

ANNUAL REPORT 1992



CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC

**F**ormed in 1965 by an Act of the National Assembly, the Caisse de dépôt et placement du Québec is a portfolio manager which invests the funds arising from public pension and insurance plans as well as various public bodies. Its mandate consists in achieving an optimal financial return and in contributing through its actions to the dynamism of the Québec economy, while ensuring the security of capital under its management. To achieve these objectives, it uses a number of traditional and innovative financial instruments: bonds, shares and

convertible securities, mortgages, real estate, short-term securities and synthetic and derivative products. This broad range of instruments is combined with active management, an astute choice of investments and geographical diversification, in particular among North American, European and Asian markets. The Caisse, whose principal place of business is located in Montréal, a major financial centre, is one of North America's largest financial institutions and ranks as the leading fund manager in Canada.

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## HIGHLIGHTS

|   | 1992                     | 1991          |
|---|--------------------------|---------------|
|   | (in millions of dollars) |               |
| <b>ASSETS UNDER MANAGEMENT</b>  |                          |               |
| Investments   |                          |               |
| Bonds   | 19,200                   | 18,502        |
| Shares and convertible securities   | 14,286                   | 13,480        |
| Mortgages   | 1,966                    | 2,020         |
| Real estate investments – net <sup>1</sup>                                    | 1,818                    | 1,795         |
| Short-term investments  | 1,984                    | 1,811         |
| <b>Total investments at book value – net</b>                                  | <b>39,254</b>            | <b>37,608</b> |
| Other assets and liabilities  | 291                      | 419           |
| <b>Total assets under management at book value – net</b>                      | <b>39,545</b>            | <b>38,027</b> |
| Excess market value over book value of investments                            | 1,762                    | 3,026         |
| <b>Total market value of assets under management</b>                          | <b>41,307</b>            | <b>41,053</b> |
| <b>DEPOSITORS' HOLDINGS</b>   |                          |               |
| Régie des rentes du Québec  | 15,201                   | 15,887        |
| Commission administrative des régimes<br>de retraite et d'assurances – RREGOP | 12,895                   | 11,973        |
| Société de l'assurance automobile du Québec                                   | 5,328                    | 5,393         |
| Commission de la santé et de la sécurité du travail                           | 3,835                    | 3,986         |
| Commission de la construction du Québec                                       | 3,753                    | 3,564         |
| Other depositors  | 295                      | 250           |
| <b>Total depositors' holdings</b>   | <b>41,307</b>            | <b>41,053</b> |
| <b>NET DEPOSITORS' INCOME</b>   | <b>2,930</b>             | <b>3,673</b>  |
| <b>NET DEPOSITORS' WITHDRAWALS</b>  | <b>1,412</b>             | <b>1,308</b>  |
| <b>RATE OF RETURN<sup>2</sup></b>   | <b>4.5%</b>              | <b>17.2%</b>  |

<sup>1</sup> reduced by related bank and mortgage loans; excludes the bonds, shares, mortgages and short-term investments in the specific real estate investments portfolio.

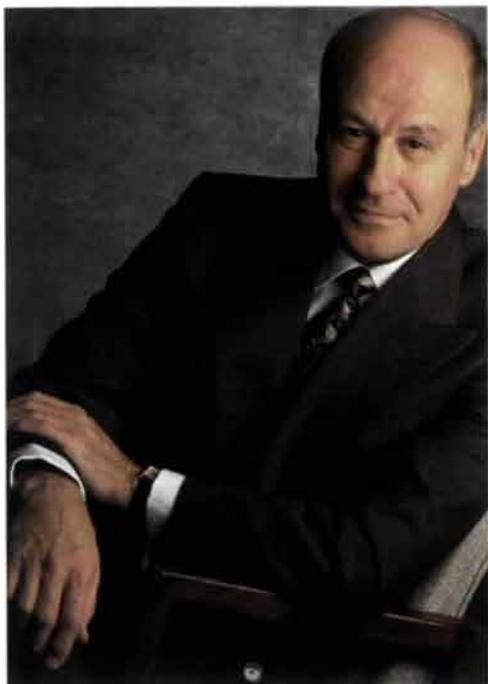
<sup>2</sup> calculated at market value using the time-weighted method

Certain figures for 1991 have been restated to conform with the presentation of 1992.

**A**fter two years of recession, 1992 was to be a year of recovery. And although a recovery did occur as predicted, it was a timid one. The economy grew, but at such a weak rate that at the end of 1992, almost two years after the recession had hit its lowest point, it had not entirely regained the lost ground. Thus, the upturn will have been much slower to arrive than the one

that followed the recession of the early 1980s.

Despite publication of encouraging figures, Canada's economy remains sluggish; the order of the day is still bankruptcies, closures, massive layoffs, high public deficits, budget cutbacks, and so on. The statistic that sums up the gloomy situation is the consistent increase in unemployment, which in November rose to 11.8% for Canada and 14.3% for Québec. This weak job market has undermined consumer confidence.



Reflecting the increasing interdependence of the world's economies and the acceleration of the structural changes they are undergoing, the slow recovery is due just as much to changes in the international context as to structural and cyclical phenomena. Indeed, while the North American economies were staging a weak recovery, clouds were gathering on the horizon in Japan and Europe.

In Japan, the cyclical slowdown intensified considerably when two speculative bubbles burst – the stock market and the real estate market. The result was a sharp devaluation of those assets and numerous constraints in the financial sector.

In Europe, the euphoria created by the fall of the Berlin Wall yielded to growing disillusion, as the German reunification proved far more costly than expected. The German government has had to run a budget deficit,

which in turn has prompted the Bundesbank to tighten its monetary policy. The policy, which has eased slightly only in recent weeks, has made the slowdown of the economies linked to Germany's more pronounced.

In the United States, structural factors, such as the need to restructure the financial and the real estate sectors, massive layoffs by many large corporations, which have depressed the job market and consumer confidence, and, finally, the high public deficit which rules out any vigorous budgetary policy to stimulate the economy, have made the recovery unusually slow compared to the upturns that followed other postwar recessions. Still, growth in the second half of the year was much stronger than expected and it was accompanied by the best productivity gains in 25 years.

The policies announced by the White House demonstrate a will to tackle the budget deficit and to stimulate the economy using what little leeway is available. Although it is too early to predict the results, these measures have bolstered the confidence of the American people somewhat, and positive effects can already be felt on this side of the border.

Similarly, in Canada the recovery has been hindered by such structural phenomena as high public deficits and the weak productivity gains realized in the 1980s. At the same time, those businesses that were able to meet the double challenge of recession and more intense competition had to focus their efforts on investment and restructuring, which no doubt increased productivity substantially but caused massive job losses.

Two other economic and financial phenomena also characterized 1992 in Canada: the first was the spectacular taming of inflation: from 5.6% in 1991, it was reduced to 1.5% in 1992, the lowest average rate of all the major industrialized countries; the second was the skittish money markets. The regular slide of short-term interest rates, which was not unexpected due to the weak level of activity and the low rates of growth in inflation, was stopped short last fall by a foreign exchange crisis and a certain weariness about the Canadian dollar. Interest rates thus remained

high relative to the rate of inflation and to interest rates in the United States. In the fourth quarter of 1992, real short-term interest rates were 5.5%, and the spread between Canadian and U.S. rates was 5% – both very high levels.

These changes in the economic and financial situation could not but have a direct effect on the Caisse's core activities, namely the income derived from its investment activities. Owing to high real interest rates and the drop in nominal rates, fixed-income investments posted good returns in Canada in 1992. Still, the continuing difficult business climate caused the TSE 300 to post an average annual return of negative 1.4%. The Caisse, with its balanced portfolio, obtained an overall return of 4.5%. This result is more than 2% above the rate of inflation of the last 12 months. Over the long term, the Caisse continues to post returns superior to those of the various reference indices.

For the economy as a whole, the outlook is brighter for 1993 and the years following: the recovery in the United States is accelerating and measures to stimulate the economy should support this trend. The revival of the U.S. economy is already having a positive impact on Canadian exports, which should be further strengthened by the stabilization of the Canadian dollar. The delayed effect of the successive drops in interest rates should also contribute to the upturn. Economists are predicting that Canada's economy will grow by 3.5% in 1993 and by more than 4% thereafter, in contrast to the negative rates it posted in 1990 and 1991 and the meager 0.9% in 1992.

Despite the slow recovery, the positive aspect of the changes under way should not be underestimated, for the Canadian economy has begun to rebound on new bases. The healthiest businesses are reinvesting and productivity is rising. There is a greater awareness amongst business leaders, unions and the public as to the challenges the Canadian economy faces (globalization, greater competition, advances in technology), as well as to the weaknesses that still threaten it in the early 1990s (competitive shortcomings, weak exports, insufficient focus on innovation and research and development).

This awareness is increasingly taking hold among decision makers, opinion leaders and businesspeople; moreover, it is one of the most promising contributors to a sustainable recovery.

Given these factors and consistent with its mission, the Caisse pursued its investment activities with its partners over the past year. In addition to remaining active on traditional markets, the Caisse was involved in numerous initiatives targeted to various engines of Québec's economy. It was instrumental in expanding the network of the regional investment companies, it set up a bond financing program for Québec businesses for investments ranging from \$30 million to \$125 million, and it is getting ready to help launch a number of specialized funds in such areas as health, communications, the environment, and information technologies. In addition, through its extensive network of foreign partners, the Caisse seeks to assist Québec businesses in their efforts to export or to establish themselves in other countries, and to encourage foreign companies to invest in Québec. It is in that perspective that it has initiated arrangements to invest in foreign funds so as to expand the network of financial institutions and industrial corporations with which partnerships could be formed by Québec businesses that want to set up or expand operations on foreign markets with high potential, and conversely, to make the managers of those funds more aware of investment opportunities in Québec. These are only a few examples of the Caisse's policy of constantly adapting its investment strategies to the new financing needs of Québec businesses and sustaining their growth on the markets where they operate.

Although we have reason to look to the future with confidence, it would be unrealistic to think that all the problems besetting our profoundly changing economy will disappear over the short term. The traditional remedies have lost their immediate efficacy, so we must vigorously pursue efforts to turn our businesses around and to improve our productivity. Given the debilitating situation we have just experienced, we are naturally inclined to seek solutions with immediate effects. Without setting aside those that could stimulate the economy over the short

term and yet, generate a sustainable benefit, it is imperative that priority be given immediately to measures capable of consolidating the infrastructure of our economy. These measures are as urgent as they are essential, for the simple reason that they will not bear fruit for several years. The longer we wait, the more vulnerable we will become to the challenges of the contemporary economy; for although there is no doubt that a worldwide recovery, especially a U.S. recovery, would spill over into Canada, we cannot pin our hopes for a stronger economy on that factor alone. The long-term consolidation of Québec's economy in the global marketplace will increasingly depend on strategic initiatives taken by Québécois themselves with the objective of optimizing productivity. In fact, if the 1980s were marked by the struggle against inflation, then the efforts in the 1990s must be focussed on productivity.

Yet those efforts must go beyond those that are required to assure the viability of our businesses, essential as those may be. Indeed, the challenge facing our society is to make our economy as a whole more productive. In short, we must seek to achieve and maintain a level of productivity which is capable of generating new jobs and which accordingly, is supported by a work force whose qualifications match the needs of the industry. Seen from this perspective, economic growth ceases to be solely a matter of financial capital, and becomes a matter of human capital as well. The profound changes that our traditional economy is undergoing make it imperative that we adapt our educational system and place priority on manpower training. Ultimately, success will be measured by the profitability of our businesses but, more importantly, by our economy's ability to make use of its human capital, a resource that is key to its future.

In 1992, the Caisse succeeded in achieving satisfactory financial returns while contributing to the dynamism of Québec's economy. To operate in an environment that is as turbulent as it is unpredictable is no easy task. Thus, on behalf of the Board of Directors, I wish to thank the Caisse's employees for the work they accomplished during the year. To those of the Board, I wish to add my own thanks as well as those of my colleagues in management, for we,

more than anyone else, are in position to appreciate the Caisse's employees' skill and determination in carrying out their tasks.

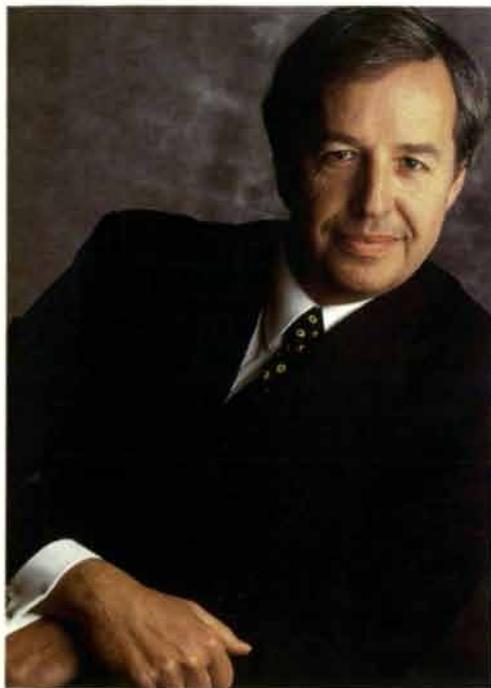
I would be remiss if I did not conclude my message by noting the departure of Mr. Claude Séguin, who, as Deputy Minister of Finance, had been a director of the Caisse since December 21, 1987. The members of the Caisse's Board of Directors and management team very much appreciated his contribution to the institution's activities. I therefore take this opportunity to offer him our heartfelt thanks and best wishes for success as he begins a new phase of his career in the private sector. We are pleased to welcome his successor, Mr. Alain Rhéaume, whose experience and expertise will, without a doubt, be of significant benefit to the Caisse.



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

Montréal, March 5, 1993

Most major industrialized countries experienced difficult economic conditions in 1992. In North America, the past year was marked by massive restructuring efforts in a number of economic sectors, volatile financial markets and political uncertainty in light of the presidential election in the U.S. and the Constitutional debate in Canada.



The Canadian economy continued its restructuring in 1992. A number of companies rationalized their operations and improved their balance sheets by reducing their debt levels in order to become more competitive. An unprecedented number of common shares, more than \$11 billion worth, were issued on Canadian stock markets, permitting companies to increase their capitalization as they reduced their indebtedness. In the financial sector, lending institutions had to deal with asset write-offs and non-performing

loans, resulting from the sharp decline in activity in the real estate sector and the record number of bankruptcies over the past two years.

Canadian financial market volatility reached record levels. Short-term interest rates rose sharply by 2% during the last week of September, following the pressures exerted on the Canadian dollar. On the bond markets, Canadian provinces issued large amounts of debt securities which were favourably received by both national and foreign investors. The gouvernement du Québec and Hydro-Québec, which were among the issuers that attracted the greatest interest from Canadian and foreign investors, launched sizeable issues including one global issue for more than \$1 billion.

On the stock markets, small-capitalization stocks posted the best returns in 1992, as reflected in the 13% rise in the Burns Fry

reference index. Small caps have long led the way in job creation and enjoy a high level of investor confidence. The Caisse has participated in this very dynamic market since the early 1980s through its corporate investments portfolio. Moreover, our Canadian equity investment managers started managing a small-capitalization stocks portfolio during the year.

In a difficult context that presented a number of new challenges, the Caisse's managers generated satisfactory returns, comparable to those of the reference indices. The weighting given to the main asset categories in the portfolios, their sound diversification, the selection of high-quality securities and active management accounted for these results.

The bond portfolio, which consists of Québec, Canadian and U.S. bonds, as well as French, German and British government bonds, generated a return of 9.6% compared with 9.8% for the ScotiaMcLeod Bond Universe index. This differential was due to the weaker performance of foreign bonds, which are not included in the reference index, but which represent a small portion of the market value of the Caisse's bond portfolio, accounting for 8.9% at year-end. These bonds are held in order to generate all the liquidity and flexibility required to efficiently manage the total bond portfolio and reduce its overall risk. For the past five and 10 years, bond investments yielded 12.7% and 13.4% respectively, compared to 12.3% and 12.7% for the reference index. The bond portfolio, which amounted to almost \$20 billion, accounted for the largest proportion of the Caisse's total investments, at 48.5%.

During the year, investors showed an active interest in the secondary market for Québec public sector securities. The Caisse traded close to \$30 billion of these securities, roughly \$8 billion more than in 1991. The Caisse's investments in new Québec public sector securities issues totalled \$1.3 billion on the primary market in 1992.

Equities, which at 37.8% represent the second largest component of the Caisse's total portfolio, generated a high relative return.

The Québec and Canadian equities portfolio, which totalled \$11.3 billion at market value, generated a return of -0.6% compared with

-1.4% for the TSE 300 index. The positive 79 basis point spread was due to the judicious selection of stocks and sectors, and the timely strategies applied during the year. The return on Canadian equities compared very favourably with that of the reference index, outperforming it by 102 and 65 basis points for the past five and 10 years respectively.

On the international scene, foreign equity investments continued to rise as a percentage of the Caisse's aggregate portfolio, reaching 10.2% of total investments compared with 9.2% in 1991. These securities generated a return of 0.1%, on a par with the Morgan Stanley Capital International World Index.

With respect to corporate investments, which totalled \$1.7 billion at market value as at December 31, the Caisse remained committed to being a medium- and long-term business partner. It authorized a total of 32 investments, which represents a four-year high. Total funds committed during the year amounted to \$334 million.

As the long-awaited recovery begins to get under way, the Caisse believes that Québec companies will have to improve their capitalization while investing more in training, R&D and new technologies, as well as make greater efforts in terms of marketing. Moreover, they will need to continue to innovate both with respect to their products and services and the overall way in which they do business, if they intend to successfully meet the challenges of international competition. In line with its desire to help companies obtain the capital required for such investments, the Caisse continued to meet their needs. Among the highlights in this regard in 1992, the Caisse expanded the network of regional investment companies, continued to invest in venture capital companies both nationally and internationally, added debt financing to the range of services offered to Québec companies and supported many of them in the restructuring and consolidation of their operations.

The specific real estate investments portfolio generated a total return of -15%, attributable to the drop in rental income and the weak economic recovery. However, the current return on the portfolio reached

4.7%. For the past 10 years, a time frame characteristic of real estate investments, the portfolio posted an annual compound return of 9%. The market value of the portfolio's net holdings was \$1.7 billion as at December 31, 1992. Actual real estate investments, net of related liabilities, represented 3.9% of the Caisse's total investments.

The return on short-term investments was 6.7%, compared to 7.1% for the 91-day Canadian Treasury bills index. This was attributable to the effects of extremely volatile Canadian interest rates on the portfolio, which had been positioned to take advantage of a drop in rates. At year-end, the short-term investments portfolio, which reached close to \$2 billion, accounted for 4.8% of total investments.

Mortgages generated a return of 10.2% compared with 10.1% for the ScotiaMcLeod three-year mortgage index. This was due to the quality of the portfolio and the fact that it is heavily weighted in mortgages with maturities of more than three years, and as a result outperformed mortgages with shorter maturities. The Caisse granted a total of \$171.6 million in mortgages, of which \$35.8 million for properties outside Montréal and Québec City. The market value of the mortgage portfolio exceeded \$2 billion as at December 31, 1992, or 5% of investments.

The Caisse pursues above all medium- and long-term investment objectives. For the past 10 years, returns for the three principal asset categories surpassed those of the reference indices by a margin of 71 basis points for bonds, 65 basis points for Canadian equities, and 57 basis points for mortgages. These results attest to the quality and the efficiency of the institution and, in particular, of its staff.

Financial institutions and fund managers can now access a growing number of listed or unlisted derivative products. These vehicles provide greater flexibility in managing funds, allow for more refined investment strategies and meet the very specific needs of fund managers. The Caisse has used these products for several years now, of which a large number are traded exclusively on The Montréal Exchange, such as one- and

three-month bankers' acceptance futures, 10-year Government of Canada bonds, and PEACs and SPECs which were launched in 1992.

At the end of 1992, the Caisse created a new portfolio for the tactical management of its overall portfolio. This portfolio consists exclusively of derivative products, which generate higher liquidity and eliminate the need for costly transfers of assets. Quantitative models, incorporating economic and monetary variables, as well as fundamental and technical market valuations, serve to identify the risks and define investment strategies. We are aiming through this approach to add value to the return on depositors' benchmark portfolios. The tactical allocation strategies applied in 1992, which were based on the outlook for a more rapid economic recovery in North America, did not produce however the anticipated results as the market reacted weakly to monetary stimuli.

The Caisse is home to the largest number of Chartered Financial Analysts (CFA) in Canada. In keeping with its objective of excellence and innovation, the Caisse continued to invest in staff training, to ensure that its human resources remain at the forefront of the Canadian investment industry. Investments in training activities rose by 40% in 1992.

In addition, given the importance of receiving, analyzing and interpreting information rapidly and effectively, the Caisse allocated a significant share of its resources to information technology, and will continue to do so. The installation of an electronic platform for bonds and money markets and eventually for equities is a concrete sign of this commitment.

Given the importance of corporate governance practices in improving a company's competitive position, the Caisse participated in efforts currently being made in this area, and intends to continue to do so, more specifically with respect to the workings of corporate boards and committees.

I am confident that the Québec economy will improve in 1993, that financial markets will provide attractive opportunities and that the

measures taken by the Caisse to improve its efficiency will permit the best possible returns to be achieved for the benefit of all Québécois.

Lastly, I would like to thank the Caisse's partners, namely the main economic players and financial intermediaries from the private, public and cooperative sectors, for their support and cooperation during the past year. I would also like to thank all the members of our staff for their sustained and most valuable contribution. The efforts of the Caisse's personnel and the support of its partners contributed significantly to realizing the Caisse's objectives of generating an optimal financial return and contributing to the dynamism of the Québec economy.



Guy Savard  
President and  
Chief of Operations

Montréal, March 5, 1993

# ECONOMIC ENVIRONMENT



## International Environment

The end of the recession in North America was not followed by a conventional recovery. In fact, economic growth was slow in the United States and slower still in Canada. Despite a much more accommodating monetary policy, consumer confidence has been slow to rebound because of the bleak employment outlook. However, economic growth did pick up in North America in 1992, while the recession continued in the United Kingdom, and began to take hold in Continental Europe and Japan. The weak world economy helped however to bring inflation down substantially, allowing a further decline in interest rates.

Even though interest rates fell sharply in Japan, the slowdown observed in 1991 gave way to a recession in 1992. Structural problems in Japan's economy surfaced following the marked downturn in the stock and real estate markets. For instance, the very close links that existed between the banks and industry served to weaken the financial health of lenders, tightening credit and pushing up the cost of stock market financing. The cyclical downturn in the investment sector therefore intensified. Unable to spur growth through monetary policy alone, the Japanese government introduced a budget stimulus package at the end of the year, the effects of which will only be felt in 1993.

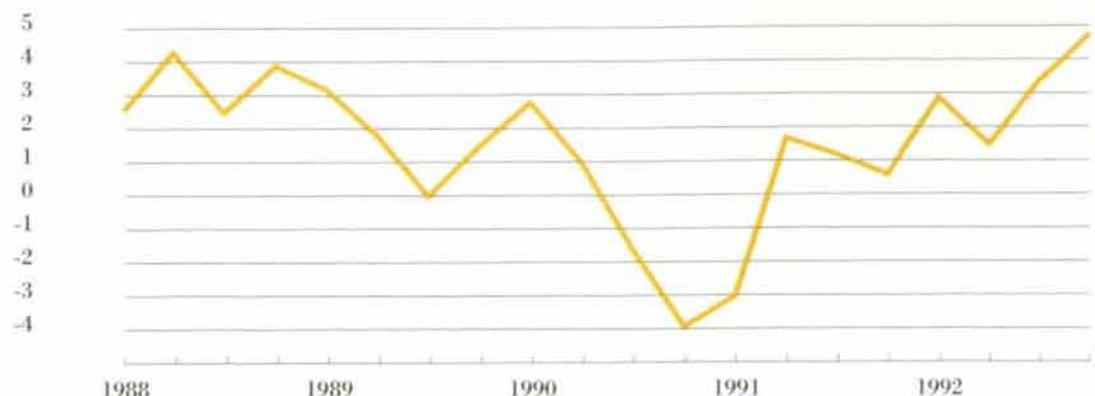
In Germany, despite increasingly difficult economic conditions, the Bundesbank kept interest rates high in order to better contain excessive monetary growth and, by extension,

inflation. This policy prompted the devaluation of certain currencies in the European Exchange Rate Mechanism (ERM). The United Kingdom even went so far as to pull out of the ERM. For its part, France raised short-term interest rates temporarily, and was able to resist the pressures on the franc because of its rather more solid economic and financial position and the intervention by French and German central banks on foreign exchange markets.

The past year was characterized by major upheavals on European financial markets and by weak economic activity in the United Kingdom, despite a significant lowering of interest rates in recent years, and in Germany and France, where rates remained high. At year-end, the economic outlook improved slightly in the United Kingdom, while it pointed to a significant deterioration in the economies of Continental Europe.

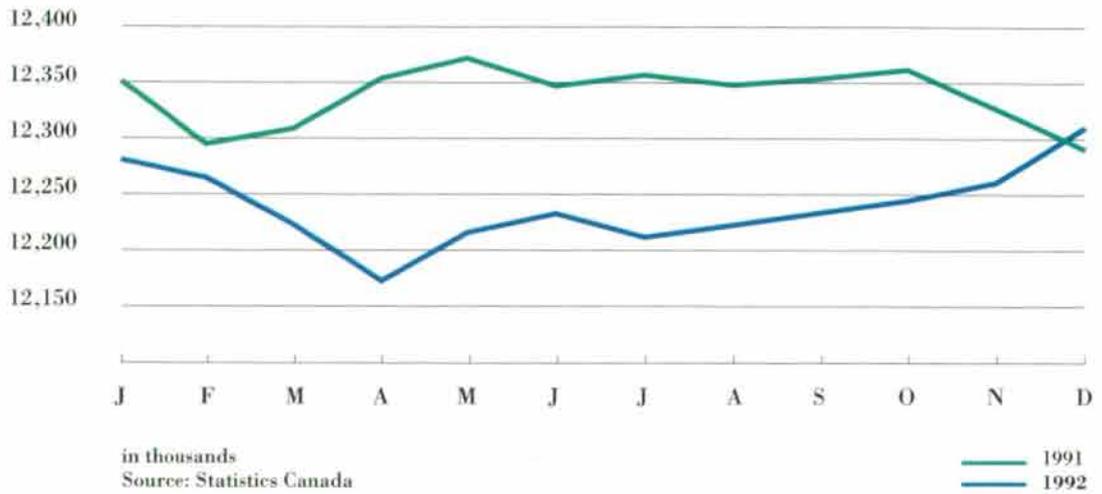
In the United States, growth accelerated to a more rapid pace than immediately after the recession in 1991, although it remained somewhat weak in historic terms, especially at the beginning of the year. The recovery was hampered by the downturn in non-residential construction, due to excess supply in the commercial real estate sector, weaker export growth as a result of the economic slowdown abroad and the low level of government spending because of budgetary constraints. In addition, the higher unemployment rate at the beginning of the year had a negative impact on consumer confidence and, by extension, on consumer spending.

1 EVOLUTION OF U.S. GROSS DOMESTIC PRODUCT



annualized percentage change  
Source: U.S. Department of Commerce

## 2 EVOLUTION OF EMPLOYMENT IN CANADA



However, investment in machinery and equipment was up substantially, as corporations endeavoured to improve their productivity. The economy did, in fact, pick up in the second half of the year, averaging 3.2% annualized quarterly growth in 1992, or more than twice that recorded for the first nine months of recovery in 1991.

As for prices, inflation at about 3% was lower than projected because of the rather sluggish economic growth. In this context, the Federal Reserve eased its monetary policy and allowed short-term interest rates to fall sharply. Economic conditions also prompted a drop in bond market rates, which were lower than in the previous year.

### Canada

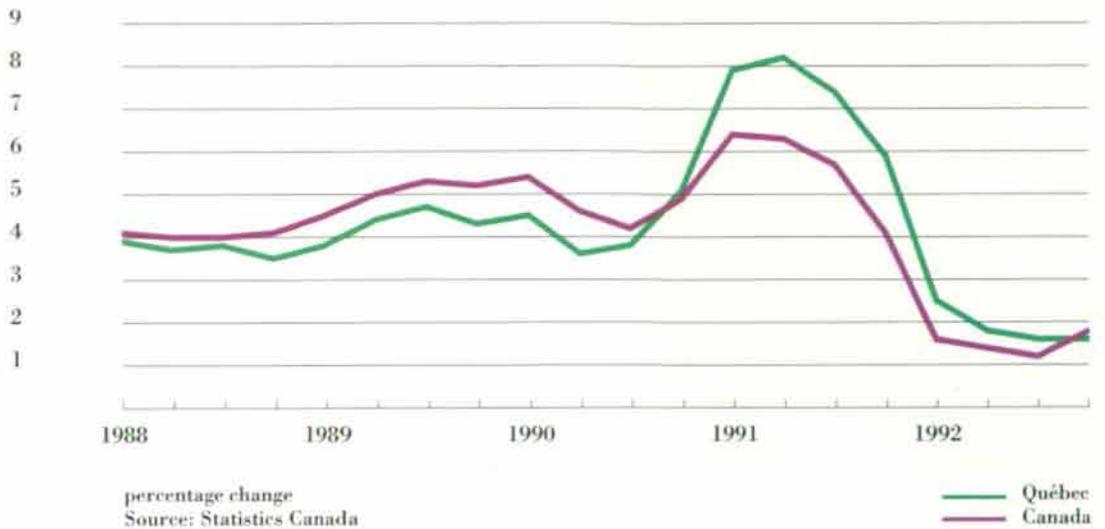
In Canada, anemic growth in 1992 resulted from the in-depth restructuring of industrial activity, which severely affected the job market. The significant rise in the unemployment rate reinforced the gloom felt by consumers and corporate executives, in turn hampering the recovery process.

Weak corporate profits are the clearest evidence of the problems that have beset Canada over the past few years. A number of negative elements are responsible for this situation, notably slow productivity growth in the 1980s, cost increases that were higher than those of foreign competitors, corporate debt levels, the sharp decline in commodity prices and keener international competition at the

production end. Faced with these conditions, a number of companies chose to radically restructure their operations and manage their production costs more strictly in an attempt to become more profitable. These actions combined with a much lower Canadian dollar also made them much more competitive. Despite the numerous layoffs that ensued, this strategy translated into substantial investments in machinery and equipment, relatively strong productivity growth and slightly improved profit margins.

Although 1992 as a whole was disappointing, most economic indicators were up slightly in the second half of the year. For example, exports, retail sales, housing and even employment rose a little more rapidly during this period. Despite the very weak recovery so far, the economy is likely to continue to grow over the coming years.

In addition, the sharp decrease in inflation augurs well for the economy. The Bank of Canada, which had set a threshold target of 3% for inflation by year-end, surpassed its objective. The average rate of 1.5% is in marked contrast to the 5.6% registered in 1991 following the introduction of the goods and services tax. Given the lacklustre recovery, declining inflation and lower U.S. interest rates, it came as no surprise to see Canadian interest rates trend down. Moreover, the significant depreciation of the Canadian dollar added to the monetary stimulus, as evidenced by the surge in exports.



### Québec

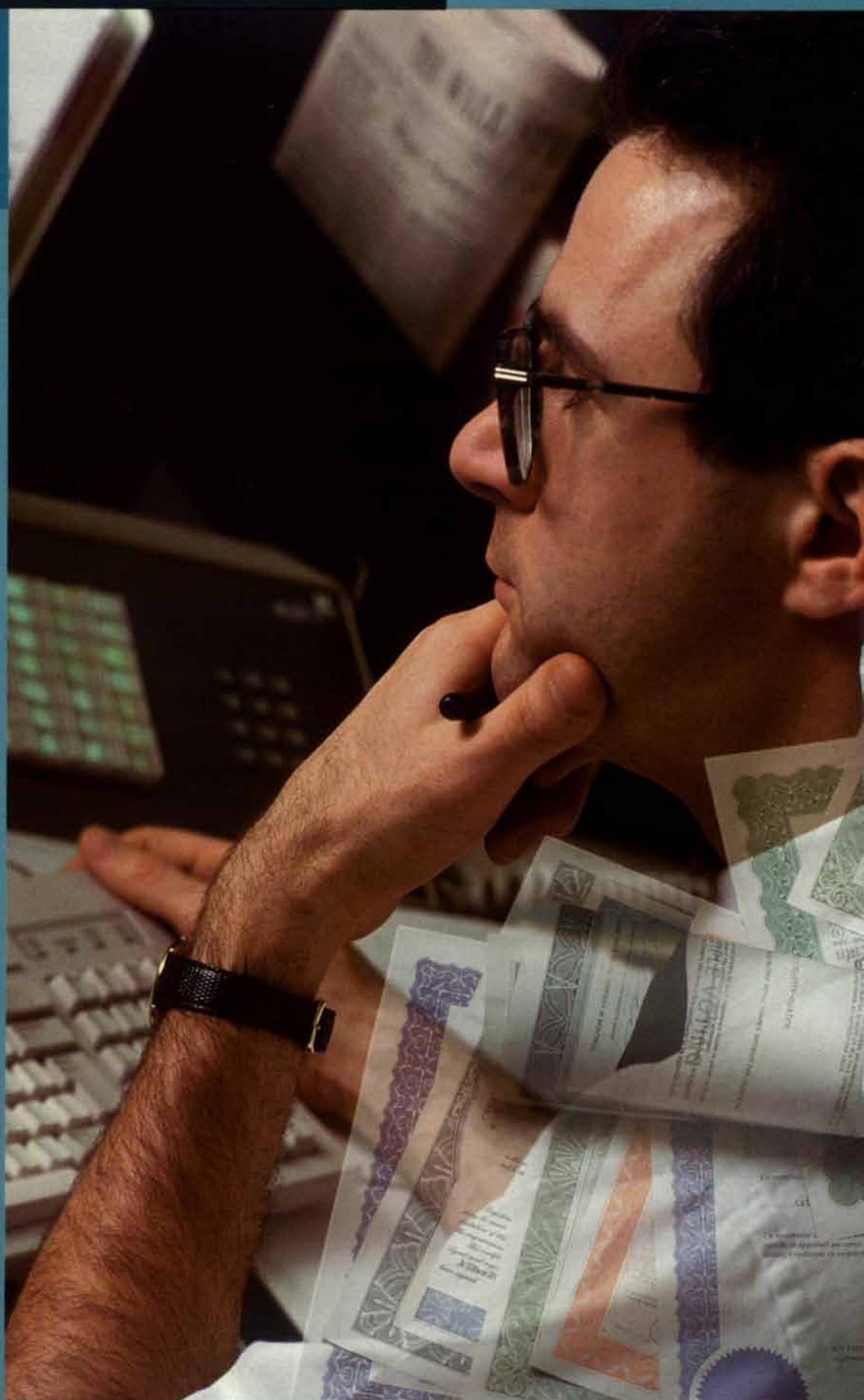
Economic performance in Québec was more disappointing than in the rest of Canada. The economy stagnated in the first half of the year, with gross domestic product rising a mere 0.5% for the year as a whole, or half the rate of growth of the other provinces. For the second consecutive year, the drop in employment was more pronounced than in the rest of Canada mainly because of the large number of layoffs at the end of 1992. Although it hovered below 2%, inflation was higher than in the rest of Canada, in large part because of the extended application of the Québec sales tax (QST) to the services and real estate sectors.

Québec's economy was afflicted by the same structural problems as the rest of the Canadian economy, as well as by the downturn in residential construction and the budgetary constraints faced by public administrations. Sluggish growth in public-sector spending and the extension of the QST to new sectors illustrate the weak support the public sector gave to economic activity. The end of the government's residential construction assistance program *Mon taux, mon toit* together with a high vacancy rate and changes to the QST curtailed residential investment growth. The impact of industrial restructuring on the labour market as well as the decline in real personal disposable income curbed consumer spending, despite more

flexible credit conditions and a strong pent-up demand.

More than anywhere else in Canada, the encouraging results in terms of productivity and strong investment in machinery and equipment were in sharp contrast to the disappointing economic context. Although the recovery has been sluggish so far, these factors will ensure economic growth in the years ahead and improve the profitability of Québec corporations.

ASSET MIX AND RETURNS



**V**ery close attention is paid to the asset mix of depositors' funds by investment vehicle, since it accounts for 80% of the long-term returns generated by the portfolios. The long-term benchmark portfolio mix therefore constitutes one of the key aspects of asset mix management.

Portfolio distribution consists in determining, on a long-term investment horizon, what proportion of funds are to be invested in each investment category. This means defining the benchmark portfolios which correspond to the depositors' risk-return profile and their specific needs. These portfolios thus become the key component of the investment policies. The Caisse actively manages its investments in order to obtain results that outperform the reference indices in each asset category and thereby generate added value in the return on its depositors' benchmark portfolios. Moreover, the Caisse analyses the changes that affect the variables in these portfolios and reviews its investment policies every three years.

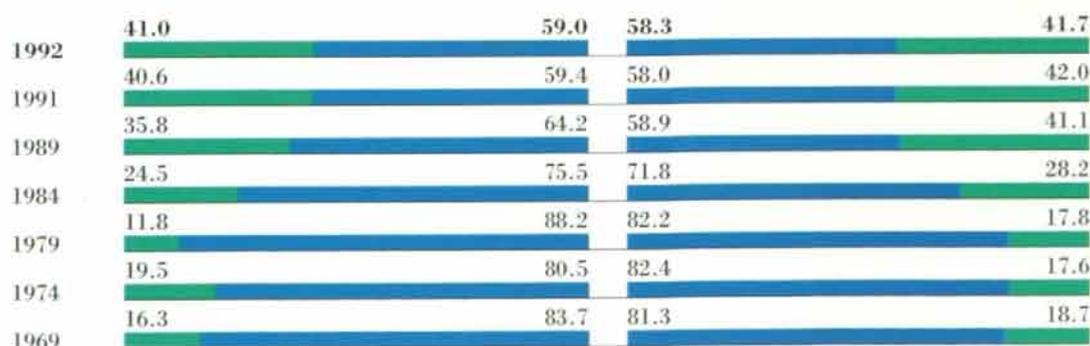
In 1992, the Caisse invested \$1.6 billion among the principal asset categories such as bonds, equities, mortgages, short-term investments and real estate. This allocation reflected the global asset mix process and the investment policies established for the various depositors.

The Caisse also redefined its asset mix activities to meet the challenges of this decade. For instance, the tactical management of a specific volume of highly liquid assets is now being carried out separately and in accordance with the investment policies previously drawn up as part of the asset mix process. The Caisse thus intends to make its tactical management more effective and to measure the results of its various investment activities more accurately.

The investment industry has changed dramatically over the past few years, with the result that fund managers must now revise their work assumptions more frequently. Running counter to previous trends, bonds generated higher returns than equities in Canada in the past decade. During the same period, on North American markets overall, the price increases of large-capitalization company stocks exceeded those of small-capitalization company stocks, which are considered more risky and, as such, likely to generate higher returns.

Moreover, certain financial products fell short of the yield objectives set, with the result that certain investors reverted to traditional asset categories while others remained open to the opportunities afforded by new investment vehicles. Lastly, derivative products seem to be continuing to attract

#### 4 EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT



as at December 31  
at book value - in percentage

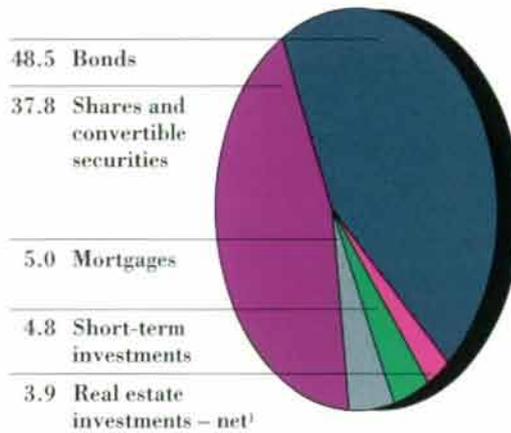
as at December 31  
at market value - in percentage

■ Variable-income securities  
(shares, convertible securities, real estate investments reduced by related bank and mortgage loans excluding the bonds, mortgages and short-term investments in the specific real estate investments portfolio)

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

Certain figures for the previous years have been restated to conform with the presentation of 1992.

**5 BREAKDOWN OF ASSETS ACCORDING TO INVESTMENT CATEGORY**



as at December 31, 1992  
at market value - in percentage

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

considerable interest because of their flexibility and operational efficiency.

In this constantly changing environment, the Caisse stresses the importance of strategic research on the future behaviour of financial markets and the principal investors, especially in light of emerging new technologies and market globalization, which have greatly expanded the opportunities for assuming certain very specific risks. This research also covers both past and projected returns on current and new investment vehicles.

**Returns**

Despite the turmoil on currency markets at the end of the year and the difficult economic conditions in Canada, the Caisse achieved a return of 4.5%, or 2.4% in real terms, adjusted for the annual inflation rate as at December 31, 1992. Return for the past five and 10 years was 9.7% and 11.7% respectively.

These results reflect the weighting given to the principal asset categories in the benchmark portfolios, the high quality of the securities selected and the tactical transactions aimed at choosing vehicles with the highest return potential. Thus, in 1992, the strong bond weighting in the portfolio enabled the Caisse to take advantage of the more than

11% yield differential between Canadian bond and stock markets.<sup>2</sup>

Bond investments generated a 9.6% return compared with 9.8% for the ScotiaMcLeod Bond Universe index. The variance was due to the fact that the reference index mix differs from the Caisse's portfolio mix. While the reference index consists exclusively of Canadian bonds, the Caisse's portfolio contains a small portion of foreign bonds. In terms of yield, a number of foreign bond markets, specifically in Europe, underperformed Canadian bond markets in 1992. The currency crisis at year-end and the exchange risk hedging policy diluted the beneficial effect normally observed from strategic foreign positions. For the past five and 10 years respectively, bond investments posted returns of 12.7% and 13.4%, compared to 12.3% and 12.7% for the reference index.

As for equities, the Canadian portfolio outperformed the TSE 300 composite index by 79 basis points, generating a return of -0.6% compared with -1.4% for the reference index. For the past five and 10 years respectively, the Canadian portfolio's performance compares favourably with that of the index, outperforming it by 102 and 65 basis points.

The Canadian dollar's depreciation against most major currencies allowed foreign currency-denominated investments to gain in value. As for the foreign equities portfolio, the Caisse's policy is to hedge its investments in order to eliminate the risks inherent in exchange rate fluctuations. Extremely volatile exchange rates, particularly in the fall, made it difficult to remain as fully hedged as the hedged Morgan Stanley Capital International stock index. However, despite the difficulties encountered, the Caisse's managers obtained a return of 0.1%, on a par with the reference index.

The mortgage portfolio generated a return of 10.2% compared with 10.1% for the ScotiaMcLeod three-year mortgage index. This result was mainly attributable to the fact that the portfolio contains mortgages with maturities of more than three years.

Moreover, the short-term investments portfolio generated a return of 6.7%, compared to 7.1% for the 91-day Canadian Treasury

bills index. This was due to the effects of extremely volatile Canadian interest rates in the fall on the portfolios, whose investment mix had been chosen to take advantage of the drop in interest rates which usually goes hand in hand with a slower economic recovery.

The current return on the specific real estate investments portfolio was 4.7% compared to a total return of -15%, reflecting the 20%

drop across the board in the value of real estate investments on Canadian markets. The difficult conditions in the real estate sector, the outlook for weaker earnings growth and expectations of high returns on the part of real estate investors, as well as the significant provisions taken with respect to eventual decreases in value all accounted for these results. The TSE 300's real estate and construction sector posted a return of -53.6%.

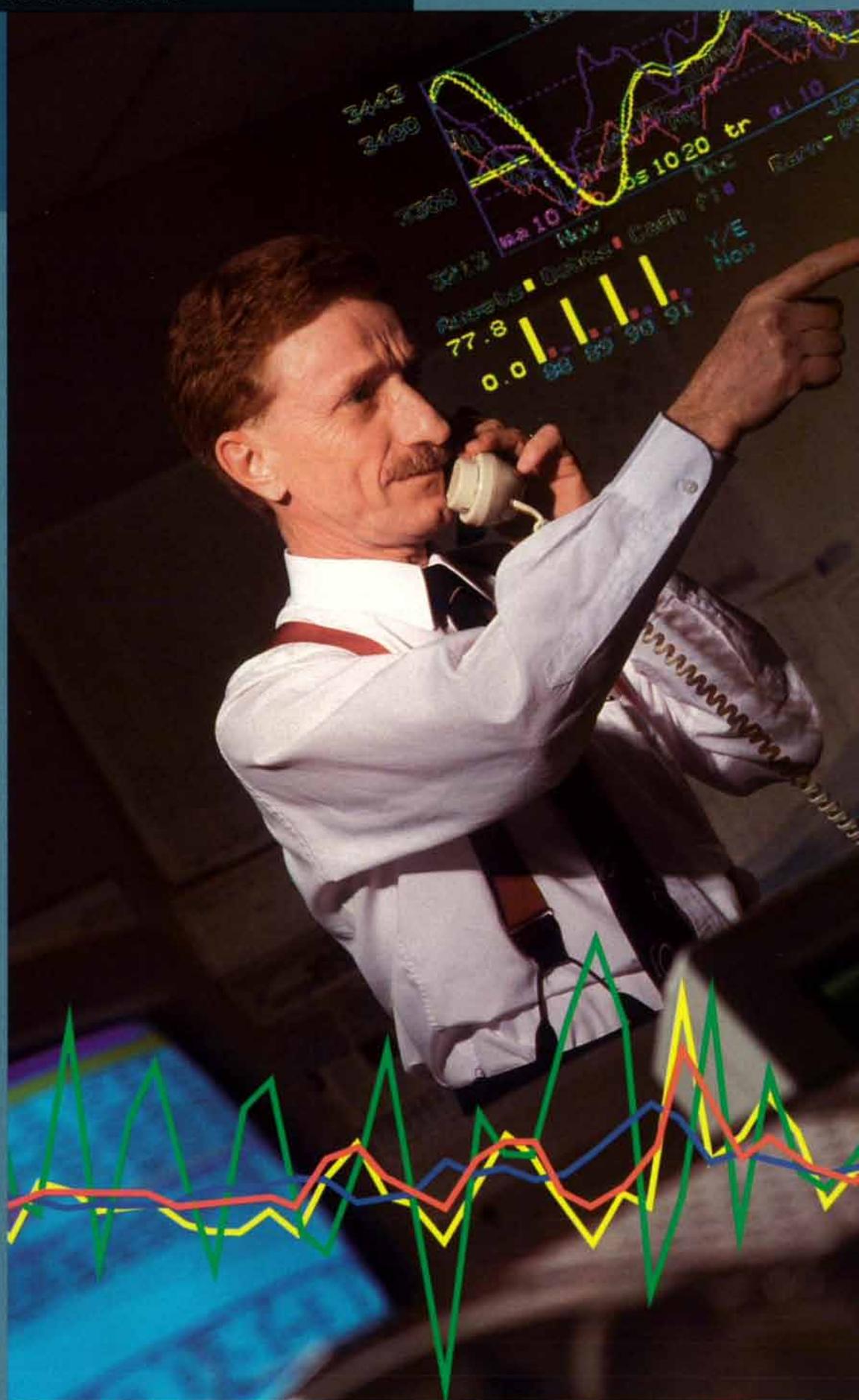
|  |  | 6 COMPARISON OF RETURN ON INVESTMENTS AND FINANCIAL INDICES |       |                                     |      |                         |      |
|--|--|---|-------|-------------------------------------|------|-------------------------|------|
|  |  | 1992  |       | Annual compound rate for the period |      |                         |      |
|  |  |   |       | 1988-1992<br>(5 years)              |      | 1983-1992<br>(10 years) |      |
| Bonds                                      | ScotiaMcLeod Bond – Universe                                 | 9.6   | 9.8   | 12.7                                | 12.3 | 13.4                    | 12.7 |
| Canadian shares                            | TSE 300  | (0.6)   | (1.4) | 5.9                                 | 4.9  | 9.9                     | 9.2  |
| Foreign shares <sup>1</sup>                | Morgan Stanley Capital International – World Index (MSCI-WI) | 0.1   | 0.1   | 6.0                                 | 4.8  | –                       | –    |
| Mortgages                                  | ScotiaMcLeod Mortgage (3 years)                              | 10.2  | 10.1  | 12.5                                | 12.2 | 13.1                    | 12.5 |
| Specific real estate investments portfolio |  | (15.0)  | –     | 1.8                                 | –    | 9.0                     | –    |
| Short-term investments                     | ScotiaMcLeod – Canada Treasury bills (91 days)               | 6.7   | 7.1   | –                                   | –    | –                       | –    |
| Total investments                          |  | 4.5   | –     | 9.7                                 | –    | 11.7                    | –    |
| Current rate of return <sup>2</sup>        |  | 7.5   | –     | 9.2                                 | –    | 10.1                    | –    |

in percentage

<sup>1</sup> 1991 and 1992 data include hedging of foreign exchange risk.

<sup>2</sup> The current rate of return is calculated at book value while the other rates of return are calculated at market value using the time-weighted method.

INVESTMENT OPERATIONS



## Bonds

Bond market performance varied greatly from North America to Europe in 1992, although the extreme volatility of securities offered comparable investment opportunities in both continents. In Europe, short-term interest rates in Germany, France and England were substantially higher than long-term rates. However, in England the yield curve shifted in the fourth quarter, with the result that long-term rates were higher than short-term rates. In North America, U.S. long-term rates remained above short-term rates throughout the year, as did Canadian rates, with a few exceptions. In addition, five-year bond rates dropped in Germany and England, while they fluctuated in North America regaining their initial levels. Rate fluctuations during the year were at times very sudden, especially for rates on five-year Canadian bonds.

Investors continued to show strong interest in the secondary market for Québec public sector securities in 1992. The Caisse thus traded close to \$29.6 billion of gouvernement du Québec and Hydro-Québec bonds on the secondary market, as against nearly \$22 billion in 1991. The relative value of these bonds continued to attract the attention of investors who were able to efficiently sell or purchase large amounts. In addition, the Caisse negotiated more than \$1.5 billion of bonds issued mainly by municipalities, hospitals and school boards throughout

Québec. Overall, the Caisse's activities contributed to these bond markets' effectiveness.

The Caisse made new investments on the primary market for Québec public sector securities. These investments, in the form of bonds, totalled \$1.3 billion in 1992 and comprised chiefly gouvernement du Québec and Hydro-Québec bonds.

On the international front, the Caisse was more active in Europe, where it traded the equivalent of CA \$13.8 billion of European securities on the French, German and British markets, up from \$11.6 billion in 1991. In order to ensure flexibility in its portfolio management, the Caisse continued to be an active player on the Canadian and U.S. bond futures markets. For instance, since 1989, it has used futures contracts on 10-year Government of Canada bonds, which are traded solely on The Montréal Exchange. It also uses other synthetic and derivative products such as swaps and futures options on U.S. Government bonds.

The bond portfolio consists of securities purchased on a permanent investment basis and actively managed, as well as securities acquired on a temporary basis. The latter, which are highly liquid, are used to control the portfolio's targeted duration and to facilitate the Caisse's activities in the Québec public sector securities market. As at December 31, 1992, securities held on a

### 7 SUMMARY OF ACQUISITIONS OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC AND QUÉBEC PUBLIC SECTOR IN 1992

|  | Canadian market |      | World market <sup>1</sup> |      | Other markets <sup>2</sup> |     | Total   |      |
|--|-----------------|------|---------------------------|------|----------------------------|-----|---------|------|
|  |                 | (%)  |                           | (%)  |                            | (%) |         | (%)  |
| Gouvernement du Québec                               | 875.0           | 31.3 | -                         | -    | -                          | -   | 875.0   | 14.3 |
| Hydro-Québec<br>and other government<br>corporations | 250.0           | 90.9 | 200.0                     | 16.7 | -                          | -   | 450.0   | 10.3 |
| Municipalities and<br>guaranteed by grants           | 3.4             | 0.2  | -                         | -    | -                          | -   | 3.4     | 0.1  |
|  | 1,128.4         | 22.8 | 200.0                     | 16.7 | -                          | -   | 1,328.4 | 10.1 |

at par value - in millions of dollars

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

<sup>2</sup> issues in various currencies or in Canadian Eurodollars and totalling \$7 billion

temporary basis represented 18.3% of the total bond and mortgage portfolios, with the remainder held on a permanent investment basis.

At year-end, the bond portfolio had a market value of \$19.9 billion, an average maturity of 10.46 years, an average coupon rate of 8.1% and a modified duration of 5.56 years. At book value, the portfolio amounted to \$19.2 billion, compared with \$18.5 billion at year-end 1991.

### Short-Term Investments

Although interest rates regained their beginning-of-year levels at the end of December, rate fluctuations in 1992 nevertheless caused the Canadian money market to evolve in three distinct phases. Following a slight dip at the beginning of the year, interest rates fell steadily until the end of the summer, prompting a marked firming of the money market. In fact, between March and September, the yield on three-month Canadian Treasury bills fell 300 basis

## 8 SUMMARY OF BOND AND MORTGAGE PORTFOLIOS ACCORDING TO TYPE OF ISSUER

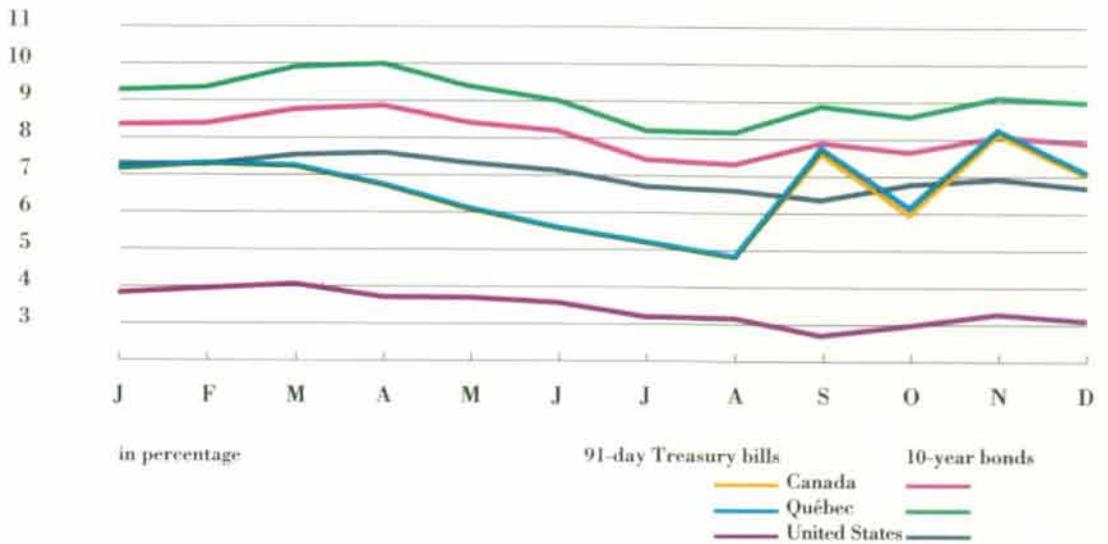
| Securities   | At market value |       | Average nominal       | Average maturity <sup>1</sup> | Modified duration <sup>2</sup> |
|--|-----------------|-------|-----------------------|-------------------------------|--------------------------------|
|  |                 | (%)   | rate <sup>1</sup> (%) | (years)                       | (volatility)                   |
| <b>Permanent investment basis</b>                      |                 |       |                       |                               |                                |
| Issued by the gouvernement du Québec                   | 8,219.5         | 37.5  | 8.22                  | 8.25                          | 5.15                           |
| Government issued or guaranteed                        | 5,402.6         | 24.6  | 7.26                  | 12.73                         | 6.52                           |
| Guaranteed by grants, municipalities and school boards | 2,128.0         | 9.7   | 11.00                 | 7.64                          | 4.96                           |
| Corporate and other                                    | 128.4           | 0.6   | 11.57                 | 12.30                         | 5.03                           |
|  | 15,878.5        | 72.4  | 8.22                  | 9.86                          | 5.59                           |
| Mortgages  | 2,047.4         | 9.3   | 10.70                 | 3.58                          | 2.51                           |
|  | 17,925.9        | 81.7  | 8.50                  | 9.14                          | 5.24                           |
| <b>Temporary investment basis</b>                      |                 |       |                       |                               |                                |
| Government issued or guaranteed                        |                 |       |                       |                               |                                |
| Canada   | 2,304.3         | 10.5  | 8.60                  | 13.64                         | 6.92                           |
| United States  | 580.8           | 2.7   | 4.75                  | 18.60                         | 8.56                           |
| France   | 508.6           | 2.3   | 6.05                  | 11.72                         | 6.67                           |
| Germany  | 528.9           | 2.4   | 8.36                  | 5.61                          | 4.31                           |
| England  | 69.3            | 0.3   | 8.75                  | 4.67                          | 3.82                           |
| Other  | 25.9            | 0.1   | 9.62                  | 2.00                          | 1.31                           |
|  | 4,017.8         | 18.3  | 7.52                  | 13.06                         | 6.69                           |
|  | 21,943.7        | 100.0 | 8.33                  | 9.85                          | 5.51                           |

as at December 31, 1992  
in millions of dollars

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

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

**9 EVOLUTION OF YIELD IN 1992**



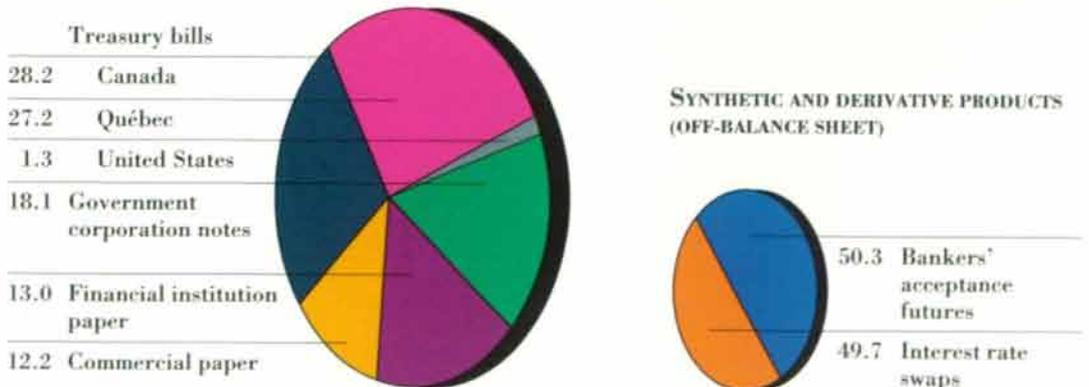
points, from 7.6% to 4.6%. Then in the fall, sudden and dramatic fluctuations in interest rates created an unprecedented turnaround on the money market. For example, chartered banks raised their prime lending rates by 350 basis points, of which 200 in the last week of September alone.

During the fourth quarter, the problems related to the European Exchange Rate Mechanism spread to world markets, affecting exchange and interest rates. The Canadian dollar was extremely hard hit, particularly as the crisis on international currency markets occurred as many Canadian companies were suffering the effects of harsh economic conditions, foreign-currency denominated Canadian government securities were being

rated downward and the Constitutional debate was entering a crucial phase.

Consequently, the Caisse adopted portfolio positions designed to capitalize on the steady decline in interest rates as of the spring. The average duration of the portfolio was therefore maintained at 120 days, with more than 78.3% of the portfolio being comprised of high-quality, mainly government-guaranteed securities. The exceptional money market upheavals during the last quarter did not, however, yield the expected benefits of such a positioning. Nonetheless, the high quality of the securities in the portfolio helped to deflect the potential dangers of corporate securities, which represented a particularly high risk in 1992 because of the weak economy.

**10 BREAKDOWN OF SHORT-TERM INVESTMENTS**



as at December 31, 1992  
at par value - in percentage

Furthermore, the Caisse used the opportunities afforded by its sophisticated information systems to create a range of short-term deposits, which it offered to its depositors for the management of their cash resources. These systems can calculate daily portfolio yields and position maturities to provide optimal returns. This practice is part of a portfolio strategy geared to interest rate forecasts, based on a daily valuation of short-term investments at market value.

During the year, the Caisse maintained a high volume of transactions involving derivative products, notably those traded on The Montréal Exchange, such as one- and three-month bankers' acceptance futures. Interest rate swaps were also performed to reduce interest rate risks for certain asset categories. The Caisse is making increasing use of derivative products since their flexibility meets the objectives of streamlining the investment strategies required by investors who actively manage their portfolios.

As at December 31, the aggregate short-term investments portfolio totalled \$2 billion, at par value and at book value. In addition, off-balance sheet synthetic or derivative products represented a theoretical gross value of 14.7% of the short-term investments portfolios.

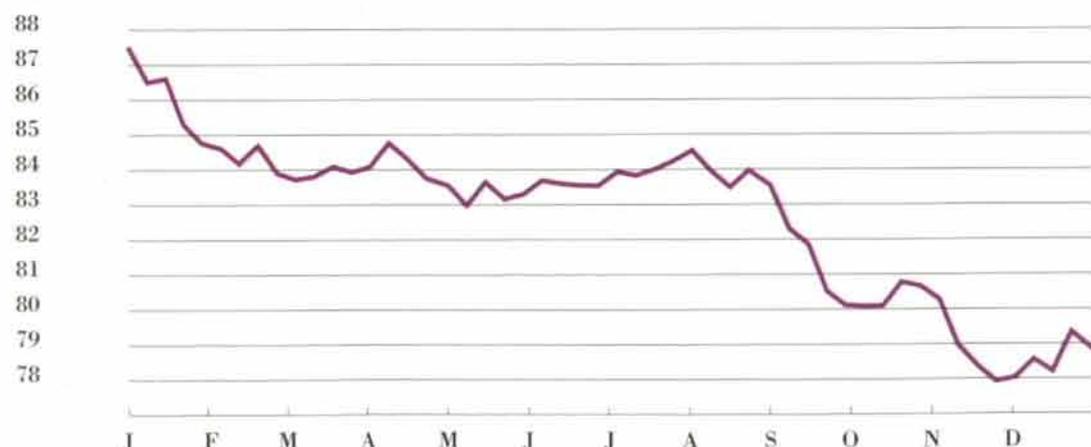
### Currency Markets

In 1992, currency markets evolved in a context marked by the Canadian dollar's depreciation against major currencies, with the exception of the pound sterling. The Canadian dollar fell 9.1% against its U.S. counterpart and 3.6% against the deutsche mark between December 1991 and December 1992.

The results of in-house research revealed that conventional economic models alone are not enough to project currency fluctuations accurately and correctly, because they only partially explain their evolution. As well, the research confirmed that a foreign investments portfolio hedged against exchange risk generally has a higher risk-return profile than an unhedged portfolio. With a view to the medium term, the Caisse consequently continued to apply its policy of hedging foreign investments against exchange risks.

The aim of hedging operations is to protect against the risks inherent in exchange rate fluctuations by taking buy or sell positions that offset positions already taken. These operations, carefully carried out so as to take advantage of favourable currency spreads, respect three specific parameters: optimal currency choice, modified average hedging maturity and tactical exchange position management.

11 EVOLUTION OF CANADIAN DOLLAR IN 1992



in U.S. cents per Canadian dollar

A tactical exchange positions portfolio, created during the year and structured according to well-defined limits and criteria, allowed the Caisse to take advantage of short-term fluctuations in exchange rates. This new portfolio meets the objectives set for active management and optimal return. The resulting gains partly offset the results obtained from optimizing the choice of currencies and managing the average maturity of the forward exchange contracts portfolios.

In 1992, the Caisse's currency operations continued to post remarkable growth. Currency volumes bought and sold rose 61% to CA \$124.1 billion in regard to foreign equity, bond and short-term investments, which amounted to \$6.2 billion at market value at year-end, or 15.1% of the Caisse's total portfolio.

#### Canadian Equities

Canadian listed companies reported lower earnings and dividends for the third consecutive year. Earnings fell 72.1%, compared with 61.9% in 1991 and 24.6% in 1990, while dividends declined 8.5% as against 10.4% in 1991 and 3.3% in 1990. As a result, the TSE 300 composite index, which had reached 12% in 1991 because of overly optimistic expectations, closed 1992 with a return of -1.4%. The return of the Montréal portfolio index, for its part, was -0.6%, compared with 11.9% in 1991.

Six sectors outperformed the TSE 300 index. Gold and silver led the way at 7.6%, reflecting

the growth outlook for American Barrick and favourable market reaction to the reorientation of Placer Dome. Oil and gas came in second at 5.7%, the result of the improved outlook for the natural gas market in North America. Communications placed a close third at 5.5%, attributable to Quebecor and companies active in the cable television or cellular telephone industries, such as Vidéotron, Maclean Hunter and Rogers Communications. Consumer products stood at 4.2%, due to continued investor confidence, especially in the stock of Magna, the auto parts manufacturer, and of Imasco, which is reaping the benefits of its earlier restructuring. Industrial products yielded 2.8%, in response to the encouraging outlook for Nova's chemical products and the spectacular rise of Newbridge Networks which sells cutting-edge technology. Pipelines, at -0.7%, made a slightly positive contribution to the TSE 300 performance, as a result mainly of TransCanada PipeLines' dominant position.

Of the sectors that had a negative impact on the index, metals and minerals, at -1.8%, were affected by the weak European and Japanese economies, while paper and forest products, at -2.1%, were hard hit by large asset write-offs and the dilution that resulted from numerous stock issues. Utilities finished the year at -4.1%, as even the confidence raised by BCE Mobile's strong performance failed to overcome the reluctance of investors who believed that interest rates had reached their lowest level.

12 **XXM INDEX IN 1992**



XXM: Montréal

Transportation closed the year at -4.4% largely because of the difficulties in the airline industry. Financial services, at -6%, reflected the problems in the real estate sector, the focus on paying down debt following the excesses of the 1980s and the possibility that long-term interest rates had bottomed. Distribution and services, at -6.8%, mirrored the impact of demographic fluctuations and high consumer debt loads. Conglomerates ended the year at -8.4%, attributable to Canadian Pacific's disappointing results. Real estate and construction placed last with -53.6%, due to surplus capacity and weak corporate earnings.

On a thematic basis, the best performing portfolios in 1992 consisted of stocks with above-average relative historic price growth, stocks of corporations with strong asset and sales growth, as well as stocks with relatively weak valuation ratios. However, portfolios consisting of very volatile stocks of large, heavily-indebted corporations turned in a disappointing performance.

Given the recovery under way and projected economic growth, the Caisse geared its investment strategy to sectors which are sensitive to an upturn in economic activity, selecting stocks of corporations that are export-oriented and leaders in their respective markets. Other criteria such as low-cost production capacity and strong earnings potential also guided the Caisse's investment decisions.

The breakdown of main net purchases per sector was as follows: \$263 million was allocated to industrial products, \$233 million to metals and minerals, \$155 million to oil and gas, \$138 million to paper and forest products, \$100 million to consumer products and \$93 million to conglomerates.

To improve control of the underlying investment risks, the Caisse set up a system whereby Canadian equity investments are distributed among a series of portfolios actively managed in-house. The portfolio managers apply a different management method to each portfolio, all of which are loosely correlated. In 1992, the Caisse created a multistrategic portfolio. Using a quantitative model, the manager selects stocks according to clearly-defined criteria in order to obtain the best risk-return ratio. This risk management system serves to reduce the volatility of the aggregate portfolio and, consequently, increase returns in the long term. Moreover, the market value of the small-capitalization Canadian equity portfolio, created in 1991, totalled \$115.4 million at year-end, while that of the multistrategic portfolio amounted to \$721.3 million. The Caisse's overall Canadian equity portfolio had a market value of \$11.3 billion, which included medium- and long-term corporate investments.

The portfolio's financial and stock market ratios were: price-earnings multiple, 36.1; price to book value, 1.4; current dividend yield, 2.9%; and debt ratio, 0.68. The risk exposure for the total portfolio was evaluated at 153 basis points above or below its average long-term return, with a probability of 66.7% or two years out of three.

In addition, since analyzing and processing information is an essential component of investing, the Caisse is adding a leading-edge communications network through which it can access a number of internal and external financial data banks, as well as sophisticated management tools. Lastly, the Caisse together with The Montréal Exchange created and launched two derivative products: PEACs, securities that generate revenues and SPECs, which are similar to long-term equity warrants. Investors can therefore choose between the dividend income and the capital gain potential of common stocks.

### Foreign Equities

The market value of the specific foreign equity investments portfolio rose from \$3.7 billion to \$4.1 billion. The portfolio contains almost all of the Caisse's foreign equities, with the exception of international corporate investments, and it accounts for 10% of total investments compared to 9.1% a year earlier. At year-end, the geographical distribution of the specific portfolio was as follows: United States, 43.1%; United Kingdom, 11.9%; France, 4.7%; Germany, 3.2%; other European countries, 8.9%; Japan, 23.7%; and other Asian countries and Oceania, 4.5%. The book value of this portfolio reached \$4.3 billion compared to \$3.6 billion in 1991.

The specific foreign equity investments portfolio is managed according to three different methods. First, external managers are given a global mandate, subject to specific restrictions, to invest anywhere in the world except in Canada. Second, an in-house team manages U.S. and European equity funds. Third, funds whose proportions are established by the in-house team are indexed to the U.S., U.K., German, French, other

European, Japanese and other Asian countries and Oceania sub-indices of the world index. At year-end, the market value of these three investment categories was \$0.6 billion, \$1.7 billion and \$1.8 billion respectively.

In 1992, three European equity funds were added to the \$1.3 billion U.S. equity fund which is managed by an in-house team. Thus, \$400 million drawn from the indexed funds was allocated to the three new funds, the first of which comprises U.K. stocks, the second, German equities and the third, stocks from other European countries.

The Canadian dollar's depreciation against most major currencies led to a lower return on foreign currency investments, as a result of hedging operations against exchange risks.

The emergence of new markets abroad will offer investors greater diversification opportunities in the years to come. The Caisse is keeping a close eye on these promising markets, whose quality can only improve in line with the expansion of the various national economies.

### 13 STOCK MARKET INDICES IN 1992

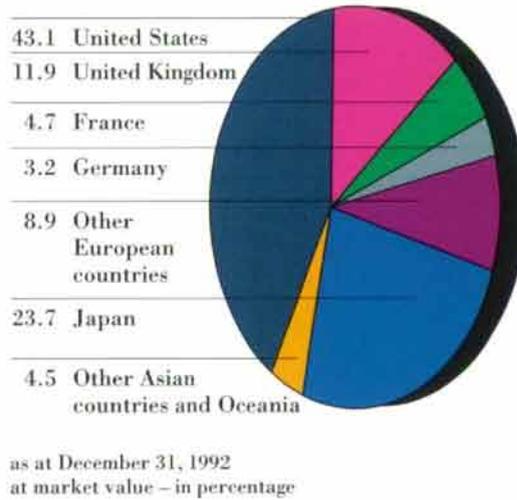
| Indices               | Location       | In local currency | In Canadian dollars |
|-----------------------|----------------|-------------------|---------------------|
| XXM                   | Montréal       | (0.6)             | (0.6)               |
| TSE 300               | Toronto        | (1.4)             | (1.4)               |
| Standard & Poor's 500 | United States  | 7.6               | 18.4                |
| MSCI-WI               |                |                   |                     |
| Sub-index             | United Kingdom | 18.7              | 5.4                 |
| Sub-index             | Germany        | (4.5)             | (0.8)               |
| Sub-index             | Japan          | (21.5)            | (13.6)              |

total return - in percentage

**14 EVOLUTION OF INVESTMENTS IN FOREIGN SHARES AS PART OF TOTAL INVESTMENTS**



**15 GEOGRAPHICAL BREAKDOWN OF THE SPECIFIC FOREIGN EQUITY INVESTMENTS PORTFOLIO**



**Corporate Investments**

For the third consecutive year, a great many Québec companies reported sharply reduced operations. As a result, these companies were forced to strictly control their operating expenses and, often, to keep investments to a minimum.

The Caisse continued to provide support to its partners who, in such an economic climate, demonstrated sound management skills and medium- and long-term potential. It therefore took part in a number of refinancings and actively supported its partners' rationalization and turnaround efforts. These efforts were well-rewarded in the case of Sceptre Resources, Bio-Research Laboratories and Téléglobe Inc. However, some companies were not able to achieve the projected turnaround, which was the case for Steinberg, Groupe Harricana and Artopex.

In contrast, the Caisse realized substantial gains on the partial sale of certain investments, notably securities of Imprimeries Quebecor, Groupe Vidéotron and BioChem Pharma. The Caisse's sales totalled \$254.3 million distributed among 20 investments, for a gain of \$21.5 million, reflecting its dynamic portfolio management.

The Caisse authorized a total of 32 investments during the year, representing commitments of \$334 million, compared with nine investments amounting to \$100.6 million in 1991. Of the value of these commitments, 40.2% will be in the form of investments in commercial and industrial companies, 8.1% in venture capital companies, 4.2% in regional investment companies and 47.5% in foreign investment companies, which will promote the development of an international network of companies committed to financing small- and medium-sized businesses.

With respect to investments in commercial and industrial companies, the Caisse authorized 17 investments totalling \$134.3 million, including nine investments for \$45.8 million which will be used to help these companies develop and expand. In addition, eight investments totalling \$88.5 million will be used to finance the restructuring of the companies in the portfolio.

In Québec, the Caisse authorized five investments totalling \$27 million in venture capital companies which carry out activities that complement its own. Moreover, together with the National Bank, the Fonds de solidarité des travailleurs du Québec and Investissement Desjardins, its partners in the project to set up regional investment companies, the Caisse undertook to complete this network originally set up in 1988. A number of new regional investment companies, including

**16 EVOLUTION OF CORPORATE INVESTMENTS PORTFOLIO**



at market value – in millions of dollars

- As at December 31, 1991
- As at December 31, 1992
- Decrease in value
- Redemptions and sales
- New investments

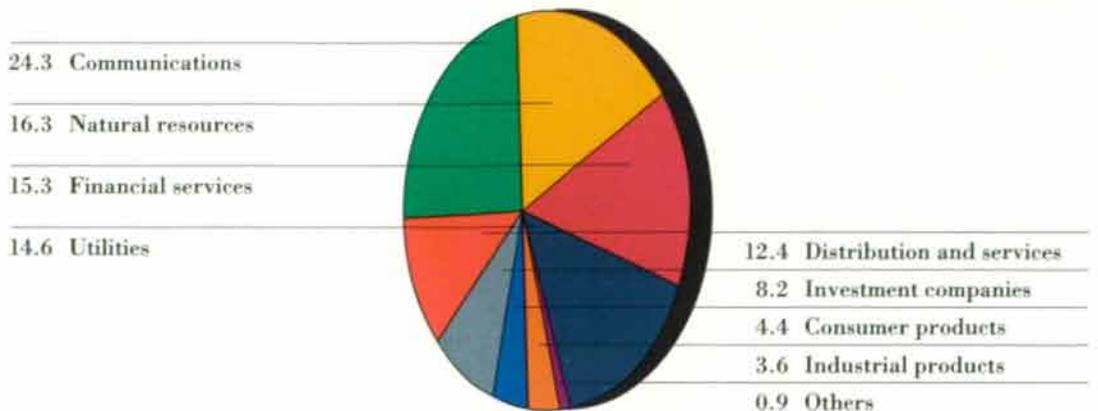
Gestion Capital 07 created in 1992 in the Outaouais region, will join Capidem in Québec City, Capital de l'Estrie, Investissements Gaspésie-les-Îles-de-la-Madeleine and Investissements Mauricie-Bois-Francs-Drummond. Once completed, this network will dispose of about \$100 million to serve Québec small businesses with capital requirements of no more than \$500,000.

This brings to \$103.9 million the Caisse's investment commitments in no fewer than 20 venture capital and regional investment companies in Québec. Once these investment projects are realized, the aggregate capital invested in these companies will total \$801.5 million. In addition, it is interesting to note that the venture capital sector in Québec accounts for more than 45% of the industry in Canada.

Through its investments in foreign companies, the Caisse meshes its objective of optimal return with its desire to effect financial, commercial and technological exchanges in order to better sustain the development efforts of Québec companies. It therefore invested in the Belgian company Cobepa S.A., Boston-based TA Associates, and CAI Capital of New York and Montréal. These investments have more than doubled the net market value of the international corporate investments.

Since the bond market cannot always satisfy the requirements of companies requiring financing of between \$30 million and \$125 million, the Caisse decided to play an active role in this area. Using its expertise in basic analysis, and thanks to its complete fixed-rate structure, the Caisse intends to

**17 BREAKDOWN OF CORPORATE INVESTMENTS PORTFOLIO BY SECTOR OF ACTIVITY**



as at December 31, 1992  
at market value – in percentage

further diversify the range of services that it already offers to Québec companies. This gesture is in line with its objective of generating an optimal financial return and contributing to the dynamism of the Québec economy.

As at December 31, 1992, the market value of the aggregate corporate investments portfolio, which represented 4.2% of the Caisse's total investments, amounted to \$1.72 billion and was broken down among national and international investments for \$1.6 billion and \$0.1 billion respectively.

### **Mortgages**

Mortgage rates were somewhat volatile, reflecting the uncertainty on financial markets in 1992. For example, five-year mortgage rates for rental properties fluctuated between 10.5% and 8.5%. Lower interest rates accounted for some of the growth in mortgage lending activity. The Caisse granted a total of \$171.6 million in mortgage loans, of which \$35.8 million was for properties outside Montréal and Québec City.

In the office buildings sector, the Caisse granted several prime financings, including one of \$38 million for a property located in Montréal, another of \$3.1 million in Sherbrooke, and it also refinanced a third property in Sainte-Foy for \$3.8 million.

The commercial sector was hard hit by the downturn in the real estate market. Disappointing vacancy rate statistics and tenants' difficulties in meeting their obligations hampered the recovery in this sector. Although demand picked up at year-end, credit supply remained sluggish due to the cautious approach adopted by lenders. The Caisse granted several mortgage loans in this sector, including one for \$7.8 million for the construction of a large warehouse in Anjou and another for \$6.4 million for a commercial building in Laval. It also granted a new \$19.7 million loan for a shopping centre in Chicoutimi.

The industrial sector also had its share of problems, as evidenced by the high vacancy rate in Montréal and throughout Québec. One of the Caisse's main activities in this sector was a \$3.2 million loan for a prime property in Saint-Laurent.

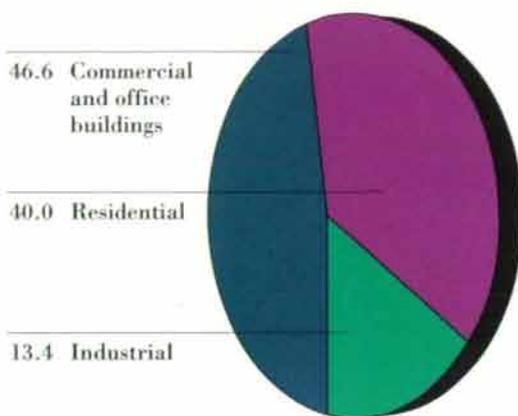
The residential sector performed relatively well in 1992 because of an active resale housing market which helped spur mortgage credit demand. However, housing starts dropped below 1991 levels. In the apartment buildings sector, the Caisse financed a housing complex in Île-des-Sœurs for \$30 million, and granted \$6 million and \$6.9 million in mortgage loans for two properties of 262 and 283 units respectively in Longueuil. The Caisse also granted a new \$4.7 million loan for a 121-unit apartment building in Charlesbourg.

In addition, the Caisse granted a portion of its residential mortgage loans through its three representatives, Desjardins Trust, General Trust of Canada and Trust Prêt et Revenu. By making use of their expertise and branch networks, the Caisse is able to increase mortgage loan supply for single-family housing, condominiums and multi-unit housing of four units or less. In 1992, loans granted through these representatives amounted to \$25.7 million, or 13% of all new loans.

The Caisse also made net investments of \$33.1 million in mortgage-backed securities, the payment of which is guaranteed under the *National Housing Act* (NHA). NHA securities provide timely payment guarantees by the federal government and are thus a secure investment. They are traded on the secondary market and are fairly liquid, which helps the Caisse to manage its treasury and the structure of each depositor's portfolio maturities more effectively. Lastly, since they represent a source of financing to lenders, investments in NHA mortgage-backed securities help to raise residential mortgage supply.

Of the total loans in the portfolio, 140 were non-performing. These include loans for which payment is past due by more than three months, as well as properties that have been repossessed and remain unsold. In 1992, they amounted to \$55.7 million or 2.8% of mortgages. This low percentage is illustrative of the intrinsic quality of the overall portfolio and of the prudent management practices applied.

At year-end, the Caisse's mortgage investments reached close to \$2 billion at book value. Their market value was over \$2 billion, or 5% of



as at December 31, 1992  
at market value - in percentage

total investments. The mortgage portfolio can be broken down as follows: residential, 40%; commercial and office buildings, 46.6%; and industrial, 13.4%. Investments in NHA mortgage-backed securities and interest rate swaps included in residential sector securities accounted for 4.5% of the portfolio.

As at December 31, 1992, the average nominal rate was 10.7% and the average maturity was 3.6 years. The modified duration was 2.5 years, which was in line with the modified duration of the ScotiaMcLeod index for three-year mortgages.

#### Real Estate Investments

The weak economic recovery, corporate rationalization measures and the dramatic drop in the value of principal real estate holdings all combined to further aggravate the depressed Canadian real estate market. This environment had a negative impact on current income from real estate operations and on interest in real estate investments, which in this context were viewed as a higher-risk investment, thus exerting downward pressure on values.

Groupe immobilier Caisse, which is made up of the subsidiaries Cadim Inc., Ivanhoe and Société Immobilière Trans-Québec (S.I.T.Q.), focussed its efforts on closely managing its real estate holdings.

The Caisse's investment in the Rockland Centre rose from 63.7% to 70.3%. A number of major renovation projects begun last year were completed, notably the Trois-Rivières-Ouest shopping centre and, in Montréal, Place Dupuis in collaboration with the S.I.T.Q., and Tour de la Place-Victoria, with Magil Laurentian. In addition, major work was begun by Ivanhoe at the Mail Champlain shopping mall in Brossard and at the Faubourg de l'Île shopping centre in Pin court. Despite a very difficult rental market, lease renewals were negotiated with major tenants in Place Dupuis, Place Mercantile and Tour de la Place-Victoria in Montréal. At year-end, aggregate capital expenditures amounted to \$80.9 million, while sales totalled \$14.9 million.

During the year, Ivanhoe had to contend with the closure of the M stores and Steinberg's inability to meet its obligations. Because of the prime location of the premises rented to Steinberg supermarkets, the leases were able to be negotiated and transferred to new tenants, namely Métro, Provigo, and Hudon et Daudelin. However, certain leases, specifically those of the Aligro warehouses in Québec and the Rexdale complex in Ontario, were not assumed by these new tenants. Ivanhoe, which owns nine M store premises and has a minority interest in four others, tried to lease these premises within a reasonable period of time. Some have now been leased and potential tenants have expressed an interest in most of the remainder. Closure of the M stores and the Steinberg situation resulted in loss of income and a drop in values in the short term. However, given the improved financial quality of the tenants, the overall impact of these events should prove favourable over the long term.

As at December 31, 1992, the current return on the specific real estate investments portfolio stood at 4.7% and net holdings amounted to \$1.7 billion at market value and were derived from investments totalling \$2.5 billion, net of related bank and mortgage loans, third-party minority interests and other assets and liabilities totalling \$792 million. The specific real estate investments portfolio consists mainly of bonds, stocks, mortgages and short-term investments, as well as actual real estate investments, specifically buildings and land.

The latter, net of related liabilities, totalled \$1.6 billion at market value, or 3.9% of the Caisse's total investments.

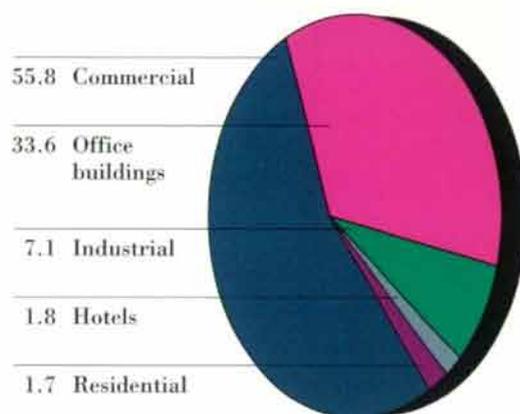
The book value of the portfolio's investments remained relatively stable, rising \$32 million. In accordance with the Caisse's policy, the market value of real estate investments is determined through an independent assessment of a strict and prudent valuation of these investments. For 1992, this assessment proved more difficult, especially given the very low volume of major real estate transactions in Canada.

Weak economic activity in Québec and Ontario, where 90% of the investments of Groupe immobilier Caisse are located, pushed real estate values down in 1992. The difficult conditions in the real estate sector in general, the exceptional events that occurred, such as the problems that beset large corporations such as Steinberg, the outlook for weaker income growth and expectations of higher returns on the part of real estate investors all contributed to the decline in values. However, the value of the Caisse's specific real estate investments portfolio declined considerably less than that of the real estate and construction index of the TSE 300 composite and Groupe immobilier Caisse companies did not have the same problems as those experienced by the large Canadian real estate companies.

In view of the mix and underlying quality of real estate holdings, better returns can be looked for in the medium term, a time frame which is characteristic of investments in the real estate sector. Current income is an indication of this quality.

The assets of the real estate subsidiaries are consolidated in the portfolio. In addition to properties directly held, which account for 92.3% of the market value of the specific real estate investments portfolio, these assets consist of bonds of real estate companies, 2.3%; stocks, 2.9%; mortgages, 1.7%; and short-term investments, 0.8%.

## 19 BREAKDOWN OF REAL ESTATE PROPERTIES



at as December 31, 1992  
at market value - in percentage

As at December 31, 1992, the breakdown of real estate properties at market value was as follows: office buildings, 33.6%; commercial, 55.8%; industrial, 7.1%; residential, 1.7%; and hotels, 1.8%.

### Tactical Investments

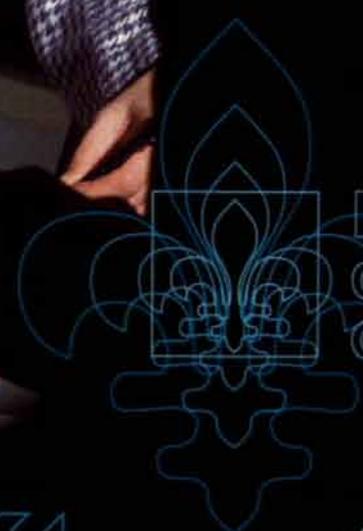
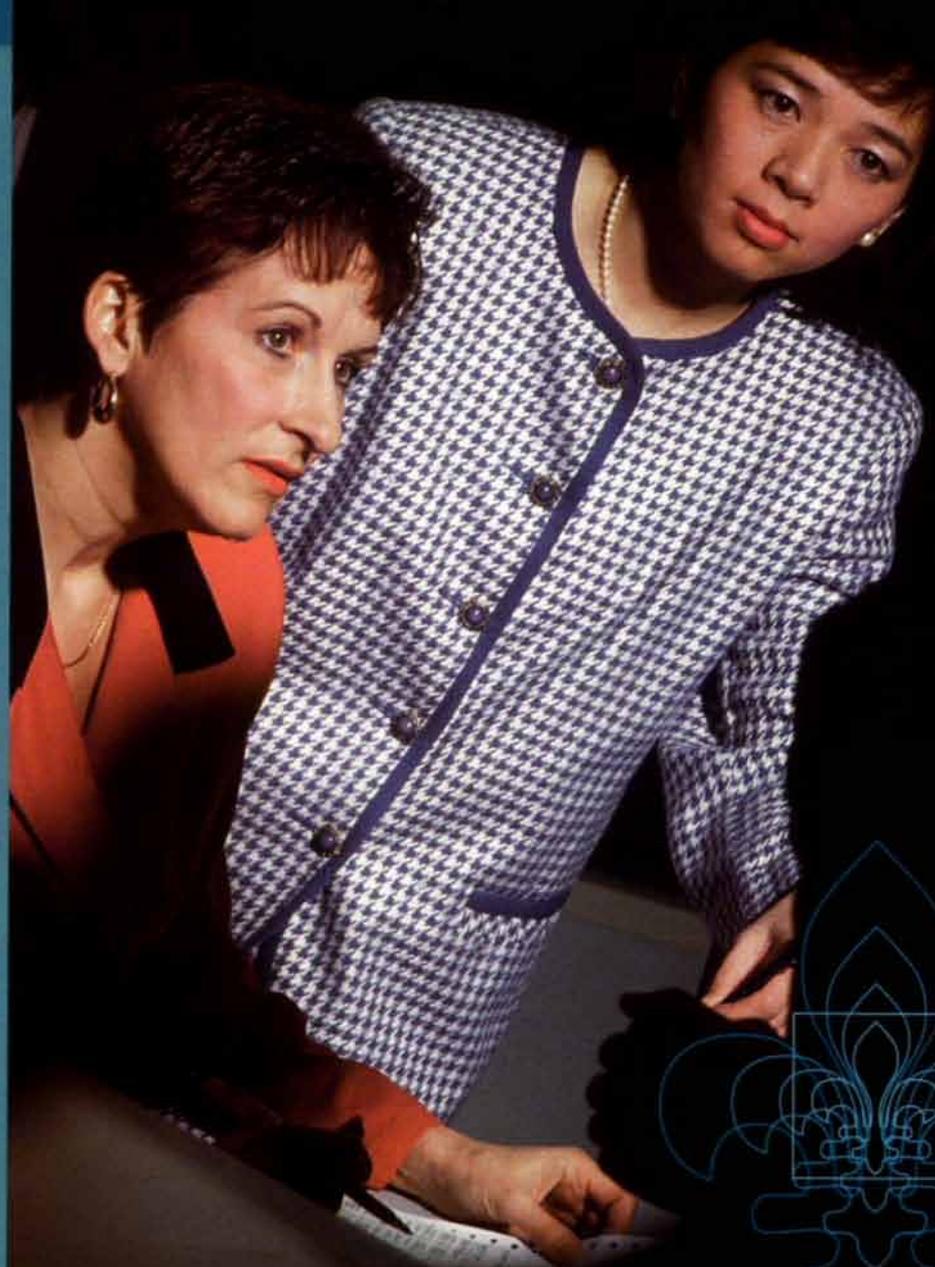
Tactical allocation management is another method of actively managing investments which consists in capitalizing on the yield spreads between various markets, by overweighing certain investment classes and underweighing others.

The tactical investment allocation strategies applied during the year were based on projections for a more rapid economic recovery in North America, and they were largely geared to equity investments, more specifically on Canadian markets, rather than bond and short-term investments. However, these strategies have yet to produce the targeted returns since the Canadian economy reacted little, and the U.S. economy reacted only weakly, to monetary stimuli. Results therefore fell short of objectives. However, results for the past four years indicate that the management of tactical investment allocation generates added value in the return on depositors' benchmark portfolios.

Until the last quarter, the Caisse's tactical allocation management activities were carried out on North American markets alone. In applying its strategies, the Caisse therefore focussed primarily on the spot markets. At year-end, it set up a separate portfolio for the tactical management of investments, which are now carried out not only on North American stock and bond markets, but on French, German, U.K. and Japanese markets as well. This portfolio is made up exclusively of derivative products such as futures, futures options and swaps. By using derivative products, assets no longer need to be transferred in the spot market and the efficiency of tactical investment managers can be more easily evaluated. In this way, the investment vehicles and the diversity of the markets chosen allow for greater diversification of the tactical investments portfolio without sacrificing returns in the medium term.

As regards tactical management of investments internationally, decisions are based on a quantitative approach developed in recent years and successfully applied in North America. Quantitative models allow for risks of the various capital markets to be identified and investment strategies to be defined. These models incorporate monetary and economic variables as well as fundamental and technical market valuations. The research and investment approach developed at the Caisse should lead to the creation of a unique centre of excellence in Québec in the field of international investments.

DEPOSITORS' FUNDS



Régie  
des re  
du Qu

CSST



Gouvernement du Québec  
Commission administrative  
de retraite et d'assurance

Gouvernement du Québec  
Commission administrative  
de retraite et d'assurance

**U**nder legislation adopted by the Québec National Assembly, the Caisse is entrusted with the funds contributed to various public pension and insurance plans and public bodies by more than four million Québécois. Although the organizations concerned administer these plans, the Caisse has the legal responsibility and the mandate to ensure the investment, protection and management of all the depositors' funds in the aim of achieving asset growth.

The Caisse offers management services adapted to changing markets, and, more specifically, new investment vehicles for managing the cash resources of its depositors. Periodically, the Caisse informs its depositors of the economic scenarios which guide it in its decision-making, the overall direction of its investment strategy and its return on investments. Depositors receive complete portfolio reports as well as a detailed analysis of results several times a year. The Caisse maintains contact on a daily basis and meets regularly with its depositors in order to promptly satisfy their requirements.

The Caisse receives funds in the form of demand, term or participation deposits. Demand and term deposits constitute indebtedness toward depositors and bear interest. Participation deposits give the holder a share in the net equity and net income of a particular fund, and so their value depends on the value of the fund to which they are allocated.

In 1992, the book value of depositors' holdings with the Caisse was \$39.5 billion, up \$1.5 billion during the year. This increase was chiefly attributable to net income of more than \$2.9 billion, less net withdrawals

of over \$1.4 billion. As at December 31, 1992, the market value of depositors' holdings totalled \$41.3 billion, or \$1.8 billion over book value.

In addition to reinvesting their investment income, certain depositors made contributions. The Government and Public Employees Retirement Plan (RREGOP) contributed \$477 million. This plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). The Supplemental Pension Plan for Employees of the Québec Construction Industry contributed \$41 million; the plan is administered by the Commission de la construction du Québec. However, other depositors made withdrawals from their investment income in order to satisfy their liquidity requirements: the Régie des rentes du Québec withdrew \$1.4 billion; the Société de l'assurance automobile du Québec, \$297 million, and the Commission de la santé et de la sécurité du travail, \$313 million.

The Caisse has a General Fund, which is a pooled fund with several depositors, and Individual Funds, each with only one depositor.

The Caisse's principal depositor is the Régie des rentes du Québec (R.R.Q.) which manages the public pension plan for Québécois. Presently, the R.R.Q. has 845,000 beneficiaries and the number is expected to increase steadily over the coming years. As a result, it is pursuing its restructuring efforts to better meet the needs of its beneficiaries. During the year, the R.R.Q. withdrew \$1.35 billion compared to \$1.24 billion in 1991. It therefore used its investment income of \$1.14 billion as

## 20 EVOLUTION OF INVESTMENTS



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

- Foreign investments (bonds, shares, short-term investments)
- Total investments

well as \$212 million of its cash resources to meet its current obligations. This enabled it to keep its long-term capital intact in the General Fund.

At year-end, the R.R.Q.'s holdings totalled \$14.5 billion at book value and \$15.2 billion at market value, or 36.8% of total depositors' holdings at market value. The 0.2% annual increase in the contribution rate, implemented in 1987 and applicable until 1996, together with a favourable economic climate, will enable the R.R.Q. to slow the rate of its withdrawals and stabilize its holdings over the coming years.

The Caisse's second-largest depositor, the Government and Public Employees Retirement Plan (RREGOP), has posted the highest growth among the depositors since 1987. Its holdings now account for 31.2% of total depositors' holdings at market value.

The plan covers government employees, as well as those of the education and social services sectors. Since the plan was created, its book value has risen to \$12.4 billion, or close to \$12.9 billion at market value. In 1992, the plan's holdings increased \$1.3 billion, with \$477 million in net contributions added to reinvested income.

The RREGOP comprises two accounts: one for unionized employees and one for non-unionized employees, which also includes employer contributions and supplemental pension plan transfers.

CARRA administers other plans, including the Individual Plans, the General Retirement Plan for Mayors and Councillors of Municipalities and the Pension Plan for Elected Municipal Officers. Their assets total \$120.1 million at book value and \$121.3 million at market value.

## 21 DEPOSITORS

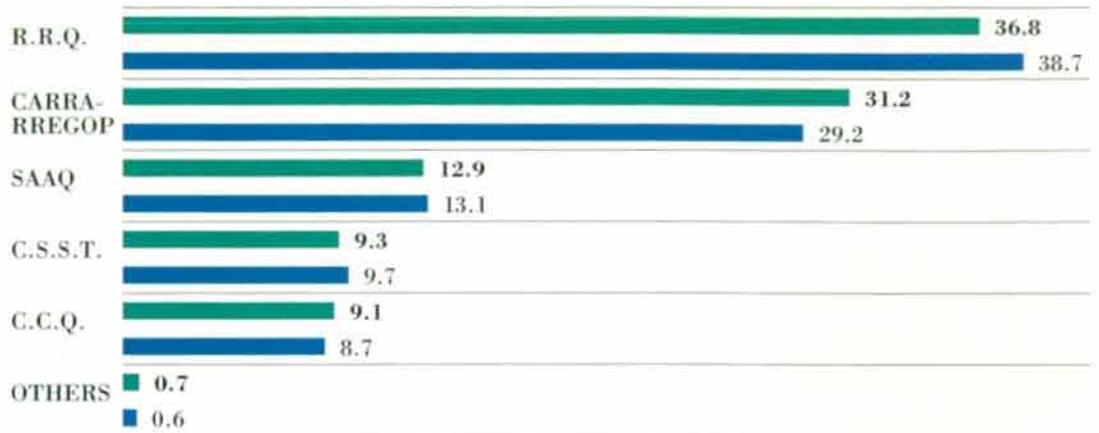
|  | Abbreviation | First deposit | Number of contributors <sup>1</sup> | Depositors' holdings <sup>2</sup> |
|--|--------------|---------------|-------------------------------------|-----------------------------------|
| Régie des rentes du Québec   | R.R.Q.       | 1966          | 2,999,200                           | 15,200.7                          |
| Commission administrative des régimes de retraite et d'assurances              | CARRA        |               |                                     |                                   |
| Government and Public Employees Retirement Plan                                | RREGOP       | 1973          | 490,000                             | 12,895.0                          |
| General Retirement Plan for Mayors and Councillors of Municipalities           |              | 1975          | —                                   | —                                 |
| Individual Plans   |              | 1977          | 500                                 | 42.2                              |
| Pension Plan for Elected Municipal Officers                                    |              | 1989          | 2,200                               | 79.1                              |
| Société de l'assurance automobile du Québec                                    | SAAQ         | 1978          | 4,165,000                           | 5,328.0                           |
| Commission de la santé et de la sécurité du travail                            | C.S.S.T.     | 1973          | 184,030                             | 3,834.6                           |
| Commission de la construction du Québec  | C.C.Q.       |               |                                     |                                   |
| Supplemental Pension Plan for Employees of the Québec Construction Industry    |              | 1970          | 95,000                              | 3,753.1                           |
| Fonds d'assurance-prêts agricoles et forestiers                                | FAPAF        | 1978          | 1                                   | 23.5                              |
| Régie des assurances agricoles du Québec                                       |              | 1968          | 49,488                              | —                                 |
| Régie des marchés agricoles et alimentaires du Québec                          | R.M.A.A.Q.   | 1967          | 58                                  | 3.0                               |
| Régie de l'assurance-dépôts du Québec  |              | 1969          | 1,384                               | 120.6                             |
| La Fédération des producteurs de bovins du Québec                              |              | 1989          | 26,286                              | 1.0                               |
| Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec | R.R.T.A.Q.   | 1990          | 3,093                               | 19.3                              |
| Office de la protection du consommateur  | O.P.C.       |               |                                     |                                   |
| Fonds des cautionnements collectifs des agents de voyages                      |              | 1992          | 1,000                               | 7.1                               |

as at December 31, 1992

<sup>1</sup> estimate

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

22 BREAKDOWN OF TOTAL DEPOSITORS' HOLDINGS



as at December 31  
at market value – in percentage

Certain figures for 1991 have been restated to conform with the presentation of 1992.

■ 1992

■ 1991

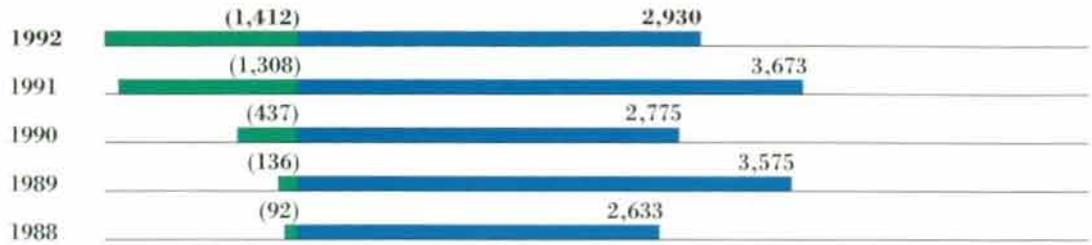
The Caisse's third-largest depositor is the Société de l'assurance automobile du Québec (SAAQ) which administers the general plan that provides insurance against bodily injuries caused by traffic accidents. In 1992, the SAAQ had to withdraw \$296 million of its investment income of approximately \$395 million, compared to a withdrawal of \$329 million in 1991. These withdrawals were due primarily to amounts paid into the consolidated income fund for capital expenditures to improve road safety, as well as the stabilization of income from premiums. As at December 31, 1992, the book value of the SAAQ's holdings was \$5 billion, compared to \$5.3 billion at market value. Holdings represented 12.9% of total depositors' holdings and 25.8% of the General Fund at market value.

In addition, the Commission de la santé et de la sécurité du travail (C.S.S.T.) deposits with the Caisse all the funds it accumulates to pay out industrial accident and occupational disease benefits and to implement policies regarding worker health and safety to ensure improved quality in the workplace. It collects contributions from all employers, providing insurance coverage against risks in their sectors of activity. As at December 31, 1992, the C.S.S.T. had assets of \$3.7 billion at book value. The market value of its holdings decreased \$150.9 million, to more than \$3.8 billion, representing 9.3% of total depositors' holdings. In order to fulfil its commitments, the C.S.S.T. withdrew

\$313.4 million from its income of \$303.7 million in 1992, with the balance from its cash resources, to cover the higher cost of compensation programs, the result mainly of longer benefit periods. The C.S.S.T. will be able to gradually reduce its withdrawals during the next few years, following improved cost control measures as a result of changes made in the legislation governing the C.S.S.T., as well as the higher contribution rate, which rose from \$2.32 in 1991 to \$2.50 in 1992, and is set at \$2.75 for 1993.

The Caisse also manages the funds of certain other supplemental pension plans, including that of workers subject to the decree of the construction industry, administered by the Commission de la construction du Québec. Over the past 10 years, plan assets have almost tripled to \$3.6 billion at book value as at December 31, 1992, an increase of \$291.3 million over 1991, comprising \$41 million of new contributions and \$250.3 million of income. The unfavourable economic conditions within the construction industry and the sharp drop in the number of hours worked accounted for the lower contributions in recent years. At market value, assets totalled \$3.8 billion at year-end, an increase of \$188.5 million from 1991. The plan is divided into three accounts: the active participants' account at \$2.3 billion; the retired participants' account at \$1.1 billion; and the additional contributions account of certain workers at \$0.4 billion.

**23 DISTRIBUTION OF TOTAL DEPOSITORS' NET INCOME AND CONTRIBUTIONS**



in millions of dollars

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

Certain figures for the previous years have been restated to conform with the presentation of 1992.

**24 DISTRIBUTION OF MAJOR DEPOSITORS' NET INCOME AND CONTRIBUTIONS IN 1992**



in millions of dollars

- Net income (investment income less administrative expenses)
- Net contributions (deposits less withdrawals)
- Total

The Caisse's 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 and the Fonds des cautionnements collectifs des agents de voyages. Their holdings, which are in the form of demand, term or participation deposits in the General Fund, totalled \$173.9 million at book value and \$174.5 million at market value as at December 31, 1992.

**A**dministrative expenses totalled \$37.4 million, or 0.09% of assets under management at book value compared with 0.08% in 1991. The sharp increase in the Caisse's activities on the various markets partly accounted for the rise. Furthermore, the Caisse actively managed a greater proportion of its foreign investments, and while this did increase administrative expenses, it also reduced the fees and expenses payable to external managers which would otherwise be deductible from income. Lastly, the Caisse continued the rapid development of its automated management and investment systems, judiciously combining the services of external resources with those of its personnel.

Administrative expenses fall into three main categories: investment activities account for 46%; data processing for 28%; and general administration for 26%. The breakdown was as follows: salaries and employee benefits, 59%; professional fees, 14%; premises and equipment, 11%; and depreciation of fixed assets and other expenses, 16%. In accordance with the provisions governing the distribution of administrative expenses, these were allocated on a pro rata basis among the various funds, based on the market value of each fund's weighted assets.

The Caisse paid \$8.8 million to various financial institutions for external investment management, settlement and custodial services. Of this amount, deducted from investment income, \$2.1 million was paid to Canadian institutions and \$6.7 million to foreign institutions.

The Caisse's human resources management policies and programs were updated with a view to further empowering its employees and ensuring flexible and dynamic personnel management. The Caisse also compared its global compensation practices with those of the market and introduced a new employee performance management program. It allocated 2% of its total payroll to professional development activities.

The Caisse has a total staff of 311 employees, consisting of 43 management personnel, 163 professionals and 105 technical and support staff. In addition, six trainees with Master's degrees in finance and economics are completing on-the-job training in analysis and research.

In terms of its information resources, the Caisse completed the application of its three-year master plan in 1992 to optimize the administration of derivative products, portfolio management instruments and access to in-house and external investment data. Efforts focussed on installing information systems and selecting the technological environment and the software for managing derivative products, trading and managing the risks of bonds and short-term investments in a cutting-edge trading room. Systems for calculating the return on foreign stocks and cash flows by bank and currency, as well as real estate management systems were also installed.

In the area of technology, a specialized firm was mandated to manage the centralized information processing system. The information network is now fully operational and is being used by the majority of employees. The servers for the specialized networks and the telecommunications hardware are now grouped together in a state-of-the-art computer room.

At the environmental level, the Caisse continued to encourage reduced consumption and the reuse of paper as well as purchases of recycled paper. The recycling program introduced in 1991 was extended to all types of waste paper, with the result that more than three tons of paper is gathered each month for recycling purposes.

An in-house team of chartered accountants is responsible for carrying out an in-depth audit of all operations and related controls. Its recommendations are sent to managers in order for them to assume their responsibilities economically, effectively and efficiently. In addition, the contents of the annual and five-year mandates and the results of this work are forwarded to the members of the Audit Committee. The team works independently and reports to the Chairman of the Board and Chief Executive Officer.

The Caisse continued to monitor application of *An Act respecting the protection of non-smokers in certain public places* by following up on requests relating to compliance with the Act.

## MEMBERS OF THE BOARD OF DIRECTORS

- ▲\* **Jean-Claude Delorme**  
Chairman of the Board  
and Chief Executive Officer  
Caisse de dépôt et placement du Québec
- ▲ **Guy Savard**  
President and Chief of Operations  
Caisse de dépôt et placement du Québec
- ▲ **Claude Legault**  
Deputy Chairman of the Board  
President  
Régie des rentes du Québec
- ▲ **Claude Béland**  
President  
La Confédération des caisses populaires  
et d'économie Desjardins du Québec
- \* **Gisèle Desrochers**  
Associate Secretary General  
Senior Appointments  
Executive Council
- Louis Laberge**  
Chairman of the Board  
Fonds de solidarité des travailleurs du Québec  
(FTQ)
- ▲ **Pierre Michaud**  
Chairman of the Board and Chief Executive  
Officer  
Groupe Val Royal Inc.
- Jacques O'Bready**  
President  
Commission municipale du Québec
- Alain Rhéaume**  
Deputy Minister  
Ministère des Finances
- \* **Gabriel Savard**  
President and General Manager  
Société de développement industriel du Québec
- \* **Raymond Sirois**  
Chairman of the Board  
Québec-Téléphone
- André Trudeau**  
Deputy Minister  
Ministère de la Santé et des Services sociaux
- \* also a member of the audit committee  
▲ also a member of the resources committee

## SENIOR MANAGEMENT

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

**Guy Savard**  
President and Chief of Operations

**Carmen Crépin**  
Corporate Secretary

### Senior Vice-Presidents

**Michel Nadeau**  
Investment Planning and Strategic Affairs  
and Stock Markets

**Serge Rémillard**  
Administration and Control

**Jean-Claude Seraire**  
Legal and Corporate Affairs  
and Real Estate Investments

## VICE-PRESIDENTS

**Yves Benoit** – Information Systems and  
Technology

**Pierre Bouvier** – Research and  
Professional Development  
- Investments

**Serge Desjardins** – Internal Audit

**Réal Desrochers** – International Corporate  
Investments

**André Duchesne** – Bond Investments and  
Money Market

**Pierre Fortier** – Corporate Investments -  
Special Projects

**Philippe Gabelier** – Public Affairs

**Hubert Lapierre** – Canadian Stock Markets

**Richard Lesage** – Economics

**Jacques Malenfant** – Human Resources

**Germain Mathieu** – Real Estate Investments

**Yves Moquin** – Tactical Investments

**Walter Murkens** – Depositors' Affairs

**Jean C. Pinard** – Mortgage Investments

**Normand Provost** – National Corporate  
Investments

**Adel Sarwat** – International Stock  
Markets

**Alain Tessier** – Finance



**COMBINED BALANCE SHEET AS AT DECEMBER 31, 1992**

|  | 1992                     | 1991          |
|--|--------------------------|---------------|
|  | (in millions of dollars) |               |
| <b>ASSETS</b>                              |                          | (Note 4)      |
| Investments (Notes 5 and 6)                |                          |               |
| Bonds                                      | 19,200                   | 18,502        |
| Shares and convertible securities (Note 7) | 14,286                   | 13,480        |
| Mortgages                                  | 1,966                    | 2,020         |
| Real estate investments                    | 2,525                    | 2,531         |
| Short-term investments                     | 1,984                    | 1,811         |
|  | 39,961                   | 38,344        |
| Investment income, accrued and receivable  | 538                      | 586           |
| Other assets                               | 99                       | 105           |
|  | 40,598                   | 39,035        |
| <b>LIABILITIES</b>                         |                          |               |
| Deposits on loans of securities            | 191                      | -             |
| Bank loans and notes payable               | 279                      | 253           |
| Mortgage loans payable                     | 428                      | 483           |
| Other liabilities                          | 70                       | 189           |
| Non-controlling interests                  | 85                       | 83            |
|  | 1,053                    | 1,008         |
| <b>DEPOSITORS' HOLDINGS (Note 8)</b>       | <b>39,545</b>            | <b>38,027</b> |
|  | <b>40,598</b>            | <b>39,035</b> |

On behalf of the Board of Directors,  
Jean-Claude Delorme  
Gisèle Desrochers

**AUDITOR'S REPORT**

I have audited the combined balance sheet of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 1992, 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, 1992 and the results of their operations and 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, except for the change in the method of accounting for investments explained in Note 3, on a basis consistent with that of the preceding year.

Guy Breton, F.C.A.  
Auditor General of Québec  
Québec City, March 12, 1993

**COMBINED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1992**

|   | 1992                     | 1991         |
|---|--------------------------|--------------|
|   | (in millions of dollars) |              |
| <b>INCOME</b>                                 |                          | (Note 4)     |
| Investment income (Note 9)                    |                          |              |
| Interest on bonds                             | 1,777                    | 1,869        |
| Dividends, interest on convertible securities | 471                      | 479          |
| Interest on mortgages                         | 206                      | 218          |
| Income from real estate investments           | 101                      | 91           |
| Interest on short-term investments - net      | 142                      | 217          |
|   | <u>2,697</u>             | <u>2,874</u> |
| Gains (losses) on sale of investments - net   |                          |              |
| Bonds   | 466                      | 489          |
| Shares and convertible securities             | 136                      | 329          |
| Other investments                             | (10)                     | 16           |
|   | <u>592</u>               | <u>834</u>   |
| Write-down of investments (Note 3)            |                          |              |
| Shares and convertible securities             | (242)                    | -            |
| Real estate investments                       | (69)                     | -            |
| Other investments                             | (10)                     | -            |
|   | <u>(321)</u>             | <u>-</u>     |
| Other income                                  | 1                        | 1            |
|   | <u>2,969</u>             | <u>3,709</u> |
| <b>EXPENDITURE</b>                            |                          |              |
| Administrative expenses (Note 10)             | 37                       | 31           |
|   | <u>2,932</u>             | <u>3,678</u> |
| <b>INCOME BEFORE THE FOLLOWING ITEM</b>       |                          |              |
| Non-controlling interests                     | 2                        | 5            |
| <b>NET DEPOSITORS' INCOME</b>                 | <u>2,930</u>             | <u>3,673</u> |

**COMBINED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 1992**

|  | 1992                     | 1991          |
|--|--------------------------|---------------|
|  | (in millions of dollars) |               |
|  |                          | (Note 4)      |
| <b>NET ASSETS, BEGINNING OF YEAR</b>         |                          |               |
| Income as previously reported                | 38,106                   | 35,668        |
| Prior period adjustments (Note 4)            | (79)                     | (6)           |
| Income as restated                           | <u>38,027</u>            | <u>35,662</u> |
| Net depositors' income                       |                          |               |
| Demand and term deposit holders              | 44                       | 42            |
| Participation deposit holders                | 2,886                    | 3,631         |
|  | <u>2,930</u>             | <u>3,673</u>  |
| Excess depositors' withdrawals over deposits | 1,412                    | 1,308         |
| Increase in net assets for the year*         | 1,518                    | 2,365         |
| <b>NET ASSETS, END OF YEAR</b>               | <u>39,545</u>            | <u>38,027</u> |
| *Increase in net assets for the year         |                          |               |
| Investments                                  |                          |               |
| Bonds  | 698                      | 771           |
| Shares and convertible securities            | 806                      | 1,057         |
| Mortgages                                    | (54)                     | 8             |
| Real estate investments                      | (6)                      | 441           |
| Short-term investments                       | 173                      | (14)          |
|  | <u>1,617</u>             | <u>2,263</u>  |
| Other assets and liabilities                 | (99)                     | 102           |
|  | <u>1,518</u>             | <u>2,365</u>  |

**I CONSTITUTION AND OPERATIONS**

The Caisse de dépôt et placement du Québec is a corporation within the meaning of the Civil Code, created by a special act (R.S.Q., chapter C-2 and amendments). 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:

|  | 1992            |       | 1991            |       |
|--|-----------------|-------|-----------------|-------|
|  | Number of units | %     | Number of units | %     |
| Régie des rentes du Québec   | 18,321,906      | 74.0  | 18,321,906      | 74.5  |
| Société de l'assurance automobile du Québec                                    | 6,381,818       | 25.8  | 6,259,256       | 25.4  |
| Fonds d'assurance-prêts agricoles et forestiers                                | 12,871          | 0.1   | 12,871          | 0.1   |
| Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec | 14,720          | 0.1   | 12,052          | -     |
| Régie des marchés agricoles et alimentaires du Québec                          | 3,493           | -     | 3,103           | -     |
| Fonds des cautionnements collectifs des agents de voyages                      | 6,027           | -     | -               | -     |
|  | 24,740,835      | 100.0 | 24,609,188      | 100.0 |

**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, administered by the Commission administrative des régimes de retraite et d'assurances. The net assets of Fund 304 of the General Retirement Plan for Mayors and Councillors of Municipalities were transferred to this Fund on January 1, 1992.

**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. These portfolios are pooled funds for participation deposits of the various Funds. As at December 31, 1992, two specific portfolios were in operation, one for 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:

**Specific foreign equity investments portfolio**

|                     | 1992            |       | 1991            |       |
|---------------------|-----------------|-------|-----------------|-------|
|                     | Number of units | %     | Number of units | %     |
| General Fund        | 2,127,081       | 47.3  | 1,791,815       | 47.9  |
| Individual Fund 301 | 1,307,310       | 29.1  | 1,050,306       | 28.1  |
| Individual Fund 302 | 290,377         | 6.5   | 235,149         | 6.3   |
| Individual Fund 303 | 4,707           | 0.1   | 3,939           | 0.1   |
| Individual Fund 305 | 10,067          | 0.2   | 6,870           | 0.2   |
| Individual Fund 311 | 209,424         | 4.7   | 180,451         | 4.8   |
| Individual Fund 312 | 96,692          | 2.2   | 74,063          | 2.0   |
| Individual Fund 313 | 19,119          | 0.4   | 14,164          | 0.4   |
| Individual Fund 330 | 428,912         | 9.5   | 383,558         | 10.2  |
|                     | 4,493,689       | 100.0 | 3,740,315       | 100.0 |

**Specific real estate investments portfolio**

|                     | 1992            |       | 1991            |       |
|---------------------|-----------------|-------|-----------------|-------|
|                     | Number of units | %     | Number of units | %     |
| General Fund        | 853,373         | 45.7  | 834,983         | 47.4  |
| Individual Fund 301 | 524,895         | 28.1  | 474,339         | 26.9  |
| Individual Fund 302 | 101,516         | 5.5   | 82,309          | 4.7   |
| Individual Fund 303 | 1,736           | 0.1   | 1,674           | 0.1   |
| Individual Fund 305 | 3,811           | 0.2   | 3,396           | 0.2   |
| Individual Fund 311 | 135,306         | 7.2   | 128,589         | 7.3   |
| Individual Fund 312 | 60,181          | 3.2   | 53,861          | 3.1   |
| Individual Fund 313 | 23,142          | 1.2   | 18,338          | 1.0   |
| Individual Fund 330 | 163,591         | 8.8   | 164,349         | 9.3   |
|                     | 1,867,551       | 100.0 | 1,761,838       | 100.0 |

**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 judgement 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 foreign equity investments portfolio and the specific real estate investments portfolios. The accounts of each of these Funds and 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 settlement date, except for transactions involving shares and convertible securities, which are recorded as at the commitment date.

Investments in bonds, short-term securities, mortgages and buildings are carried at amortized cost. Shares, convertible securities and land are carried at cost. However, investments in joint ventures and those which enable the Caisse to exercise significant influence over a company are accounted for using the equity method. In addition, when there has been a loss in value of an investment that is other than a temporary decline, the book value of the investment is written down in order to recognize this loss in value. This write-down is applied against the year's income.

**c) FOREIGN CURRENCY TRANSLATION**

Current assets and liabilities in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Investments in shares are translated at the rates in effect on the respective purchase and sale dates while investments in bonds and short-term securities are translated at the average rate of financial foreign exchange risk hedging instruments held at the end of the year.

Income is translated at the average rate prevailing in each of the fiscal periods of the various Funds. Foreign exchange gains and losses are included in investment income, except those gains and losses relating to shares, which are deferred and included in gains and losses on the sale of shares when these investments are realized. Deferred gains and losses are disclosed under Investments – shares and convertible securities.

**d) FINANCIAL HEDGING INSTRUMENTS FOR MARKET, FOREIGN EXCHANGE AND INTEREST RATE RISK**

Various financial instruments such as foreign exchange contracts and forward rate agreements, futures and options as well as foreign currency and interest rate swaps are used to hedge against risks associated with market fluctuations as well as fluctuations in exchange and interest rates. The market value of these financial instruments at year-end is included in the market value of each hedged investment category.

Gains and losses from foreign exchange risk hedging operations are accounted for as indicated in Note c) while gains and losses resulting from interest rate and market risk hedging operations are included in the income of each hedged investment category.

**e) DIVIDEND INCOME**

Dividend income is accounted for on the record date.

**f) INTEREST ON SHORT-TERM INVESTMENTS – NET**

This item includes interest earned on short-term investments and interest expenses on loans.

**g) FIXED ASSETS**

Costs related to the acquisition of telephone, computer and office automation equipment are capitalized and amortized over their useful lives. 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.

#### b) 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 CHANGES IN ACCOUNTING POLICIES

Investments in joint ventures and those which enable the Caisse to exercise significant influence over a company are now accounted for using the equity method whereas previously, they were carried at cost.

In addition, when there has been a loss in value of an investment that is other than a temporary decline, the book value of the investment is now written down to recognize this loss and this write-down is applied against the year's income. Previously, losses in value that were other than temporary declines were not recorded.

These changes, which were applied prospectively, were made in order to comply with the new provisions of the act creating the Caisse which came into effect on June 23, 1992. These provisions stipulate, among other things, that the financial statements must be prepared in accordance with generally accepted accounting principles. The effect of these changes is to increase (decrease) the following items in the financial statements for the year ended December 31, 1992:

#### COMBINED BALANCE SHEET

|                                   | Book value<br>(in millions<br>of dollars) |
|-----------------------------------|---|
| <b>ASSETS</b>                     |   |
| Investments                       |   |
| Bonds                             | (2)                                       |
| Shares and convertible securities | (247)                                     |
| Mortgages                         | (8)                                       |
| Real estate investments           | (69)                                      |
| <b>DEPOSITORS' HOLDINGS</b>       | <b>(326)</b>                              |

#### COMBINED STATEMENT OF INCOME

|   |              |
|---|--------------|
| Investment income                             |              |
| Dividends, interest on convertible securities | (5)          |
| Write-down of investments                     |              |
| Shares and convertible securities             | 242          |
| Real estate investments                       | 69           |
| Other investments                             | 10           |
| <b>NET DEPOSITORS' INCOME</b>                 | <b>(326)</b> |

#### 4 PRIOR PERIOD ADJUSTMENTS

The financial statements of prior periods have been restated in order to record under the item Other liabilities amounts received but not qualifying as a depositor's deposit. These amounts were previously presented under the items Demand deposits and Term deposits in depositors' holdings.

The effect of this restatement was to increase (decrease) the following items in the financial statements for the year ended December 31, 1991:

**COMBINED BALANCE SHEET**

|                             | 1991<br>(in millions<br>of dollars) |
|-----------------------------|-------------------------------------|
| <b>LIABILITIES</b>          |                                     |
| Other liabilities           | 79                                  |
| <b>DEPOSITORS' HOLDINGS</b> | (79)                                |

**COMBINED STATEMENT OF INCOME**

|  |     |
|--|-----|
| Investment income                        |     |
| Interest on short-term investments - net | (2) |
| <b>NET DEPOSITORS' INCOME</b>            | (2) |

**5 INVESTMENTS - AT MARKET VALUE**

The market value of investments at year-end represents the amount the Caisse could obtain from the sale of its investments under normal market conditions, without taking into account the impact of a material sale. Closing prices of the major stock exchanges as well as those provided by recognized brokerage firms, specific independent valuations, comparative analyses and any other commonly used valuation method can be used to evaluate the different investment categories presented below:

|                                   | 1992                     | 1991   |
|-----------------------------------|--------------------------|--------|
|                                   | (in millions of dollars) |        |
| Bonds                             | 19,896                   | 19,670 |
| Shares and convertible securities | 15,485                   | 15,229 |
| Mortgages                         | 2,047                    | 2,105  |
| Real estate investments           | 2,306                    | 2,563  |
| Short-term investments            | 1,989                    | 1,803  |
|                                   | 41,723                   | 41,370 |

**6 INVESTMENTS - FOREIGN SECURITIES**

|                        | (in millions of dollars) |                       |                     |                       |
|------------------------|--------------------------|-----------------------|---------------------|-----------------------|
|                        | 1992                     |                       | 1991                |                       |
|                        | At<br>book<br>value      | At<br>market<br>value | At<br>book<br>value | At<br>market<br>value |
| Bonds                  | 1,736                    | 1,760                 | 2,240               | 2,282                 |
| Shares                 | 4,357                    | 4,197                 | 3,670               | 3,757                 |
| Short-term investments | 220                      | 225                   | 74                  | 70                    |
|                        | 6,313                    | 6,182                 | 5,984               | 6,109                 |

The foreign exchange position for investments in foreign securities, excluding transactions under securities loan agreements, is hedged by financial instruments whose net total maturity value was \$5,887 million as at December 31, 1992 (\$6,079 million in 1991).

**7 SHARES AND CONVERTIBLE SECURITIES**

|   | 1992                     | 1991   |
|---|--------------------------|--------|
|   | (in millions of dollars) |        |
| Shares and convertible securities held directly by the Funds          | 10,017                   | 9,855  |
| Shares held through the specific foreign equity investments portfolio | 4,269                    | 3,625  |
|   | 14,286                   | 13,480 |

## 8 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 income or net loss is distributed to participation deposit holders. At the beginning of the following period, the net income is paid out to or the net loss is 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.

|  | 1992                     | 1991     |
|--|--------------------------|----------|
|  | (in millions of dollars) |          |
| Indebtedness toward depositors                             |                          | (Note 4) |
| Demand deposits  | 103                      | 174      |
| Term deposits  | 218                      | 111      |
| Interest on demand and term deposits                       | 4                        | 2        |
| Net income to be paid out to participation deposit holders | 131                      | 647      |
|  | 456                      | 934      |
| Participation deposit holders' holdings                    |                          |          |
| Participation deposits                                     |                          |          |
| Balance, beginning of year                                 | 37,093                   | 34,994   |
| Units issued   | 2,425                    | 2,582    |
| Units cancelled  | (429)                    | (483)    |
| Balance, end of year                                       | 39,089                   | 37,093   |
|  | 39,545                   | 38,027   |

## 9 INVESTMENT INCOME

Pursuant to its investment activities, 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 the following investment income:

|   | 1992                     | 1991 |
|---|--------------------------|------|
|   | (in millions of dollars) |      |
| Interest on bonds                             | 1                        | 1    |
| Dividends, interest on convertible securities | 6                        | 6    |
| Interest on mortgages                         | 2                        | 2    |
|   | 9                        | 9    |

## 10 ADMINISTRATIVE EXPENSES

|                                | 1992                     | 1991 |
|--------------------------------|--------------------------|------|
|                                | (in millions of dollars) |      |
| Salaries and employee benefits | 22                       | 18   |
| Professional fees              | 5                        | 4    |
| Premises and material          | 4                        | 4    |
| Depreciation of fixed assets   | 2                        | 2    |
| Other                          | 4                        | 3    |
|                                | 37                       | 31   |

**SUPPLEMENTARY INFORMATION**  
**SUMMARY FINANCIAL STATEMENTS FOR THE FUNDS**

**BALANCE SHEET AS AT DECEMBER 31, 1992**

|   | GENERAL FUND             |          |          |         |
|---|--------------------------|----------|----------|---------|
|   | 1992                     | 1991     | 301      |         |
|   |                          |          | 1992     | 1991    |
|   | (in millions of dollars) |          |          |         |
| <b>ASSETS</b>                             |                          |          |          |         |
| Investments                               |                          |          |          |         |
| Bonds                                     | 10,579.9                 | 10,438.7 | 4,670.1  | 4,300.1 |
| Shares and convertible securities         | 6,497.4                  | 6,223.3  | 4,092.6  | 3,652.3 |
| Mortgages                                 | 570.3                    | 702.5    | 266.7    | 274.8   |
| Real estate investments                   | 902.0                    | 882.7    | 605.5    | 550.6   |
| Short-term investments                    | 1,863.0                  | 1,538.3  | 38.1     | 183.9   |
| Demand deposits in the General Fund       | -                        | -        | 522.1    | 97.9    |
|   | 20,412.6                 | 19,785.5 | 10,195.1 | 9,059.6 |
| Investment income, accrued and receivable | 246.5                    | 305.2    | 132.7    | 142.8   |
| Other assets                              | 58.8                     | 11.1     | 0.6      | -       |
|   | 20,717.9                 | 20,101.8 | 10,328.4 | 9,202.4 |
| <b>LIABILITIES</b>                        |                          |          |          |         |
| Demand deposits                           | 948.8                    | 418.8    | -        | -       |
| Term deposits                             | 218.4                    | 110.5    | -        | -       |
| Net income to be paid out to depositors   | 12.4                     | 187.3    | 70.1     | 241.9   |
| Deposits on loans of securities           | 128.9                    | -        | 24.4     | -       |
| Other liabilities                         | 12.2                     | 98.1     | 1.2      | 5.8     |
|   | 1,320.7                  | 814.7    | 95.7     | 247.7   |
| <b>PARTICIPATION DEPOSIT</b>              |                          |          |          |         |
| HOLDERS' HOLDINGS                         | 19,397.2                 | 19,287.1 | 10,232.7 | 8,954.7 |
|   | 20,717.9                 | 20,101.8 | 10,328.4 | 9,202.4 |

**STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1992**

|   |         |         |        |       |
|---|---------|---------|--------|-------|
| <b>INCOME</b>                                 |         |         |        |       |
| Investment income                             |         |         |        |       |
| Interest on bonds                             | 984.4   | 1,088.5 | 424.2  | 390.1 |
| Dividends, interest on convertible securities | 224.5   | 234.6   | 132.9  | 132.7 |
| Interest on mortgages                         | 66.4    | 75.5    | 28.9   | 37.9  |
| Income from real estate investments           | 46.8    | 46.7    | 27.8   | 24.5  |
| Interest on short-term investments - net      | 113.0   | 155.0   | 16.5   | 33.2  |
| Interest on deposits in the General Fund      | -       | -       | 17.4   | 10.7  |
|   | 1,435.1 | 1,600.3 | 647.7  | 629.1 |
| Gains (losses) on sale of investments - net   | 314.5   | 497.2   | 140.2  | 163.4 |
| Write-down of investments                     | (156.3) | -       | (90.3) | -     |
| Other income                                  | 0.7     | 0.6     | 0.1    | 0.1   |
| Total income                                  | 1,594.0 | 2,098.1 | 697.7  | 792.6 |
| <b>EXPENDITURE</b>                            |         |         |        |       |
| Administrative expenses                       | 18.6    | 16.1    | 9.5    | 7.6   |
| Interest on demand and term deposits - net    | 72.8    | 73.4    | -      | -     |
| NET INCOME                                    | 1,502.6 | 2,008.6 | 688.2  | 785.0 |

**MARKET VALUE OF INVESTMENTS AS AT DECEMBER 31, 1992**

|                                     |          |          |          |         |
|-------------------------------------|----------|----------|----------|---------|
| Bonds                               | 10,976.4 | 11,081.3 | 4,847.2  | 4,577.5 |
| Shares and convertible securities   | 7,223.1  | 7,208.4  | 4,449.9  | 4,136.6 |
| Mortgages                           | 599.0    | 732.5    | 278.2    | 288.1   |
| Real estate investments             | 777.8    | 901.9    | 480.2    | 512.4   |
| Short-term investments              | 1,868.4  | 1,532.0  | 37.7     | 184.0   |
| Demand deposits in the General Fund | -        | -        | 522.1    | 97.9    |
|                                     | 21,444.7 | 21,456.1 | 10,615.3 | 9,796.5 |

Certain figures for 1991 have been restated to conform with the presentation of 1992.

| INDIVIDUAL FUNDS         |         |       |      |       |      |         |         |
|--------------------------|---------|-------|------|-------|------|---------|---------|
| 302                      |         | 303   |      | 305   |      | 311     |         |
| 1992                     | 1991    | 1992  | 1991 | 1992  | 1991 | 1992    | 1991    |
| (in millions of dollars) |         |       |      |       |      |         |         |
| 905.8                    | 798.1   | 14.1  | 12.8 | 32.1  | 27.3 | 541.2   | 521.3   |
| 900.8                    | 800.3   | 14.3  | 12.9 | 33.7  | 29.5 | 825.8   | 811.4   |
| 53.0                     | 55.0    | 6.1   | 6.0  | 3.6   | 3.5  | 607.1   | 590.9   |
| 115.0                    | 94.8    | 2.0   | 1.9  | 4.5   | 4.0  | 157.4   | 149.6   |
| 0.9                      | 47.2    | -     | 4.0  | -     | 1.5  | 35.6    | 28.8    |
| 84.5                     | 64.1    | 5.5   | 1.4  | 4.5   | 2.3  | 23.5    | 25.0    |
| 2,060.0                  | 1,859.5 | 42.0  | 39.0 | 78.4  | 68.1 | 2,190.6 | 2,127.0 |
| 26.0                     | 29.1    | 0.4   | 0.5  | 0.9   | 1.0  | 20.1    | 27.8    |
| -                        | -       | -     | -    | -     | -    | 0.3     | 0.1     |
| 2,086.0                  | 1,888.6 | 42.4  | 39.5 | 79.3  | 69.1 | 2,211.0 | 2,154.9 |
| -                        | -       | -     | -    | -     | -    | -       | -       |
| -                        | -       | -     | -    | -     | -    | -       | -       |
| 15.3                     | 50.3    | 0.4   | 1.0  | 0.9   | 1.7  | 20.9    | 47.4    |
| 6.7                      | -       | 1.0   | -    | 1.1   | -    | 3.3     | -       |
| 0.1                      | 2.5     | -     | -    | 0.1   | 0.5  | 0.2     | 3.6     |
| 22.1                     | 52.8    | 1.4   | 1.0  | 2.1   | 2.2  | 24.4    | 51.0    |
| 2,063.9                  | 1,835.8 | 41.0  | 38.5 | 77.2  | 66.9 | 2,186.6 | 2,103.9 |
| 2,086.0                  | 1,888.6 | 42.4  | 39.5 | 79.3  | 69.1 | 2,211.0 | 2,154.9 |
| 83.9                     | 80.5    | 1.3   | 1.4  | 3.1   | 2.7  | 52.3    | 56.6    |
| 28.6                     | 26.7    | 0.4   | 0.4  | 1.0   | 0.8  | 27.6    | 28.6    |
| 5.7                      | 7.8     | 0.6   | 0.6  | 0.4   | 0.3  | 62.1    | 61.3    |
| 5.1                      | 4.5     | 0.1   | 0.1  | 0.2   | 0.2  | 7.3     | 7.2     |
| 3.3                      | 6.1     | 0.1   | 0.1  | -     | 0.3  | 2.7     | 5.3     |
| 2.8                      | 2.6     | 0.2   | 0.3  | 0.1   | 0.3  | 1.9     | 3.0     |
| 129.4                    | 128.2   | 2.7   | 2.9  | 4.8   | 4.6  | 153.9   | 162.0   |
| 24.3                     | 31.9    | 0.3   | 0.5  | 0.7   | 1.1  | 21.9    | 23.9    |
| (18.1)                   | -       | (0.3) | -    | (0.3) | -    | (20.4)  | -       |
| -                        | 0.1     | -     | -    | -     | -    | 0.1     | 0.1     |
| 135.6                    | 160.2   | 2.7   | 3.4  | 5.2   | 5.7  | 155.5   | 186.0   |
| 2.0                      | 1.5     | -     | -    | 0.1   | -    | 2.5     | 2.1     |
| -                        | -       | -     | -    | -     | -    | -       | -       |
| 133.6                    | 158.7   | 2.7   | 3.4  | 5.1   | 5.7  | 153.0   | 183.9   |
| 948.1                    | 860.0   | 14.8  | 13.8 | 34.2  | 29.7 | 566.7   | 561.9   |
| 960.1                    | 884.9   | 14.5  | 13.5 | 33.1  | 30.2 | 887.2   | 906.5   |
| 55.4                     | 58.3    | 6.1   | 5.9  | 3.6   | 3.5  | 636.3   | 617.5   |
| 92.5                     | 88.9    | 1.6   | 1.8  | 3.5   | 3.7  | 124.1   | 138.9   |
| 1.0                      | 46.7    | -     | 3.9  | -     | 1.5  | 35.6    | 28.9    |
| 84.5                     | 64.1    | 5.5   | 1.4  | 4.6   | 2.3  | 23.5    | 25.0    |
| 2,141.6                  | 2,002.9 | 42.5  | 40.3 | 79.0  | 70.9 | 2,273.4 | 2,278.7 |

INDIVIDUAL FUNDS

| 312  |      | 313  |      | 330  |      |
|------|------|------|------|------|------|
| 1992 | 1991 | 1992 | 1991 | 1992 | 1991 |

(in millions of dollars)

|         |       |       |       |         |         |
|---------|-------|-------|-------|---------|---------|
| 268.2   | 233.1 | 134.1 | 121.9 | 1,944.0 | 1,970.5 |
| 411.2   | 360.7 | 53.7  | 46.6  | 1,288.6 | 1,321.8 |
| 283.1   | 233.4 | 103.8 | 77.8  | 108.2   | 111.4   |
| 70.3    | 64.1  | 27.4  | 21.9  | 188.8   | 189.7   |
| 19.5    | 6.8   | 15.1  | 10.2  | 4.8     | 48.3    |
| 22.3    | 8.2   | 13.4  | 1.4   | 153.5   | 30.6    |
| 1,074.6 | 906.3 | 347.5 | 279.8 | 3,687.9 | 3,672.3 |
| 10.8    | 11.9  | 4.1   | 4.8   | 48.5    | 59.6    |
| -       | -     | -     | -     | 0.7     | -       |
| 1,085.4 | 918.2 | 351.6 | 284.6 | 3,737.1 | 3,731.9 |
| -       | -     | -     | -     | -       | -       |
| -       | -     | -     | -     | -       | -       |
| 12.3    | 19.2  | 5.2   | 6.4   | 39.4    | 96.9    |
| -       | -     | 1.3   | -     | 24.1    | -       |
| 1.2     | 3.3   | 0.2   | 0.3   | 0.1     | 3.2     |
| 13.5    | 22.5  | 6.7   | 6.7   | 63.6    | 100.1   |
| 1,071.9 | 895.7 | 344.9 | 277.9 | 3,673.5 | 3,631.8 |
| 1,085.4 | 918.2 | 351.6 | 284.6 | 3,737.1 | 3,731.9 |

|       |      |       |      |        |       |
|-------|------|-------|------|--------|-------|
| 23.6  | 21.6 | 11.5  | 9.8  | 184.7  | 207.8 |
| 12.6  | 10.9 | 1.5   | 1.3  | 40.8   | 43.8  |
| 27.7  | 20.6 | 9.1   | 6.6  | 12.0   | 13.6  |
| 3.2   | 2.7  | 1.1   | 1.0  | 9.1    | 9.4   |
| 1.5   | 4.0  | 1.2   | 1.5  | 3.6    | 11.2  |
| 0.9   | 2.2  | 0.7   | 0.8  | 4.7    | 4.9   |
| 69.5  | 62.0 | 25.1  | 21.0 | 254.9  | 290.7 |
| 10.0  | 7.3  | 2.4   | 2.3  | 77.9   | 106.4 |
| (7.1) | -    | (1.3) | -    | (26.3) | -     |
| 0.1   | 0.2  | -     | -    | -      | 0.1   |
| 72.5  | 69.5 | 26.2  | 23.3 | 306.5  | 397.2 |
| 1.1   | 0.8  | 0.3   | 0.2  | 3.3    | 3.0   |
| -     | -    | -     | -    | -      | -     |
| 71.4  | 68.7 | 25.9  | 23.1 | 303.2  | 394.2 |

|         |       |       |       |         |         |
|---------|-------|-------|-------|---------|---------|
| 279.1   | 248.4 | 139.4 | 129.6 | 2,033.3 | 2,117.5 |
| 427.4   | 390.4 | 53.3  | 48.0  | 1,350.3 | 1,439.5 |
| 297.0   | 246.5 | 106.6 | 79.9  | 112.5   | 116.2   |
| 56.0    | 59.4  | 21.5  | 19.8  | 149.1   | 177.5   |
| 19.5    | 6.8   | 15.1  | 10.1  | 4.8     | 47.9    |
| 22.3    | 8.2   | 13.4  | 1.4   | 153.5   | 30.6    |
| 1,101.3 | 959.7 | 349.3 | 288.8 | 3,803.5 | 3,929.2 |



**The following employees appear  
in the photographs,  
from left to right:**

**Page 8**

**Denis Senécal, Analyst,  
Bond Investments and Money Market  
Lucie Loiselle, Advisor,  
Information Systems and Technology  
François Lavigne, Trader,  
Bond Investments and Money Market**

**Page 12**

**François Goudreau, Trader,  
Bond Investments and Money Market**

**Page 16**

**Nicolas Damato, Chief Trader,  
Stock Markets**

**Page 30**

**Jacqueline L. Robert, Senior Clerk,  
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Lien Pham, Administration Technician,  
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Louise G. Côté, Clerk,  
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