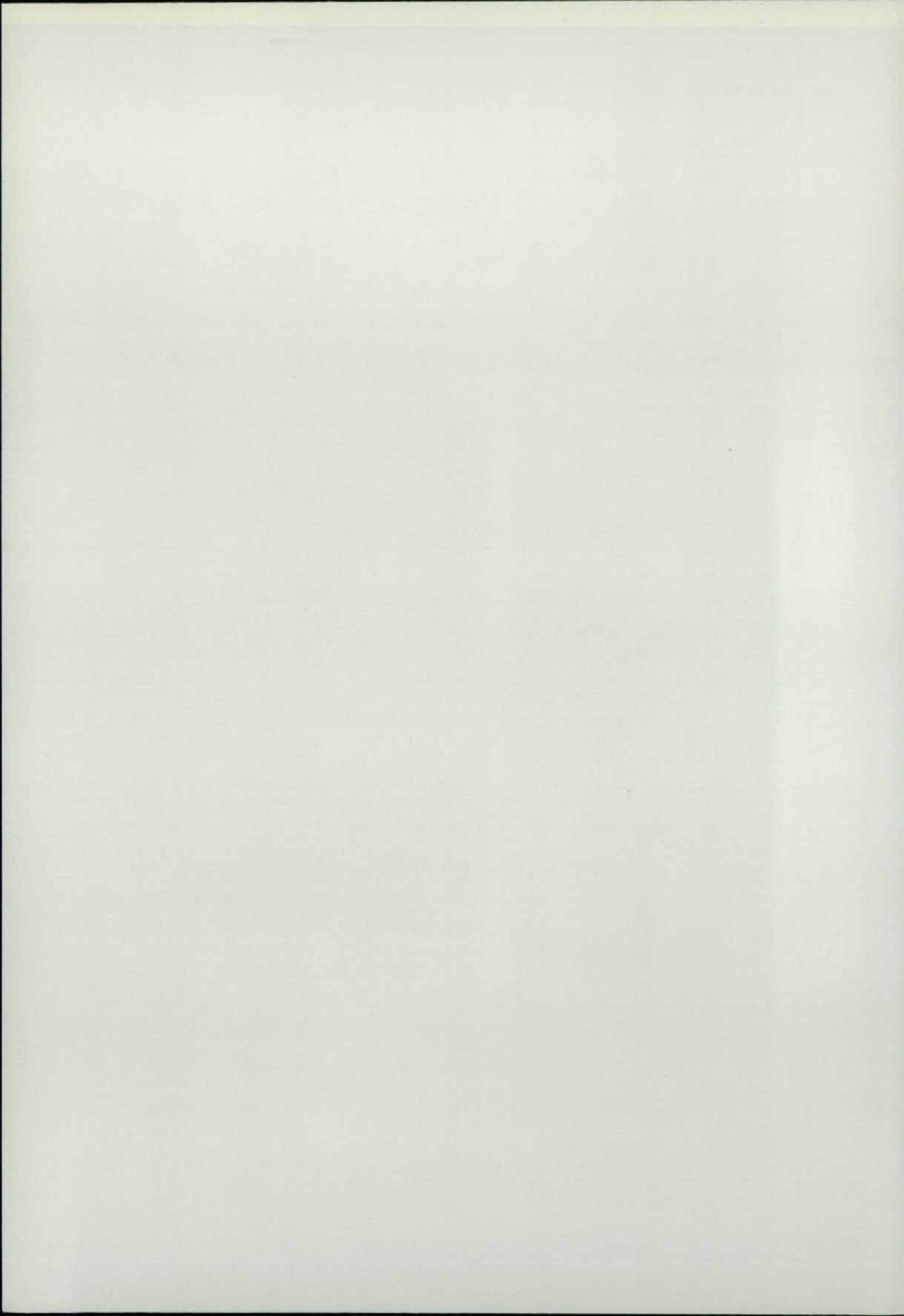


CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC



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Annual Report 1986



CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC



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Twenty-First  
Annual Report

## Profile

The Caisse de dépôt et placement du Québec, a totally autonomous institution in its investment management operations, was formed in 1965 to manage the funds arising from various public pension and insurance plans. Its mandate is to ensure that the funds under its administration generate a profit through sound investments and also to support Québec's economic development. To achieve these objectives, it uses the best investment vehicles available, including bonds, shares and convertible securities, mortgages and real estate investments.

The Caisse is one of North America's major financial institutions. Its principal place of business is located in the heart of Montréal, a first-class financial center.

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| <b>HIGHLIGHTS OF THE YEAR</b>  |                  |                  |
|--|------------------|------------------|
| (in millions of dollars)   | 1986             | 1985             |
| <b>ASSETS UNDER MANAGEMENT</b>                                       |                  |                  |
| Total book value   | \$ 25,073        | \$ 22,543        |
| Excess market value over book value<br>of investments                | 3,007            | 2,700            |
| <b>Total market value</b>  | <b>\$ 28,080</b> | <b>\$ 25,243</b> |
| <b>BREAKDOWN OF ASSETS UNDER MANAGEMENT</b>                          |                  |                  |
| Investments  |                  |                  |
| Bonds  | \$ 15,704        | \$ 14,542        |
| Shares and convertible securities                                    | 8,474            | 6,821            |
| Mortgages  | 1,486            | 1,270            |
| Real estate investments  | 531              | 373              |
| Short-term investments   | 1,405            | 1,798            |
| Total investments  | 27,600           | 24,804           |
| Other assets   | 480              | 439              |
| <b>Total market value</b>  | <b>\$ 28,080</b> | <b>\$ 25,243</b> |
| <b>DEPOSITORS' HOLDINGS</b>  |                  |                  |
| Régie des rentes du Québec   | \$ 13,558        | \$ 12,423        |
| Commission administrative des régimes de retraite<br>et d'assurances | 6,332            | 5,438            |
| Régie de l'assurance automobile du Québec                            | 3,843            | 3,291            |
| Commission de la santé et de la sécurité du travail                  | 2,287            | 2,178            |
| Office de la construction du Québec                                  | 1,915            | 1,745            |
| Other depositors   | 13               | 13               |
| Total depositors' holdings   | 27,948           | 25,088           |
| Liabilities  | 132              | 155              |
| <b>Total market value</b>  | <b>\$ 28,080</b> | <b>\$ 25,243</b> |
| <b>NET DEPOSITORS' INCOME</b>  | <b>\$ 2,965</b>  | <b>\$ 2,680</b>  |
| <b>NET DEPOSITORS' WITHDRAWALS</b>                                   | <b>\$ 415</b>    | <b>\$ 359</b>    |
| <b>INTERNAL RATE OF RETURN ON TOTAL<br/>DEPOSITORS' HOLDINGS</b>     | <b>13.5%</b>     | <b>24%</b>       |

## Board of Directors' Report



Again in 1986, the Caisse de dépôt et placement du Québec successfully administered an extensive investment program under its dual objective of optimizing the return on its depositors' holdings and supporting Québec's economic development.

The Board of Directors is pleased to submit the 1986 financial results of the Caisse de dépôt et placement du Québec whose internal rate of return on total funds under management reached 13.5% during the year, representing a net gain of 9.3% over inflation.

The quality of returns obtained by the Caisse is measured in terms of the yield exceeding the rate of inflation. It is noteworthy that the compound average annual rate of return totalled 16% and 14.2% over the past four and eight years, respectively, while the average rates of inflation for the same periods were 4.2% and 7.4%.

Income for 1986 reached almost \$3 billion, an increase of some \$300 million over the previous year. This income includes \$790 million in gains on sale of investments. The Institution has thus earned \$17 billion in net income since its founding.

This outstanding performance and substantial income have improved our depositors' holdings proportionately. We should mention, however, that the Régie des rentes du Québec continued to increase the level of withdrawals. Its requirements necessitated \$556 million to be withdrawn from its \$1.5 billion in income.

The Institution's financial results ensue from judicious decisions made concerning the balance to be maintained between the various investment vehicles, considering the evolution of the economy and the strategies adopted for each market. The proportion of variable income investments rose by 4% in 1986, representing 28% of the total portfolio at book value.

A quick review of the year's operations shows that the Caisse acquired \$825 million in new gouvernement du Québec bonds and some \$342 million in new securities from other Québec public sector issuers. It has also contributed to the development and quality of a secondary market for Québec securities. Furthermore, U.S. and Canadian government securities represent close to 15% of the fixed income securities portfolio. These high liquidity securities, which are held on a temporary basis and for purposes of strategy and the protection of the overall bond portfolio, have been efficient, yielding a 17% return compared to 14.1% for the total bond portfolio. Moreover, profits of CA \$212 million have been recorded on the trading of these securities.

To diversify the portfolio to reduce the degree of risk and increase profitability, the Board of Directors allocated substantial funds to foreign investments during the year. The strong performance of foreign markets as opposed to the domestic market was in fact a deciding factor. As a result, the foreign equity portfolio more than doubled in value, slightly exceeding the billion dollar mark, compared to \$410 million in the previous year.

The Caisse's interest in foreign markets, however, is not only related to concerns about the economic climate. First, the development of an international business network leading to major industrial or financial repercussions and eventually interesting investment opportunities is one of its goals. Second, the strong push towards the internationalization of financial markets, for fixed income securities as well as variable income securities, poses major challenges to all fund managers. The Institution believes this is an opportunity to become involved in the ever increasing and highly dynamic activity of Québec's financial and industrial communities, and of Montréal's in particular.

The Caisse strongly intends to make itself available to business people as well as corporations and to offer them its financial support and expertise to encourage their development and success on increasingly borderless markets. The support offered by our Institution has not only affected transactions in the \$10 million and up range (Cascades, Memotec Data, Onex Capital, CDC Life Sciences), but has also been in the form of a series of much lower capital outlays that are adequate to meet the funding requirements of medium-sized businesses such as Paul Martin inc., Groupe Harricana, Auto Point and Compagnie de Location d'équipements Clé. The Institution actively promotes its objective to increase its volume of business with medium-sized businesses and investments such as these.

Of course, the Caisse's considerable assets allow it to enter into major financial transactions. But the very foundation of the economy, in Québec and around the world in general, depends on thousands of small and medium-sized businesses for whom an amount of \$500,000 remains as significant as it is from a private individual's standpoint. The Caisse's strong interest in medium-sized businesses was again evident in its 1986 investment program. Funds allocated to this type of investment over the past few years now amount to some \$225 million.



The Institution wishes to participate in the same circles as both medium-sized businesses where growth is a very tangible prospect and financial and industrial giants where billions are the measuring unit, with the same level of service quality and investment profitability.

During the year, the Institution's contribution to the improvement of its environment and, more particularly its preoccupation with the geographic diversification of its investments in the province were reflected in its real estate acquisition program through its subsidiary, Société Immobilière Trans-Québec, in particular, as well as its intense activity in the mortgage sector throughout Québec.

In 1986, favourable market conditions resulted in substantial funds allocations to investments related to the Québec construction industry. The volume of mortgage investments reached a record high of \$425 million in new loans. A total of \$215 million was allocated to new construction projects, including \$103 million in the residential sector.

The Caisse also successfully disposed of some of its interests in several large enterprises such as Provigo, Noverco and Canron. These transactions were concluded with dynamic groups concerned with maintaining or intensifying the development of these enterprises.

Furthermore, as a result of its numerous investments in the share capital of various enterprises, the Caisse is constantly concerned about the protection of shareholders' fundamental rights, the openness of the management of these enterprises and the proper operation of financial markets. It is essential to remember, and circumstances call for this reminder to be made, that the same treatment and consideration be given to an enterprise's various categories of shares which carry the same risk, and that voting rights be respected. The Caisse also favours the principle whereby shareholders should be represented on the board of directors proportionately to their investment. The upholding of this basic premise of democracy in an enterprise is fundamental for the protection of investors' legitimate interests and the proper operation of financial markets.

The members of the Board of Directors wish to thank all employees for their support throughout the year, which was one of the most active in our Institution's history, and express their deepest gratitude.

On behalf of  
the Board of Directors,

Jean Campeau  
Chairman of the Board  
and General Manager  
Montréal, March 14, 1987

## The Economic Environment



Report of  
Operations



Major currency fluctuations, together with substantial declines in interest rates and in the price of certain raw materials, constituted the economic highlights of 1986. Economic growth slackened, particularly in Canada and Japan while inflation dropped sharply in the United States, Europe and Japan. Overall, the destabilizing effects of these fluctuations dominated; no country or region was able to replace the United States as the engine of world growth.



# The American Economy



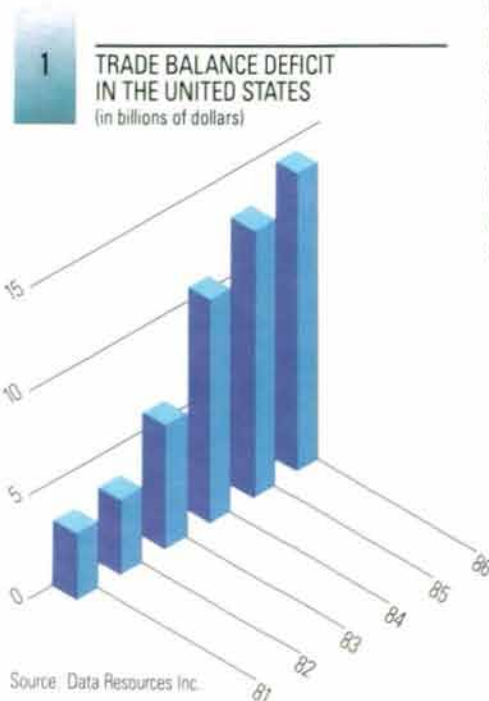
The United States economy grew for a fourth consecutive year in 1986, but as in 1985, the gross national product increased by less than 3%. Consumer spending gave no indication of slowing down, and consumers even reduced their savings rate to maintain spending levels. In contrast, the volume of capital spending decreased from 1985 to 1986 in response to the elimination of the investment tax credit and lower oil prices.

However, the basic reason for the American economy's weak performance was the increased penetration of imports in U.S. markets, restraining the growth of employment and investments. The unemployment rate has been hovering at around 7% since the end of 1984. The continued deterioration of the U.S. trade balance was perhaps the greatest disappointment of the year.

Since the U.S. dollar had started to slide significantly against the Japanese yen and European currencies as early as in March 1985, it was hoped that the foreign trade deficit would gradually be reduced. However, even though the dollar continued to slide throughout 1986, no evidence of a turnaround in foreign trade materialized. There is no doubt, however, that the U.S. trade balance deficit will improve with time.

U.S. monetary policy was expansionary in 1986. The Federal Reserve Board, which is responsible for implementing this policy in the United States, lowered its discount rate four times in an attempt to stimulate the economy. Its expansionary policy was also aimed at supplying sufficient liquidity to facilitate the adjustment of certain sectors to lower energy and grain prices.

Fiscal policy remained expansionary. The adoption of a major tax reform which will modify the tax burden of individuals and corporations over the next few years was the most significant development. As the planned reform is revenue neutral, it will not resolve the still disturbing government deficit problem. In these circumstances, the deficit can only be reduced as a result of sustained economic growth and a lower level of government spending.



# The Canadian Economy



International economic conditions had a devastating effect on Canada's economic growth. The fall of world oil and grain prices have negatively impacted the economic performance of regions where these sectors are dominant as well as corporate profits and Canada's trade balance. Consequently, Canada's economic growth slackened. The rate of inflation failed to drop however, remaining above 4%. Consumer spending progressed well, although not as much as in 1985 owing to the slower pace of employment and salary growth as well as to higher direct and indirect taxes. Nevertheless, consumer confidence was maintained. The decline in interest rates and unemployment, as well as the stabilization of inflation, contributed to the dynamism of the residential construction sector. Housing starts reached 198,830 units in 1986, the best result of the decade.

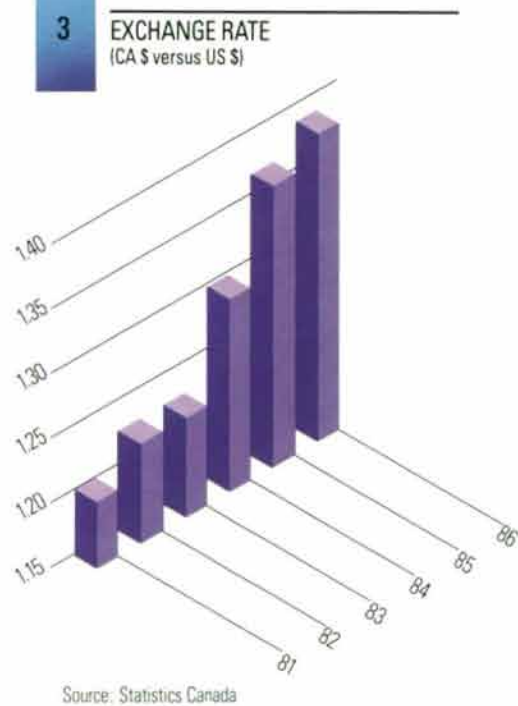
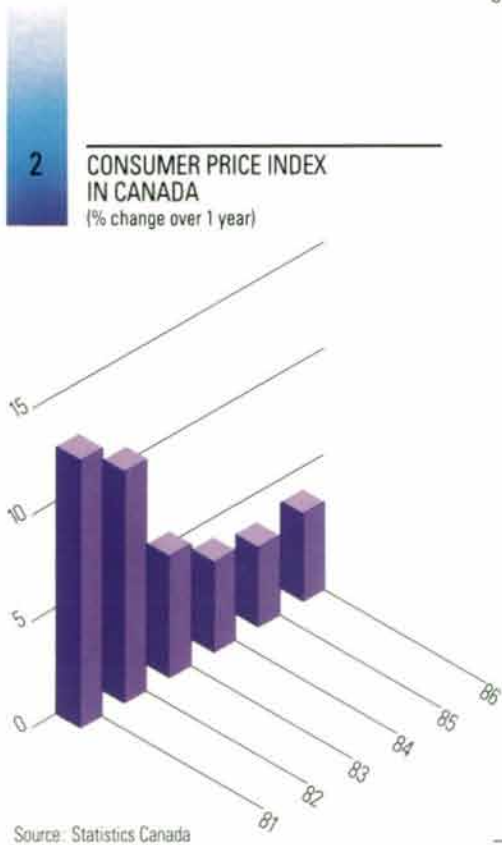
The drop in corporate profits and world oil prices resulted in reduced corporate investments. Non-residential construction, where most energy investments are concentrated, was the most adversely affected sector.

The decrease in the \$17.5 billion trade surplus for 1985 to \$9.6 billion in 1986 caused a deficit in the current account of over \$8 billion for the year.

This poor trade performance, Canada's disappointing inflation performance relative to the U.S., as well as lower prices for oil and other raw materials, led to a widening of interest rate spreads between Canadian and U.S. securities when monetary authorities attempted to stabilize the Canadian/U.S. dollar exchange rate.

Nevertheless, Canadian interest rates dropped in 1986, although not as much as in the U.S., and not sufficiently to offset the restrictive impact of fiscal policy, slower export growth and falling oil and grain prices.

Efforts to reduce the federal government deficit were successful, as a drop of over \$5 billion was recorded on a national accounts basis. However, uneven growth in the country's various regions required the adoption of short-term measures to reduce the impact of difficult economic conditions. Consequently, the deficit problem will only be resolved gradually.



## The Québec Economy



Québec's economic performance in 1986 was strong for a fourth consecutive year. Real gross domestic product growth was estimated at between 3.5% and 3.9%, only marginally lower than that of 1985.

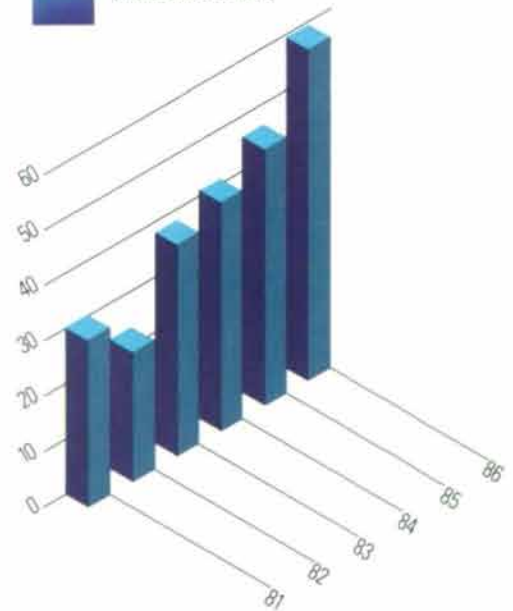
Residential construction continued to increase owing to the slight drop in interest rates. Housing starts reached 60,000 units, for the highest level since 1976.

In contrast with developments in some other regions of Canada, employment and investment in Québec were not directly influenced by the drop in world oil prices. As in Ontario, Québec has a diversified industrial structure and benefited from continued growth of manufacturing sector investments. Statistics Canada's mid-year report on investment intentions revealed that manufacturing sector investments rose by 17% in current dollars.

Employment increased by 2.2%, bringing the unemployment rate at year-end down to 10.4%, compared to 11.7% a year earlier. Weekly salaries increased by an average of 2.5%. Although these increases were not as high as in 1985, disposable income grew sufficiently to maintain consumer confidence, resulting in a sustained rise of consumer spending.

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### HOUSING STARTS IN QUÉBEC (in thousands of units)

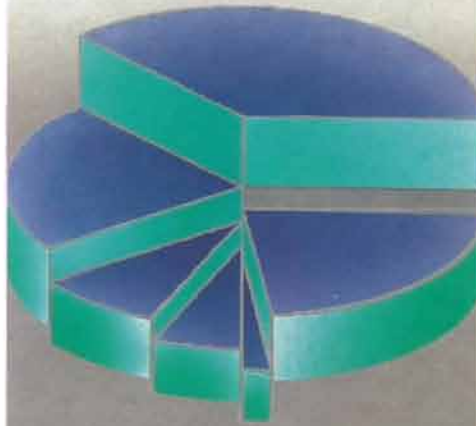


Source: Statistics Canada

## Asset Mix



The Caisse de dépôt et placement du Québec's assets have now reached \$25 billion at book value. The weighting of these assets between variable income securities (shares, convertible securities and real estate investments) and fixed income securities (bonds, mortgages and short-term investments) is an important factor which affects the yield of portfolios managed by the Caisse. Seeking the best balance possible between the various types of financial assets, based on economic scenarios, plays an essential role in creating synergy. It helps in comparing yield and risk as well as in choosing a portfolio structure that can adequately meet the depositors' actuarial requirements and the Caisse's objectives.



Since 1980, the proportion of variable income securities within total assets under management has increased significantly, rising from 11.9% at the end of 1979 to 28.1% in 1986. Over the past few years, the Caisse's interest in foreign securities has grown. This policy meets the objective of making the portfolio structure more comparable to that of North American public pension fund portfolios, and consequently of reducing the overall risk through a greater diversification of the various financial vehicles available.

The evolution of the breakdown of these various types of investments reflects the Caisse's preoccupation with ensuring that its depositors receive a long-term optimal return above inflation, through active management.

## RETURN

Table 5 shows the internal rate of return obtained for the General Fund and for total Individual Funds. It also indicates the time-weighted rate of return for each type of investment, which helps evaluate the fund manager's contribution to the growth of funds. This does not take into account the timing variable for deposit receipts over which the fund manager has no influence.

## 5

## RETURN

(at market value - in percentage)

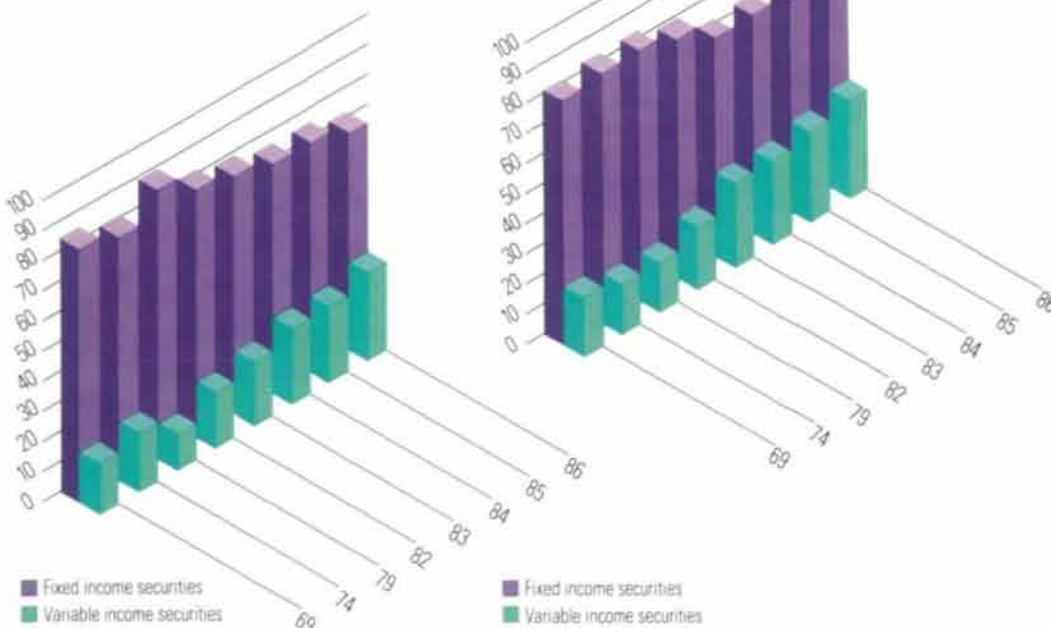
|                                | 1986 | Compound average annual rate for the period |                     |
|--------------------------------|------|---|---------------------|
|                                |      | 1983-1986 (4 years)                         | 1979-1986 (8 years) |
| <b>INTERNAL RATE OF RETURN</b> |      |   |                     |
| Total depositors' holdings     | 13.5 | 16.0  | 14.2                |
| General Fund                   | 14.2 | 16.3  | 14.2                |
| Individual Funds               | 12.1 | 15.5  | 14.1                |
| <b>WEIGHTED RATE OF RETURN</b> |      |   |                     |
| Financial assets               |      |   |                     |
| Bonds                          | 14.1 | 16.8  | 13.5                |
| Mortgages                      | 12.7 | 14.8  | 12.6                |
| Canadian equities              | 11.2 | 16.5  | 15.5                |
| Foreign equities               | 32.9 | -   | -                   |
| Real estate investments        | 15.5 | 15.8  | -                   |

## 6

## EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT as at December 31

(at book value - in percentage)

(at market value - in percentage)



## GROWTH OF MAJOR WORLD STOCK MARKET INDICES

(in local currencies, excluding dividends - in percentage)

| Indices                              | Location      | 1986  | 1982-1986 |
|--------------------------------------|---------------|-------|-----------|
| XXM                                  | Montréal      | 3.5   | 88.83     |
| Standard & Poors' 500                | United States | 14.61 | 102.63    |
| CommerzBank                          | Germany       | 4.89  | 203.84    |
| F.T. Industrials                     | England       | 18.86 | 123.45    |
| Nikkei Dow Jones                     | Japan         | 42.61 | 162.52    |
| Morgan Stanley Capital International | World*        | 39.09 | 168.41    |

\*in US \$

### INTERNAL RETURN

The Caisse obtained a 13.5% internal rate of return for total funds under its management in 1986. The General Fund earned a 14.2% return versus 12.1% for total Individual Funds. This return differential is due to the greater proportion of bonds and mortgage loans receivable held in the General Fund, which have yielded a better return than Canadian equities. It is obvious that the deflation cycle characterizing the current period favoured bond investments. However, the distinction is almost unnoticeable for the average for the last eight years, the return differential being 0.1%.

### TIME-WEIGHTED RETURN

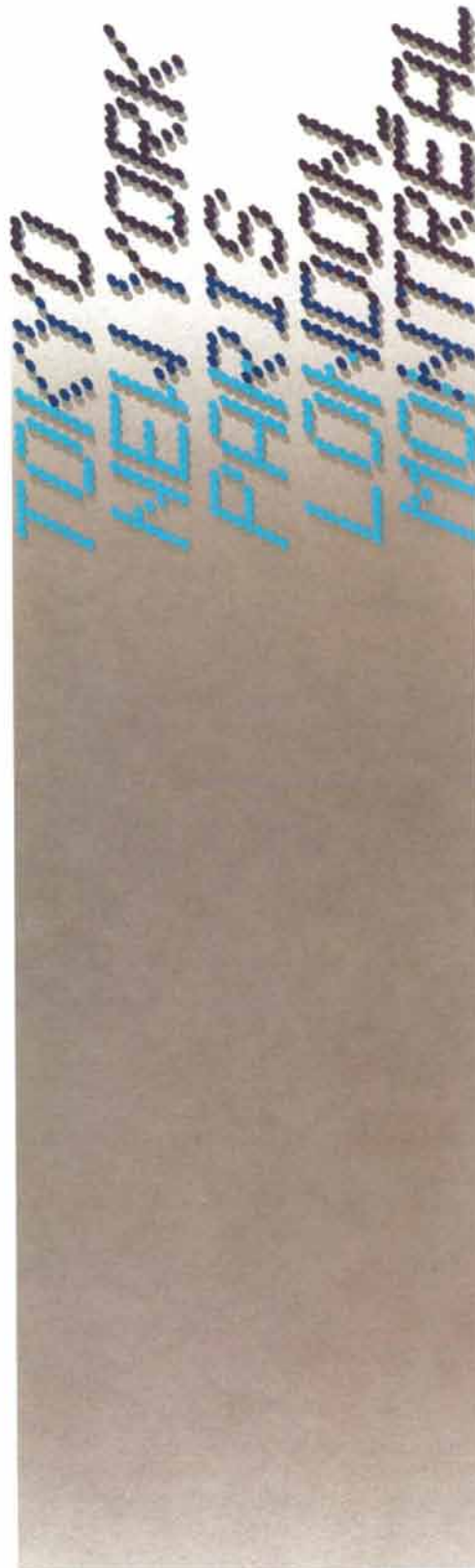
In 1986, the Caisse's portfolio managers obtained better returns than all the various comparable financial market indices. The bond portfolio yielded 14.1%, which compares favourably with the 12.3% return of the McLeod, Young, Weir (MYW) medium-term index. The Caisse's solid performance is partly due to the volume and high quality of U.S. Treasury bills traded which performed better than those of the Canadian market. Moreover, for the four-year period ended in 1986, the average bond yield was 16.8%, versus 14.8% for the MYW index. Mortgage rates were much more stable than bond rates and the residential, commercial and industrial mortgage portfolio recorded a 12.7% return, compared to 10.9% for the MYW mortgage index.

Canadian equity investments yielded 11.2%, exceeding the TSE 300 index by 2.2%.

The proportion of foreign equity investments was increased considerably, resulting in a 32.9% rate of return.

Finally, the return on the specialized real estate investments portfolio was 15.5% for the year.

## Variable Income Securities



TOKYO  
NEW YORK  
PARIS  
LONDON  
MONTREAL

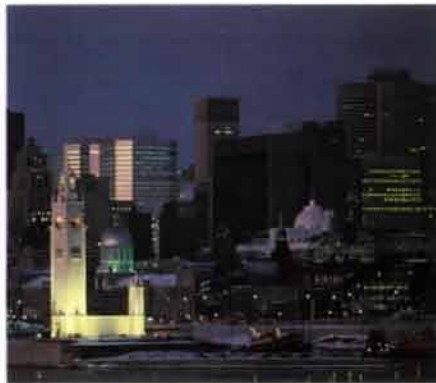
### SITUATION

As in 1985, major world stock markets moved in the opposite direction to long-term interest rates. These fell abruptly during the first four months of 1986 and reached a relatively stable level afterwards. Stock markets then progressed well in general while interest rates declined, but the peak levels reached during the spring only reappeared at the very end of the year when interest rates began dropping again.

In the light of weak corporate earnings resulting from poor economic growth and a very low rate of inflation, the capitalization rate constituted the principal driving force of the stock markets. Only the Japanese stock market maintained a strong pace throughout the year, influenced by the large availability of funds in that country.

Canadian stock markets performed below major world stock market indices. The drop in energy prices adversely affected not only oil and gas company shares but those of numerous Canadian businesses in sectors directly or indirectly related to the energy sector. Investors lost interest in bank, pipeline, uranium and coal sector shares. Utilities also suffered due to lower returns as a result of falling interest rates. Heavy industries and mining enterprises were affected as well, reflecting sluggish economic activity and world production overcapacity.

Furthermore, golds, forest and consumer products, as well as services, all exceeded general stock indices. Companies operating in these sectors benefited from the relative strength of consumer spending and the drop of the U.S. dollar against the other major currencies.



## RETURN

In 1986, the Caisse's Canadian equities portfolio yielded a total return of 11.2% including dividends, compared to 9% for the TSE 300 index. The foreign equities portfolio recorded an overall return of 32.9%, owing to the strength of foreign markets and the devaluation of the Canadian dollar against Japanese and European currencies.

Over the last eight years, Canadian equity investments provided a 15.5% total annual return, as opposed to 15.7% for the TSE 300.

For the period from 1968 to 1986, the portfolio's annualized return was 12.5%, compared to 11% for the TSE 300.

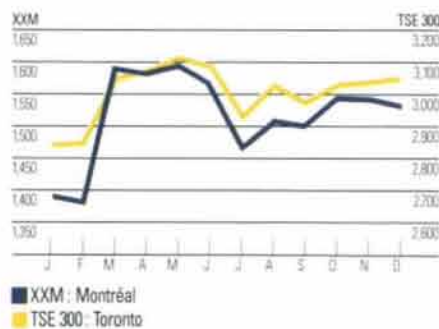
## CANADIAN EQUITIES

The market value of the Caisse's Canadian equities portfolio totalled \$7.5 billion at the end of 1986, for an increase of \$1 billion over the previous year.

The structure of this portfolio continued to favour the less cyclical sectors of the economy throughout the year. New investments were concentrated in the financial services, utilities, consumer products and services sectors rather than the natural resources and heavy industries sectors.

8

### XXM AND TSE 300 INDICES IN 1986





## BREAKDOWN OF FOREIGN INVESTMENTS as at December 31, 1986 (at market value - in percentage)



|                 |      |
|-----------------|------|
| ■ Europe        | 35.8 |
| ■ United States | 38.1 |
| ■ Asia          | 26.1 |

### FOREIGN EQUITIES

The need to optimize return versus risk along with the internationalization of stock markets and activities of Canadian corporations have led the Caisse to make a portion of its investments in foreign markets. At the end of 1986, foreign equities reached \$1,022 million at market value, as opposed to \$410 million and \$148 million at the end of the two preceding years. The geographic distribution of the portfolio was as follows: \$392.7 million in the United States, \$256 million in Asia and \$373.3 million in Europe. For European countries, the breakdown of stock market investments for the overall portfolio was 8.8% in Germany, 8.6% in England, 4.8% in Switzerland, 3.5% in France and 2% in Holland and Italy.

The synergy between the Caisse's foreign and Canadian investments is becoming increasingly important both in terms of quality and total return. Portfolio managers and analysts have access to more diversified information, permitting a much more comprehensive analysis of economic, industrial and financial variables.



#### CORPORATE INVESTMENTS

Over the past few years, the Caisse has been pursuing its efforts to invest in the share capital of Canadian and Québec enterprises. Corporate investments are investments through which the Caisse acquires an important ownership interest in the common shares of a large or medium-sized business, without however exceeding 30%.

These investments, which are generally concluded in association with private groups and with the support of corporate management teams, are particularly aimed at meeting the dual objective of the Caisse's mandate which is to provide an optimal financial return while ensuring substantial, positive economic repercussions. At the end of 1986, corporate investments included some \$1.5 billion invested in large businesses, \$125 million in Québec medium-sized businesses, \$35 million in venture capital and \$15 million in international corporate investments.

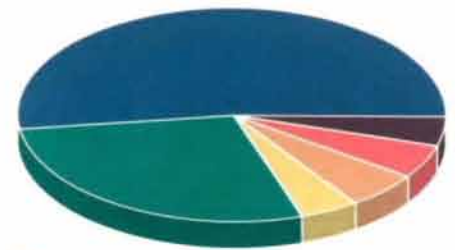
Several important transactions have been made throughout the year, including the sale of the Caisse's interest in Canron to Ivaco and of a portion of its interest in Noverco to a new holding company set up by Canam Manac and Unigesco.

Auberges des Gouverneurs Inc. was listed on the Montréal Exchange in December following a first public share offering. This achievement crowns the turnaround effort undertaken by the Caisse in 1982 in cooperation with its partners: National Bank of Canada, Assurance-vie Desjardins, Trust Général du Canada as well as a new management team.

The Caisse also made sizeable investments in Cascades, CDC Life Sciences, Memotec Data and Onex Capital, to name just a few.

## BREAKDOWN OF REAL ESTATE INVESTMENTS

as at December 31, 1986  
(at market value - in percentage)



|                  |      |
|------------------|------|
| Office buildings | 53.1 |
| Commercial       | 27.8 |
| Residential      | 5.0  |
| Industrial       | 5.5  |
| Hotels           | 4.8  |
| Undeveloped land | 3.8  |

### MEDIUM-SIZED BUSINESSES

In an environment where an increasingly large number of participants are involved in funding the development requirements of medium-sized businesses, which are either listing their shares or whose shares are now eligible under the Québec Stock Savings Plan, the Caisse was able to increase the number of its corporate investments in this dynamic sector of the economy. Private investment remains an interesting complement to public financing, whether it is made before, during or after the listing of a company's shares on the stock exchange.

The Caisse made approximately 15 new investments in sectors such as packaging, plastics, financial services, construction and printing as well as distribution and industrial processing.

In addition to this share portfolio of a market value of over \$125 million at the end of 1986, the Caisse granted some \$100 million in loans.

The securities of several companies or subsidiaries of companies included in the Caisse's portfolio, such as Auto Point, Bois Franc Royal and National Pagette, were listed on the stock exchange in 1986.

It is worth noting that the Caisse strives to encourage the development of Québec medium-sized businesses by injecting capital to enable these enterprises to undertake major capital expenditure projects, acquisitions or to consolidate their operations without compromising their viability because of an excessively high level of debt.

The Caisse has a team of approximately ten employees specialized in investments in medium-sized businesses, serving Québec entrepreneurs who are seeking financing for their enterprises' development.

### VENTURE CAPITAL AND THE INTERNATIONAL SECTOR

The competitive and constantly changing capital market has led the Caisse to devote more attention to two investment sectors: venture capital and international corporate investments.

In the first sector, the Caisse participated in setting up three new venture capital companies to finance enterprises that are relatively new or have potential for exceptionally rapid development and whose level of risk appears high.

Through its international corporate investments, the Caisse intends to contribute to the international development of Québec enterprises and support the setting-up of international groups in Québec.

## REAL ESTATE INVESTMENTS

During the year, the Caisse acquired major interests in three well-known Montréal buildings: Westmount Square, 1200 McGill College and the Stock Exchange building (Victoria Square). Through its subsidiary, Société Immobilière Trans-Québec, it also acquired interests in shopping centers in Port-Cartier, Sainte-Anne-de-Beaupré, Saint-Raymond-de-Portneuf and Saint-Georges-de-Beauce as well as an office building in Québec City.

In 1986, the Caisse also took part in several real estate development projects in association with renowned developers and partners. These include Place Montréal Trust, located in downtown Montréal, and a major residential project on Nun's Island in the city of Verdun.

Furthermore, Société Immobilière Trans-Québec has set up a portfolio with a view to acquiring real estate valued at \$5 million or less. To maintain a healthy geographic distribution of its investments and favour the acquisition of medium-sized real estate, the Caisse became associated in this project with two Québec pension funds.

As at December 31, 1986, the Caisse's real estate investments were up 35%, aggregating \$420 million versus \$311 million for the previous year and their market value was estimated at over \$531 million. A 15.5% return was recorded for this portfolio, including 8% in terms of current yield and a 7.5% increase in value.

At the end of the year, the breakdown of real estate investments among the various sectors was as follows: office buildings 53.1%, commercial 27.8%, residential 5%, industrial 5.5%, hotels 4.8% and undeveloped land 3.8%.

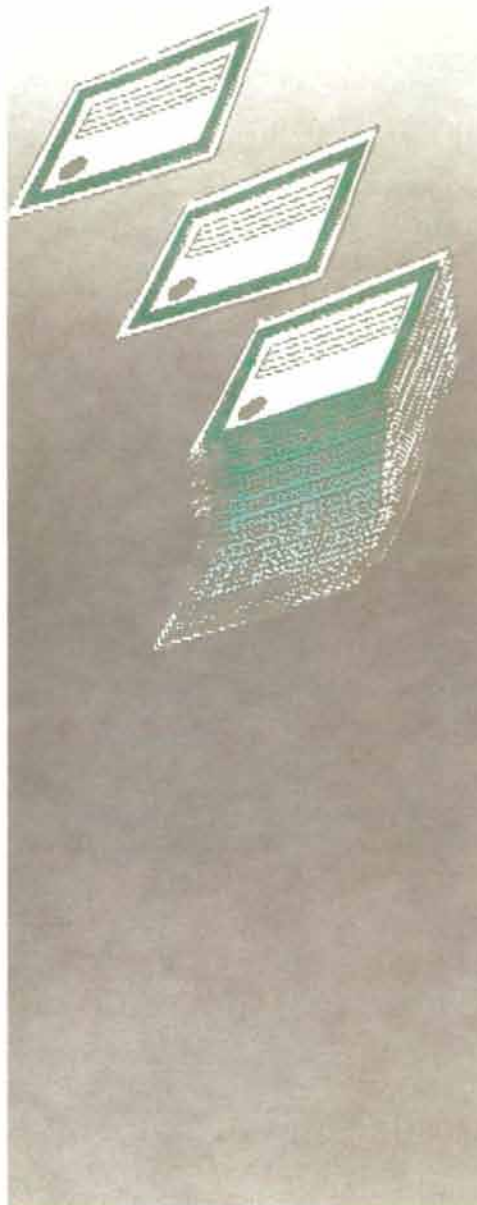


## Fixed Income Securities



### SITUATION

In 1986, falling world energy prices led to a lower rate of inflation in Canada as well as in other industrialized countries. Consequently, concerns about inflation, on which interest rates greatly depend, were substantially appeased, resulting in a significant drop in interest rates at the beginning of the year. In three months, the yield on gouvernement du Québec long-term bonds fell by more than 100 basis points. Standing at 10.6% in January, the yield on these securities dropped to 9.35% in April. Since then, long-term interest rates have not recorded any major fluctuation. A slow correction process for economic aggregates slackened the increase in production to 3%. Major adjustments are required to achieve a new trade balance on world markets. Although monetary policies were expansionary, they exerted very little influence on long-term interest rates, which remained subject to uncertain world energy and resources prices.



### BOND INVESTMENTS

The Caisse's annual investment program focuses on provincial bond issues and other Québec public sector issues. The Institution also contributes to maintaining an orderly secondary market for securities issued and guaranteed by these issuers. The bond portfolio's profitability depends, first, on the ability to maintain a medium-term duration as an overall average and, second, on the sound and consistent management of high liquidity securities.

The increasing internationalization of bond markets, as a result of the establishment of world distribution networks, influenced the Canadian bond market during the year, which actively joined the internationalization movement in 1986.

These developments, as well as the wide range of new investment vehicles and the accessibility of new markets, have required major adjustments as far as portfolio management is concerned. These changes were particularly evident in terms of optimizing the return on investment and controlling risks such as the volatility of interest rates, foreign exchange risks and credit risks.

The Caisse closely monitored these new developments, and consequently became more involved in the trading of securities issued by Québec bodies on foreign markets, either at the time of the initial issuance of these securities or upon their sale. The Caisse was also very active on the U.S. government bond market, as it pursues a strategy whereby, as has already been stated, it strives to acquire very high liquidity securities on a temporary basis of up to 15% of fixed income investments, in order to protect the overall bond portfolio. At the end of 1986, those securities, consisting mostly of bonds issued by the Canadian and U.S. governments, reached 14.8% of total fixed income investments, as indicated in Table 11.

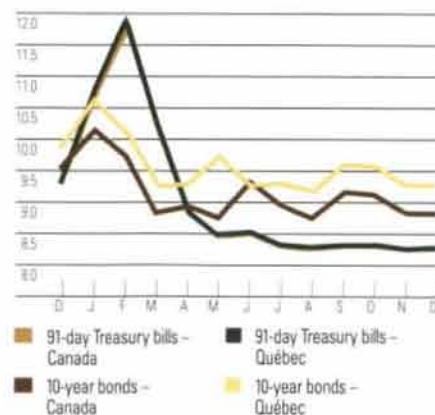
### 11 SUMMARY OF FIXED INCOME SECURITIES PORTFOLIOS ACCORDING TO ISSUERS as at December 31, 1986

| SECURITIES                           | At market value          |              | Average nominal rate (%) | Average maturity (years) | Modified duration (volatility) |
|--------------------------------------|--------------------------|--------------|--------------------------|--------------------------|--------------------------------|
|                                      | (in millions of dollars) | (%)          |                          |                          |                                |
| <b>Permanent investment basis</b>    |                          |              |                          |                          |                                |
| Issued by the gouvernement du Québec | 8,344.4                  | 48.4         | 11.30                    | 9.95                     | 5.62                           |
| Government guaranteed                | 2,663.4                  | 15.4         | 10.67                    | 9.86                     | 5.54                           |
| Guaranteed by grants                 | 1,068.4                  | 6.2          | 11.65                    | 6.33                     | 4.22                           |
| Municipalities and school boards     | 841.5                    | 4.9          | 10.75                    | 5.10                     | 3.52                           |
| Corporate and other                  | 237.9                    | 1.4          | 11.49                    | 5.47                     | 3.57                           |
| Mortgages                            | 1,524.2                  | 8.9          | 11.16                    | 4.84                     | 2.67                           |
| <b>Temporary investment basis</b>    |                          |              |                          |                          |                                |
| Government issued or guaranteed      |                          |              |                          |                          |                                |
| Canada                               | 980.0                    | 5.7          | 9.77                     | 4.91                     | 3.65                           |
| United States                        | 1,332.8                  | 7.7          | 6.54                     | 5.11                     | 3.61                           |
| Others                               | 235.7                    | 1.4          | 9.78                     | 6.77                     | 3.99                           |
| <b>Total</b>                         | <b>17,228.3</b>          | <b>100.0</b> | <b>10.69</b>             | <b>8.21</b>              | <b>4.82</b>                    |

### 12 SUMMARY OF ACQUISITIONS OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC AND QUÉBEC PUBLIC SECTOR IN 1986 (at par value - in millions of dollars)

|   | Amounts of issues |               |          | Acquisitions by the Caisse |                      |               |
|---|-------------------|---------------|----------|----------------------------|----------------------|---------------|
|   | Canadian market   | Other markets | Total    | Canadian market            | % of Canadian market | Other markets |
| <b>GOUVERNEMENT DU QUÉBEC</b>                         |                   |               |          |                            |                      |               |
| Regular issue   | 1,712.0           | 1,239.4       | 2,951.4  |                            |                      |               |
| Refunding   | -                 | 1,213.3       | 1,213.3  |                            |                      |               |
|   | 1,712.0           | 2,452.7       | 4,164.7  | 825.0                      | 48.19                |               |
| <b>HYDRO-QUÉBEC AND OTHER GOVERNMENT CORPORATIONS</b> |                   |               |          |                            |                      |               |
| Regular issue   | 1,151.9           | 638.9         | 1,790.8  |                            |                      |               |
| Refunding   | 621.5             | 1,634.6       | 2,256.1  |                            |                      |               |
|   | 1,773.4           | 2,273.5       | 4,046.9  | 120.0                      | 6.77                 | 13.9          |
| <b>MUNICIPALITIES AND GUARANTEED BY GRANTS</b>        |                   |               |          |                            |                      |               |
| Regular issue   | 1,729.4           | 442.3         | 2,171.7  | 222.4                      | 12.86                | -             |
|   | 5,214.8           | 5,168.5       | 10,383.3 | 1,167.4                    | 22.39                | 13.9          |

### 13 EVOLUTION OF YIELD IN 1986 (in percentage)



Source: Bank of Canada and C.D.P.Q.



Bond purchases from the gouvernement du Québec, Hydro-Québec and other government corporations on the primary market aggregated \$959 million. Acquisitions of new issues by municipalities and guaranteed by grants totalled \$222 million.

As at December 31, 1986, the market value of bond investments in the Caisse's portfolio was \$15.7 billion – an increase of \$1.2 billion over 1985 – while the average maturity was 8.6 years, the average coupon was 10.67% and the modified duration was 5 years.

Total bond investments provided a 14.1% rate of return for 1986, while the MYW medium-term index only reached 12.3%.

#### MORTGAGE INVESTMENTS

Following the temporary increase in interest rates during the first half of 1986, mortgage rates reached and maintained the lowest level in almost one decade.

Affordable housing prices and strong consumer confidence were favourable to house sales. Confidence was also high in the business sector and users of commercial and industrial space, as well as investors, reacted positively to the economic climate. The financing of existing properties, especially of commercial and multiple-dwelling buildings, was very active. This vigour ensued from low interest rates which resulted in increased property values, making it easier to sell or refinance properties for higher amounts.

Furthermore, as the memory faded of the deplorable economic situation of 1981-1983, Québec institutional investors started to become more active. As a result, the construction and financing of commercial properties picked up during the year.

Residential borrowers favoured short-term rates when choosing their loan maturities. Also, loan renewal operations became a greater preoccupation for lenders. The more acceptable level of mortgage rates, however, led commercial borrowers to seek longer borrowing terms and loan maturities in order to better match their financing with the leases negotiated.

All of the above factors contributed to intense activity for mortgage lenders and fierce competition regarding interest rates and loan amounts. As in 1985, this phenomenon was accentuated by the large availability of funds for this market.

The Caisse's mortgage operations achieved a record high in 1986, with mortgage loans for a total amount of \$425 million, divided among the residential, commercial and industrial sectors. Loan conditions are competitive with the various markets. The Caisse also favours new construction projects and makes sure its loans are available throughout Québec.

A major portion of mortgage investments was made through four representatives: Fiducie Prêt et Revenu, Fiducie du Québec, Trust Général du Canada and Sherbrooke Trust. With their business network and various branches, these trust companies are better placed to serve the residential market.

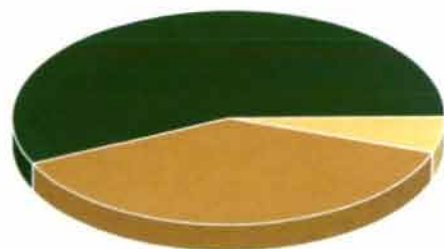
The Caisse's mortgage investments portfolio amounted to \$1.5 billion at market value at year-end. The breakdown was as follows: residential sector, 57%, commercial sector, 37.6% and industrial sector, 5.4%.

Also, as at December 31, 1986, the average interest rate of mortgage loans was 11.2%, while the average maturity was 4.8 years. During the year, the Caisse's total mortgage investments yielded a 12.7% return, compared to 10.9% for the MYW mortgage index.

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#### BREAKDOWN OF MORTGAGE INVESTMENTS

as at December 31, 1986  
(at market value – in percentage)



|             |      |
|-------------|------|
| Residential | 57.0 |
| Commercial  | 37.6 |
| Industrial  | 5.4  |



## MONEY MARKET INVESTMENTS

Interest rate movements on the Canadian money market were characterized by a strong upward trend during the first quarter of 1986. The bank rate set by the Bank of Canada peaked at 12.1%. It then dropped as low as 8.43% during the second quarter and, fluctuating moderately, it remained at approximately that level during the second half of the year.

The federal government's large budget deficit as well as falling oil prices resulted in active speculation on our currency in the early part of the year, forcing monetary authorities to react strongly by radically tightening their monetary policy. As a result, interest rates rose rapidly, and spreads between Canadian and U.S. rates were greatly widened, increasing by more than 450 centesimal points at the time of the auction of three-month Treasury bills. Although these spreads were reduced following the general decline of interest rates in Canada and the United States, they still remained relatively large, mainly as a result of the higher rate of inflation in Canada.

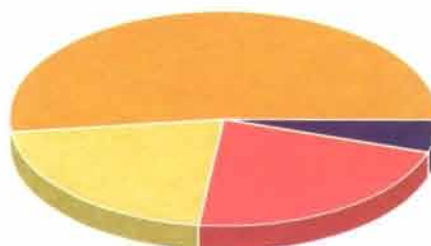
The Caisse has a large proportion of Québec and Canada Treasury bills as high quality securities in its overall money market investments portfolio. The large number of short-term securities issued by the gouvernement du Québec and the Canadian government strongly squeezed interest rate spreads for private sector securities. Also, the credit demand was rather limited in the private sector.

During the year, the Caisse devoted more attention to its money market investments to attempt to intensify its operations on the Montréal market and optimize the return, while maintaining a good balance between the liquidity and quality of these investments.

As at December 31, 1986, total short-term investments reached \$1.4 billion, which represents 5.6% of the Caisse's overall assets, against 8% at the end of 1985. The average weighted rate of return for all portfolios totalled 8.1%, while the average maturity was 88 days.

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**BREAKDOWN OF SHORT-TERM INVESTMENTS**  
as at December 31, 1986  
(at par value - in percentage)



|                   |    |
|-------------------|----|
| Treasury bills    | 52 |
| Commercial papers | 22 |
| Bank papers       | 21 |
| Other             | 5  |



## Depositors



As at December 31, 1986, the market value of total depositors' holdings with the Caisse reached \$27.9 billion, for an increase of \$2.9 billion during the year. The book value of these holdings totalled \$24.9 billion, up \$2.6 billion over 1985. On the whole, this increase is due to the reinvestment of 86.5% of the \$3 billion in income. However, net disbursements of \$415 million were recorded. Despite the net contributions of \$321 million made by some depositors, the effect of withdrawals of \$736 million made by others, including \$556 million by the Régie des rentes du Québec alone, was not completely offset.

The Caisse de dépôt et placement du Québec manages the funds it is entrusted with by various public pension funds and insurance plans applying to more than 3.7 million Quebecers, by virtue of various legislation adopted by the Assemblée nationale.



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

The Caisse has nine Funds: the General Fund and eight Individual Funds. The General Fund is a pooled fund which includes several depositors, while each Individual Fund has only one. Of its eleven depositors, seven accumulate reserves to meet future commitments and the other four entrust the Caisse with liquid assets.

During the year, the Caisse met periodically with its depositors in order to be better informed of their needs for liquid assets and to update them on results obtained. The investment policy pursued thus takes into account the particular aspects of the various depositors' plans, according to the Caisse's mandate to achieve profitability and encourage Québec's economic development.



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**BREAKDOWN OF THE FUNDS' ASSETS ACCORDING TO TYPE OF INVESTMENT**  
 as at December 31, 1986  
 (in millions of dollars)

|                                   | General Fund <sup>1</sup> | Individual Funds | At book value   |              | Net change     | At market value |       |
|-----------------------------------|---------------------------|------------------|-----------------|--------------|----------------|-----------------|-------|
|                                   |                           |                  | Total           | % of total   |                | Total           | Total |
| <b>INVESTMENTS</b>                |                           |                  |                 |              |                |                 |       |
| Bonds                             | 10,430.8                  | 4,293.6          | 14,724.4        | 58.9         | 1,050.9        | 15,704.1        |       |
| Mortgages                         | 532.0                     | 973.8            | 1,505.8         | 6.0          | 247.3          | 1,524.2         |       |
| Shares and convertible securities | 3,305.5                   | 3,236.3          | 6,541.8         | 26.2         | 1,517.0        | 8,469.2         |       |
| Real estate investments           | 200.1                     | 147.7            | 347.8           | 1.4          | 32.2           | 429.6           |       |
| Short-term investments            | 892.8                     | 456.4            | 1,349.2         | 5.4          | (251.5)        | 1,349.5         |       |
| Deposits in the General Fund      | —                         | 52.1             | 52.1            | 0.2          | (142.6)        | 52.1            |       |
|                                   | 15,361.2                  | 9,159.9          | 24,521.1        | 98.1         | 2,453.3        | 27,528.7        |       |
| Other assets                      | 325.5                     | 147.4            | 472.9           | 1.9          | 38.8           | 472.9           |       |
| <b>1986</b>                       | <b>15,686.7</b>           | <b>9,307.3</b>   | <b>24,994.0</b> | <b>100.0</b> | <b>2,492.1</b> | <b>28,001.6</b> |       |
| 1985                              | 14,308.0                  | 8,193.9          | 22,501.9        | 100.0        | 2,341.0        | 25,203.3        |       |
| Net change                        | 1,378.7                   | 1,113.4          | 2,492.1         | —            | —              | 2,798.3         |       |

<sup>1</sup>In this table, the assets of the General Fund have been reduced by total demand deposits of the Individual Funds and accrued interest thereon.

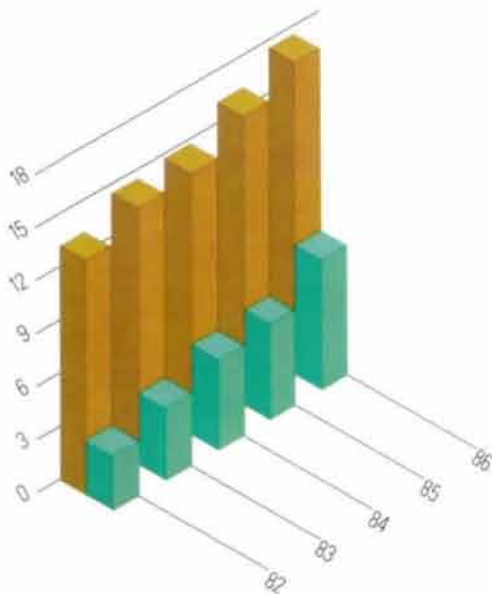
**GENERAL FUND**

The principal depositor to the Caisse's General Fund is the Régie des rentes du Québec, which ensures the administration of the universal pension plan for Quebecers created in 1965.

Despite an increase in its holdings of almost \$936 million at book value during the year, the Régie des rentes du Québec had to meet current requirements by withdrawing \$556 million from some \$1.5 billion in income. In the previous year, \$549 million was withdrawn. At year-end, the Régie des rentes du Québec's holdings deposited with the Caisse, standing at \$13.5 billion at market value, accounted for 48.5% of total depositors' holdings. An increase in contributions of 0.2% per annum for the next five years came into effect in January 1987; consequently, contributions for 1987 rose from 3.6% to 3.8% of contributory earnings. This increase will slow down the rate of withdrawals expected to be made by the Régie des rentes du Québec during future years.

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



■ Fixed income securities  
(bonds, mortgages, deposits and short-term investments)

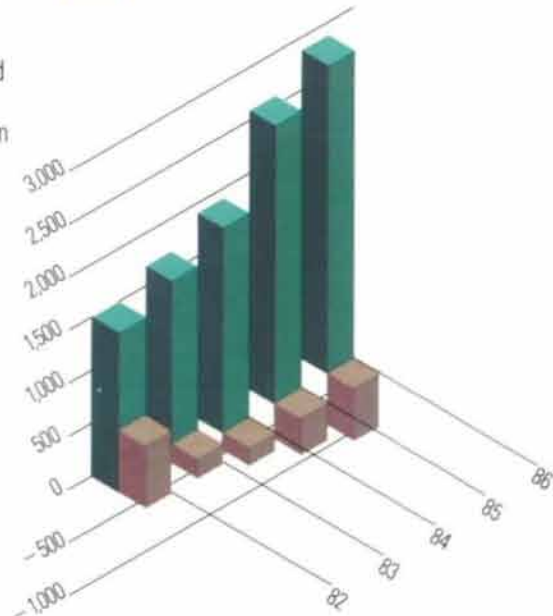
■ Variable income securities  
(shares, convertible securities, real estate investments)

The Régie de l'assurance automobile du Québec, formed in 1977, is the second largest depositor to the General Fund. It administers the general plan which provides insurance against bodily harm resulting from traffic accidents. Contributions are levied yearly for benefits to be paid out to victims. As provided by law, the Régie must entrust the funds received from insured participants to the Caisse. As at December 31, 1986, the Régie de l'assurance automobile du Québec's holdings reached \$3.8 billion at market value, or \$3.4 billion at book value, for an increase of \$499 million over the previous year. This increase is due to income of \$409 million and \$90 million in new contributions. The plan represents 13.7% of total depositors' holdings with the Caisse and 22% of the General Fund at market value.

Among the unitholders in the General Fund is the Fonds d'assurance-prêts agricoles et forestiers (FAPAF) which maintains a minimum \$10 million reserve as security for the loans it grants.

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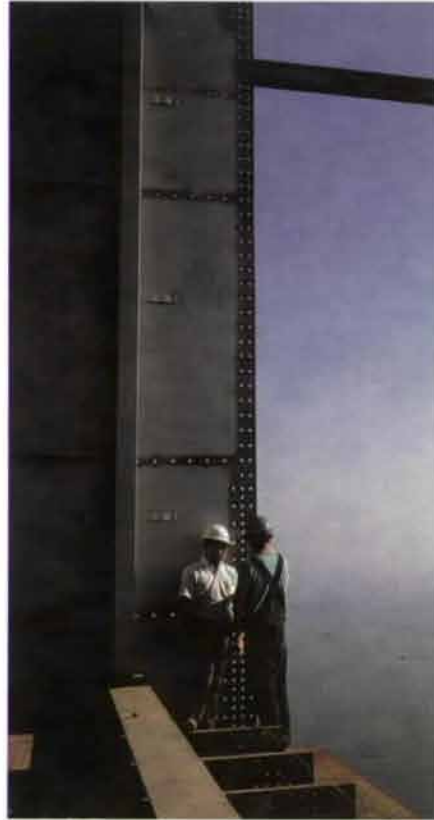
### DISTRIBUTION OF TOTAL DEPOSITORS' NET INCOME AND CONTRIBUTIONS (in millions of dollars)



■ Net contributions  
(deposits less withdrawals)

■ Net income  
(investment income less administrative expenses)

## 19 DEPOSITORS



### INDIVIDUAL FUNDS

The Government and Public Employees Retirement Plan (RREGOP) was set up in 1973 for public sector employees including civil servants as well as employees of the education and social affairs sectors. It is managed by the Commission administrative des régimes de retraite et d'assurances (CARRA). Since its creation, the plan has accumulated \$5.5 billion, representing 21.9% of the total holdings of the Caisse's depositors and making the RREGOP the second largest depositor with the Caisse. At market value, this amounts to \$6.3 billion or 22.7% of depositors' holdings. During 1986, the plan's assets increased by \$836 million, of which \$230 million arose from new contributions and the balance from reinvested income. The plan features two accounts: one for unionized employees and another for non-unionized employees, and the respective holdings of these accounts are included in Individual Funds 301 and 302.

|   | Abbreviation    | First deposit | Number of contributors <sup>1</sup> | Depositors' holdings <sup>2</sup> |
|---|-----------------|---------------|-------------------------------------|-----------------------------------|
| Régie des rentes du Québec  | RRQ             | 1966          | 2,840,000                           | 13,557.6                          |
| Commission administrative des régimes de retraite et d'assurances<br>Government and Public Employees<br>Retirement Plan | CARRA<br>RREGOP | 1973          | 295,000                             | 6,286.0                           |
| General Retirement Plan for Mayors and<br>Councillors of Municipalities   |                 | 1975          | 680                                 | 19.0                              |
| Individual plans  |                 | 1977          | 140                                 | 27.4                              |
| Régie de l'assurance automobile du Québec   | RAAQ            | 1978          | 3,700,000                           | 3,842.9                           |
| Commission de la santé et de la sécurité du travail   | CSST            | 1973          | 157,500                             | 2,287.3                           |
| Office de la construction du Québec<br>Supplemental Pension Plan for Employees of the<br>Québec Construction Industry   | OCO             | 1970          | 89,000                              | 1,914.8                           |
| Fonds d'assurance-prêts agricoles et forestiers   | FAPAF           | 1978          | 1,471                               | 11.3                              |
| Régie des assurances agricoles du Québec  |                 | 1968          | 39,000                              | 0.7                               |
| Régie des marchés agricoles du Québec   |                 | 1967          | 66                                  | 1.2                               |
| Régie de l'assurance-dépôts du Québec   |                 | 1969          | 1,432                               | —                                 |

<sup>1</sup>estimate

<sup>2</sup>as at December 31, 1986 – at market value – in millions of dollars



CARRA also administers the General Retirement Plan for Mayors and Councillors of Municipalities whose assets of \$19 million at market value are invested in Individual Fund 304. In addition, several Individual plans are included in Individual Fund 303 with assets totalling \$27.4 million.

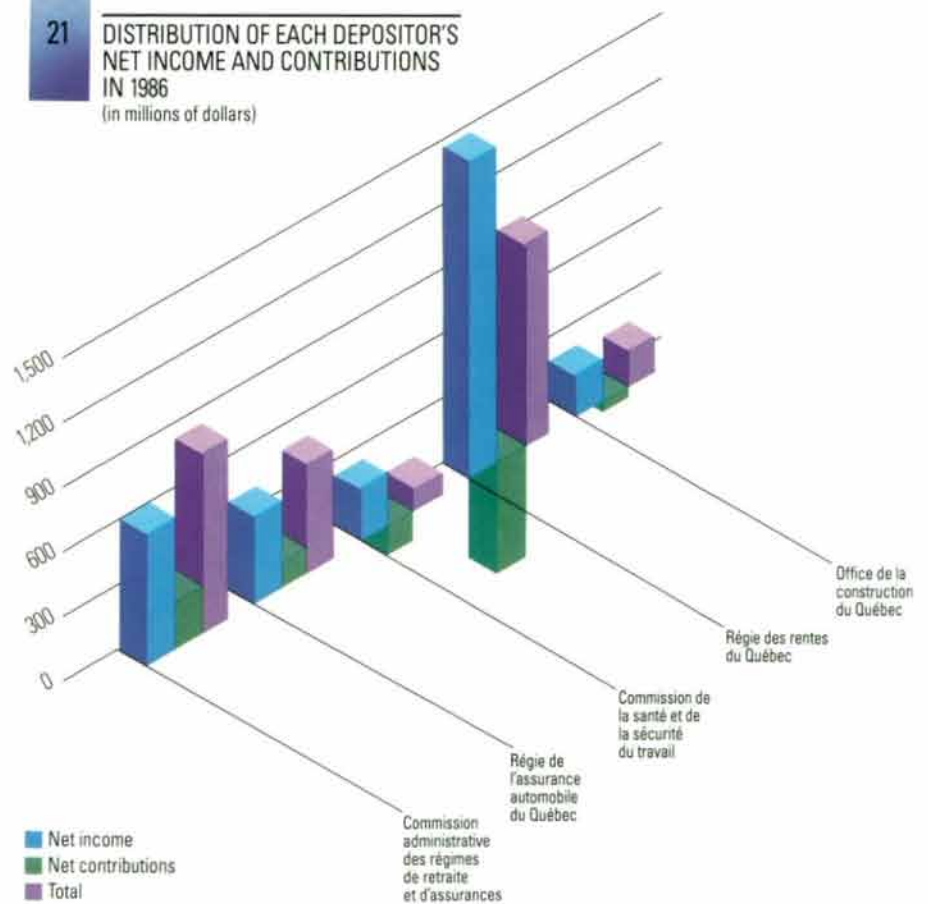
The Caisse also manages the holdings of certain other supplemental pension plans, including those of the plan for employees of the construction industry. The type of benefits paid out by this plan and the source of contributions which characterize it make it rather special. As at December 31, the assets of this plan totalled \$1.9 billion at market value, allocated among three accounts: the active participants' account (Fund 311 – which includes all non-retired employees), the retired participants' account (Fund 312 – which includes all retired employees of the industry) and the additional contributions account (Fund 313 – which includes non-retired employees who pay additional contributions). During the year, despite withdrawals of \$31 million, a \$173 million increase was recorded for the plan, based on income of \$204 million. Nevertheless, the growth of this plan has been slowing down over the past few years.

**20** BREAKDOWN OF TOTAL DEPOSITORS' HOLDINGS  
as at December 31  
(at market value – in percentage)

|  | 1986 | 1985 | 1984 | 1983 | 1982 |
|--|------|------|------|------|------|
| Régie des rentes du Québec   | 48.5 | 49.6 | 50.9 | 51.9 | 53.8 |
| Commission administrative des régimes<br>de retraite et d'assurances | 22.7 | 21.7 | 20.3 | 19.5 | 17.5 |
| Régie de l'assurance automobile du Québec                            | 13.7 | 13.2 | 12.2 | 11.1 | 10.5 |
| Commission de la santé et de la sécurité du travail                  | 8.2  | 8.7  | 9.5  | 10.1 | 10.2 |
| Office de la construction du Québec and other depositors             | 6.9  | 6.8  | 7.1  | 7.4  | 8.0  |

The Commission de la santé et de la sécurité du travail (CSST) entrusts to the Caisse the funds it accumulates to meet workers' compensation and occupational disease benefits it is required to pay. The Commission receives contributions from all employers for insurance against accidents occurring in their sector of business. As at December 31, 1986, the Commission had assets of \$2.3 billion at market value, representing close to 8.2% of total depositors' holdings. The Commission's reserve increased by \$100 million despite withdrawals of \$148 million from income of \$248 million. Nevertheless, several changes made to the plan have limited the growth of this reserve.

**21** DISTRIBUTION OF EACH DEPOSITOR'S NET INCOME AND CONTRIBUTIONS IN 1986  
(in millions of dollars)



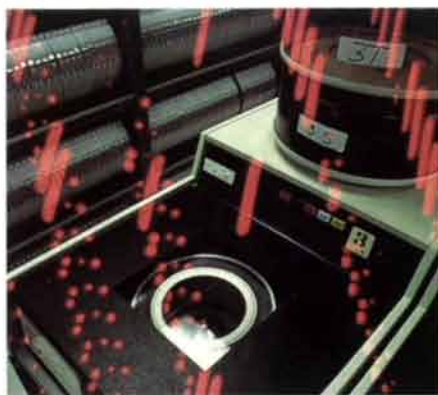
## Administration



### ADMINISTRATIVE EXPENSES

In 1986, the Board of Directors reassessed the method for allocating administrative expenses to the Funds managed for the various depositors. This change has no impact on the net performance of the Caisse's total investments. It mainly consists in allocating administrative expenses according to the market value of investments instead of their book value. Furthermore, expenses that are directly related to the management of a particular category of investment are charged to the income generated by these investments rather than being attributed to the overall portfolio. In 1986, expenses charged directly to income totalled \$4.1 million. The Caisse now follows the methods used by most pension fund managers in allocating administrative expenses.

Salaries and employee benefits remained the highest expenditure item, totalling 56%. This item represented one-third of the overall increase in administrative expenses. The computer services upgrading program, including the depreciation of new equipment and professional fees for systems conversion and the development of new applications, accounted for another third of the increase.



## HUMAN RESOURCES

The use of increasingly diversified investment vehicles, the activity on new international markets and increased financing of Québec enterprises have substantially modified the Caisse's needs in terms of human resources recruiting and training.

Consequently, employees have been encouraged to participate in various professional development programs. As a result, 50% of employees registered in seminars or other training or information activities. It should also be noted that ten employees are members of the Institute of Chartered Financial Analysts and 14 others are registered in the Institute's program.

In 1986, the Caisse continued to provide financial support to brokerage firms operating in Québec, encouraging them to hire and train young university graduates in their research departments. Some 15 brokerage firms took part in the program, allowing approximately 30 graduates to find employment in this business sector and acquire an interesting experience within Québec's financial community. Given the success and demand for this project, the Caisse decided to continue the program in 1987.

## DATA PROCESSING

During 1986, Data Processing Services upgraded services with decentralized equipment, in addition to providing access to information through the central computer.

The central computer conversion process was also initiated. It will allow the Caisse to adequately meet the needs resulting from the increase in the volume of information generated by higher assets under management, and give access to improved data for the management of the portfolios. Systems and data conversion work will be fully completed during 1987. Also, development efforts have been mainly oriented towards implementing a new system for the management of equity investments.

## COMMUNICATIONS

The Caisse pursued its communications policy in 1986, providing more information on its operations and investments than most financial corporations.

It also continued to devote efforts to better inform the population on its role, operations and business, especially through public relations activities in Montréal, Sherbrooke, Trois-Rivières, Chicoutimi, Saint-Félicien and Rimouski in particular.

Moreover, the Caisse is the official sponsor of the largest North American savings and investments show held in Montréal and Québec City as well as of a very popular financial information television program broadcasted by the Québec public network.

With regard to business people and the various organizations associated with medium-sized businesses, the Caisse set up a dynamic marketing-communications plan. A quarterly bulletin was published during the year to promote its financing and corporate investment policies as well as the competitive benefits it offers. The bulletin, entitled "Savoir-faire", is intended for the business sector.

For four years now, the Caisse has been publishing "Cycles et tendances", an analysis of economic conditions and forecasts prepared by its Economic Research Services. This increasingly popular publication is issued twice a year, in June and December, and is available to the general public.



## Members of the Board of Directors

- Jean Campeau**  
Chairman of the Board and General Manager
- Claude Legault**  
President  
Régie des rentes du Québec
- Judge Richard Beaulieu**  
President  
Commission municipale du Québec
- Raymond Blais**  
President  
La Confédération des caisses populaires et d'économie  
Desjardins du Québec
- Louis Laberge**  
President  
Fédération des travailleurs du Québec
- André Marier**  
General Manager  
Société québécoise d'initiatives agro-alimentaires
- Benoit Morin**  
General Secretary and Clerk - Conseil exécutif
- Robert Normand**  
Deputy Minister - Ministère des Finances
- Fernand Paré**  
President and General Manager  
La Solidarité, Compagnie d'assurance sur la vie
- Pierre Péladeau**  
President  
Quebecor Inc.
- Gaston Pelletier**  
Treasurer  
Corporation financière du Saint-Laurent

## Senior Management

- Chairman of the Board and General Manager  
**Jean Campeau**
- Senior Vice-Presidents  
**Claude Ferland**  
Fixed Income Investments
- Michel Grignon**  
Variable Income Investments
- Michel Nadeau**  
Planning and Depositors' Affairs
- Jean-Claude Scraire**  
Legal and Corporate Affairs and Real Estate Investments
- Jean Trudel**  
Administration and Control
- Secretary  
**Marcel Camu**

## Management Personnel

- Alain Auclair**  
Human Resources
- Yves Benoit**  
Administration and Data Processing Services
- Normand Bernier**  
Inter-Corporate Relations - International Sector
- Robert Ciamarro**  
Bond Investments
- Jean-Claude Cyr**  
Real Estate Investments
- Serge Desjardins**  
Internal Audit
- Réal Desrochers**  
Corporate Investments - International Sector
- André Duchesne**  
Bond Investments
- Pierre Fortier**  
Corporate Investments - Large Businesses
- Philippe Gabelier**  
Communications
- Denis Giroux**  
Corporate Investments
- Claude L. Langevin**  
Stock Market Investments
- Frédéric Lecoq**  
Stock Market Investments
- Richard Lesage**  
Economic Research Services
- Gody Lienhard**  
Resources and Supplies
- Walter Murkens**  
Depositors' Affairs
- Denis Ouellet**  
Stock Market Investments
- Marcel Paquette**  
Corporate Investments - Venture Capital
- Serge Piquette**  
Mortgage Investments
- Normand Provost**  
Corporate Investments - Medium-Sized Businesses
- Alain Tessier**  
Accounting Services



Pictured with Jean Campeau, in the usual order: Michel Nadeau, Michel Grignon, Claude Ferland, Jean Trudel and Jean-Claude Scraire.

## Combined Summary Financial Statements

### BALANCE SHEET

as at December 31, 1986

(in thousands of dollars)

|                                   | 1986          | 1985          |
|-----------------------------------|---------------|---------------|
| <b>ASSETS</b>                     |               |               |
| Investments                       |               |               |
| Bonds                             | \$ 14,724,377 | \$ 13,703,463 |
| Shares and convertible securities | 6,542,480     | 5,025,444     |
| Mortgages                         | 1,467,283     | 1,257,922     |
| Real estate investments           | 453,590       | 317,825       |
| Short-term investments            | 1,404,665     | 1,799,223     |
|                                   | 24,592,395    | 22,103,877    |
| Other assets                      | 480,037       | 439,502       |
|                                   | \$ 25,072,432 | \$ 22,543,379 |
| <b>LIABILITIES</b>                |               |               |
| DEPOSITORS' HOLDINGS              | \$ 131,794    | \$ 153,492    |
| General Fund                      | 15,642,985    | 14,213,375    |
| Individual Funds                  | 9,297,653     | 8,176,512     |
|                                   | 24,940,638    | 22,389,887    |
|                                   | \$ 25,072,432 | \$ 22,543,379 |

### STATEMENT OF INCOME AND EXPENDITURE

for the year ended December 31, 1986

(in thousands of dollars)

|  | 1986             | 1985             |
|--|------------------|------------------|
| <b>INCOME</b>  |                  |                  |
| Investment income                                      | \$ 2,188,866     | \$ 2,069,539     |
| Gains and losses on sale of investments                | 790,493          | 626,731          |
| Other income   | 644              | 269              |
|  | 2,980,003        | 2,696,539        |
| <b>EXPENDITURE</b>                                     |                  |                  |
| Administrative expenses                                | 14,625           | 16,158           |
| <b>BALANCE OF INCOME</b>                               | <b>2,965,378</b> | <b>2,680,381</b> |
| <b>ALLOCATION OF INCOME</b>                            |                  |                  |
| Interest on demand and term deposits                   | 13,735           | 20,559           |
| Net income allocated to participation deposit holders: | \$ 2,951,643     | \$ 2,659,822     |

Note: Combined financial statements are provided in the FINANCIAL STATEMENTS AND FINANCIAL STATISTICS booklet of the 1986 Annual Report.

For information : (514) 842-3261  
Inter-Corporate Relations Department-  
Québec/Canada and International Sector  
Communications Department

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contact the Communications Department.

Ce rapport peut aussi être obtenu en français sur demande.

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DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC

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