a separate team in charge of measuring and controlling all the risks of investment operations.
- A derivatives management system developed and monitored by in-house computer experts. From a practical standpoint, this system allows for daily corroboration of initial margins required, profits and losses, and all

information on trades with the other parties involved. The Finance team, which operates independently from the main users of derivatives, is responsible for these daily control functions. The system allows Finance to verify, on a daily basis, the accuracy of the statements of account submitted by the banks and brokerage dealers with which the Caisse deals. In addition to being a source for calculating returns, this system interfaces with the different accounting systems.

The Caisse has also set various specific limits in terms of amounts, countries, products and counterparties for each of its investment teams which trade derivatives. For instance, in the case of its tactical investments team, transactions are carried out primarily in the G7 countries, with the exception of Italy. Trades on equity indices and bonds are permitted, but other underlying markets such as commodities, currencies and the money market are excluded. These limits tend to promote geographical and product diversification, and are established based on evaluations of the liquidity of each market where investments are made.

## CURRENCY MARKETS

The Canadian dollar fell in value in 1994, depreciating 5% against the U.S. dollar from January to December. This weakness was due to the Bank of Canada's expansionary monetary policy, interest rate hikes in the United States and international concern over government debt levels. Moreover, fears of rising inflation and the chronic U.S. current account deficit discouraged international investors from purchasing U.S. assets, thus reinforcing the downward trend experienced by North American currencies. The U.S. dollar lost 11% against both the deutschmark and the yen, but seems to have responded favourably to the latest increases in the Federal Funds rate toward year-end, which made U.S. assets more attractive.

The Caisse maintained its policy of hedging its foreign investments against exchange risk. Fifteen currencies are hedged using futures and swaps. The Caisse also tries to take advantage of market trends by making trades in a tactical exchange positions portfolio.

The tactical portfolio is comprised of futures and other vehicles such as foreign currency options. The Caisse generated gains from this portfolio in 1994, in particular with long positions in U.S. dollars held against the deutschmark and the yen at year-end.

In addition, a simulation model was developed during the year so as to enable various vehicles to be used to control the risks associated with a complex currency portfolio. Through this sophisticated model, the Caisse can measure the risk of each tactical foreign exchange position on a daily basis and quickly calculate risk-return ratios.

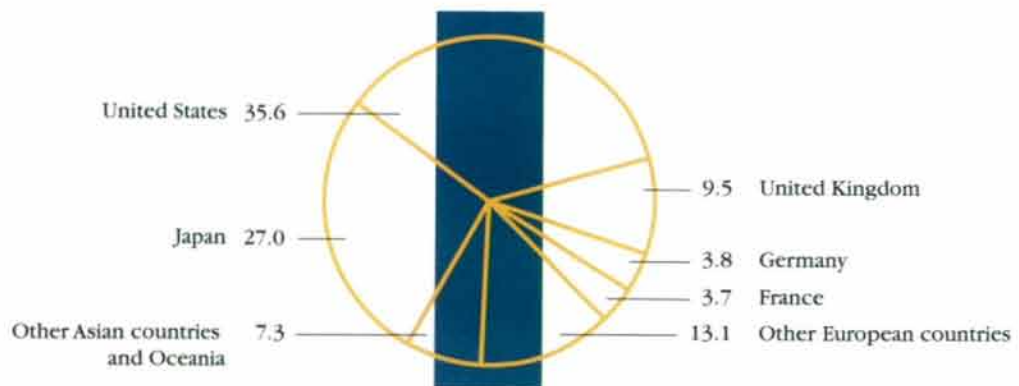
The volume of currency purchases and sales totalled C\$154.2 billion, making the Caisse the leader among Canadian fund managers performing this type of operation. At year-end, the hedging portfolio represented C\$5.3 billion, which is equivalent to the Caisse's foreign investments or 12.2% of its total investments.

## FOREIGN EQUITIES

The Caisse maintained the proportion of foreign equities at about 10% of its total investments in 1994. The market value of its international equities totalled \$4.6 billion at the end of 1994, compared to \$4.8 billion at the end of 1993. At year-end, the geographical composition of the portfolio was as follows: United States, 35.6%; United Kingdom, 9.5%; Germany, 3.8%; France, 3.7%; other European countries, 13.1%; Japan, 27.0%; and other Asian countries and Oceania, 7.3%. In addition, the Caisse's emerging market investments totalled \$65.7 million as at December 31, 1994.

Activity on international stock markets in 1994 reflected the rise of short- and long-term interest rates. In the United States, although monetary policy was successively tightened and long-term rates rose by roughly 2%, the yield on the equities market was flat, since it was sustained by a surge in corporate earnings. The long-term rate hikes had a negative impact on European stock markets partly because these markets posted excellent results in 1993. Japan, which saw a substantial correction at the end of 1993, made large gains in the first half

### 13 FOREIGN EQUITIES



as at December 31, 1994  
market value - in percentage



of 1994 amid expectations of an economic upturn. But the recovery was weaker than expected, and the Japanese market experienced a correction in the second half.

The overweighting of cyclical U.S. equities and, to a lesser extent, of European equities had a negative impact on the return on the foreign equities portfolio of the Caisse in 1994.

To meet depositors' needs more effectively, the Caisse divided its foreign equities into two portfolios in 1994: one comprises only U.S. securities and the other includes all equities held in Europe and Asia. The allocation of funds to the two portfolios depends on depositors' long-term objectives. Both are hedged against foreign exchange risk, and their benchmark indices are the hedged S&P 500 and the hedged Morgan Stanley EAFE, respectively.

Over the years, and particularly since 1992, the Caisse has built up an in-house team that now includes eight managers and analysts specialized in the U.S., British and European markets. An experienced manager who will be the core of the in-house team in charge of the Far East recently joined the group. The creation of a special team responsible for Asian investments will enable the Caisse to reduce the amount of indexed funds in that region. For the time being, the Caisse's emerging market investments are being managed externally. In addition, a part of the institution's active portfolio management and its indexed investments are entrusted to outside managers.

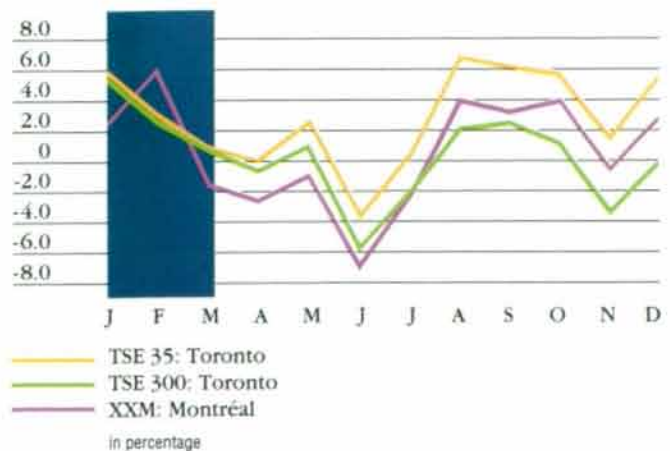
In addition to managing investments by country, the Caisse carries out in-house management of the regional allocation of its foreign equities portfolio. This allocation is achieved mainly through equity index futures, rather than by shifting funds as was previously the case.

## CANADIAN EQUITIES

After peaking in January, Canadian stock markets posted fairly disappointing returns despite high investor expectations at the beginning of the year. As a result of the sharp increase in interest rates worldwide, caused mainly by fears of an overheated U.S. economy, Canadian stock market indicators yielded only 2.8% in the case of the Montréal XXM index and -0.2% for the TSE 300. Although the U.S. economy grew for the fourth consecutive year, the recovery in Europe and Japan got underway slowly. The advent of a worldwide recovery meant that prices were on the rise for commodities and in some cyclical sectors, in which the Caisse portfolio of Canadian stocks was heavily overweighted. The consumer sector and activities sensitive to interest rate fluctuations posted lower returns, while the earnings turnaround predicted for TSE 300 companies materialized in 1994, as corporate profits soared 457%.

Following the recommendations in its economic forecasts, the Caisse pursued an investment strategy favouring an overweighting of cyclical sectors and an underweighting of consumer-sensitive activities and areas where interest rate fluctuations have an impact.

**14 CUMULATIVE MONTHLY RETURN OF THREE CANADIAN STOCK MARKET INDICES IN 1994**





**15 STOCK MARKET INDICES  
IN 1994**

Index	Location	In local currency	In Canadian dollars
XXM	Montréal	2.77	2.77
TSE 35	Toronto	5.52	5.52
TSE 200	Toronto	(6.59)	(6.59)
TSE 300	Toronto	(0.18)	(0.18)
Standard & Poor's 500	United States	1.32	7.53
MSCI-WI			
Sub-index	United Kingdom	(6.98)	4.21
Sub-index	Germany	(6.58)	10.89
Sub-index	Japan	8.56	28.66

total return - in percentage

Fueled by interest in Canadian equities among foreign investors, large caps did best in 1994. Returns on large capitalizations rose by 5.5%, after suffering in the first three years of the bull market. Securities attractively priced because of their low evaluation ratios came next with a 2.4% improvement. It is interesting to note that at the end of the 1980s, a number of investors expressed the view that the "value" investment management style had no future in the United States and Canada. The Caisse considerably reduced its expectations of small caps at the end of 1993, after they outperformed the market for three years. In 1994, small caps lost 7%.

Of the sectors that did better than the TSE 300, transportation and environmental services yielded 24.9%, as a result of the economic recovery and rationalizing efforts to improve corporate competitiveness. Metals and minerals were next, posting a 20.3% return amid increasing worldwide demand and lower inventories. Alcan and Cominco turned in the best results in this sector. Industrial products yielded 7.5%, partly because of the upturn in the second phase of the economic cycle, which had a positive impact on chemical producers. In this group, Northern Telecom benefitted from investor interest thanks to measures by its new

management to reestablish its leading position in the information highway, following the example of Bombardier, whose well-targeted strategy is a standout. Paper and forest products also did relatively well, rising 2.9% because of the improved supply-and-demand outlook for pulp, newsprint and fine papers. In this sector, Repap and Avenor posted the best returns.

As for those sectors underperforming the TSE 300, the return on real estate and construction was -36.1% because of rising interest rates, the high vacancy rate for office buildings and the weak retail sector. The sector remained weak despite the economic recovery and the arrival of large U.S. retail chains. Although the performance of Four Seasons Hotels and the Loewen Group were relatively strong, the merchandising sector fell 17.1% because of the expected decrease in margins, stemming from the arrival of major U.S. retailers, the greying of the population and consumer debt. Hudson Bay Company and Canadian Tire securities did poorly in this new context. Despite fears of renewed inflation, dwindling supply and the low level of gold sales by central banks, gold stocks posted a -9.8% return, reacting negatively to the rise in real interest rates, the deflationary impact of world competition, the increasing number of floating currencies and the possibility that South Africa would sell gold to defend its currency. Finally, oil and gas yielded -6.2% because unexpectedly soft demand created a surplus of natural gas.

# HIGHLIGHT ON CORPORATE

## governance

**T**he Caisse published its corporate governance policy in 1994 to codify and publicize the principles underlying the practices it has followed in recent years in this area. The corporate governance positions of the Caisse have earned it a reputation as a leader in the defence of minority shareholder rights in Canada.

Corporate governance involves all the principles, rules and guidelines that a company, its shareholders, its board of directors and its management choose to apply in carrying out their respective duties. The primary objective of corporate governance is to assure sustained corporate profitability and an increase in the value of shareholders' assets.

The policy put forward by the Caisse is based on a number of general principles:

- **The return** to the Caisse depends on the earnings of the companies in which it invests. As a trustee and a fund manager, the Caisse must fulfil its responsibilities and exercise the voting rights attached to the shares it owns in a company.
- **The board** must mirror the company's shareholders. The representation of major shareholders must be proportionate to their equity interest in the company.
- **The board** must be made up of a majority of directors who are independent of corporate management, so that they can exercise objective judgement in assessing senior management and its vision of the company's future.
- **The board** must require that management submit to it a strategic plan on a regular basis. In addition, directors must have tools available, such as a management information system and committees responsible for specific areas, which will enable them to assume their responsibilities and examine certain essential matters.

In addition to these general principles, the Caisse's corporate governance policy deals with such matters as executive compensation, standards relating to takeover bids, unequal voting shares and disclosure of international activities.

The corporate governance policy of the Caisse aims in particular to improve mechanisms that permit the necessary collaboration between shareholders, directors and executives. The policy will be applied pragmatically, in a spirit of cooperation linking all who play a role in the long-term prosperity of the business community in Québec, Canada and elsewhere in the world.



In managing its portfolio of Canadian equities, the Caisse uses a model for fundamental analysis which takes into account a company's industrial sector and the impact of the business climate on its activities. To enhance the portfolio's risk-return ratio, a portion of the funds has been given to experts whose investment management styles result in portfolios with a low level of correlation between them, complementing a central portfolio whose risk level is low but whose added value has been quite high over the years. This approach reduces the portfolio's overall risk by 50% and offers prospective returns that are above or equal to those of a homogeneous portfolio.

At the end of 1994, the total portfolio of Canadian equities, including private investments made by the Caisse on Canadian stock markets, amounted to \$13.1 billion at market value, or 29.5% of investments.

The financial and stock market ratios of the Canadian stock market portfolio were as follows: the price-earnings multiple was 20.8; the price to book value ratio, 1.65; and the current dividend yield, 2.25%. The risk exposure for the portfolio was evaluated at 1.23%; in other words, two years out of three, the portfolio's net return should be within  $\pm 1.23\%$  of its average historic long-term return.

#### PRIVATE INVESTMENTS

After three difficult years, Québec companies were finally able to take advantage of a more favourable economic and financial climate in 1994. In addition to consolidating their activities on domestic markets, many also expanded onto foreign markets during the year.

The Caisse looks to support the development of Québec companies and to make its domestic and international network of contacts available to them. By forming partnerships with dynamic businesses and establishing special long-term relationships with them, the Caisse seeks to help them grow and obtain a competitive financial return.

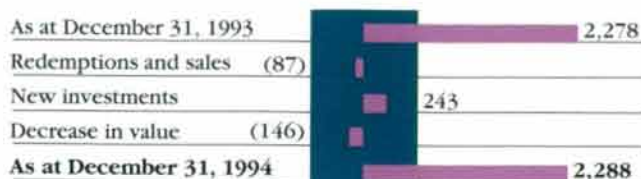
The year 1994 was opportune for financing activities. The Caisse authorized 55 investments totalling \$401 million; 47 investments amounting to \$225.1 million will be made directly in businesses and eight investments representing \$175.9 million will be directed toward investment funds and companies.

The environment was favourable for expansion projects, so most new investments were in growth companies. The Caisse was involved in the expansion of the activities of the Laurentian Bank and ADS Associés on the domestic market, the development and international expansion of Biogénic S.R.D.C. and of Telesystem International Wireless, and the start-up of the new Québec operations of Innergex.

The Caisse also benefitted from certain initiatives taken in 1993. Gaz de France became a partner in Noverco, in which the Caisse has an interest. In addition, the Caisse was involved in increasing the capital of Sceptre Resources, and it worked on the restructuring of Univantage and its main subsidiary, Unigesco, which became the Sodisco-Howden Group. The Caisse also supported companies such as United Westburne and Provigo that adopted or pursued plans to reorganize their finances or their operations.

The Caisse is especially interested in companies of the new economy and technological sectors, such

### 16 CHANGES IN THE PRIVATE INVESTMENTS PORTFOLIO



market value - in millions of dollars

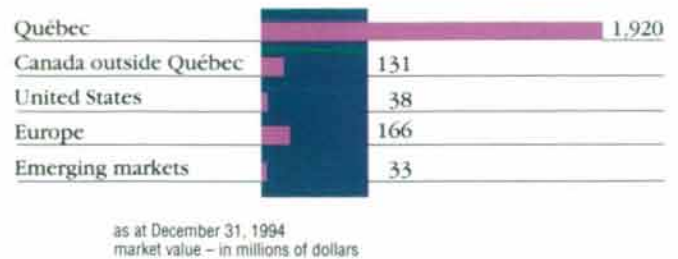


as telecommunications, health care, biotechnology and information technologies. Through investments in businesses or specialized funds, it contributes to the vitality of these sectors, promotes the establishment of foreign companies in Québec and helps Québec companies expand internationally. During the year, the Caisse was involved in 12 investment projects totalling \$63 million in leading-edge companies, such as UltraOptec, NewEast Wireless Technologies and Neuroscience Partners. The Caisse also created an advisory committee of international experts to help it evaluate technologies and markets.

When it makes private investments abroad, the Caisse also joins forces with foreign or local partners. In 1994, it authorized substantial investments in investment funds and companies active in various areas, notably Domain Partners III, which invests in the biotechnology sector in the United States; Schroder UK Buy-Out Fund III, a European acquisition fund; Baring Capital Partners V, an acquisition fund that targets the United Kingdom, France, Italy and Germany; China Renaissance Industries, which invests in various industries in China; and Renaissance Funds, which invests in Israel.

The Caisse also extended its Québec network of regional investment companies by setting up Société de capital de risque Abitibi-Témiscamingue (SOCCRAT) and Investissements 3L, which covers Laval, the Laurentians and Lanaudière. These companies joined the seven which were already in operation: Gestion Capidem, Gestion Estrie Capital, Gestion Capital de Développement 04, Gestion Investissements GIM, Capital CGD, Capimont and Capital Montérégie. The companies in the network take equity interests of \$50,000 to \$500,000 in promising businesses in the various regions of Québec.

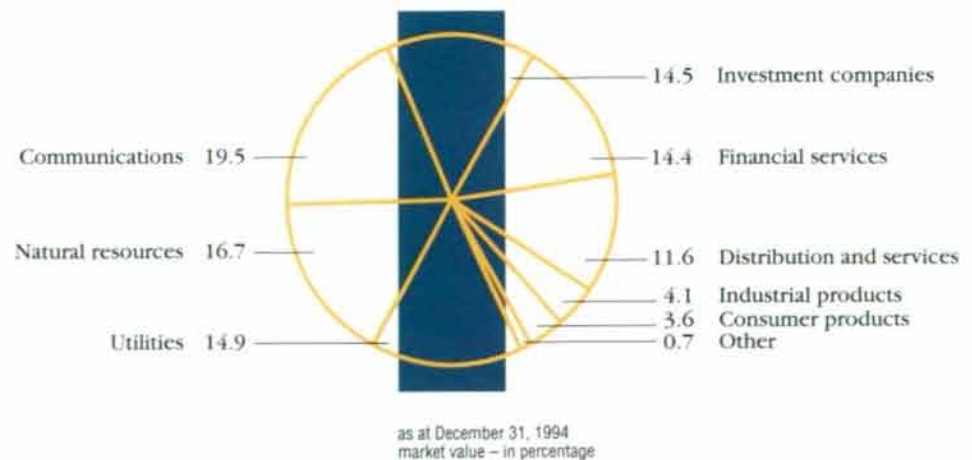
## 17 GEOGRAPHICAL BREAKDOWN OF PRIVATE INVESTMENTS



As at December 31, 1994, the aggregate private investments portfolio comprised 183 investments and its market value was \$2.29 billion, or 5% of the total investments of the Caisse. The sectorial composition of the portfolio at year-end was as follows: communications, 19.5%; natural resources, 16.7%; utilities, 14.9%; investment companies, 14.5%; financial services, 14.4%; distribution and services, 11.6%; industrial products, 4.1%; consumer products, 3.6%; and other sectors, 0.7%.

Over ten years, the Caisse's private investments in Québec companies generated a return of 11.4%, surpassing the TSE 300 which posted 9.2% for the same period.

## 18 SECTORIAL BREAKDOWN OF PRIVATE INVESTMENTS



## MORTGAGES

Like other financial markets, the mortgage sector experienced a paradoxical situation in 1994: demand on residential, commercial and industrial markets was anemic yet interest rates rose by almost 3% during the year to nearly 10% for five-year maturities.

The single-family housing market remained highly competitive, and financial institutions issued an increasing number of mortgage securities guaranteed by the Canada Housing and Mortgage Corporation under the *National Housing Act* (NHA). Trust companies, for their part, saw their share of the mortgage loan market drop significantly.

The Caisse portfolio of single-family dwellings decreased substantially during the year because its representatives reduced their activities in this area. The Caisse must adjust its focus and as a consequence analyzing the market so that it can continue investing in this type of financing.

Investments in NHA mortgage-backed securities increased in 1994, and the Caisse authorized the investment of an additional \$100 million in this vehicle, for a total of up to \$200 million. These securities facilitate management of mortgage terms and allow loans of more than five years to be granted. The Caisse also invested in collateralized mortgage obligations (CMO), a new vehicle introduced on the market in 1993. These products, derived from NHA securities, offer investors greater flexibility, since the capital and interest payments on the underlying mortgage debt are restructured.

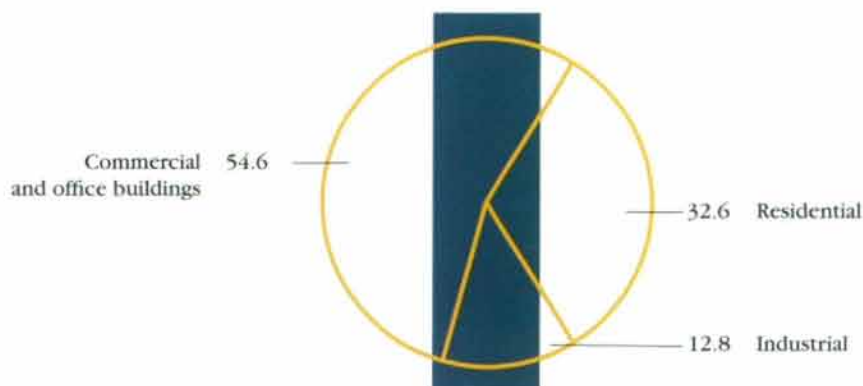
Although new loan activity was limited, the Caisse authorized financings totalling \$109.4 million in 1994. It was involved in several major financings, investing \$60 million in Place Ville-Marie in Montréal, \$22 million in Cavendish Shopping Centre in Côte-Saint-Luc, \$16 million in Galeries de Hull, \$17 million in the Bank of Montréal building in Québec City and \$29 million in Place de la Cité in Sainte-Foy. The Caisse also took part in the financing of the Crédit Suisse building in Toronto, owned by M.D. Realty Ltd., with an investment of \$4 million.

The real estate market remained fragile in 1994, and the Caisse was not immune to this trend. Foreclosures represented 4.5% of the market value of the mortgage portfolio, while non-performing loans, that is those for which payment has been past due for more than three months, accounted for 2% at the end of 1994. The Caisse responded by tightening its criteria for the approval of new loans or loan renewals, given that the drop in real estate values called for greater rigour in appraisals.

Interest rate volatility in recent years has often led to a reduction in the terms of loans, which has in turn increased the number of requests to renew and renegotiate loans prior to maturity; in 1994, a total of \$143.5 million in loans were renewed.

As at December 31, 1994, the market value of the Caisse's mortgage portfolio totalled \$1.8 billion, or 4.1% of its total investments. At year-end, the average nominal rate stood at 9.8%, the average maturity was 3 years and the modified duration

## 19 MORTGAGES



as at December 31, 1994  
market value - in percentage



was 2.2 years. The breakdown of the portfolio was as follows: 54.6% in the commercial sector; 28.1% in the residential sector; 4.5% in mortgage-backed NHA securities; and 12.8% in the industrial sector. At the end of 1994, the portfolio included only one interest rate swap with a notional value of \$5 million.

A new integrated mortgage management system was refined in 1994. In addition, a number of work stations now have direct access through SOQUIJ to information held by registry offices, an arrangement that will save a great deal of time and money. Finally, given the importance of carefully monitoring market rates, a leading-edge information system providing real-time access to mortgage market data was added in 1994, allowing for, among other things, more detailed analysis of NHA securities.

#### CAISSE REAL ESTATE GROUP

The investments of the Caisse Real Estate Group are managed by a small group of in-house Caisse specialists. They develop the Group's strategies; monitor portfolio return, management and developments; and coordinate the operations of the Group's five member companies: Cadim, Ivanhoe, SITQ Immobilier, Cadim international and Cadev.

Cadim is responsible primarily for real estate investments held in partnership with developers or builders who are in charge of day-to-day management, while Ivanhoe owns and manages medium-sized and large shopping centres. As for SITQ Immobilier, its activities focus on office

buildings, regional shopping centres, urban-area medium-sized shopping centres and industrial buildings, which are owned with other institutional partners. Cadim international coordinates the investments made by the Group abroad. Lastly, Cadev, which is owned by Cadim, Ivanhoe and SITQ Immobilier, was created in 1994 to develop the Group's land portfolio. Cadim and Cadim international are wholly owned, whereas Ivanhoe and SITQ Immobilier also have minority shareholders.

The real estate market remained weak in 1994, and the Group's Canadian property values dropped by 4.2%. Rental rates and incentives improved in the commercial sector during the year, and they stabilized in the office buildings market. As at December 31, the Group had a 5.4% vacancy rate in its commercial buildings and an 11.4% vacancy rate in its office buildings. With respect to leasing, 201,000 square metres was leased or renewed in the commercial sector in 1994, compared to 87,000 square metres in the office buildings sector. As a result of tight cost control, dynamic property management and the portfolio's overweighting in the commercial sector, which fared better than the other sectors, the Caisse's real estate portfolio outperformed the market in 1994.

The current return on the portfolio was 6.2% as at December 31, while its overall return was negatively affected by the poor stock performance associated with Ivanhoe's investment in Cambridge Shopping Centres Ltd.; Ivanhoe had a 29.5% interest in the company at the end of 1994. If this

## 20 CAISSE REAL ESTATE GROUP PORTFOLIO

	Commercial	Office buildings	Industrial	Land <sup>1</sup>	Other <sup>2</sup>	Value of portfolio <sup>3</sup>	Percentage of the Group's portfolio
Group Companies							
Cadim	116	148	5	33	42	469.9	24.9
Ivanhoe	830	49	34	71	-	865.0	45.8
SITQ Immobilier	187	423	110	9	46	552.6	29.3
<b>Group</b>	<b>1,133</b>	<b>620</b>	<b>149</b>	<b>113</b>	<b>88</b>	<b>1,887.5</b>	<b>100.0</b>

as at December 31, 1994  
market value - in millions of dollars

<sup>1</sup> combines member companies' interests in Cadev

<sup>2</sup> combines hotels and the residential sector

<sup>3</sup> represents the value of the Caisse's net holdings in the company



---

CAISSE  
REAL ESTATE  
GROUP

---

CADIM  
INC.

---

IVANHOE

---

SITQ  
IMMOBILIER

---

CADIM  
INTERNATIONAL

---

CADEV

---

investment is excluded, the portfolio's overall return was -7.3%. The Group's net holdings had a market value of \$1.8 billion, based on investments of \$2.6 billion, net of related bank loans and mortgages, third-party minority interests, and other assets and liabilities totalling \$0.8 billion.

The member companies' assets are consolidated in the real estate portfolio. In addition to properties held directly, which accounted for 86.2% of the portfolio's investments at market value, these assets include real estate company debentures, 1.8%; real estate company shares, 7.7%; mortgages, 3.2%; and short-term investments, 1.1%. Properties held directly, net of related liabilities, represented \$1.6 billion at market value, or 3.6% of the investments of the Caisse as at December 31, 1994. In line with Caisse policy, the market value of real estate investments is based on an independent, rigorous and prudent appraisal.

A number of investments were made during the year. For instance, Ivanhoe invested \$39 million in Galeries Rive Nord, which it now wholly owns. SITQ Immobilier invested \$30 million to purchase interests held by partners in industrial sites in the Montréal area and in an office building in Québec City. At year-end, Cadim acquired a \$32-million debt secured by a shopping centre in downtown Montréal.

On the international scene, SITQ Immobilier concluded five transactions with partners during the year. It acquired interests in three shopping centres in the United Kingdom with Pillar Property Investments Plc; the three acquisitions represent a total investment of \$65 million. The company also acquired a \$28-million interest in an office building in downtown Brussels with Compagnie immobilière de Belgique. Finally, an initial \$13-million investment was made in a luxury condominium project in Mexico, with Grupo Terrum, S.A. de C.V., a local partner. In collaboration with Wagner U.S. Holdings, a Québec partner, Cadim made a \$20-million investment related to 143 condominium units in a residential building located in the heart of Manhattan, New York.

The Group's total capital expenditures on development, redevelopment and improvement projects amounted to almost \$50 million in 1994. Member companies also sold real estate assets worth \$33 million, in line with their strategic plans.



*A partner of Québec real estate developers investing abroad, the Caisse is in favour of increasing exports of Québec goods and services as part of its construction projects.*

The Group's strategy is to diversify geographically and to allocate a larger portion of the portfolio to the residential sector. It therefore continued its housing construction activities in Poland, opened an office in Mexico under the designation Grupo Inmobiliario Caisse and another in Vietnam under the name Société immobilière du Vietnam in collaboration with private investors. In addition, the Group signed a partnership agreement with Sinocan, a Québec firm, and the China Real Estate Development Group, a major Chinese company. The Group would also like to allocate a larger portion of the portfolio to real estate derivatives and infrastructure financing, which should increase its current return. Finally, with regard to international investments, the Group is interested in supporting Québec partners that want to build in promising new markets, as well as those that want to export Québec goods and services.

#### **TACTICAL INVESTMENTS**

The Caisse strives to optimize its return by actively managing the tactical allocation of its investments, which involves moving funds for short periods into asset classes that are likely to be the most profitable or taking advantage of sudden market shifts.

Tactical investment management has evolved considerably over the years to meet the investment objectives of Caisse depositors. Various financial instruments make it easier today to rapidly change the weighting of certain assets such as Canadian equities and bonds while minimizing the impact on the portfolios.

Late in 1992, the Caisse set up a separate team in charge of tactical choices among its investment categories, thereby demonstrating its will to ensure that Montréal becomes a centre of excellence in the field of tactical asset allocation using such products as futures, options and swaps. This portfolio enables the Caisse to measure the results of tactical decisions with a high degree of accuracy, to automatically bring the portfolios into line with their long-term median with greater ease and to minimize transaction fees while achieving the speed required for tactical trades. After two years of activity, the Caisse's tactical investments have yielded positive added value for depositors. Through the transactions it carried out in Montréal, Tokyo, London, Singapore, Osaka, Frankfurt, Paris, Toronto, Zurich, Sydney and Chicago, the Caisse takes an active part in the world market for these types of vehicles.

Tactical asset decisions are even more important than the tools, for they represent the search for attractive investment opportunities. In this respect, 1994 presented many pitfalls. For all the G7 countries where the Caisse traded derivatives, cash proved to be the best asset, with the exception of Japan. Bond markets were highly correlated and extremely volatile and saw their worst correction in many years, despite the very different economic environments in North America, Europe and Japan. The investment strategy adopted by the Caisse was therefore to take a short position in North American bonds, given expectations of higher inflation in the United States. The gains generated by this strategy were, however, offset by long positions in European and Japanese bonds. The corrections were very severe although the fundamentals remained positive for inflation and economic growth.

The unexpected turnaround in the European and Japanese bond markets had a doubly negative impact, leaving a stock market correction in its wake. The North American stock markets were flat, and, contrary to forecasts, the Australian stock market fell despite increases in commodity prices. On the equities markets, only the strategy adopted for the Japanese market proved to be profitable. The Caisse made gains both when the market rose in the first half and when it subsequently dropped.

Tactical investment managers have two objectives, to produce added value on a regular basis and to adequately control risk. The Caisse has focused on a number of key issues to ensure that these objectives are met: a rigorous approach to model-building using exogenous variables; a sufficient number of tactical investment choices, namely an approach based on a global portfolio of tactical choices; balanced allocation among these choices; an attractive total rate of return differential; preferably low correlation among the choices; and, lastly, a structured grid for managing market, credit and liquidity risks.







# MANAGEMENT of depositors' funds

Three new depositors joined the Caisse during the year. They are the Fonds d'amortissement des régimes de retraite gouvernementaux (F.A.R.R.G.),

The Montréal Exchange has created an enviable place for itself on the market for various innovative products such as banker's acceptance futures and five- and ten-year Canadian bond futures, as well as options on futures. These products are used to reduce the risk related to interest rate fluctuations over the short, medium and long terms. The Caisse participates actively in these markets to manage its portfolio, and encourages its partners to use products traded on the Montréal Exchange.

created and administered by the Québec Minister of Finance, the Société des alcools du Québec (SAQ), whose mandate is to sell alcoholic beverages in Québec, and the Centre de recherche industrielle du Québec (CRIQ), which acts with its partners in the business, industrial and public sectors to stimulate Québec's economic development.

In March 1994, the Caisse adopted a regulation making it simpler for certain bodies or their pen-

sion plans to become Caisse depositors. A written resolution from the body's board of directors will now authorize the entrusting of funds to the Caisse.

Under legislation passed by the National Assembly or written resolutions adopted by the boards of directors of the bodies concerned, the Caisse manages, on behalf of 18 depositors, the funds contributed to public pension and insurance plans and public bodies. The Caisse has a mandate to invest, safeguard and manage its depositors' funds so as to achieve asset growth.

The Caisse strives to obtain an optimal return for its depositors, in line with their risk tolerance and investment horizon, as determined by the nature of their activities. Investment policies and strategies are based on economic forecasts by the Caisse, as well as depositors' foreseeable liquidity requirements and investment policies. Depositors receive regular reports on the status of their portfolios, along with a detailed analysis of their results. A complete computerized report is now prepared on a quarterly basis to facilitate the dissemination and processing of information. Through periodic

## 21 CHANGES IN FOREIGN INVESTMENTS



meetings and daily communication, the Caisse stays in close contact with its depositors. In 1994, the Caisse continued to refine its cash management service to ensure that depositors can take advantage of its expertise in this area to maximize their short-term return, while remaining in a position to meet their current obligations.

The Caisse receives from its depositors the contributions of more than four million Québécois in the form of demand, term or participation deposits. Demand and term deposits constitute indebtedness toward depositors and bear interest at market rates. Participation deposits represent a share in the net equity and net income of the fund to

which they are allocated, and their value depends on the market value of the investments made with the fund.

As at December 31, 1994, depositors' holdings totalled \$43.8 billion at cost, compared with \$42 billion a year earlier. This increase is due mainly to net income of close to \$3 billion, less net withdrawals of nearly \$1.2 billion. Given the unfavourable performance of the markets in 1994, investment income fell by \$1 billion compared with 1993. The market value of depositors' holdings, which totalled \$44.8 billion at the end of 1994, or \$1 billion over cost, was lower than in 1993 as a result of an unrealized decrease in value of \$4.1 billion.

## 22 DEPOSITORS

	Abbreviation	First deposit	Number of contributors <sup>1</sup>	Depositors' holdings <sup>2</sup>
Régie des rentes du Québec	R.R.Q.	1966	3,018,900	14,408.5
Régie des marchés agricoles et alimentaires du Québec	R.M.A.A.Q.	1967	66	2.5
Régie des assurances agricoles du Québec		1968	50,426	-
Régie de l'assurance-dépôts du Québec		1969	1,371	151.0
Commission de la construction du Québec Supplemental Pension Plan for Employees of the Québec Construction Industry	C.C.Q.	1970	90,000	4,264.1
Commission administrative des régimes de retraite et d'assurances Government and Public Employees Retirement Plan	CARRA	1973	503,500	16,045.7
General Retirement Plan for Mayors and Councillors of Municipalities	RREGOP	1975	-	-
Individual Plans		1977	463	111.3
Pension Plan for Elected Municipal Officers		1989	2,300	98.1
Commission de la santé et de la sécurité du travail	C.S.S.T.	1973	178,798	4,219.3
Société de l'assurance automobile du Québec	SAAQ	1978	4,243,145	4,692.2
Fonds d'assurance-prêts agricoles et forestiers	FAPAF	1978	1	19.9
La Fédération des producteurs de bovins du Québec		1989	26,946	1.3
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	R.R.T.A.Q.	1990	3,095	34.8
Office de la protection du consommateur	O.P.C.	1992	-	8.3
Fonds d'amortissement des régimes de retraite gouvernementaux	E.A.R.R.G.	1994	1	802.9
Centre de recherche industrielle du Québec	CRIQ	1994	-	-
Société des alcools du Québec	SAQ	1994	-	-

as at December 31, 1994

<sup>1</sup> estimate

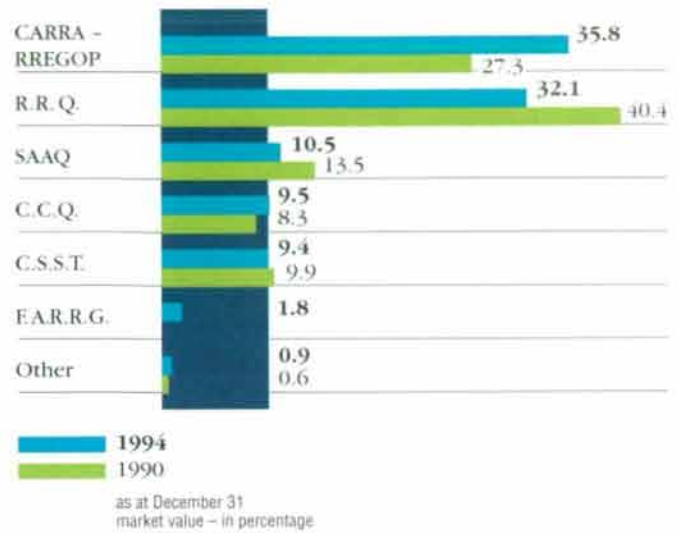
<sup>2</sup> market value - in millions of dollars

Certain depositors made contributions in addition to reinvesting all their investment income. The Minister of Finance contributed \$850 million to the new Fonds d'amortissement des régimes de retraite gouvernementaux (F.A.R.R.G.). The Government and Public Employees Retirement Plan (RREGOP), administered by the Commission administrative des régimes de retraite et d'assurances (CARRA), contributed \$474.5 million. Other depositors, however, had to make withdrawals from their investment income to meet their financial obligations: the Régie des rentes du Québec withdrew \$1.6 billion; the Société de l'assurance automobile du Québec, \$866.5 million; and the Supplemental Pension Plan for Employees of the Québec Construction Industry, \$65 million.

The Caisse manages a General Fund, which comprises the deposits of 12 depositors, as well as Individual Funds which each have only one depositor. The Individual Funds were established to meet the specific needs of a number of plans administered by four depositors: the Commission administrative des régimes de retraite et d'assurances (CARRA), the Commission de la santé et de la sécurité du travail (C.S.S.T.), the Commission de la construction du Québec (C.C.Q.) and the Minister of Finance, which administers the Fonds d'amortissement des régimes de retraite gouvernementaux (F.A.R.R.G.).

Since March 1994, the Caisse's largest depositor has been the RREGOP, managed by CARRA. The RREGOP is divided between unionized and non-unionized employees, and also includes employer contributions and transfers from supplemental pension plans. The RREGOP, which covers government employees as well as employees in the education and social services sector, has posted the highest growth of all depositors since 1987. Its

## 23 BREAKDOWN OF DEPOSITORS' HOLDINGS



holdings at market value were \$16 billion at year-end, or 35.8% of depositors' holdings, compared with \$15.9 billion in 1993. As a result of net contributions of \$474.5 million, which were added to reinvested investment income of \$1 billion, its holdings at cost rose by \$1.5 billion, to \$15.7 billion at the end of 1994.

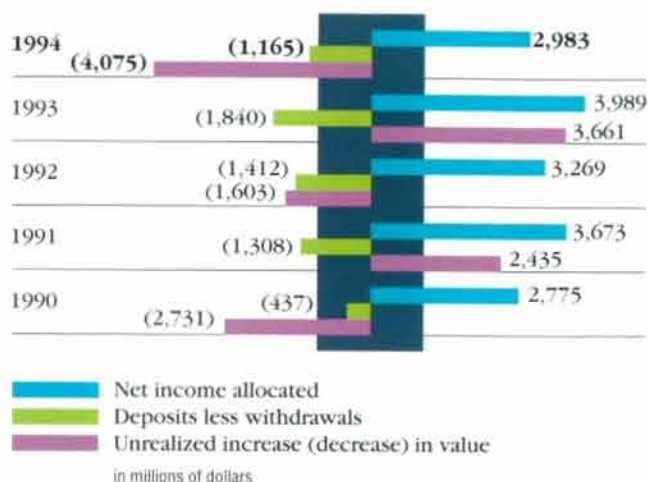


The other plans managed by CARRA are the Individual Plans, the General Retirement Plan for Mayors and Councillors of Municipalities and the Pension Plan for Elected Municipal Officers. Their holdings totalled \$209.4 million at market value and \$209.6 million at cost.

The Régie des rentes du Québec (R.R.Q.) manages Québecers' public pension fund. As at December 31, 1994, its holdings amounted to \$14.4 billion at market value, or 32.1% of depositors' holdings, and 74.6% of the General Fund, while its holdings at cost totalled \$14 billion. During the year, the Régie paid more than \$4.2 billion to the some 910,000 beneficiaries of the plan. In 1994, it made net withdrawals of \$1.6 billion, the same amount as in 1993; it used all its investment income of \$1 billion and the balance of \$543.9 million came in part from the sale of units of the General Fund and from strict cash management. The 0.2% annual increase in the contribution rate, introduced in 1987, which brings the rate to 5.4% in 1995 and 5.6% in 1996, should enable the Régie to slow the increase in its liquidity requirements. A slight deficit of investment income over withdrawals is forecast in the coming year. Its long-term capital in the General Fund could therefore decrease slightly unless a rise in the markets and a decline in unemployment again defer the date at which this will occur.

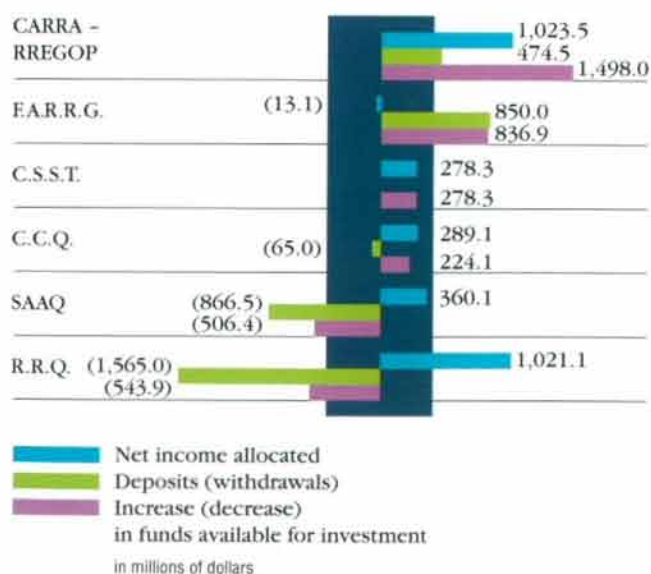
The Société de l'assurance automobile du Québec (SAAQ), the Caisse's third-largest depositor, administers the general plan that provides insurance against bodily injuries caused by traffic accidents. With a mandate to reduce risks related to the use of roads, it controls access to the road system and road transport, in addition to promoting road safety and compensating victims of traffic accidents. As at December 31, 1994, the SAAQ's holdings were \$4.5 billion at cost as opposed to \$4.7 billion at market value, or 10.5% of depositors' holdings and 24.3% of the General Fund. During the year, the SAAQ withdrew its investment income of \$360.1 million, as well as \$506.4 million which came in part from the sale of units of the General Fund and strict cash management. Most of these amounts went into the consolidated income fund for capital expenditures to improve road safety.

## 24 CHANGES IN DEPOSITORS' HOLDINGS



The Commission de la construction du Québec (C.C.Q.), which administers the plan for workers subject to the Québec Construction Decree, is another depositor with assets of more than \$1 billion. As at December 31, 1994, the C.C.Q.'s holdings amounted to \$4.3 billion at market value. Its holdings at cost grew by \$224.1 million in 1994, to \$4.2 billion at year-end, compared with \$4 billion at the end of 1993. This increase is attributable to net withdrawals of \$65 million,

## 25 CASH FLOWS OF MAJOR DEPOSITORS IN 1994



which were entirely offset by investment income of \$289.1 million. Withdrawals were made during the year owing to unfavourable economic conditions in the construction industry, undeclared contracts and the National Assembly's adoption of Bill 142, which excludes certain construction work in the residential sector from the scope of the law, all of which caused a sharp decline in the number of hours worked. The plan is divided into three accounts: the active participants' account, the retired participants' account, and the additional contributions account of certain workers, which at market value amounted to \$2.4 billion, \$1.4 billion and \$0.5 billion, respectively.

The Commission de la santé et de la sécurité du travail (C.S.S.T.) was created to reduce work-related risks, to pay industrial-accident and occupational-disease benefits and to facilitate worker rehabilitation. It collects contributions from all employers, thereby providing them with insurance coverage against risks in their sectors of activity. As at December 31, 1994, the C.S.S.T. had holdings of close to \$4.2 billion at cost. Its holdings at market value decreased by \$95.9 million to more than \$4.2 billion, representing 9.4% of depositors' holdings. To fulfil its obligations, the C.S.S.T. borrowed \$145 million from the Caisse during the year, an amount that it repaid in full. Its investment income totalled \$278.3 million. Withdrawals are expected to decrease gradually in future years, as a result of improved cost control made possible by amendments to the legislation governing the C.S.S.T. and maintaining the average contribution rate at \$2.75 per \$100 in 1994.

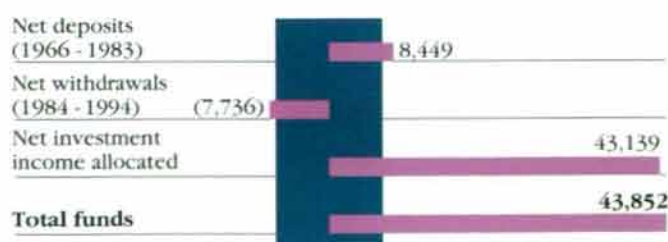
As a result of Bill 134, adopted by the National Assembly in December 1993, the Minister of

Finance of Québec deposited \$850 million in February as the first employer contribution to a new Individual Fund, the Fonds d'amortissement des régimes de retraite gouvernementaux (F.A.R.R.G.). As at December 31, 1994, this new depositor's holdings totalled \$802.9 million at market value and \$836.9 million at cost.

The Caisse's nine other depositors are the Fonds d'assurance-prêts agricoles et forestiers (FAPAF); the Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec (R.R.T.A.Q.); the Régie des marchés agricoles et alimentaires du Québec (R.M.A.A.Q.); the Régie des assurances agricoles du Québec; the Régie de l'assurance-dépôts du Québec; the Fédération des producteurs de bovins du Québec; the Office de la protection du consommateur, which has two accounts, one for the Fonds des cautionnements collectifs des agents de voyages and one for the Magazine Protégez-Vous, which entrusted its reserve fund to the Caisse in March 1994; the Société des alcools du Québec (SAQ); and the Centre de recherche industrielle du Québec (CRIQ). These depositors' holdings, which are in the form of demand, term or participation deposits in the General Fund, totalled \$218.2 million at cost and \$217.8 million at market value as at December 31, 1994.

All depositors benefit from the Caisse's low operating costs, given the amount of assets under management. Since the Caisse has no equity, it makes a full distribution of income earned on its investments. In managing its depositors' cash, the Caisse offers the entire return obtained by its money market specialists. Moreover, it guarantees high standards of security and control in carrying out its operations.

**26** VALUE ADDED TO DEPOSITORS' FUNDS SINCE 1966



as at December 31, 1994  
cost - in millions of dollars







# STRATEGIC and administrative activities

## RESEARCH

Portfolio management must take into account various scenarios such as the probability that a portfolio will outperform or underperform its benchmark index, or the probability of maximum losses or gains for each of its major investment categories.

**To promote Montréal as an active financial centre, the Caisse enters into profitable service agreements with partners outside Québec recognized for their expertise, such as the Canadian Depository for Securities, Goldman Sachs Canada and State Street. A fund manager and securities custodian, State Street now has more than 35 employees in its Montréal office, which it opened in 1993.**

In 1994, the Caisse refined its integrated portfolio-management system which enables it to adequately measure the probable gains, losses and spreads of its main investment classes, namely bonds, Canadian equities and foreign equities, as well as tactical investments. Together, these investments represent a little over 85% of the market value of its total assets. The Caisse also began measuring

credit risks and risks associated with market positions involving options. Asset allocation can be optimized through knowledge of the factors which could impact on portfolios in each market, and it is worth noting that the work of the Caisse in this field puts it at the forefront of pension fund managers internationally.

During the year, the Caisse designed a number of tools for analyzing and evaluating investment strategies, including a model which identifies, from among thousands of possibilities, the positions with the best performance profile on the options market based on a range of potential market variations. Other tools were also created to evaluate swaps and American options.

Training is a priority at the Caisse, and the research team is responsible for the ongoing investment training of professional personnel. A significant portion of the Caisse's training budget is allocated to the chartered financial analyst (CFA) programme. At the end of 1994, 33 Caisse specialists were enrolled in the three-year programme, and the institution currently has 40 employees with this designation.

In addition to the CFA programme, practical and theoretical courses are given to professionals in order to improve, for instance, their ability to analyze and evaluate the securities held in Caisse portfolios or those that are actively traded by the Caisse. In 1994, a good number of specialists took part in workshops on the ARCH or GARCH models used for model-building of market volatility. These courses are all taught by experts. For instance, the Caisse hired a mathematics professor to instruct its staff on the use of *Mathematica* software. The research team also helped implement a comprehensive training programme that provides all professional investment staff with access to relevant training in the form of university courses, investment seminars and professional development workshops.

The Caisse strengthened its links with Québec universities in 1994 through more frequent discussions and meetings on training and financial research. For example, it received valuable assistance from the Centre Interuniversitaire de Recherche en Analyses des Organisations (CIRANO) with a range of specific projects.

## STRATEGIC AFFAIRS

After two years of studies and consultations on the contribution of the Caisse to Québec's economic development, seven objectives were set. Priorities for 1995 are to support Québec companies looking to expand internationally, to strengthen Montréal's position as a financial centre and to help consolidate Québec's technological base. Over the longer term, the Caisse also intends to respond to the increasingly complex financing needs of Québec companies, to increase the availability of capital in the various regions of Québec, to foster synergy between Québec's different business communities and to contribute to the vitality of the Québec bond market.

The Caisse carries out the majority of its transactions in Montréal. The vitality of this financial centre is therefore a determining factor in the development of the local economy and in the financial return achieved by the Caisse. In collaboration with a number of financial sector participants, the Caisse established three promising areas for strengthening Montréal's position: to develop transactions processing and call centre activities, to increase Montréal's importance in derivatives trading and, finally, to stimulate Montréal's involvement in the distribution of financial services in the information age.

## PUBLIC AFFAIRS

Image and credibility are important assets for any business, particularly so for a financial institution, which must monitor them closely. An institution must ensure that the sector in which it conducts business has an accurate perception of its role and a solid understanding of its operations. Public confidence and credibility with its partners require this openness. The Caisse therefore maintains close relations with the various key groups it is involved with and pays careful attention to their needs.

A number of initiatives were taken by the Caisse in this area in 1994, all aimed at providing additional information on its mission, its orientations and the various aspects of its management philosophy. It thus initiated training sessions and business meetings, took part in workshops, conferences and public forums, and launched an advertising campaign that will continue in 1995 in national and regional business publications.

The Caisse also organized information sessions for its staff, the economic and financial media, and the business community. A series of topics were presented, including management of the Canadian and foreign equities portfolios, bond market developments, the role of the Caisse in the real estate sector and its relations with depositors.

Through the views it expressed directly to the Regroupement étudiant des facultés d'administration du Québec (REFAQ), and publicly by its association with Université Laval's Fonds Alpha at a press conference held in May 1994, the Caisse played a part in organizing a group of students in finance at Québec universities, under the direction of the Comité relève financière des universités québécoises. The Caisse intends to work with this committee to support student activities pertaining to finance.

For instance, in November 1994, the Caisse took part in the first edition of Journée Relève financière, an event which was organized to inform finance students of job opportunities and to outline the various branches of the investment industry. The session was judged a resounding success, attracting some 150 participants who responded enthusiastically to the round table discussions, presentations made by experts in finance and workshops on specific aspects of the bond and stock markets. For the sixth consecutive year, the



Caisse also sponsored the Commerce Games finance competition, making it the longest-standing sponsor of these competitions among all Québec universities.

In 1994, the Caisse again participated in the Savings and Investment Marketplace, held in Montréal and Québec City, giving more than 20 presentations on management and investment designed to share its expertise with the investing public. The Caisse also supports other business and educational organizations, such as the Fondation de l'Entrepreneurship, the Forum pour l'emploi and CIRANO, in addition to sponsoring Qualité-Québec and promoting it to its business partners.



*In 1994, the Caisse joined Qualité-Québec, an organization set up to promote Québec goods and services. By so doing, it is looking to encourage its partners to use Québec products and services and thereby help create jobs and stimulate Québec's economy.*

## ADMINISTRATION

In an ongoing effort to manage its human resources effectively, the Caisse revised its performance evaluation programme and introduced an employee orientation and integration programme featuring a number of new tools that explain the institution's role and activities.

Professional development being a priority, the Caisse spent 3% of its payroll on training activities in 1994. Under the institutional training programme set up in 1993, a good number of courses were given during the year, particularly in the field of management.

The Caisse has 318 permanent employees, including 54 managers, 160 professionals, and 104 technical and administrative employees. Women make up half the staff and the average age of employees is 38. To complement the regular staff, various units also retained the services of 41 casual employees. In addition, 21 trainees with master's degrees in finance or economics carried out investment analysis and research projects.

Salaries and employee benefits rose in 1994, as the average number of positions filled increased slightly over 1993 and certain adjustments of salaries were made to bring them in line with the market. Expenses relating to temporary positions, which were required to meet a heavier work load and to replace staff members, increased by more than \$0.2 million compared with 1993. Overall, other operating expenses were 2.6% higher than in 1993, with the exception of depreciation of fixed assets, which rose by \$0.7 million to \$3.5 million, compared with \$2.8 million a year earlier.

Administrative expenses amounted to \$46.4 million in 1994, an increase of 7.4% over 1993. It thus costs the Caisse \$1.03 for every \$1,000 of its \$44.9 billion of net assets as at December 31, 1994. In addition to these internal expenses, the institution had external management fees of 17 cents, for a total of \$1.20 per \$1,000 of assets under management. Its administrative expenses place the Caisse at the median of its reference market, which consists of Canadian and U.S. financial institutions of similar size.

The breakdown of administrative expenses for 1994 is as follows: salaries and employee benefits, 55%; professional fees, 13%; premises and equipment, 14%; depreciation of fixed assets, 8%; and



other expenses, 10%. In accordance with provisions governing the allocation of administrative expenses, they were allocated on a pro rata basis among the depositors' different funds, according to the market value of each fund's assets.

The Caisse paid \$7.8 million, \$0.7 million less than in 1993, to financial institutions for active and indexed investment management, securities administration and safekeeping, and settlement of transactions carried out in Canada and abroad. The decrease in expenses resulted from a larger proportion of investments being managed in-house and from lower management fees brought on by greater competition in the marketplace. These expenses were deducted from the investment income of each depositor's fund, with \$2.6 million, or 34%, paid to Canadian institutions and \$5.2 million to foreign institutions.

The Caisse continued to refine its technology, and allocated nearly 28% of its budget to information systems in 1994. It introduced institutional policies on information security, system access and data backup to assure the confidentiality, completeness and accessibility of information. A plan for the frenchification of information technologies was established during the year, in line with the institution's commitment to promote the use of French in computer systems. The overall architecture plan continued to be developed so as to give the Caisse leading-edge information systems. Furthermore, additional revisions and testing of the information systems backup plan were carried out during the year.

The use of a new computer platform providing access to internal and external data on variable-income securities began in 1994. Moreover, a new mortgage management system was refined during the year, and the Caisse continued to develop the system it uses to measure and control its investments. Several other projects were also completed, especially in real estate, tactical allocation, foreign exchange and derivatives. On the administrative level, new software was selected for managing minutes of meetings and records management.

Data processing management is carried out for the Caisse by a specialized firm. The network servers and telecommunications hardware are centralized in an ultra-modern room. The Caisse is increasing the capacity of its network operating system to meet the needs arising from increased

use. It also continues to offer technical training to users to optimize the use of its computer resources.

The Caisse continued to improve the quality of its working environment and to reorganize its resources along functional lines. Two improvement projects were carried out in 1994 to meet organizational needs, and certain teams were relocated. The equities trading room was enlarged and renovated, and state-of-the-art telephone consoles were installed.

During the year, the Caisse completed the documentation of its investment systems to promote the integrity and efficiency of its activities, and began updating its manual of directives and procedures. Important work also continued on the monitoring of investment activities.

The Caisse's policy on contracts now governs the acquisition or leasing of goods and services. The principles of openness, equity and sound management guide Caisse managers in awarding contracts. The adoption and application of this policy enable the Caisse to obtain goods and services at attractive or competitive prices while contributing to the vitality of the Québec economy.

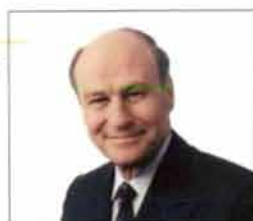
The Caisse continued to monitor application of *An Act respecting the protection of non-smokers in certain public places* by following up on requests and comments made, and it conducted a survey to determine the opinions of its employees. As a result, in September 1994, management adopted a policy on air quality and the use of tobacco in the workplace that prohibits smoking in all offices, except in designated smoking areas. After a transitional period, the policy took effect on January 1, 1995. It is part of the Caisse's effort to create a working environment that promotes employee health.

# BOARD of Directors

**JEAN-CLAUDE DELORME**

Chairman of the Board  
and Chief Executive  
Officer

◆ ▲ ■



**CLAUDE LEGAULT**

Deputy Chairman  
of the Board  
President  
Régie des rentes  
du Québec

▲



**JEAN-CLAUDE BACHAND**

Counsel  
Byers Casgrain

●



**CLAUDE BÉLAND**

President  
La Confédération des  
caisses populaires et  
d'économie Desjardins  
du Québec

■



**RODRIGUE BIRON**

Senior Partner  
Biron, Lapierre et Associés

■



**FRANCINE C. BOIVIN**

Associate Deputy  
Minister of Tourism  
Tourisme Québec

●



**CLÉMENT GODBOUT**

Président  
Fédération des travailleurs  
et travailleuses du Québec



**PIERRE MICHAUD**

Chairman of the Board  
and Chief Executive  
Officer  
Groupe Val Royal Inc.

■



**JACQUES O'BREADY**

Président  
Commission municipale  
du Québec

●



**ALAIN RHÉAUME**

Deputy Minister  
Ministère des Finances  
du Québec

■



**MICHEL SANSCHAGRIN**

Président  
Commission administrative  
des régimes de retraite  
et d'assurances

● ▲



**DENISE VERREULT**

Président  
Groupe Maritime  
Verreault Inc.

▲



- Member of the Audit Committee
- ▲ Member of the Real Estate Portfolio Management Committee  
(Caisse Real Estate Group Board of Directors)
- Member of the Resources Committee

## SENIOR MANAGEMENT

**JEAN-CLAUDE DELORME**  
Chairman of the Board and  
Chief Executive Officer

**JEAN-CLAUDE SCRAIRE**  
Chief Operating Officer

**MICHEL NADEAU**  
Senior Vice-President,  
Investment Planning and  
Coordinator, Core Portfolios

**SERGE RÉMILLARD**  
Senior Vice-President,  
Administration and Control

**CARMEN CRÉPIN**  
Vice-President and Corporate Secretary

## VICE-PRESIDENTS

**YVES BENOIT** - Information Systems and Technology

**CLAUDE BERGERON** - Legal Affairs

**PIERRE BOUVIER** - Research and Professional Development - Investments

**ANDRÉ CHAREST** - Administration and Finance (Caisse Real Estate Group)

**SERGE DESJARDINS** - Internal Audit

**RÉAL DESROCHERS** - Private Investments, Investment Funds and Companies

**ANDRÉ DUCHESNE** - Bond Investments and Money Market

**PIERRE FORTIER** - Private Investments, Special Projects

**PHILIPPE GABELIER** - Public Affairs

**GERMAINE GIBARA** - Private Investments, Technology Companies

**HUBERT LAPIERRE** - Canadian Stock Markets

**RICHARD LESAGE** - Economics

**JACQUES MALENFANT** - Human Resources

**GERMAIN B. MATHIEU** - Real Estate Portfolio Planning and Management (Caisse Real Estate Group)

**YVES MOQUIN** - Tactical Investments

**WALTER MURKENS** - Depositors' Affairs

**JEAN C. PINARD** - Mortgage Investments

**NORMAND PROVOST** - Private Investments, Industrial and Service Companies

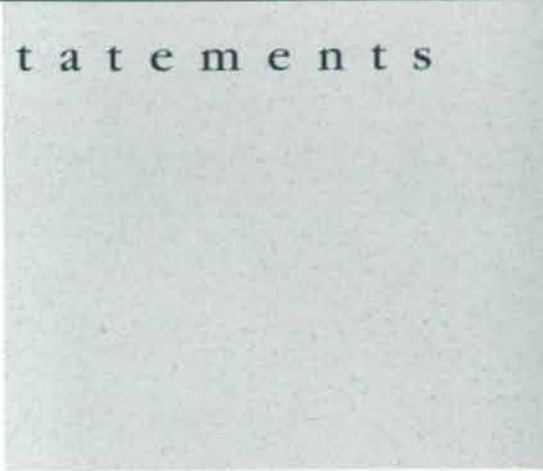
**ADEL SARWAT** - International Stock Markets

**ALAIN TESSIER** - Finance



---

F i n a n c i a l   s t a t e m e n t s



**COMBINED STATEMENT OF NET ASSETS AS AT DECEMBER 31, 1994**

	1994	1993
	(in millions of dollars)	
<b>ASSETS</b>		
Investments at market value (Notes 3, 4 and 5)		
Bonds	21,345	22,352
Shares and convertible securities (Note 6)	17,753	17,936
Mortgages	1,842	1,958
Real estate investments	2,294	2,324
Short-term investments	1,995	2,794
	<b>45,229</b>	<b>47,364</b>
Investment income, accrued and receivable	594	568
Other assets	117	90
	<b>45,940</b>	<b>48,022</b>
<b>LIABILITIES</b>		
Bank loans and notes payable	88	222
Mortgage loans payable (Note 4)	529	550
Transactions being settled	37	17
Commitments related to short selling of equities (Note 4)	320	-
Other liabilities	25	30
Non-controlling interests (Note 4)	81	86
	<b>1,080</b>	<b>905</b>
DEPOSITORS' HOLDINGS (Note 7)	<b>44,860</b>	<b>47,117</b>
COMMITMENTS (Note 10)		

On behalf of the Board of Directors,  
 Jean-Claude Delorme  
 Jean-Claude Bachand

**AUDITOR'S REPORT**

I have audited the combined statement of net assets of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 1994, the combined statement of income, and the combined statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Caisse's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of these Funds as at December 31, 1994 and the results of their operations and the changes in their net assets for the year then ended in accordance with generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Guy Breton, F.C.A.  
 Auditor General of Québec  
 Québec City, March 10, 1995

**COMBINED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1994**

	1994	1993
	(in millions of dollars)	
<b>INCOME</b>		
Investment income (Notes 3 and 8)		
Interest on bonds	1,848	1,776
Dividends, interest on convertible securities	442	423
Interest on mortgages	175	186
Net income from real estate investments	135	140
Interest on short-term investments	166	156
	<u>2,766</u>	<u>2,681</u>
Other income	3	-
	<u>2,769</u>	<u>2,681</u>
<b>EXPENDITURE</b>		
Administrative expenses (Note 9)	46	43
	<u>2,723</u>	<u>2,638</u>
<b>INCOME BEFORE THE FOLLOWING ITEM</b>		
Non-controlling interests	6	7
<b>NET INVESTMENT INCOME</b>	<u>2,717</u>	<u>2,631</u>

**COMBINED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 1994**

	1994	1993
	(in millions of dollars)	
<b>INVESTMENT OPERATIONS</b>		
Net investment income	2,717	2,631
Gains (losses) on sale of investments (Note 3)		
Bonds	(695)	733
Shares and convertible securities	869	634
Mortgages	(1)	1
Real estate investments	(6)	(6)
Short-term investments	(2)	(4)
	<u>165</u>	<u>1,358</u>
Non-controlling interests	(1)	-
	<u>166</u>	<u>1,358</u>
Unrealized increase (decrease) in value (Note 3)		
Investments		
Bonds	(2,276)	1,128
Shares and convertible securities	(1,298)	2,653
Mortgages	(143)	38
Real estate investments	(301)	(159)
Short-term investments	(17)	11
	<u>(4,035)</u>	<u>3,671</u>
Mortgage loans payable	(39)	(1)
Commitments related to short selling of equities	9	-
Non-controlling interests	(30)	11
	<u>(3,975)</u>	<u>3,661</u>
Total investment operations	<u>(1,092)</u>	<u>7,650</u>
Excess depositors' withdrawals over deposits	1,165	1,840
<b>(DECREASE) INCREASE IN COMBINED NET ASSETS</b>	<u>(2,257)</u>	<u>5,810</u>
<b>COMBINED NET ASSETS, BEGINNING OF YEAR</b>	<u>47,117</u>	<u>41,307</u>
<b>COMBINED NET ASSETS, END OF YEAR</b>	<u>44,860</u>	<u>47,117</u>



**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1994**

**1 CONSTITUTION AND OPERATIONS**

The Caisse de dépôt et placement du Québec is a legal person within the meaning of the Civil Code, created by a special act (R.S.Q., chapter C-2). It receives funds, the deposit of which is provided for under a particular act.

**GENERAL FUND**

The General Fund is comprised of diversified investments and is a pooled fund for demand, term and participation deposits. The General Fund's net equity and net income as at December 31 were shared among participation deposit holders as follows:

	1994		1993	
	Number of units	%	Number of units	%
Régie des rentes du Québec	17,987,723	74.6	18,321,906	74.0
Société de l'assurance automobile du Québec	6,090,279	25.2	6,381,818	25.8
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	21,923	0.1	21,923	0.1
Fonds d'assurance-prêts agricoles et forestiers	12,871	0.1	12,871	0.1
Office de la protection du consommateur				
Fonds des cautionnements collectifs des agents de voyages	6,752	-	6,305	-
Magazine Protégez-Vous	1,559	-	-	-
Régie des marchés agricoles et alimentaires du Québec	2,983	-	3,309	-
Fédération des producteurs de bovins du Québec	1,041	-	1,041	-
	<b>24,125,131</b>	<b>100.0</b>	<b>24,749,173</b>	<b>100.0</b>

**INDIVIDUAL FUNDS**

The Individual Funds are comprised of diversified investments and each have only one depositor who exclusively makes participation deposits therein. The various Individual Funds are:

**Fund 301**

For the Government and Public Employees Retirement Plan - contributions from unionized employees - administered by the Commission administrative des régimes de retraite et d'assurances.

**Fund 302**

For the Government and Public Employees Retirement Plan - contributions from non-unionized employees and transfers from supplemental pension plans - administered by the Commission administrative des régimes de retraite et d'assurances.

**Fund 303**

For the Individual Plans, administered by the Commission administrative des régimes de retraite et d'assurances.

**Fund 305**

For the Pension Plan for Elected Municipal Officers and the General Retirement Plan for Mayors and Councillors of Municipalities, administered by the Commission administrative des régimes de retraite et d'assurances.

**Fund 308**

For the Fonds d'amortissement des régimes de retraite gouvernementaux, administered by the Minister of Finance.

**Fund 311**

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - active participants - administered by the Commission de la construction du Québec.

**Fund 312**

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - retired participants - administered by the Commission de la construction du Québec.

**Fund 313**

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - additional contributions - administered by the Commission de la construction du Québec.

**Fund 330**

For the Commission de la santé et de la sécurité du travail.

## SPECIFIC PORTFOLIOS

The specific portfolios are comprised of one category of investments only. The portfolios are pooled funds for participation deposits of the various Funds. As at December 31, 1994, three specific portfolios were in operation, one for U.S. equity investments, one for other foreign equity investments and another for real estate investments. The net equity and net income of these portfolios as at December 31 were distributed as follows:

	1994		1993	
	Number of units	%	Number of units	%
<b>Specific U.S. equity investments portfolio*</b>				
General Fund	689,009	43.5	-	-
Individual Fund 301	530,947	33.5	-	-
Individual Fund 302	90,700	5.7	-	-
Individual Fund 303	4,008	0.3	-	-
Individual Fund 305	3,735	0.2	-	-
Individual Fund 308	31,808	2.0	-	-
Individual Fund 311	45,197	2.9	-	-
Individual Fund 312	27,065	1.7	-	-
Individual Fund 313	9,118	0.6	-	-
Individual Fund 330	152,752	9.6	-	-
	<b>1,584,339</b>	<b>100.0</b>	-	-
<b>Specific foreign equity investments portfolio</b>				
General Fund	1,130,593	39.4	1,884,075	44.2
Individual Fund 301	966,417	33.7	1,370,342	32.2
Individual Fund 302	188,580	6.6	264,304	6.2
Individual Fund 303	7,276	0.2	10,307	0.2
Individual Fund 305	7,968	0.3	11,045	0.3
Individual Fund 308	60,468	2.1	-	-
Individual Fund 311	142,755	5.0	190,837	4.5
Individual Fund 312	86,781	3.0	104,481	2.4
Individual Fund 313	13,973	0.5	20,586	0.5
Individual Fund 330	265,894	9.2	404,003	9.5
	<b>2,870,705</b>	<b>100.0</b>	<b>4,259,980</b>	<b>100.0</b>
<b>Specific real estate investments portfolio</b>				
General Fund	1,135,945	43.4	989,714	47.4
Individual Fund 301	859,341	32.8	654,172	31.3
Individual Fund 302	152,297	5.8	117,765	5.6
Individual Fund 303	5,824	0.2	2,048	0.1
Individual Fund 305	6,248	0.2	4,762	0.2
Individual Fund 308	56,140	2.2	-	-
Individual Fund 311	92,541	3.5	82,954	4.0
Individual Fund 312	59,341	2.3	41,862	2.0
Individual Fund 313	23,126	0.9	16,657	0.8
Individual Fund 330	228,935	8.7	180,724	8.6
	<b>2,619,738</b>	<b>100.0</b>	<b>2,090,658</b>	<b>100.0</b>

\* This portfolio was created on April 1, 1994. On that date, U.S. equities previously held in the specific foreign investments portfolio were transferred to this new portfolio.

## 2 ACCOUNTING POLICIES

The combined financial statements of the Caisse have been prepared by management in accordance with generally accepted accounting principles. These statements include amounts based on best judgment and estimates.

### a) COMBINED FINANCIAL STATEMENTS

The combined financial statements comprise the accounts of the Caisse's subsidiaries, those of the General Fund and the Individual Funds, as well as those of the specific portfolios. The accounts of each of these Funds and of each of these portfolios are reflected in separate financial statements audited by the Auditor General of Québec.

### b) INVESTMENTS

Purchases and sales of investments are recorded as at the commitment date, except transactions involving bonds, mortgages and real estate investments, which are recorded as at the settlement date.

Investments, including derivative financial instruments and any other related assets and liabilities are recorded at the year-end market value. These values are determined using the closing prices of the major stock exchanges as well as those provided by recognized brokerage firms, independent valuations, comparative analyses and any other commonly used valuation method.

### c) INCOME

Dividend income is recognized on the ex-dividend date.

The income from loans of securities and derivative financial instruments is included in the income from the underlying investments.



Interest on short-term investments is reduced by interest expenses on notes payable, while the income from real estate investments is reduced by interest on bank and mortgage loans.

The gains and losses on the sale of investments are calculated using the average unamortized cost in the case of bonds, mortgages and short-term investments, the average cost in the case of shares and convertible securities, and the specific cost in the case of land and buildings. The average unamortized cost of an investment is the acquisition cost restated to take into account the amortization of the premium and the discount that allows the investment to maintain a constant real return until maturity.

d) FOREIGN CURRENCY TRANSLATION

The market value of investments and any other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

The cost of investments in shares and that of real estate investments are translated at the rate prevailing on the acquisition date while the unamortized cost of investments in bonds and short-term securities is translated at the average rate of the financial foreign exchange risk hedging instruments held at year-end.

Income is translated at the average rate prevailing in each of the fiscal periods of the various Funds, except dividend income, which is translated at the rates prevailing on the ex-dividend date. Foreign exchange gains and losses are included in net investment income, except those gains and losses relating to financial foreign exchange risk hedging instruments used for shares and real estate investments, which are deferred and accounted for in gains and losses on the sale of investments, upon the realization of the hedged shares and real estate investments.

e) FIXED ASSETS

Costs related to the acquisition of telephone, computer and office automation equipment are capitalized and amortized over the useful life of each asset. Set-up costs for the premises and other leasehold improvement costs are amortized over the term of the lease. These fixed assets are presented under the item Other assets.

f) ADMINISTRATIVE EXPENSES

Administrative expenses are paid out of the General Fund and charged to the various Funds on a pro rata basis according to the market value of the weighted assets of each.

3 BOND INVESTMENTS – ASSET SWAPS

Asset swaps were used to convert the income of certain fixed interest-rate bonds into variable income. These bonds and the related asset swaps are presented under Combined net assets in the investment category corresponding to the new type of income earned, which resulted in increasing (decreasing) the following items in the financial statements:

	1994	1993
	(in millions of dollars)	
<b>COMBINED STATEMENT OF NET ASSETS</b>		
Investments		
Bonds	(200)	(154)
Shares and convertible securities - foreign securities	-	154
Short-term investments	200	-
<b>COMBINED STATEMENT OF INCOME</b>		
Investment income		
Interest on bonds	(30)	(42)
Dividends, interest on convertible securities	20	42
Interest on short-term investments	10	-
<b>COMBINED STATEMENT OF CHANGES IN NET ASSETS</b>		
Gains (losses) on sale of investments		
Bonds	14	4
Shares and convertible securities	(14)	(4)
Unrealized increase (decrease) in value of investments		
Bonds	4	4
Shares and convertible securities	(4)	(4)

4 INVESTMENTS AND LIABILITIES AT COST

The cost of investments and liabilities accounted for at market value is as follows:

	1994	1993
	(in millions of dollars)	
Investments		
Bonds	21,808	20,539
Shares and convertible securities	15,444	14,329
Mortgages	1,874	1,847
Real estate investments	3,146	2,875
Short-term investments	1,996	2,778
	44,268	42,368
Mortgage loans payable	526	508
Commitments related to short selling of equities	311	-
Non-controlling interests	125	100



The cost of shares and convertible securities as well as of real estate investments was increased by the amount of the losses carried over to financial foreign exchange risk hedging instruments which totalled \$510 million as at December 31, 1994 (\$403 million in 1993). The unamortized cost of bonds and short-term investments was decreased by the amount of \$28 million as at December 31, 1994 (\$31 million in 1993) to reflect the difference between the exchange rate on the date of acquisition and the average rate of the financial foreign exchange risk hedging instruments held at the end of the year.

## 5 INVESTMENTS – FOREIGN SECURITIES

	1994	1993
	(in millions of dollars)	
Bonds	391	804
Shares	4,639	4,820
Real estate investments	117	-
Short-term investments	324	102
	5,471	5,726

The foreign exchange position for investments in foreign securities, with the exception of emerging market securities, is hedged by financial instruments as shown in Note 10.

## 6 SHARES AND CONVERTIBLE SECURITIES

	1994	1993
	(in millions of dollars)	
Shares and convertible securities held directly by the Funds	13,231	13,277
Shares held through the specific portfolios	4,522	4,659
	17,753	17,936

## 7 DEPOSITORS' HOLDINGS

Demand and term deposits bear interest and constitute the Caisse's indebtedness toward the depositors.

Participation deposits are expressed in units and each unit gives its holder a proportionate share in the net equity and net income of a particular Fund. At the end of the fiscal period of a Fund, the net investment income and gains and losses on the sale of investments are distributed to participation deposit holders. At the beginning of the following period, the amounts distributed are paid out to (recovered from) the depositors' demand deposit accounts. The fiscal period of the General Fund is one month and that of the other Funds is three months.

	1994	1993
	(in millions of dollars)	
Indebtedness toward depositors		
(Advances to depositors) demand deposits	(406)	61
Term deposits	147	146
Interest on demand and term deposits	-	2
Net income to be paid out to participation deposit holders	520	848
	261	1,057
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	40,978	39,089
Units issued	3,326	2,357
Units cancelled	(712)	(468)
Balance, end of year	43,592	40,978
Amount not allocated with respect to real estate investments*	114	114
Unrealized increase in value allocated following interfund transactions	(100)	-
Unrealized increase (decrease) in value of investments and other related assets and liabilities	993	4,968
	44,599	46,060
DEPOSITORS' HOLDINGS	44,860	47,117

\* Represents the restated amount of accumulated amortization of real estate properties resulting from the recording of investments at market value. This amount will be allocated upon the sale of the properties.

## 8 INVESTMENT INCOME

Pursuant to its investment operations, the Caisse entrusts a part of its portfolio management to external financial institutions. Management expenses as well as expenses associated with the settlement of transactions and the safekeeping of securities are deducted directly from investment income as follows:

	1994	1993
	(in millions of dollars)	
Interest on bonds	1	1
Dividends, interest on convertible securities	6	6
Interest on mortgages	1	1
	8	8

9 ADMINISTRATIVE EXPENSES

	1994	1993
	(in millions of dollars)	
Salaries and employee benefits	26	24
Professional fees	6	6
Premises and material	6	6
Depreciation of fixed assets	3	3
Other	5	4
	46	43

10 COMMITMENTS

a) DERIVATIVE FINANCIAL INSTRUMENTS

Pursuant to its investment operations, the Caisse conducts transactions involving various derivative financial instruments either to hedge against the risks associated with fluctuations in exchange rates or to manage risks associated with interest rate and market fluctuations. As at December 31, these instruments, whose market value is grouped with that of the underlying investments, were as follows:

	1994		1993	
	Market value	Nominal Principal	Market value	Nominal Principal
	(in millions of dollars)			
Foreign exchange risk hedging				
Forward exchange contracts	(60)	4,818	47	4,325
Foreign currency swaps	(56)	487	(59)	1,010

	1994		1993	
	Market value	Notional Principal	Market value	Notional Principal
	(in millions of dollars)			
Interest rate and market risk management				
Bond futures				
Purchases	-	130	-	473
Sales	-	1,122	-	334
Equity index futures				
Purchases	-	152	-	246
Sales	-	326	-	69
Interest rate futures				
Purchases	-	6	-	-
Sales	-	107	-	-
Asset swaps	(16)	551	(6)	271
Interest rate swaps	-	216	(2)	268
Forward rate agreements				
Purchases	-	25	-	59
Sales	-	-	-	100
Bond forward contracts				
Purchases	-	27	-	-

	1994		1993	
	Market value	Commitment value	Market value	Commitment value
	(in millions of dollars)			
Interest rate and market risk management				
Options on bond futures				
Purchases	-	-	11	304
Sales	-	-	(10)	569
Options on equity index futures				
Purchases	-	-	-	1
Sales	-	-	-	1
Options on interest rate futures				
Purchases	-	3	-	-
Options on bonds				
Purchases	1	14	-	-
Equity options				
Sales	-	8	-	-
Foreign currency options				
Purchases	1	20	6	209
Sales	(2)	29	(1)	127

Financial foreign exchange risk hedging instruments are negotiated with banks. Terms generally range from one to three months in the case of forward exchange contracts and from one to two years in the case of foreign currency swaps. Upon maturity, new hedging instruments are negotiated to maintain an effective long-term hedge against the exchange risks associated with foreign investments.

Moreover, futures traded on stock exchanges, asset and interest rate swaps, forward rate agreements, bond forward contracts and options, negotiated with banks and brokerage firms, are used to manage the interest rate and market risks of all the investment portfolios in addition to generating income from negotiation activities.

**b) INVESTMENT SUBSCRIPTIONS**

The Caisse has committed to purchase shares and limited partnership units, which will be settled over the next few years in accordance with the terms and conditions agreed to. As at December 31, 1994, these commitments totalled \$419 million (\$264 million in 1993).

**11 COMPARATIVE FIGURES**

Certain figures from the 1993 financial statements have been reclassified in order to conform with the presentation adopted in 1994.



**SUPPLEMENTARY INFORMATION**  
**SUMMARY FINANCIAL STATEMENTS FOR THE FUNDS (IN MILLIONS OF DOLLARS)**

**NET ASSETS AS AT DECEMBER 31, 1994**

	GENERAL FUND			
	1994	1993	301	
			1994	1993
<b>ASSETS</b>				
Investments at market value				
Bonds	10,194.8	11,600.0	6,248.7	6,192.2
Shares and convertible securities	7,237.3	7,916.1	5,695.0	5,566.2
Mortgages	416.2	545.0	292.9	296.7
Real estate investments	796.3	781.7	607.9	528.9
Short-term investments	1,506.9	2,311.6	55.9	-
Demand deposits in the General Fund	-	-	725.9	731.1
	20,151.5	23,154.4	13,626.3	13,315.1
Other assets	857.8	379.4	190.0	208.4
	21,009.3	23,533.8	13,816.3	13,523.5
<b>LIABILITIES</b>				
Demand and term deposits	1,247.8	1,326.9	-	-
Other liabilities	267.9	261.9	351.5	353.8
	1,515.7	1,588.8	351.5	353.8
<b>PARTICIPATION DEPOSIT HOLDERS' NET HOLDINGS</b>				
	19,493.6	21,945.0	13,464.8	13,169.7

**STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1994**

<b>INCOME</b>				
Investment income				
Interest on bonds	924.1	978.8	516.7	448.8
Dividends, interest on convertible securities	191.6	193.5	135.7	127.8
Interest on mortgages	49.0	53.4	27.0	28.4
Income from real estate investments	55.3	60.3	42.6	39.5
Interest on short-term investments	136.9	138.5	2.8	1.1
Interest on deposits in the General Fund	-	-	39.1	44.2
	1,356.9	1,424.5	763.9	689.8
Other income	1.2	0.3	0.6	0.2
Total income	1,358.1	1,424.8	764.5	690.0
<b>EXPENDITURE</b>				
Administrative expenses	20.1	20.4	13.8	12.1
Interest on demand and term deposits	70.4	89.4	-	-
NET INCOME FROM INVESTMENTS	1,267.6	1,315.0	750.7	677.9

**CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 1994**

<b>INVESTMENT OPERATIONS</b>				
Net income from investments	1,267.6	1,315.0	750.7	677.9
Gains (losses) on sale of investments	116.4	727.4	122.6	380.8
Unrealized increase (decrease) in value of investments and other assets and liabilities	(1,963.4)	1,674.0	(1,170.3)	1,103.2
Total investment operations	(579.4)	3,716.4	(297.0)	2,161.9
Net amount of participation deposit units issued (cancelled)	(523.5)	7.2	1,465.4	1,282.1
Transfer of funds	-	-	-	227.0
Net income allocated to participation deposit holders	(1,348.5)	(2,042.4)	(873.3)	(1,058.7)
INCREASE (DECREASE) IN NET ASSETS	(2,451.4)	1,681.2	295.1	2,612.3
NET ASSETS, BEGINNING OF YEAR	21,945.0	20,263.8	13,169.7	10,557.4
NET ASSETS, END OF YEAR	19,493.6	21,945.0	13,464.8	13,169.7

**INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31, 1994**

Bonds	10,382.9	10,612.8	6,413.0	5,699.4
Shares and convertible securities	6,120.2	6,162.8	4,987.1	4,445.8
Mortgages	415.4	505.5	297.9	275.0
Real estate investments	1,145.3	1,034.1	886.1	735.9
Short-term investments	1,506.7	2,297.6	55.9	-
Demand deposits in the General Fund	-	-	725.9	731.1
	19,570.5	20,612.8	13,365.9	11,887.2
Term deposits	146.7	145.0	-	-
Commitments related to short selling of equities	127.3	-	101.9	-



## INDIVIDUAL FUNDS

311		312		313		330	
1994	1993	1994	1993	1994	1993	1994	1993
595.5	619.4	344.7	338.8	184.8	177.2	2,226.8	2,273.7
959.4	975.6	552.8	537.9	69.4	65.4	1,564.3	1,519.4
525.9	591.8	311.5	325.6	129.8	115.4	78.6	98.1
81.1	81.4	44.7	33.9	16.2	13.3	158.0	141.4
197.1	240.9	126.8	127.5	45.4	58.1	20.1	-
28.0	0.5	35.9	1.6	2.9	1.6	144.4	217.0
2,387.0	2,509.6	1,416.4	1,365.3	448.5	431.0	4,192.2	4,249.6
23.4	30.9	15.3	17.3	6.1	6.5	55.9	65.7
2,410.4	2,540.5	1,431.7	1,382.6	454.6	437.5	4,248.1	4,315.3
-	-	-	-	-	-	-	-
58.8	71.9	34.6	31.7	9.2	12.5	96.3	117.2
58.8	71.9	34.6	31.7	9.2	12.5	96.3	117.2
2,351.6	2,468.6	1,397.1	1,350.9	445.4	425.0	4,151.8	4,198.1
51.8	48.6	29.9	25.6	15.0	13.0	189.6	175.9
23.1	23.6	13.5	12.4	1.6	1.5	36.0	35.5
53.2	56.9	29.6	29.7	10.6	9.1	8.2	10.9
4.7	4.9	2.9	2.5	1.1	1.0	10.8	11.0
13.1	8.6	8.0	5.0	2.6	2.0	1.0	0.2
0.8	1.7	0.4	1.1	0.2	0.6	12.8	13.2
146.7	144.3	84.3	76.3	31.1	27.2	258.4	246.7
0.2	0.1	0.1	-	0.1	-	0.2	-
146.9	144.4	84.4	76.3	31.2	27.2	258.6	246.7
2.8	2.7	1.6	1.4	0.5	0.4	4.2	3.8
-	-	-	-	-	-	-	-
144.1	141.7	82.8	74.9	30.7	26.8	254.4	242.9
144.1	141.7	82.8	74.9	30.7	26.8	254.4	242.9
25.3	50.3	8.5	20.9	(2.3)	7.0	23.5	108.6
(187.4)	194.9	(101.4)	112.2	(31.0)	21.6	(374.2)	342.1
(18.0)	386.9	(10.1)	208.0	(2.6)	55.4	(96.3)	693.6
70.4	26.0	147.6	147.9	51.4	58.2	327.9	94.9
-	-	-	-	-	-	-	-
(169.4)	(192.0)	(91.3)	(95.8)	(28.4)	(33.8)	(277.9)	(351.5)
(117.0)	220.9	46.2	260.1	20.4	79.8	(46.3)	437.0
2,468.6	2,247.7	1,350.9	1,090.8	425.0	345.2	4,198.1	3,761.1
2,351.6	2,468.6	1,397.1	1,350.9	445.4	425.0	4,151.8	4,198.1
608.7	563.5	350.6	307.3	190.4	164.0	2,269.1	2,061.4
827.4	780.2	493.1	445.7	64.0	56.5	1,385.6	1,246.8
527.5	548.7	314.9	304.6	131.0	109.7	79.5	92.1
129.2	119.9	65.1	47.4	23.8	19.2	237.3	202.5
197.1	240.8	126.8	127.5	45.4	58.1	20.1	-
28.0	0.5	35.9	1.6	2.9	1.6	144.4	217.0
2,317.9	2,253.6	1,386.4	1,234.1	457.5	409.1	4,136.0	3,819.8
-	-	-	-	-	-	-	-
18.1	-	10.5	-	1.1	-	26.4	-



INDIVIDUAL FUNDS							
302		303		305		308	
1994	1993	1994	1993	1994	1993	1994	1993
1,032.0	1,039.1	38.9	36.3	42.7	44.4	373.8	-
1,059.5	1,032.2	25.8	36.5	44.0	42.9	344.0	-
43.6	46.6	11.3	6.9	3.5	3.6	28.5	-
104.6	92.1	4.0	1.6	4.3	3.7	38.5	-
9.5	-	0.3	-	0.4	-	3.7	-
72.7	120.1	30.5	23.7	2.1	0.4	12.1	-
2,321.9	2,330.1	110.8	105.0	97.0	95.0	800.6	-
31.0	35.9	1.2	1.1	1.3	1.3	8.8	-
2,352.9	2,366.0	112.0	106.1	98.3	96.3	809.4	-
-	-	-	-	-	-	-	-
57.5	60.5	2.5	2.3	2.2	2.6	15.3	-
57.5	60.5	2.5	2.3	2.2	2.6	15.3	-
2,295.4	2,305.5	109.5	103.8	96.1	93.7	794.1	-
87.2	79.7	2.9	2.0	3.6	3.3	24.1	-
25.0	24.5	0.8	0.6	1.1	1.0	7.5	-
4.0	5.2	0.5	0.4	0.2	0.2	1.0	-
7.2	7.3	0.3	0.1	0.3	0.3	1.7	-
0.5	0.1	-	-	-	-	0.2	-
6.6	7.3	1.3	1.0	0.2	0.2	2.4	-
130.5	124.1	5.8	4.1	5.4	5.0	36.9	-
0.1	-	-	-	-	-	0.1	-
130.6	124.1	5.8	4.1	5.4	5.0	37.0	-
2.4	2.2	0.1	0.1	0.1	0.1	0.8	-
-	-	-	-	-	-	-	-
128.2	121.9	5.7	4.0	5.3	4.9	36.2	-
128.2	121.9	5.7	4.0	5.3	4.9	36.2	-
21.0	58.2	1.3	1.9	0.2	2.6	(49.3)	-
(198.6)	198.4	(7.5)	5.1	(6.5)	8.3	(34.0)	-
(49.4)	378.5	(0.5)	11.0	(1.0)	15.8	(47.1)	-
188.5	207.7	13.2	57.5	8.9	8.0	828.1	-
-	(227.0)	-	-	-	-	-	-
(149.2)	(180.1)	(7.0)	(5.9)	(5.5)	(7.5)	13.1	-
(10.1)	179.1	5.7	62.6	2.4	16.3	-	-
2,305.5	2,126.4	103.8	41.2	93.7	77.4	-	-
2,295.4	2,305.5	109.5	103.8	96.1	93.7	794.1	-
1,048.4	942.8	40.6	34.5	43.4	40.5	385.4	-
933.1	836.5	24.9	32.2	39.3	36.7	362.2	-
44.1	43.1	11.4	6.9	3.5	3.6	28.2	-
151.4	126.7	5.2	2.3	6.4	5.3	43.0	-
9.4	-	0.3	-	0.4	-	3.7	-
72.7	120.1	30.5	23.7	2.1	0.4	12.1	-
2,259.1	2,069.2	112.9	99.6	95.1	86.5	834.6	-
-	-	-	-	-	-	-	-
18.4	-	0.6	-	0.7	-	6.1	-

Should you wish to obtain  
an additional copy of this report,  
please contact the Direction  
des affaires publiques.

For information:  
(514) 842-3261 ext. 3320

Ce rapport peut aussi être obtenu  
en français sur demande.

Legal Deposit - 1995  
Bibliothèque nationale du Québec

ISBN 2-550-09927-3  
ISSN 0835-2143

- ⊕ This annual report is  
printed on recycled paper  
containing over 10% de-inked  
post-consumer fibre.







CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC

1981, avenue McGill College, Montréal (Québec) H3A 3C7  
(514) 842-3261 Telex: 055-61874 Fax: (514) 847-2498