

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

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THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC, CREATED IN 1965 BY AN ACT OF THE NATIONAL ASSEMBLY, IS A PORTFOLIO MANAGER THAT INVESTS THE FUNDS OF QUÉBEC PUBLIC PENSION AND INSURANCE PLANS, AND OF VARIOUS QUÉBEC PUBLIC BODIES. THE CAISSE HAS THE MANDATE TO ACHIEVE AN OPTIMAL FINANCIAL RETURN AND TO CONTRIBUTE BY ITS ACTIVITIES TO THE VITALITY OF THE QUÉBEC ECONOMY, WHILE ENSURING THE SECURITY OF THE CAPITAL IT MANAGES. TO ACHIEVE THESE OBJECTIVES, IT USES A RANGE OF TRADITIONAL AND INNOVATIVE FINANCIAL INSTRUMENTS: BONDS, SHARES AND CONVERTIBLE SECURITIES, MORTGAGES, REAL ESTATE, SHORT-TERM SECURITIES AND SYNTHETIC AND DERIVATIVE PRODUCTS. THESE VEHICLES ARE COMBINED WITH ACTIVE MANAGEMENT, ASTUTE SELECTION OF INVESTMENTS AND GEOGRAPHICAL DIVERSIFICATION, MAINLY ON THE NORTH AMERICAN, EUROPEAN AND ASIAN MARKETS. THE CAISSE HAS ITS PRINCIPAL PLACE OF BUSINESS IN MONTRÉAL, A MAJOR FINANCIAL CENTRE. IT IS ONE OF NORTH AMERICA'S LARGEST FINANCIAL INSTITUTIONS AND CANADA'S LEADING PUBLIC FUND MANAGER.

MISSION

THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC HAS THE MANDATE TO ENSURE THE GROWTH OF THE CAPITAL ENTRUSTED TO IT BY VARIOUS QUÉBEC PUBLIC BODIES AND TO CONTRIBUTE, BY ITS ACTIVITIES AND THROUGH INVESTMENTS, TO THE VITALITY OF THE QUÉBEC ECONOMY.

AS A PROFESSIONAL INVESTOR MINDFUL OF ITS DEPOSITORS' NEEDS, THE CAISSE ACTIVELY MANAGES ITS PORTFOLIO WITH A VIEW TO OPTIMIZING ITS RETURN. IT CAPITALIZES ON ITS STAFF'S EXPERTISE AND FOSTERS INNOVATION AND EXCELLENCE IN INVESTMENT AND MANAGEMENT.

THE CAISSE SAFEGUARDS THE FUNDS IT MANAGES BY ACTING WITH INTEGRITY AND PROFESSIONALISM IN EVERY RESPECT AND IN ALL CIRCUMSTANCES, AND BY ADHERING TO THE HIGHEST ETHICAL STANDARDS.

Commitment

OF ALL ITS EMPLOYEES IS AT THE HEART OF THE REALIZATION OF THE CAISSE'S MISSION AND OBJECTIVES.



HIGHLIGHTS

	1993	1992
	(in millions of dollars)	
NET ASSETS		
Investments at market value		
Bonds	22,506	19,896
Shares and convertible securities	17,782	15,464
Mortgages	1,958	2,047
Real estate investments - net ¹	1,603	1,587
Short-term investments	2,794	1,989
Total investments - net	46,643	40,983
Other assets and liabilities	474	324
Total net assets at market value	47,117	41,307
DEPOSITORS' HOLDINGS		
Régie des rentes du Québec	16,401	15,201
Commission administrative des régimes de retraite et d'assurances - RREGOP	15,917	12,895
Société de l'assurance automobile du Québec	5,710	5,328
Commission de la construction du Québec	4,360	3,753
Commission de la santé et de la sécurité du travail	4,315	3,835
Other depositors	414	295
Total depositors' holdings	47,117	41,307
NET DEPOSITORS' INCOME		
Net income from investments	2,631	2,693
Gains and losses on the sale of investments	1,358	576
Net income allocated to depositors	3,989	3,269
Unrealized increase (decrease) in value of net assets	3,661	(1,603)
Total net depositors' income	7,650	1,666
Net depositors' withdrawals	1,840	1,412
RATE OF RETURN²	19.7%	4.5%

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

² calculated at market value using the time-weighted method

Certain figures for 1992 have been restated to conform with the presentation of 1993.

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

In 1993, financial markets displayed a particularly positive behaviour. Indeed, the past year saw high returns that naturally translated into substantial income and added value. This was especially true of the Canadian stock markets, which for the first time in many years ranked among the best-performing in the world.

The Caisse's return on its investments for the year was 19.7%, which, adjusted for inflation, represents a real return of 18%. In absolute numbers, this return represents net income of \$7.7 billion, which, after withdrawals by certain depositors, increased the holdings managed by the Caisse to \$47.1 billion at market value.

At first glance, this result may seem paradoxical, given the persistently sluggish economic recovery. We should bear in mind, however, that market behaviour generally precedes changes in the economy itself. The markets reflect not the present, but the future as it is perceived by investors who, on the basis of their analyses and evaluations, bet on the economy recovering and on corporate profits improving and direct their investments on the basis of expected returns. Investors' recent attitudes can thus be seen as an indicator of how the North American economy should behave in the foreseeable future.

This trend is confirmed by economists, who are predicting that the economies of Canada and the United States will grow faster in 1994 than those of the other G7 countries. It is also confirmed by the statistics for the fourth quarter of 1993; it will be recalled, indeed, that the GDP of the United States grew fairly vigorously, as did that of Canada, although to a lesser degree.

In 1993, the financial markets were characterized by volatility, accelerated fluctuations and, above all, greater complexity. These changes stem from such well-known phenomena as the global economy and the opening-up of various markets in a broad trend toward deregulation.

This new environment features an unprecedented proliferation of new products, such as options, futures and swaps, which are being used by portfolio managers looking for the most effective ways of optimizing the return on their investments. The foreign exchange markets are in a constant frenzy, with transactions worth hundreds of billions of dollars taking place every day. Many new instruments, each more complex



than the last, are being created in response to the mere volatility of interest and exchange rates, which themselves are due partly to the monetary policy adopted by the central banks.

It has become difficult to explain the behaviour of certain markets or the fluctuations of certain securities, let alone to predict them from a rigorous analysis of existing data. The past year provided many examples, such as the sudden swings on certain emerging markets or the appreciation of gold stocks in a proportion that had little to do with the increase in the price of gold itself.

Nor have the markets been exempt from the accelerated pace at which information has been generated in recent years. We live in an era of instantaneous information, and our reaction to it must be instantaneous too. Computers and telecommunications systems transmit economic news to financial centres around the world at the speed of light. Market efficiency has always depended on quality information; henceforth, a competitive edge will depend on the ability to process, to analyze and to evaluate this ever increasing influx of information with greater speed.

The financial markets are now operating in an entirely new environment shaped by new forces that are as yet poorly understood. Added to the inevitable cyclical variations are forces and tensions created by the structural changes which the economy is undergoing, as well as by the political, social and even media-related factors which affect society in general. Each has an impact on the way markets actually behave, as well as on the way investors perceive them.

Naturally this observation leads to a consideration of the mission and the objectives of an institution, such as the Caisse, whose activities are closely linked to the state of the economy and whose operations depend so much on the financial markets. But one soon concludes that, despite the scope of these transformations, it is not the Caisse's mission or objectives that need to be questioned, but rather it is the means to achieve them that need to be adapted.

It is therefore imperative to identify the factors that will determine the Caisse's ability to carry out its mission in this new context. It is equally important that the institution continue to strive for excellence in managing these factors, which are deemed essential to its mission and to the results expected of it.

The first determining factor is the calibre of the Caisse's personnel; the Caisse's policies and procedures for staffing, recruiting and training must enable it to attract and to retain the qualified personnel that its specialized operations require. The second factor, which is related to the first, is the ability to analyze and to

predict the behaviour of the economy and the markets and to develop advanced techniques to evaluate and to manage risk. The third essential area is information technology, which provides a portfolio manager with the systems and tools required to optimize return.

These factors are critical, since the capital markets are becoming increasingly institutionalized. Institutional investors are playing a more active and determining role in the management of individual and group savings and thus in the operation of the markets where these funds are invested. The handful of institutions traditionally active have been joined by many new investors, especially since the early 1980s, notably pension funds and mutual funds.

The assets managed by such investors in Canada are estimated at more than \$400 billion - almost \$300 billion in pension funds and more than \$100 billion in mutual funds. These funds have been growing very quickly in recent years. Since 1980, assets under management have increased by an average of 16% a year for pension funds and more than 30% for mutual funds. Taking into account the return obtained by these investors, the real annual growth rate is about 4% for pension funds and about 20% for mutual funds.

The markets are becoming institutionalized because savings themselves are becoming institutionalized. There are several reasons for the institutionalization of savings, amongst others, the ability offered by mutual funds to diversify personal portfolios and to lower transaction costs, not to mention the fact that it is increasingly realized that portfolio management is becoming the realm of specialists, in light of the growing complexity of the markets.

The more prominent role played by institutional investors in providing capital for the business community will accelerate the changes that have taken place in recent years in relations between shareholders and management. As shareholders, institutional investors are placing greater importance on close relations with management and are carefully monitoring their investments. Thus it is more important than ever that portfolio managers have skilled personnel and efficient tools.

The gradual institutionalization of the financial markets, combined with a more systematic search for optimal returns, has prompted many portfolio managers to look beyond the short-term results of companies and to concentrate on the calibre of their management teams and, above all, on their ability to pursue growth despite changes in their economic and commercial environment.

This is the heart of the debate about corporate governance, which focuses on how to improve the profitability of companies and to increase the value of shareholders' assets. Though born primarily out of the dissatisfaction of a few institutional investors in the United States and the United Kingdom, the issue of corporate governance has essentially highlighted the question of the relations between the corporations' management executives and shareholders. More specifically, it has focused on the role assigned to boards of directors and the responsibilities they are expected to assume on behalf of shareholders.

These discussions also raise the question of the division of responsibilities between a company's management team and its board of directors. Thus were highlighted issues such as the independence, qualifications and objectivity that board members should display in carrying out their responsibilities. In turn, those issues raise the question of where to draw the line between the functions of management and those that are in the nature of the responsibilities of a board.

From that point of view, it is recognized that, given the increasing complexities of the business world and the considerable challenges a company must meet to ensure its growth, a board of directors should not be limited to the mere supervision of corporate results, but should play an active part in defining strategic directions. It is equally important that, without interfering with the day-to-day manage-

ment of the business, a board see to it that efficient management, planning and control systems are in place, so that management can be in a position to assess growth opportunities as well as the challenges to which it may be vulnerable.

As a major institutional investor, the Caisse shares the objectives of those constructive discussions on corporate governance. It feels that if institutional investors and companies can maintain a climate suitable for dialogue, the interests of all parties will be better served. Businesses are the engines of our economy, and it is to the extent that they will have the capability of ensuring their growth and surmounting the ever increasing obstacles facing them that they will be in a position to contribute to the financial and economic objectives that the Caisse itself pursues.

In closing, on behalf of the Board of Directors and personally, I wish to offer our most sincere thanks to the Caisse's management team and to its staff, who carried out their responsibilities with diligence and dedication. Our results are especially gratifying since they were achieved in an unusually demanding environment that put the quality and professionalism of the institution's personnel to the test.

Management also benefitted from the enlightened support of the members of the Board of Directors, and my colleagues and I would like to express our deepest gratitude to them. In addition, special thanks are due to Mrs. Gisèle Desrochers, who left the Board last June after having been a member for almost six years.



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

MESSAGE FROM THE PRESIDENT AND CHIEF OF OPERATIONS

The past year was marked by a moderate recovery in North America, a recession in Europe and Japan, and very active financial markets around the world. Moreover, lower inflation and stronger government commitments to deficit reduction brought about a substantial decline in interest rates in the United States and Canada.

Canadian companies benefitted greatly from the U.S. recovery, the decline in interest rates and the restructuring efforts they had undertaken in recent years. The Canadian dollar's depreciation also enhanced their competitiveness abroad. Québec producers, in particular, saw their exports rise sharply. Still, despite improved foreign trade, economic growth was restricted by weak demand at home.

Lower interest rates were highly advantageous to the North American bond markets, and more favourable economic and financial conditions lifted the stock markets, especially in Canada. The Canadian stock market's high yield was however accompanied by greater volatility, with the TSE 300 index's risk level rising by 20% during the year. Moreover, the Canadian markets were extremely active, with stock and bond issues reaching record levels.

In this environment, the Caisse's managers achieved a substantial overall return while maintaining a relatively low degree of risk. The Caisse manages its assets conservatively by emphasizing high-quality securities, diversifying its investments through various asset classes and allocating a greater weighting to fixed-income securities than to variable-income securities.

The bond portfolio yielded 18.4%, compared with 18.1% for the ScotiaMcLeod Universe index. This positive differential was due partly to the Caisse's decision to favour North American securities, especially Québec and Hydro-Québec bonds. Tactical bond operations also contributed to the portfolio's performance. During the year, the Caisse regrouped the teams responsible for bond, money market and foreign exchange operations to enhance the synergy of these related activities. The Caisse also adopted a new management approach for its bond portfolio, by setting up separate portfolios to better isolate strategic and tactical decisions. The strategic portfolio, which consists of bond securities, aims to limit deviations from certain benchmark-index parameters, while the tactical portfolio, which is made up primarily of derivative products, allows bond investments to be carried out according to volatility, duration and yield curve evaluation.



During the year, investors showed strong interest in gouvernement du Québec and Québec public sector securities, and the Caisse traded almost \$28 billion of these bonds on the secondary market. It also made investments of \$1.1 billion on the primary market for securities issued by the gouvernement du Québec and Hydro-Québec.

Canadian equities, which accounted for 28.1% of the total portfolio as at December 31, 1993, generated a substantial return of 26.2%, compared with 32.6% for the TSE 300 index. The unusual performance of the TSE 300's different sectors presented a major challenge for fund managers, since only three sectors out of the fourteen largely outperformed the index's total return. The Caisse's gold-stock strategy and its emphasis on large-cap stocks explain most of the return differential. The Caisse however did take advantage of the high returns on small-cap equities in 1993, reaping the benefits of its 1991 decision to create a small-cap portfolio. Today, the Caisse is one of the largest Canadian investors in small-cap stocks. For the past five and ten years, the return on Canadian equities was 8.8% and 8.9% respectively, as opposed to 8.6% and 9% for the TSE 300.

For the past five and ten years, the return on the bond portfolio was 14.3% and 14.1% respectively, compared with 14% and 13.4% for the benchmark index. The bond portfolio totalled \$22.5 billion at year-end and represented the largest proportion of total investments, at 48.2%.

Foreign equities yielded 21.2%, compared with 22.4% for the hedged Morgan Stanley Capital International World Index. The variance is due to the portfolio's overweighting of American consumer and retail stocks, which were affected by the sluggish U.S. recovery in the first half of the year. The Caisse maintained foreign equities at about 10% of total investments in 1993. For the past five years, foreign equities yielded 8.2%, surpassing the index's 7.9% return for the same period.

As for private investments, the Caisse acts as a medium- and long-term partner to companies. Its private investments portfolio amounted to \$2.3 billion at market value as at December 31. During the year, the Caisse authorized 35 investments, the largest number approved in the past five years, for a total of \$582 million. Given its size and its long-term capital, the Caisse is in a position to play an active role in areas where the financial markets are often absent. In its pursuit of attractive investment opportunities and wishing to respond rapidly and efficiently to market needs,

the Caisse introduced debt financing and project financing in 1993 and expanded the network of regional investment companies that provide financing to small regional businesses. With other financial and industrial partners, it also created Technocap, an investment company in the high-tech sector, and pursued its investments in general and specialized international funds. This last category of investments should yield superior returns and help establish a technological, commercial and financial network that will be of benefit to the Caisse, its partners and Québec companies. Over ten years, the Caisse's private investments in Québec companies have proven to be profitable, yielding 12.7% or 370 basis points more than the TSE 300.

Québec companies must have exposure to foreign markets to maintain and to enhance their competitiveness. In addition, productivity gains stemming from lower production costs must now be accompanied by improved processes and methods. Québec and Canadian companies will have to step up their research and training efforts and focus more on innovation if they intend to meet the challenges posed by the new rules of the global marketplace.

The mortgage portfolio, which totalled \$2 billion at market value as at December 31, 1993, or 4.2% of investments, generated a return of 11.5%, compared with 12% for the three-year ScotiaMcLeod index. The difference is due primarily to the effect of foreclosed properties, which the index does not take into account. The Caisse authorized \$250 million in mortgage loans during the year. Over the past five and ten years, the mortgage portfolio yielded 12.8% and 12.6%, against 13% and 11.9% for the benchmark index.

Short-term investments generated a return of 5.7%, compared with 5.5% for the 91-day Canadian T-bills index. By effectively positioning its money-market portfolio on the yield curve, the Caisse was able to take advantage of falling interest rates without significantly departing from the duration of the index. At year-end, the short-term investments portfolio represented 6% of total investments. Over five years, it achieved a 9.7% return, compared with 9.6% for the benchmark index.

The tactical foreign exchange positions portfolio, created in 1992, began generating some of the expected results, producing an added value of some \$8 million.

The real estate portfolio, whose net assets amounted to \$1.8 billion as at December 31, 1993, posted a total return of 0%, as a result of the general state of the economy and the relative weakness of the real estate sector. Still, its current return was 6.3%. Over the past five and ten years, the compound annual returns on the portfolio were -1% and 6.6% respectively. Real estate investments, net of related liabilities, totalled 3.5% of total investments at year-end.

Finally, the portfolio of tactical investments set up in 1993 generated an added value of \$74.3 million, thereby contributing 17 basis points to the Caisse's overall return. This portfolio, which consists of derivative products traded on the stock and bond markets of six G7 countries, capitalizes on market fluctuations through the use of fundamental and technical evaluation models. The risk level of this portfolio is fairly low, estimated at 10% of the amounts committed. Costly asset transfers are furthermore eliminated through the use of derivative products.

Above all, the Caisse pursues medium- and long-term investment objectives. For the past ten years, the returns on the three main asset classes compare favourably with those of the benchmark indices. Although relative returns are essential for evaluating a fund manager, what ultimately matters for the Caisse's depositors is the inflation-adjusted return they receive over a long period. The Caisse's nominal returns for the past five and ten years were 11.4% and 11.9% respectively, which represent 7.9% and 8.1% above inflation. These results demonstrate the high calibre of the Caisse's managers and of its employees in general.

The Caisse placed special emphasis in 1993 on the development of risk-management tools for individual portfolios as well as for its overall portfolio. The results of this research will be applied gradually in 1994, thus enabling the Caisse to optimize the risk-return ratio of its portfolio

and better allocate funds available for investment according to risk-adjusted returns. Fund managers will have to improve their quantitative methods and tools in order to monitor their operations more effectively and to increase the likelihood that they will reach their objectives, whether expressed in terms of real return, relative return or optimal return for an acceptable risk level. The Caisse is already committed to this endeavor.

The Caisse's success depends on highly-motivated, competent personnel who have a flair for innovation and are equipped with first-rate technological tools. The Caisse therefore continued to invest in professional development to ensure its employees remain at the forefront of knowledge in the investment industry. In 1993, it allocated the equivalent of 3% of its payroll to training, compared with 2% the previous year. The Caisse has more CFAs (chartered financial analysts) than any other institution in Canada and strongly encourages its specialists to further their training. The Caisse also continued to invest in information technologies, allocating roughly 30% of its budget to information systems.

These investments are geared toward giving employees efficient tools for communication, analysis and decision-making, and optimizing the execution of transactions.

In Québec, the first signs of economic recovery appeared in 1993, and the situation should continue to improve in 1994. It is imperative, however, that economic growth be accompanied by productive investment and job creation. The Caisse, in its pursuit of optimal returns, will continue to contribute actively to the vitality of Québec's economy.

Given the outlook for lower inflation over the next few years, fund managers should expect generally lower nominal returns than those of the past decade, although real returns could remain high. They will have to seek out the most promising markets and capitalize on investment opportunities. Within this context, the Caisse is well positioned to maximize its results, given the initiatives taken in recent years.

Finally, I would like to thank the Caisse's employees for their sustained efforts and ongoing commitment. Their invaluable contribution, as well as that of our partners, enabled the Caisse to fulfil its objectives in 1993: to achieve growth in its assets while contributing to the realization of profitable endeavors that will create sustainable wealth for all Québécois.



Guy Savard
President and
Chief of Operations

ECONOMIC REVIEW



Québec

Economic growth picked up slightly in Québec in 1993, after sluggish growth in 1991 and 1992. The recovery was led by a surge in international exports caused by a turnaround in the competitiveness of local businesses. Three factors were at work: the Canadian dollar fell more than 10% since early 1992 against that of the United States, Canada's main trading partner; production costs increased only slightly; and productivity rose substantially. This greater productivity stemmed from large increases in investments in machinery and equipment, as industry restructured in the wake of the recession.

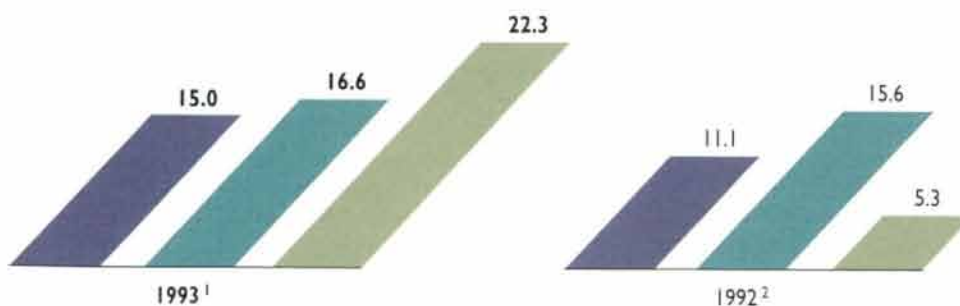
Although exports were healthy, domestic demand remained soft. The negligible improvement in the weak job market undermined the confidence of Québec households and reduced their spending, despite the lowest interest rates in some 30 years. Thus consumer spending and housing activity were both disappointing. Moreover, financial constraints limited spending growth for all levels of government, while productive investment by business slowed in comparison with that of previous years, which had seen a number of major capital projects. Still, overall growth exceeded 2% in 1993 as a result of international trade.

THE CAISSE'S ECONOMIC AND FINANCIAL FORECASTS AND ITS THOROUGH ANALYSIS OF ECONOMIC CONDITIONS PROVIDE SOUND ADVICE TO INVESTMENT MANAGERS. THE CAISSE ALSO CLOSELY FOLLOWS THE FISCAL AND MONETARY POLICIES OF THE MAJOR INDUSTRIALIZED NATIONS. IT UTILIZES MATHEMATICAL MODELS TO DETERMINE THE RELATIONSHIP BETWEEN ECONOMIC ACTIVITY AND FINANCIAL TRENDS.

Canada

In Canada, domestic demand was subject to the same forces as in Québec. Canadian consumers were also reluctant to spend, despite considerable declines in interest rates and inflation over the past two years. Although reduced savings usually go hand in hand with such declines, this time the savings rate rose, especially at the beginning of the year, and consumer spending remained abnormally weak. Late in the year, automobile sales and housing activity showed encouraging signs. Consumers resumed financing their purchases with credit, and starting in the third quarter, reduced their savings rate.

1 GROWTH IN EXPORTS

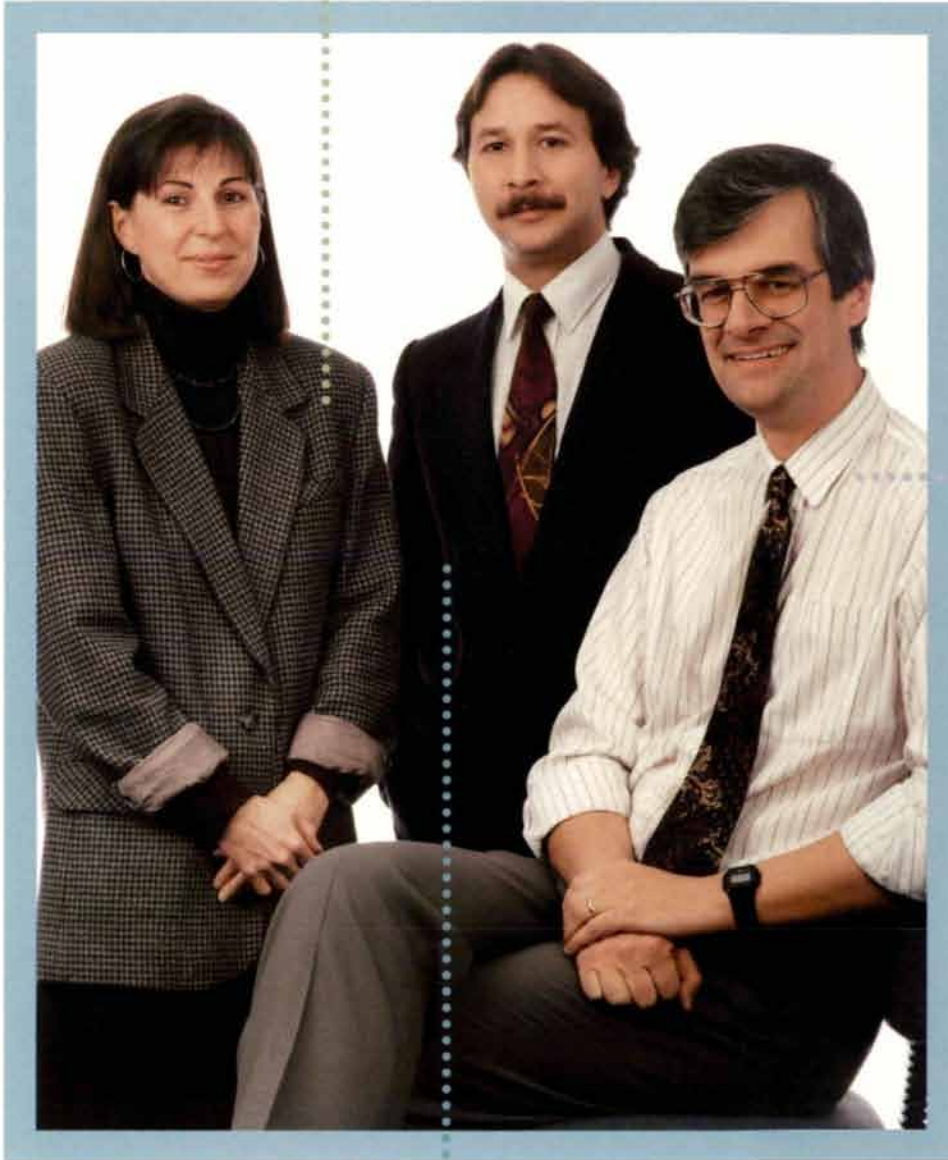


change in percentage
Sources: Statistics Canada and the Caisse

¹ cumulative to November 30
² cumulative to December 31

■ Canada
■ Ontario
■ Québec

DANIELLE BAILLARGEON
ADMINISTRATION TECHNICIAN,
TACTICAL INVESTMENTS



JACQUES JOBIN
SENIOR ECONOMIST,
ECONOMICS

JEAN-LOUIS POMMIER
SECTION HEAD,
INFORMATION SYSTEMS

C o o p e r a t i o n

PROMOTES TEAMWORK IN AN ATMOSPHERE OF
CONSENSUS, TRUST AND SOLIDARITY.



ECONOMIC GROWTH IN QUÉBEC WAS LED BY A SURGE IN INTERNATIONAL EXPORTS RESULTING FROM A TURNAROUND IN THE COMPETITIVENESS OF LOCAL BUSINESSES.

The absence of growth in public spending impaired Canada's growth performance as well. The effect of these cutbacks was less pronounced in Canada than in Québec, where more effort was made to control government spending. Moreover, industrial restructuring pushed productive investment up substantially in Canada, while Québec saw a slight decline. Domestic demand therefore grew more rapidly in Canada than in the previous year and more quickly than in Québec, but at a pace that was relatively slow in historical terms.

Canadian producers became more competitive on international markets, so foreign trade contributed substantially to economic growth. With inventories falling more slowly than in the previous year, growth was 2.4% in 1993, a clear improvement over the 0.7% recorded in 1992.

Despite the poor state of Canada's public finances, long-term interest rates dropped because of the negligible improvement in the job market, the substantial oversupply throughout the Canadian economy and the low rate of inflation. In this climate, the Bank of Canada maintained an expansionary policy that brought about steep drops in short-term interest rates, bank prime rates and mortgage rates. The spreads between these interest rates and the comparable rates in the United States narrowed considerably, thus contributing

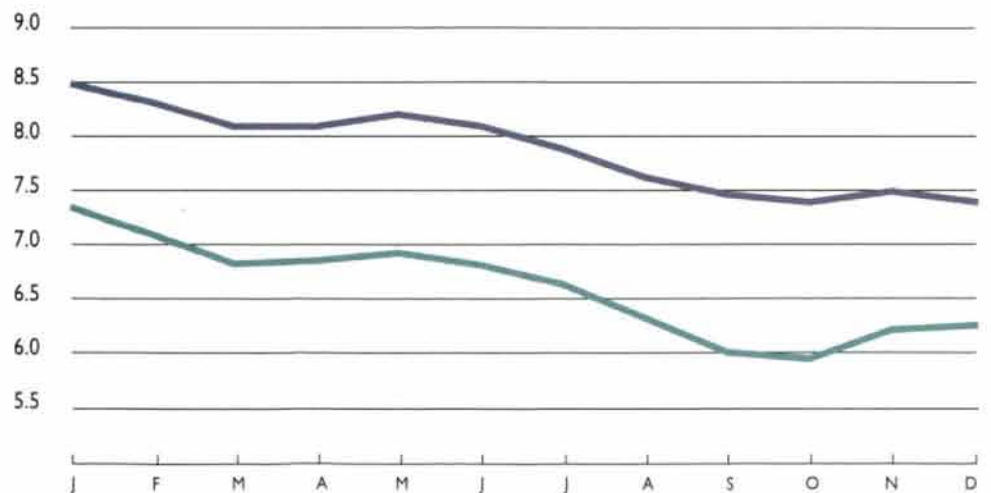
to the Canadian dollar's sizeable decline against its U.S. counterpart.

International

The United States experienced an uneven business climate in 1993. Still, its 3% rate of growth made it the leader among the seven major industrialized nations for the second consecutive year. Unlike Canada, the United States saw domestic demand rise sharply as a result of the delayed effect of low interest rates, despite a continuing tight fiscal stance. Growth was sustained by a moderate rise in consumer spending, a rapid increase in housing activity and an even sharper increase in capital expenditures. Industrial restructuring and global markets forced U.S. industry to modernize, while lower prices for computer and telecommunications equipment favoured an upswing in such spending.

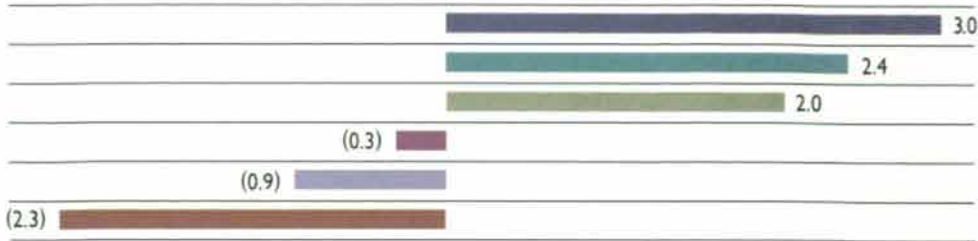
2

EVOLUTION OF YIELD ON 30-YEAR BONDS IN 1993



in percentage
Sources: Bank of Canada and WEFA

— Canada — United States



in percentage

Sources: Statistics Canada, WEFA and the Caisse

¹ Growth is based on real GNP.



This rapid overall growth reduced unemployment slightly, without interfering with a modest drop in the rate of inflation, as rising productivity kept a lid on production-cost increases. The Federal Reserve Board therefore saw no need to tighten monetary policy despite surging economic growth in the second half. Good news about inflation, as well as the Clinton administration's credible commitment to cut the deficit, helped push long-term interest rates down sharply.

The unusually slow growth of exports was the main obstacle to even faster growth in the United States. Weak growth abroad limited the increase in foreign demand: Japan, experiencing profound structural problems, and Continental Europe, suffering the delayed effects of a restrictive monetary policy, plunged deep into recession. Signs of stabilization had just begun to appear in the second half of the year in Continental Europe, while in Japan, economic activity was continuing to fall off. Of the major countries outside North America, only the United Kingdom avoided a drop in output. Yet its recovery remained sluggish.

For most of the major industrialized countries, 1993 was a very difficult year. Generally speaking, North America weathered it rather well.

ASSET MIX AND RETURNS

Sizeable differences in the returns on financial assets were recorded around the world in 1993. In Canada, the TSE 300 composite index yielded 32.6%, while the ScotiaMcLeod Universe bond index and the 91-day Treasury bill index generated returns of 18.1% and 5.5% respectively. On the international scene, the Standard and Poor's 500 index in the United States and Germany's DAX 30 index posted returns of 10.1% and 46.7% respectively, while Japan's Nikkei 225 index yielded only 2.9%.

Such disparities underscore the important role of asset allocation, which determines a significant proportion of the medium- and long-term performance of pension fund portfolios.

According to long-term asset allocation models, which are based on an analysis of the historical returns of traditional financial markets, an optimum allocation should focus largely on equities since they have a good long-term risk-return ratio. Yet, from 1983 to 1992, the average annual return on Canadian bonds was 4% higher than the return on Canadian equities, while 91-day T-bills,

GIVEN HIGHLY VOLATILE MARKETS AND LARGE SPREADS BETWEEN THE RETURNS ON THE MAIN INVESTMENT VEHICLES THROUGHOUT THE WORLD, INVESTORS SUCH AS THE CAISSE PLACE CONSIDERABLE EMPHASIS ON LONG-TERM ASSET ALLOCATION. PORTFOLIOS ARE OPTIMIZED IN PARTICULAR THROUGH SOUND DIVERSIFICATION OF INVESTMENTS AND PRUDENT RISK MANAGEMENT.

usually deemed the least risky securities, posted an annual return that surpassed the TSE 300 index by almost 1%. Asset allocation therefore

cannot be based on historical models alone. What is more, such models serve little purpose for such asset classes as venture capital, real estate and alternative investments.

The Caisse responded to this in 1993 by undertaking a new formal, systematic approach that uses at least four other variables for strategic asset allocation: foreseeable economic conditions; sectorial structural changes; money supply and demand; and the relative price of assets at the time of valuation.

4

EVOLUTION OF INVESTMENTS AS PART OF NET ASSETS



as at December 31
cost - in percentage

as at December 31
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)

Only the figures for 1992 have been restated to conform with the presentation of 1993.

PIERRE BOUVIER
VICE-PRESIDENT,
RESEARCH AND
PROFESSIONAL DEVELOPMENT,
INVESTMENTS



ALAIN CÔTÉ
MANAGER,
INTERNATIONAL
PRIVATE INVESTMENTS

GINETTE HAINS
ANALYST,
INVESTMENT PLANNING

I n n o v a t i o n

COMBINED WITH RIGOUR AND PROFESSIONALISM
IS IMPORTANT TO ALL ASPECTS OF OUR MISSION.

In volatile financial markets, the Caisse needs diversified holdings to achieve optimum returns yet limit risks, so it has broadened its range of investments in recent years. In 1992, it increased its equity in small and medium-size Canadian businesses, in 1993 it moved into emerging markets, and it remains on the lookout for new investment opportunities.

Tactical management, which departs from the target allocation by emphasizing certain asset classes, is performed separately, in line with the limitations set out in the Caisse's investment policies and with due regard for the economic climate and an evaluation of the short-term financial markets.

Early in 1993, in tandem with tactical management, the Caisse introduced a monthly program that systematically balances liquid assets, to bring asset weightings back to their respective medians through sales or purchases,

and to obtain a fair, clear picture of all allocation-management activities.

In 1993, the Caisse invested close to \$2 billion in the main investment categories. As at December 31, total investments amounted to \$46.6 billion at market value and were allocated as follows: \$22.5 billion in bonds, \$17.8 billion in shares and convertible securities, \$1.9 billion in mortgages, \$2.8 billion in short-term investments and \$1.6 billion in net real estate investments.

This asset mix is a composite of all the asset allocations carried out for each Fund managed by the Caisse. In 1993, the Caisse began a three-year review of investment policies together with certain depositors.

A number of experts are predicting that in the years to come financial assets will yield lower returns than in the past decade. The indicators of such a downward trend are global

markets, high levels of government and consumer debt, deflation, historically low interest rates, and the record highs achieved by several types of assets. We even appear to be entering a period in which the returns on traditional asset classes will fall below 10%. In this environment, investors should pay special attention to long-term asset allocation.

Returns

A stable rate of inflation and the weakness of the industrialized economies had a curious impact on returns in 1993. On the one hand, the interest rates offered by financial institutions fell to 30-year lows, and on the other hand, stock and bond markets were propelled to new heights by investors reassured by a more positive economic outlook. Thus the main investment vehicles used by the Caisse posted very high returns for the year.

The Caisse's total return was 19.7%. For depositors, income and the increase in the value of their funds amounted to nearly \$7.7 billion - the largest amount in the Caisse's history. In real terms, total return was 18%, adjusted for the annual rate of inflation as at December 31, 1993. Over the medium and long terms, the Caisse's annualized returns are 11.4% for the past five years and 11.9% for the past ten years.

These results were achieved through prudent risk management. The Caisse's experts study business opportunities and select that which, for an equal risk, offers the probability of the best return. Their strategy is to rule out investments that are likely to produce a return in the short run, only to later drop in value and jeopardize a portion of the depositors' capital. Thus the Caisse achieved its overall return by assuming reasonable, well-calculated risks.

Bond investments yielded 18.4%, as opposed to 18.1% for the ScotiaMcLeod Universe index, mainly as a result of the widespread decline in interest rates in the western countries, which had a positive impact on the Caisse's portfolio. Returns for the past five and ten years were 14.3% and 14.1% respectively, and compare favourably with the benchmark index, whose yields for the same periods were 14% and 13.4%.

5 BREAKDOWN OF INVESTMENTS



as at December 31, 1993
market value - in percentage

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

		Annual compound rate for the period					
		1993		1989 - 1993 (5 years)		1984 - 1993 (10 years)	
Bonds	ScotiaMcLeod Universe bond index	18.4	18.1	14.3	14.0	14.1	13.4
Canadian shares	TSE 300	26.2	32.6	8.8	8.6	8.9	9.0
Foreign shares	Morgan Stanley Capital International - World Index (MSCI-WI)	21.2	22.4	8.2	7.9	13.2	14.8
Mortgages	ScotiaMcLeod Mortgage (3 years) ¹	11.5	12.0	12.8	13.0	12.6	11.9
Specific real estate investments portfolio	MLH+A	0.0	(10.4)	(1.0)	-	6.6	-
Short-term investments	ScotiaMcLeod - Canada Treasury bills (91 days)	5.7	5.5	9.7	9.6	-	-
Contribution from tactical investments (\$74.3 million) ²		0.2	-	-	-	-	-
TOTAL RETURN		19.7	-	11.4	-	11.9	-
Current rate of return ³		9.9	-	9.4	-	10.0	-

in percentage

¹ The index does not take into account any provisions for non-performing loans.

² Contribution is based on the market value of total investments.

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

The return on the Canadian equities portfolio was 26.2%. However, the portfolio's underweighting of gold stocks, a highly volatile sector, combined with the temporary decline in the value of certain major investments, created a 640 basis point shortfall in relation to the return of the TSE 300 index. Over longer periods, the Caisse's portfolio has generated a return roughly equivalent to the index: 8.8% over five years and 8.9% over ten years compared with 8.6% and 9%.

Foreign equities as a whole yielded 21.2%, whereas the hedged Morgan Stanley Capital International World Index posted 22.4%, the difference being due mainly to the lesser performance of the portfolio's U.S. equities. However, over

five years, foreign equities, at 8.2%, outperformed the benchmark index, which yielded 7.9%. Added value obtained by active currency management, carried out separately from individual hedging, generated some \$8 million in 1993.

The 11.5% return on the mortgage portfolio was below the benchmark index which yielded 12%. It should be noted however that the index does not take into account any provisions for non-performing loans. As a result of the weak economy, the Caisse was forced, as were most Canadian financial institutions, to take such provisions during the year. However, over a five-year period, the mortgage portfolio's 12.8% return is comparable to the index's 13%. Over ten years, the

portfolio's 12.6% performance surpassed that of the index by 0.7%, confirming the quality of the Caisse's portfolio.

Short-term investments generated a 5.7% return, against 5.5% for the 91-day Canadian T-bill index. Over five years, the short-term investments portfolio yielded 9.7%, surpassing the index which posted 9.6%.

The current return on the real estate portfolio was 6.3%. However, as a result of a decline in real estate values, the portfolio's total return was 0%. New decreases in value had to be recorded in the case of office buildings, as well as some industrial buildings and land. These decreases are lower however than those of the market, as

reflected in the -10.4% return of the MLH+A index, an overall indicator for real estate returns which was created in 1993, after two years of research, for institutional investors with a substantial real estate portfolio in Québec.

The new structure implemented at the end of 1992 to manage tactical asset allocation has begun to pay off. The use of derivative products generated \$74.3 million in profits in 1993, thereby contributing 17 basis points to the Caisse's total return of 19.7%.

INVESTMENT OPERATIONS

Bonds

In 1993, interest rates fell gradually throughout the western world. In Continental Europe, the decline in rates stemmed from the recession, and their extreme volatility was due primarily to uncertainty over the fate of the Maastricht Treaty and the decision to make the European monetary snake more flexible. Japan, too, was gripped by recession and saw its rates fall substantially. In the United States, 30-year bond rates dipped as low as 5.8% in October, a level not seen since the Second World War, before moving up to more than 6%. In Canada, rates also fell sharply all year long, except in the period leading up to the federal election. In 1993, the rates for 5-, 10- and 30-year Government of

Canada bonds declined by 161, 121 and 103 basis points respectively, compared with their year-end 1992 levels.

The spreads between the interest rates paid on Québec and Canadian securities also narrowed: as at December 31, 1993, they were 39, 72 and 84 basis points for bonds with terms of 5, 10 and 30 years respectively. The spreads were unusually wide early in the year: about 110 basis points on 10-year bonds, compared with a 10-year average of 65 points.

As at December 31, 1993, the bond portfolio amounted to \$22.5 billion at market value, or 48.2% of total investments, compared with \$19.9 billion, or 48.5% of investments, at the end of 1992. The Caisse

ACHIEVING AN
OPTIMAL RETURN IMPLIES
THAT RESULTS MUST BE
EVALUATED IN RELATION
TO THE RISKS INCURRED.
IN ORDER TO BETTER
ALLOCATE FUNDS
AVAILABLE FOR INVESTMENT
ACCORDING TO
RISK-ADJUSTED
EXPECTED RETURNS,
THE CAISSE HAS DEVELOPED
AN INTEGRATED
RISK-MEASUREMENT
SYSTEM WHICH PLACES IT
AT THE FOREFRONT OF
ITS INDUSTRY WORLDWIDE.

It also traded \$27.2 billion of gouvernement du Québec and Hydro-Québec bonds on the secondary market, as opposed to \$29.6 billion in 1992. Transactions involving bonds issued by municipalities, hospitals and school boards totalled \$641 million.

The constant increase in the number of derivative products and the development of better risk-measurement tools have led to a new management approach for the Caisse's bond portfolio, which will surely enhance overall performance. Under the previous approach, securities acquired on a permanent basis were in a different category than those held on a temporary basis. Under the new approach, the Caisse manages two bond portfolios. One is a strategic

invested \$1.1 billion on the primary market for securities issued by the gouvernement du Québec and Hydro-Québec.

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SUMMARY OF ACQUISITIONS OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC AND QUÉBEC PUBLIC SECTOR IN 1993

	Canadian market		World market ¹		Other markets ²		Total	
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
Gouvernement du Québec	375	14.9	250	11.1	-	-	625	7.1
Hydro-Québec and other government corporations	500	32.8	-	-	-	-	500	11.0
	875	13.7	250	11.1	-	-	1,125	6.8

par value - in millions of dollars

¹ issues in Canadian dollars

² issues in various currencies or in Canadian Eurodollars and totalling \$7.9 billion

CLAUDE BOULOS
MANAGER,
NATIONAL PRIVATE
INVESTMENTS



PIERRE BERNARD
PORTFOLIO MANAGER,
CANADIAN STOCK
MARKETS

ANDRÉ CHAREST
VICE-PRESIDENT,
ADMINISTRATION
AND FINANCE,
CAISSE REAL
ESTATE GROUP

MARGARET COUGHTRIE
PORTFOLIO MANAGER,
CONTINENTAL EUROPE,
INTERNATIONAL
STOCK MARKETS

Efficiency

IS SOUGHT IN ALL ACTIVITIES,
WHETHER THE GOAL IS AN OPTIMAL FINANCIAL RETURN OR CONTRIBUTING TO
THE VITALITY OF THE QUÉBEC ECONOMY.



THE CAISSE PUBLISHED A DOCUMENT SPECIFYING ITS EVALUATION CRITERIA FOR SELECTING THE BROKERAGE FIRMS IT DEALS WITH FOR ITS BOND INVESTMENTS.

bond portfolio that aims to match certain benchmark index parameters. The other is a tactical portfolio that consists mainly of derivative products. It is aimed at controlling overall interest rate risk and includes Canadian and foreign bond investments which are made based on volatility, term and yield curve evaluation.

The strategic portfolio includes all Québec public sector securities, as well as securities issued by the Canadian, U.S. and European governments, which allow the Caisse to take advantage of market opportunities and effectively manage the overall portfolio. The Caisse plays an active role on the

Québec bond market by purchasing and selling large blocks and contributing to the liquidity of day-to-day transactions, which improves the return on its portfolio. In light of the potentially greater yields on the Canadian market and the high cost of hedging foreign investments in 1993, the Caisse liquidated almost all its European assets early in the year and retained a portfolio consisting mainly of North American bonds.

As for the tactical portfolio, it reflects short- to medium-term interest rate forecasts. The derivatives in this portfolio include 10-year Canada government bond futures (CGB), which are traded

exclusively on The Montréal Exchange, futures and options on bond futures issued by the United States and other foreign governments, as well as interest rate swaps. Generally speaking, these derivative products can be traded more easily than a regular bond investment and enable the Caisse to control portfolio risk more effectively, at a lower cost.

At year-end, the bond portfolio had an average maturity of 9.88 years, an average coupon rate of 8.09% and a modified duration of 5.77 years.

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SUMMARY OF BOND PORTFOLIO BY TYPE OF ISSUER

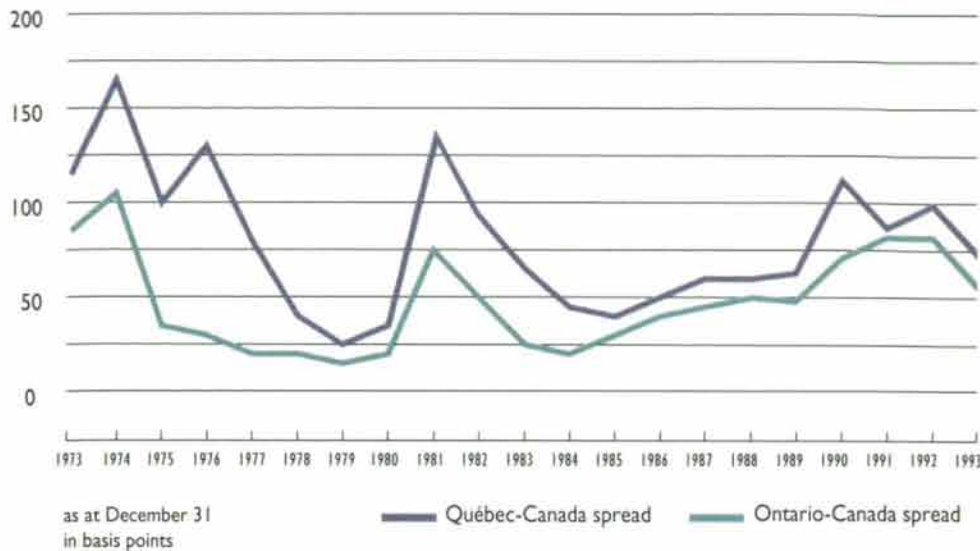
Securities	Market value		Average nominal rate ¹ (%)	Average maturity ¹ (years)	Modified duration ² (volatility)
		(%)			
Domestic					
Government issued					
Gouvernement du Québec	10,158.6	45.1	8.31	8.83	5.41
Government of Canada	1,988.4	8.8	8.24	7.97	5.11
Other governments	44.2	0.2	10.01	2.72	2.39
Government guaranteed					
Gouvernement du Québec	6,777.3	30.1	7.20	13.06	6.99
Government of Canada	103.8	0.5	10.63	13.45	7.54
Other governments	74.1	0.3	9.30	5.77	4.35
Guaranteed by grants, municipalities and school boards	2,448.2	10.9	10.92	7.82	5.04
Corporate and other	121.7	0.6	10.46	10.94	3.77
	21,716.3	96.5	8.23	10.07	5.82
Foreign					
U.S. Government	775.7	3.5	4.71	5.09	4.25
Government of France	10.1	-	8.50	6.24	5.08
Government of Germany	3.6	-	6.00	22.48	12.42
	789.4	3.5	4.76	5.18	4.30
	22,505.7	100.0	8.09	9.88	5.77

as at December 31, 1993
in millions of dollars

¹ weighted as per nominal value

² weighted as per market value

EVOLUTION OF YIELD SPREADS ON TEN-YEAR BONDS



Short-Term Investments

In Canada, the central bank favoured a decline in short-term interest rates in 1993. As at December 31, the yield on 91-day Canadian T-bills was less than 4%, a drop of nearly 300 basis points from the rate in effect on January 1. These rates were in fact the lowest since the 1960s.

The Caisse's strategy focused on positioning its money-market portfolio on the short and long portions of the yield curve, so as to take advantage of the trend in interest rates while maintaining a maturity comparable to that of the benchmark index. The Caisse also actively used derivative products such as BAX and BAR banker's acceptance futures traded on The Montréal Exchange and forward rate agreements traded on the over-the-counter market to reduce the term of its positions as necessary.

Synthetic products were also developed with swaps and forward rate agreements to transform the one- and two-year terms of Québec securities into shorter effective maturities. During the year, the Caisse centralized all cash management activities, in particular by integrating

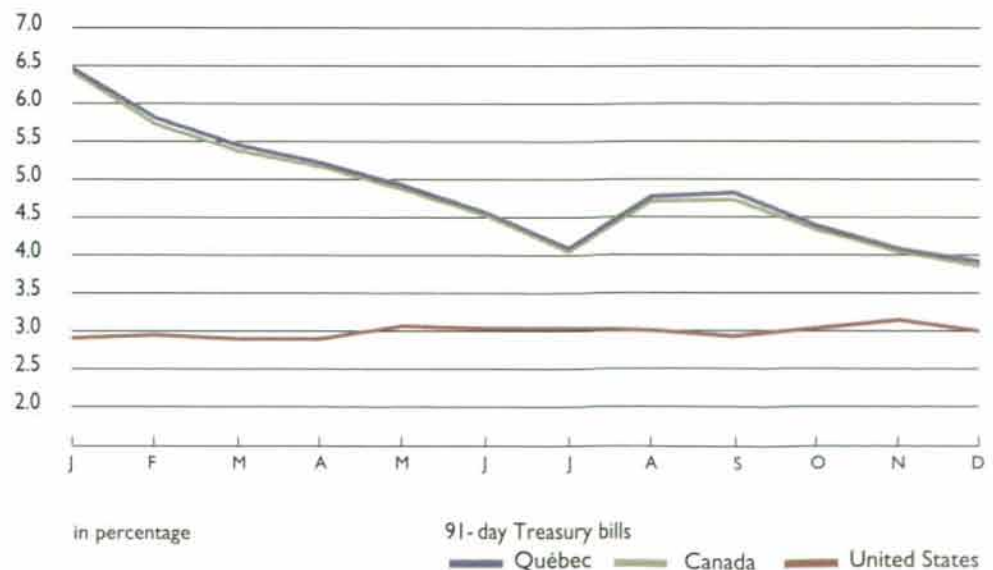
bond-lending operations that facilitate daily cash management. The lending of securities is a low-risk activity on the increase on all continents and enables the Caisse to enhance its return.

As at December 31, 1993, the market value of the Caisse's

total short-term investments portfolio was \$2.8 billion, compared with \$2 billion at the end of 1992. Off-balance-sheet derivative products had a notional gross value equivalent to 6% of the portfolio.

The Caisse manages three separate portfolios of short-term investments. The internal cash portfolio ensures the Caisse has the funds it needs to fulfil its obligations to depositors, as well as those arising from day-to-day operations involving the purchase, sale and loan of securities. The external cash portfolio consists of depositors' term deposits, which are managed in accordance with their specific cash requirements. In this regard, the Caisse managed depositors' cash resources even more efficiently in 1993 by introducing more sophisticated management tools. Lastly, the portfolio of permanent investments has the sole objective of maximizing the

EVOLUTION OF YIELD ON SHORT-TERM MARKET SECURITIES IN 1993

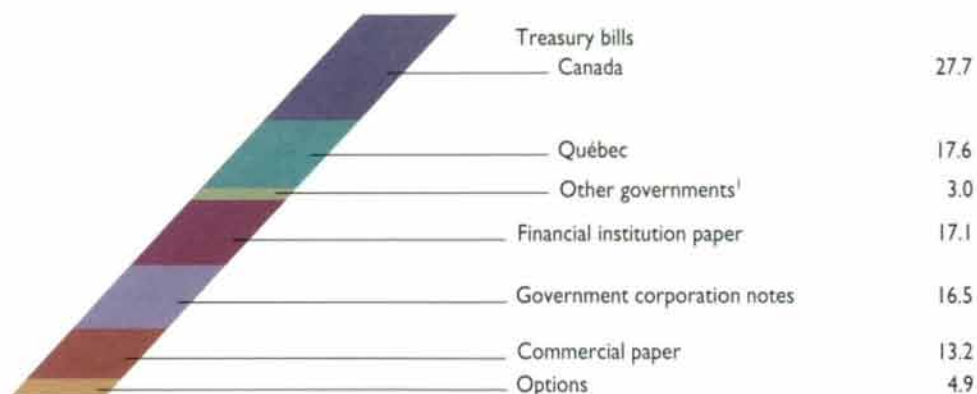




BREAKDOWN OF SHORT-TERM INVESTMENTS



THE CAISSE REGROUPED THE TEAMS IN CHARGE OF BOND, MONEY MARKET AND FOREIGN EXCHANGE OPERATIONS TO PROMOTE THE SYNERGY OF THESE RELATED ACTIVITIES.



as at December 31, 1993
market value - in percentage

¹ Securities denominated in foreign currencies are converted into Canadian dollars at the exchange rate prevailing at December 31, 1993.

return on money market investments as part of overall asset allocation.

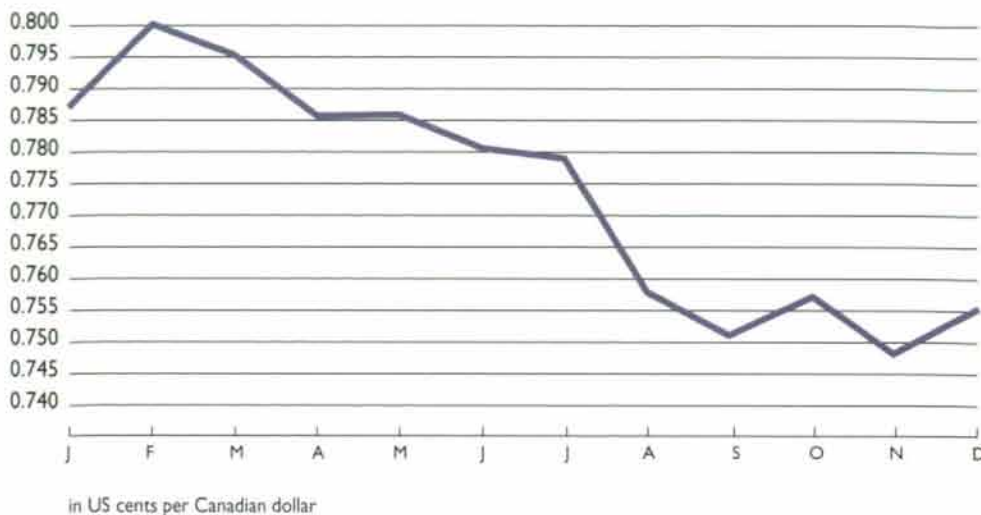
Currency Markets

It was another highly volatile year on the foreign exchange markets. In a trend that began in October of 1991, an expansionary monetary policy helped push the Canadian dollar down more than 4% in 1993 against its U.S. counterpart. Japan's trade surplus with the United States caused the yen to rise 11% during the year. The European currencies decreased in value against the U.S. dollar, especially in the last quarter, although uncertainty over U.S. economic

growth and delayed reductions in German interest rates limited their depreciation. A confidence crisis with respect to the French franc arose in the summer but abated toward year-end as France maintained its monetary policy.

The Caisse hedges its foreign investments against exchange risks. Twenty-two currencies are hedged with futures and swaps which are used to optimize hedging operations. Currency volumes bought and sold in 1993 totalled CAN \$230.8 billion, an 86% increase over 1992, making the Caisse the leader among Canadian fund managers performing this type of operation. At year-end, the hedging portfolio represented \$5.3 billion, which is equivalent to the Caisse's investments on foreign markets, or 11.4% of total investments.

In 1993, the Caisse put emphasis on its tactical exchange positions portfolio, which is structured according to well-defined limits and criteria, so as to take advantage of forecasted exchange rate trends. The Caisse's traders specialize in specific currencies and products and apply sophisticated in-house models; they were thus able to carry out more complex operations on a larger number of currencies, using options and futures. The Caisse began developing a simulation model to determine the risks for all tactical exchange positions on a daily basis and to measure return



on a risk-adjusted basis. It is one of the few fund managers in Canada to use such a model for tactical exchange operations. The Caisse also implemented a new management information system, combined with a netting system linked with various banks, to broaden its trading possibilities.

Foreign Equities

The specific foreign equity investments portfolio contains all of the Caisse's foreign equities, with the exception of \$300 million in international private investments, emerging market investments, and certain other foreign equities held by the Caisse.

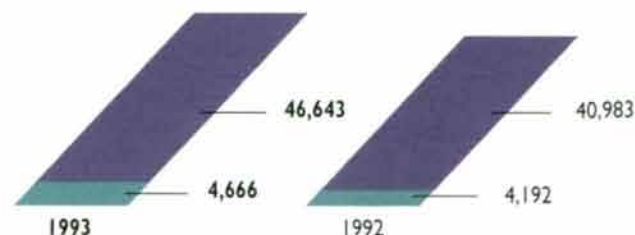
In 1993, the Caisse maintained the proportion of foreign equities at about 10% of total investments. The market value of the specific foreign equity investments portfolio increased from \$4.1 billion in 1992 to \$4.4 billion in 1993. At year-end, the geographical distribution of the portfolio, determined by a team of in-house managers, was as follows: United States, 39.4%; United Kingdom, 11.6%; Germany, 3.5%; France, 3.9%; other European countries, 9.1%; Japan, 23.7%; and other Asian countries and Oceania, 8.8%.

The world markets received support in 1993 from the economic recovery in the United Kingdom and the strong European market, which was buoyed by lower interest rates in Germany. The return on the Caisse's foreign equities was affected however by the portfolio's overweighting of U.S. consumer and retail stocks, whose relative performance suffered temporarily from the economic climate.

The Caisse's specific foreign equity investments portfolio is managed according to three

different methods: in-house, indexed external and active external. In-house management is performed by a team of eight experts who are well versed in their markets and are responsible for U.S. and European equity funds. In light of its past results and in-house expertise, the Caisse decided to place greater emphasis on this method in 1993. A total of \$152 million was transferred from external to in-house management, while \$276 million went from indexed to in-house management. Thus an additional \$428 million, directed mainly toward the U.S. and European markets, was managed in-house during the year. As at December 31, 1993, funds managed internally totalled 51.2% of the portfolio.

As for indexed external management, which represented 38.2% of the portfolio at year-end, the managers are responsible for achieving returns equivalent to those of the sub-indices of the world index. In active external management, which is used for 10.6% of the portfolio, a global mandate is given to three European and Japanese



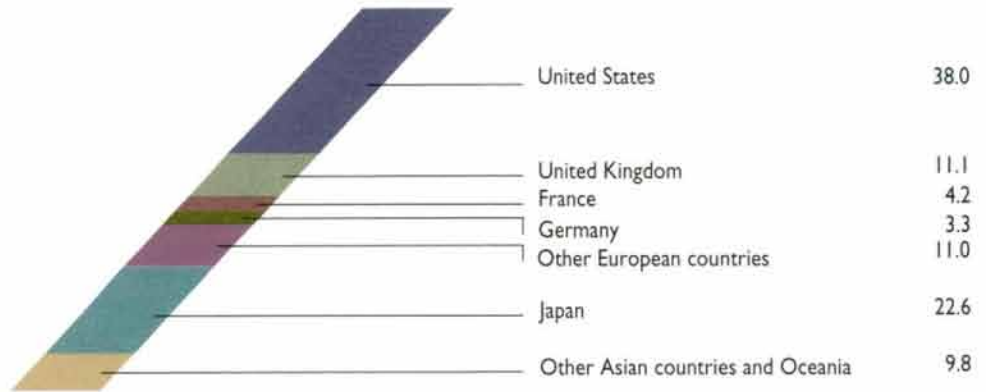
as at December 31
market value - in millions of dollars

Foreign equities
Total investments

Figures for 1992 have been restated to conform with the presentation of 1993.



THE CAISSE IS AN ACTIVE PARTICIPANT IN THE MARKET FOR DERIVATIVE PRODUCTS TRADED ON THE MONTRÉAL EXCHANGE.



as at December 31, 1993
market value - in percentage

managers. Emerging markets, mainly in Asia and South America, have greater growth potential than the mature economies of the industrialized nations. The Caisse intends to position itself in these markets and so for the first time, in 1993, selected two external managers that specialize in emerging markets to invest \$50 million on its behalf. By using experienced managers, the Caisse can better assess the risks of these new markets and determine how to take advantage of their future growth.

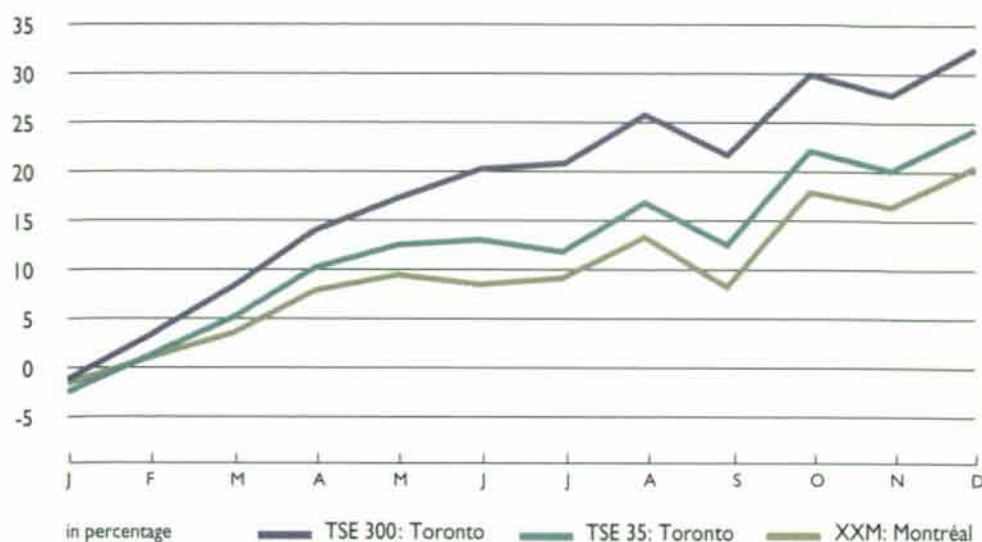
During the year, the method of allocating funds to various countries was modified. Previously, regional indexed funds were bought and sold so as to alter the geographical weighting of foreign equities. The

new method adopted in 1993 uses stock market index futures and is faster and more economical. To optimize its portfolio's performance, the Caisse is considering a more active approach to country allocation, actively managing its investments in Japan, and creating a portfolio of small-cap foreign securities.

Canadian Equities

The year 1993 was an unusual one on the Canadian stock market. The TSE 300 composite index yielded a high 32.6%, but was accompanied by a 20% increase in the risk level. The market's increase resulted from exceptionally strong demand by foreign investors with expectations of a corporate earnings turnaround, as well as the substantial amount of money

flowing into the stock market. The TSE 300 outperformed the Standard & Poor's 500 for only the fourth time in the past 15 years. The year was also unusual in that only three of the 14 sectors largely outperformed the index, the most important one being gold stocks with a spectacular 105.4% return. For the third consecutive year, one management style in particular yielded very high results, as shown by the TSE 200 index's 47.5% return. This style focuses on small-cap companies, which generally post higher performances at the beginning and the end of a bull market. The stocks of large-cap companies fared less well this year, with the TSE 35 index yielding 24.3% and The Montréal Exchange's XXM index generating 20.5%.

**CUMULATIVE MONTHLY RETURN OF THE
THREE MAJOR CANADIAN INDICES IN 1993**


Of those sectors that outperformed the TSE 300, gold stocks dominated despite low rates of inflation and weak economic growth in the G7 countries. Strong growth in China and Southeast Asia and a more positive outlook for the G7 in 1994 and 1995 were the main driving forces behind the rise in the price of gold. Indeed, the higher gold price, combined with the rising gold reserves of companies with successful exploration programs and a more favourable market sentiment for this sector, created very

strong demand for Canadian gold stocks. As part of its investment strategy, the Caisse, like most large Canadian fund managers, chose to underweight gold stocks relative to the TSE 300.

Forest products posted a 43.7% return, mainly because of the recovery in the United States, the limited supply of lumber and the decline in the Canadian dollar. Foreign interest in conglomerates such as Canadian Pacific enabled that sector to yield 41.3%.

Several sectors fell short of the index's performance but had, for the most part, attractive absolute returns. Certain specific factors explain these results.

Despite Air Canada's solid performance, the transportation sector yielded -7.8% due to overcapacity in waste recovery and processing. At 8.7%, real estate and construction suffered, relative to other sectors, from excess supply of office buildings and retail stores. Mainly as a result of Magna, the auto parts

manufacturer, consumer products yielded 13.4%, despite the weak outlook for tobacco and alcohol consumption. The distribution and services sector was affected by the sluggish recovery, household debt and the aging population, yet generated a return of 17.5%. Communications, mainly the publishing sub-sector, recorded 19.9% despite the weak economic recovery and the drop in job-related and other advertising in newspapers. Public utilities, at 23.2%, benefitted from falling interest rates, although this phenomenon discouraged investors who seemed to think that rates had bottomed out.

As for management styles, apart from the one that focuses on small-cap companies – which the Caisse had targeted in 1991 by creating a small-cap portfolio – two other styles yielded positive results in 1993, although to a lesser degree. First there was the "value" style, which is aimed at securities that are undervalued relative to a company's intrinsic value, and then the "momentum" style, which emphasizes companies whose stocks have recently posted strong gains.

Managing risk is a key component of active portfolio management over the medium and long terms. Investors can no longer base their decisions solely on a fundamental analysis of corporate financial statements, which for many years was the preferred approach of large fund managers. Since 1991, the team responsible for Canadian equity investments has been setting up an integrated risk

STOCK MARKET INDICES IN 1993

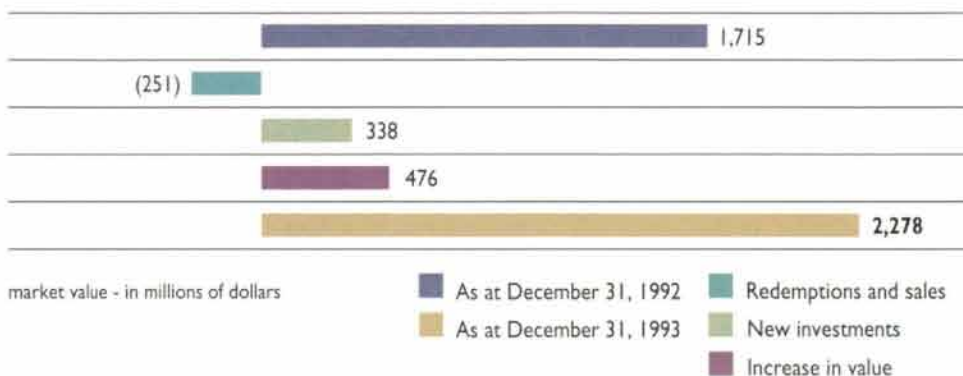
Index	Location	In local currency	In Canadian dollars
XXM	Montréal	20.5	20.5
TSE 300	Toronto	32.6	32.6
Standard & Poor's 500	United States	10.1	14.5
MSCI-WI			
Sub-index	United Kingdom	27.4	29.7
Sub-index	Germany	45.5	41.2
Sub-index	Japan	12.2	30.7

total return - in percentage

management system to meet this challenge. The Caisse thus continues to favour low-correlation stock market portfolios that are managed separately. For instance, large-cap portfolios apply sector rotation within the TSE 300, while other portfolios concentrate on growth, value or small-cap stocks. With its multistrategic management portfolio, created in 1992, the Caisse selects specific sectors, industries and stocks while optimizing its risk-return ratio. Moreover, a team of 15 analysts actively manages a portfolio whose sectorial weightings reflect the TSE 300. These analysts focus solely on stock selection. Their buy and sell recommendations are also used by all the managers, and specifically by the manager specialized in the optimization of the risk-return ratio of another portfolio.

As for stock market operations, the Caisse remained an active participant in the market for PEACs and SPECs, products created in 1992 and traded on The Montréal Exchange. It also began trading a large volume of baskets of securities, which enable it to execute a certain number of buy and sell transactions very quickly, and have the advantage of minimizing transaction costs.

17 EVOLUTION OF THE PRIVATE INVESTMENTS PORTFOLIO



market value - in millions of dollars

■ As at December 31, 1992
■ As at December 31, 1993
■ Redemptions and sales
■ New investments
■ Increase in value

During the year, the Caisse began utilizing an advanced management information system that comprises several types of data bases and software which will gradually integrate historical and real-time data on markets and corporations.

At year-end, the market value of the total portfolio of Canadian equities held by the Caisse, including medium- and long-term private investments on this market, was \$13.1 billion, or 28.1% of the Caisse's total investments. The financial and stock market coefficients of the Canadian stock market portfolio were as follows: the price-earnings multiple was 31.9; the price to book value ratio, 1.7; and the current dividend yield, 2.3%. The risk exposure for the portfolio was evaluated at 2.4% above or below its average active long-term return, with a probability of 66.7%, or one standard deviation.

Private Investments

The Caisse had a very productive year in 1993, confirming the strategies it has developed in recent years. It authorized 35 investments totalling \$582 million, compared with 32 investments and commitments amounting to \$334 million in 1992. The Caisse also took advantage of the rising stock markets to reduce some of its positions through sales totalling \$251 million, which generated gains of \$66 million.

To adapt to the ever-changing needs of the marketplace, the Caisse decided to continue developing new financial products and increase its international activities in 1993. Under a new debt-financing program, it offered business corporations, mutual companies and

cooperatives a financial instrument tailored to their needs. It also established a project-financing program to take advantage of opportunities in this market and to meet identified needs. The Caisse also expanded the network of regional investment companies that provide financing for regional small businesses, and it set up a high-tech investment company to meet the needs of businesses in that sector. Finally, it continued to invest in general and specialized international funds.

Specifically, the Caisse invested \$60 million in Industrial-Alliance Life Insurance Company, in the form of a participating indexed subordinated debenture. This innovative financial instrument should enable it to invest in

business corporations, mutual companies and cooperatives. These investments should provide the Caisse with attractive returns and help consolidate the capital structure of these companies over the long term.

In project financing, the Caisse sought to invest jointly with other financial partners. Thus, with six other financial institutions, it granted a \$16-million financing in a \$62-million project for the construction in Chapais of a generating station using wood residue.

As part of the Caisse's program to expand the network of regional investment companies, Capimont (Montréal region) and Capital Montérégie were added to the network, which has made 56 investments totalling almost \$13 million since its inception. At the end of 1993, seven regional companies were fully operational;

two other companies, which are to be created in 1994, will complete the network.

Having recognized the growing importance of the technological sector within the Québec economy, the Caisse, together with seven other financial and industrial partners, launched the Technocap fund, which will use its capital of \$40 million to invest primarily in small and medium-size Québec businesses in leading-edge sectors. The Caisse authorized a total of \$37 million in direct and indirect investments in these companies in 1993.

In line with its strategy of investing in promising sectors while extending its own networks, the Caisse continued to expand its international activities. Through equity interests in acquisition funds, venture capital funds and merchant banks, the Caisse has formed alliances

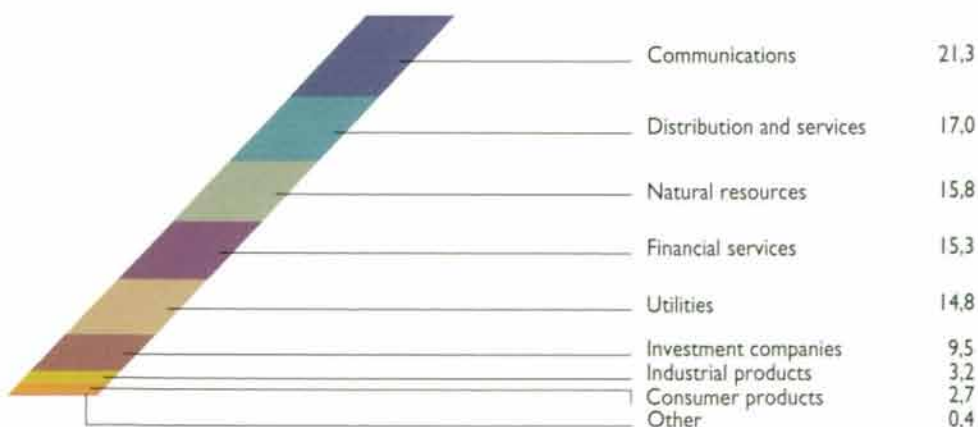
with partners that are very knowledgeable about a specific market and that are professional investors in a given sector of activity or region of the world. The Caisse completed its first program in the United States by investing some US \$120 million in seven new funds. These investments were made in technological and traditional sectors. In the technological sector, the Caisse invested US \$40 million in five funds involved in such growth sectors as health, telecommunications, information technologies and the environment. In more traditional sectors, roughly US \$80 million was invested in two acquisition funds, managed by Harbour Group and The Blackstone Group, which focus on the acquisition of medium-size and large corporations, both in the manufacturing and services sectors. These investments may yield superior returns and serve to heighten the interest of

foreign investors in the Québec market. By participating in these funds, the Caisse develops its network and increases the sources of information and expertise which could provide commercial, financial and technological support for Québec companies looking to expand abroad, or for foreign firms interested in establishing operations in Québec.

Given the closer economic ties between Québec and Mexico and the Mexican economy's growth potential, the Caisse made an initial \$5-million investment in a Mexican venture capital fund, Desarrollo Económico Mexicano, managed by Lepercq, de Neuflyze & Co., in association with a subsidiary of Grupo Financiero Inverlat, a Mexican merchant bank, and Nafinsa, the largest Mexican development bank. In Europe, the Caisse consolidated its equity investment in the Swiss company Pargesa, the European subsidiary of the Power group, and invested nearly \$50 million in a U.K. acquisition fund, managed by Schroder Ventures, a subsidiary of the Schroder P.L.C. merchant bank.

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BREAKDOWN OF PRIVATE INVESTMENTS BY SECTOR OF ACTIVITY



as at December 31, 1993
market value - in percentage



GIVEN THE INCREASING IMPORTANCE OF THE TECHNOLOGICAL SECTOR IN THE QUÉBEC ECONOMY, THE CAISSE, TOGETHER WITH OTHER PARTNERS, TOOK PART IN LAUNCHING THE TECHNOCAP FUND.

Throughout the year, the Caisse was closely involved in several restructuring programs. Sceptre Resources, for instance, adopted a financial restructuring plan that produced convincing results. The Caisse's active management of its portfolio was also productive, with the results posted by Domtar and Métro Richelieu, among others, showing substantial improvement. Noverco also had an excellent year; it made a public offering of \$110 million worth of units of Gaz Métropolitain and Company, Limited Partnership, finalized its partnership project with Gaz de France and acquired 50% of Trans-Québec & Maritimes. The Caisse exercised a right of first refusal under its shareholders' agreement with Unigesco, thereby increasing its interest in Univa and acquiring a quality stock with an attractive long-term financial outlook.

As for disinvestment and profit taking, the Caisse managed its portfolio more actively and

sold some of its securities of large publicly-traded corporations, such as G.T.C. Transcontinental Group, Imprimeries Quebecor and Vidéotron, while remaining an important long-term partner of these firms.

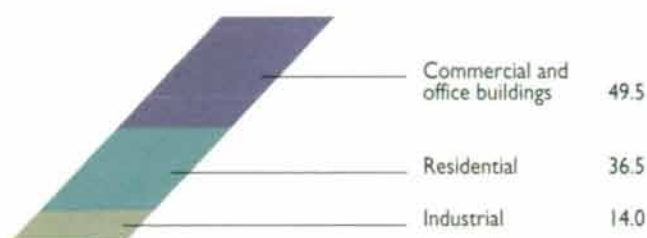
As at December 31, 1993, the market value of the aggregate private investments portfolio was \$2.28 billion, or 4.9% of the Caisse's total investments. National investments amounted to \$2.14 billion, compared with \$1.6 billion in 1992, an increase of 33.8%. International private investments represented \$140 million, an increase of 72.8% over \$81 million in 1992. Over a 10-year period, the portfolio's private investments in Québec companies generated a return of 12.7%, surpassing the TSE 300 index which posted 9% for the same period.

Mortgages

The Caisse provides mortgage loans at competitive rates to developers, companies and individuals. In the commercial and office buildings sector as well as the industrial sector, it offers a minimum of \$250,000 in direct financing, to a maximum of 75% of property value. In the residential sector, it extends loans on the same conditions for apartment buildings with eight or more units. Loans for multi-unit housing with up to seven units are provided through three representatives with branches throughout Québec: General Trust of Canada, Trust Prêt et Revenu and Fiducie Desjardins.

The salient features of 1993 were the weakness of the construction industry and the general decline in interest rates. Given that the Caisse forecasted lower rates, its strategy early in the year consisted of using different financial instruments with longer terms, such as mortgage-backed securities guaranteed under the *National Housing Act* (NHA) and

BREAKDOWN OF MORTGAGES



as at December 31, 1993
market value - in percentage

interest rate swaps, to take advantage of the decline, while offering borrowers highly competitive rates. Above all, the year was marked by a consolidation of activities and a search for quality loans. Non-performing loans, that is those for which payment is past due for more than three months, represented 2.5% of the portfolio as at December 31, 1993.

A weak real estate market and readily available financing limited the number of new

loans granted by the Caisse in 1993, despite the efforts made. The net amount of new loans authorized in the course of the year nonetheless totalled \$250 million.

As at December 31, 1993, the market value of the Caisse's mortgage portfolio totalled \$2 billion, or 4.2% of investments. The breakdown of mortgage investments was as follows: 50% in the commercial and office buildings sector; 36% in the residential sector; and 14% in the industrial sector.

Investments in mortgage-backed NHA securities and interest rate swaps, which are included in residential sector securities, totalled 4% of the portfolio. At year-end, the average nominal rate of the portfolio was 10.2%, the average maturity was 3.3 years and the modified duration was 2.5 years.

The Caisse began installing a new integrated mortgage management system in 1993 to improve the speed and efficiency of loan processing and follow-up. This initial phase allows for highly precise monitoring of all stages of mortgage financing, from the original loan application to the disbursement of funds.

Caisse Real Estate Group

Real estate investments form a category of their own, given that the Caisse is not only an investor but also an owner and manager of buildings through its subsidiaries. The Caisse restructured its

holdings in 1993, transferring all aspects of property management to its real estate subsidiaries and keeping only a core team of experts who develop the new Caisse Real Estate Group's strategies, monitor the portfolio and its performance, coordinate Group operations and oversee subsidiary management.

Real estate activities are carried out by four subsidiaries: Cadim, which primarily manages real estate investments held in partnership with developers or builders who are in charge of day-to-day management; Ivanhoe, an owner and manager of medium-size and large shopping centres; Société Immobilière Trans-Québec (SITQ), which focuses, together with other institutional partners, on office buildings, regional shopping centres and industrial buildings; and Cadim international, which coordinates the Group's acquisitions outside Canada. Cadim and Cadim international are wholly

BREAKDOWN OF THE REAL ESTATE INVESTMENTS PORTFOLIO BY BUILDING CATEGORY AND BY SUBSIDIARY

	Commercial	Office buildings	Industrial	Other ¹	Value of portfolio ²	Percentage of the Group's portfolio
Cadim	123	161	7	31	453.7	25.6
Ivanhoe	861	56	44	-	820.5	46.3
SITQ	131	403	79	41	498.7	28.1
Group	1,115	620	130	72	1,772.9	100.0

as at December 31, 1993
market value - in millions of dollars

¹ combines hotels and the residential sector

² represents the value of the Caisse's net holdings in the company

CAISSE
REAL ESTATE
GROUP

CADIM
INC.

IVANHOE

SITQ
SOCIÉTÉ EN QUÉBEC
TRANSPARENTE

CADIM
INTERNATIONAL

owned, whereas Ivanhoe and SITQ also have minority shareholders.

While the real estate market had another difficult year, with the Group's Canadian property values dropping by 5.9%, it would seem that the worst is over. In the commercial sector, rental rates and incentives have been stable since the end of 1992, while in the office building sector, rates have continued to drop but rental-incentive programs have stabilized. As at December 31, 1993, the Group had a 10.3% vacancy rate in its commercial buildings and a 12.4% vacancy rate in its office buildings. As a result of tight cost control, dynamic property management and the portfolio's overweighting in the commercial sector, which fared better than the other sectors, the Caisse's real estate portfolio outperformed the market in 1993.

The current return on the portfolio at year-end was 6.3%, while its overall return continued to suffer, although less significantly than in the previous year, from the decline particularly in office building value. Net holdings amounted to \$1.8 billion at market value, based on investments of \$2.6 billion, net of related bank loans and mortgages, third-party minority interests, and other assets and liabilities totalling \$0.8 billion.

The subsidiaries' assets are consolidated in the real estate portfolio. In addition to properties held directly, which account for 86.1% of the portfolio's investments at market value, these assets include real estate company bonds, 1.1%; real estate company shares, 8.4%; mortgages, 1.9%; and short-term investments, 2.5%. Properties held directly, net of related liabilities, represented \$1.6 billion at market value, or 3.5% of the Caisse's total investments.

In line with Caisse policy, the market value of real estate investments is determined by an independent certification of a rigorous and prudent appraisal.

Very few investments were made during the year. Nonetheless, Ivanhoe increased its equity in Cambridge Shopping Centres Limited from 15.3% in 1992 to 23.4% in 1993, thereby acquiring quality assets indirectly at attractive prices. Ivanhoe also completed the expansion of the Faubourg de l'Île shopping centre in Pin court and, most important, was able to lease most of the space left vacant by the closure of the M stores, which had occupied close to 64,200 square metres. SITQ acquired a 37.5% interest in the company that owns the European Community's Conference Centre in Brussels. This company is the subsidiary of the major European consortium Groupe Tractebel, SITQ's partner in Alizé, a Québec firm that specializes in computerized real estate management. As for office buildings, 148,831 square metres were renewed, compared with 48,031 square metres in 1992. In addition, the occupancy rate at the World Trade Centre Montréal rose from 25% to 75%.

The Group's total capital expenditures on development, redevelopment and improvement projects amounted to nearly \$75 million in 1993.

To properly evaluate emerging markets, Cadim has joined a Québec company in a modest venture to build housing in Poland. The initial results of the project are highly encouraging and a large portion of the construction materials is being supplied by Québec companies.

The Caisse Real Estate Group strategy is to diversify geographically, reduce the weighting of the commercial sector slightly, increase investments in the residential sector, and make new investments in derivative real estate products and infrastructure financing, all activities having a positive impact on current returns. The restructuring of the Caisse Real Estate Group has allowed for streamlining of operations and reallocation of resources so as to position the Caisse to take advantage of a recovery in the real estate sector of the industrialized countries.

Tactical Investments

Tactical investment management is based primarily on the use of derivative products such as futures, options and swaps. Transactions involving markets or products whose short-term yields look attractive are carried out, and managers are able to take advantage of market fluctuations without having to transfer substantial assets. With this quick, efficient investment method, trading costs are contained more easily while the amount of capital invested is limited. Derivative products, which are growing in popularity on stock markets and over-the-counter markets around the world, offer a constant stream of new investment opportunities.

The Caisse, which has been practising tactical allocation management for 10 years, continued to develop this area in 1993 by creating a separate tactical portfolio and extending its field of action to several new markets. Until 1992, tactical allocation was performed only for North American markets. Last year, however, the Caisse added the stock and bond markets of most G7 countries, including France, Germany, the United Kingdom and Japan.

Tactical investment decisions are based on an analysis of more than 3,000 data compiled each day with quantitative models that measure the economic, technical and fundamental variables of the target markets. The Caisse's team of tactical investment experts is thus acquiring unique practical experience in derivative product management and international market analysis.

The Caisse intends to pursue this approach and broaden its tactical investment horizons in the years to come by drawing on its experience and expertise. For example, it may eventually add the Australian market. With a view to maximizing return while closely controlling risk, tactical investments should gradually enable the Caisse to take full advantage of the investment opportunities offered by countries with excellent growth potential and of new yield-enhancement strategies. Depositors will therefore have greater short-term portfolio diversification with increased foreign exposure.



SITQ, A MEMBER OF THE CAISSE REAL ESTATE GROUP, ACQUIRED A 37.5% INTEREST IN THE COMPANY THAT OWNS THE ALBERT BORSCHETTE CONFERENCE CENTRE IN BRUSSELS.

MANAGEMENT OF DEPOSITORS' FUNDS

Depositors' Funds

In accordance with its mandate, the Caisse invests, safeguards and manages its depositors' funds so as to achieve asset growth. Under legislation passed by the National Assembly, the Caisse manages, on behalf of 15 depositors, the funds contributed to public pension and insurance plans and public bodies.

The Caisse strives to obtain an optimal return for its depositors, in line with the risk tolerance and investment horizon determined by the nature of their activities. Investment policies and strategies are established as a function of economic forecasts developed by the Caisse, as well as depositors' foreseeable liquidity requirements and investment policies.

Depositors receive regular reports on the status of their portfolios, along with a detailed analysis of their results. A complete computerized report is now provided to them on a quarterly basis to facilitate the dissemination and processing of information. Through periodic meetings and daily communication, the Caisse stays in close contact with its depositors. In 1993, the Caisse refined its cash flow management service to ensure depositors can take advantage of its cash management expertise and maximize their short-term return, while remaining in a position to meet their current obligations.

The Caisse receives from its depositors the contributions of more than four million Québécois in the form of demand, term or participation

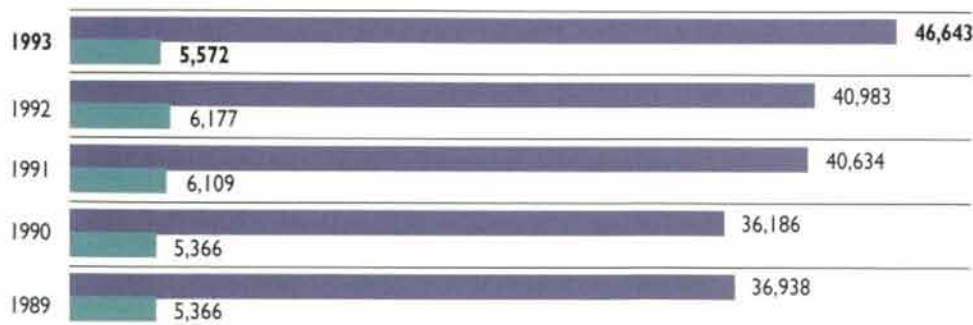
ATTENTIVE TO ITS DEPOSITORS' NEEDS, THE CAISSE MAINTAINS CLOSE CONTACT WITH EACH OF THEM. IN ADDITION TO MANAGING THEIR CASH RESOURCES ON A DAILY BASIS, THE CAISSE PROVIDES MONTHLY AND QUARTERLY REPORTS ON RETURN AND THE ECONOMIC CLIMATE. THROUGH PERIODIC MEETINGS, THE DEPOSITORS AND THEIR PENSION COMMITTEES ARE KEPT INFORMED OF CHANGES IN THEIR HOLDINGS.

As at December 31, 1993, depositors' holdings totalled \$42 billion at cost, compared with \$39.9 billion a year earlier. This increase is due mainly to net income of close to \$4 billion, less net withdrawals of nearly \$1.9 billion. As a result of the markets' exceptional performance in 1993, investment income far surpassed withdrawals. The market value of depositors' holdings totalled \$47.1 billion at year-end, or \$5.1 billion over cost as a result primarily of an unrealized annual increase in value of \$3.7 billion.

deposits. Demand and term deposits constitute indebtedness toward depositors and bear interest at market rates. Participation deposits represent a share in the net equity and net income of the fund to which they are allocated, and their value depends on the market value of the investments made with the fund.

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EVOLUTION OF FOREIGN INVESTMENTS



as at December 31
market value - in millions of dollars

Only the figures for 1992 have been restated to conform with the presentation of 1993.

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

FRANÇOIS ALLARD
ANALYST,
DEPOSITORS' AFFAIRS

GILLES DURUFLÉ
DIRECTOR,
STRATEGIC STUDIES,
STRATEGIC AFFAIRS



JOCELYNE VÉGIARD
SECRETARY,
BOND INVESTMENTS

CAROLINE SHANNON
PUBLIC AFFAIRS
OFFICER

A c c o u n t a b i l i t y

ENSURES A HIGH DEGREE OF CREDIBILITY
WITH THE PUBLIC, DEPOSITORS, PARTNER COMPANIES
AND EVERYONE THE CAISSE DEALS WITH.

Certain depositors made contributions in addition to reinvesting all their investment income. The Government and Public Employees Retirement Plan (RREGOP), administered by the Commission administrative des régimes de retraite et d'assurances (CARRA), contributed \$479.9 million. Other depositors, however, had to make withdrawals from their investment income to meet their financial obligations: the Régie des rentes du Québec withdrew \$1.6 billion; the Société de l'assurance automobile du Québec, \$578 million; the Commission de la santé et de la sécurité du travail, \$213.2 million; and the

Supplemental Pension Plan for Employees of the Québec Construction Industry, \$43.7 million.

The Caisse manages a General Fund, which comprises the deposits of nine depositors, as well as Individual Funds, established to meet the specific needs of various plans administered by three depositors: the Commission administrative des régimes de retraite et d'assurances (CARRA), the Commission de la santé et de la sécurité du travail (C.S.S.T.) and the Commission de la construction du Québec (C.C.Q.). Each Individual Fund has only one depositor.

The Caisse's principal depositor is the Régie des rentes du Québec, which manages the public pension fund for Québécois. Its holdings amounted to \$16.4 billion at market value as at December 31, 1993, or 34.8% of depositors' total holdings, and 73.5% of the General Fund at market value, while its holdings at cost totalled \$15.2 billion. During the year, the Régie paid more than \$4 billion to the 887,000 beneficiaries of the plan. In 1993, it made net withdrawals of \$1.6 billion, compared with \$1.4 billion in 1992, using its investment income of \$1.5 billion; the remaining \$39 million was withdrawn from

its cash resources. The 0.2% annual increase in the contribution rate, introduced in 1987, which brought the rate to 5% in 1993 and will raise it to 5.6% in 1996, combined with a favourable economic climate, should enable the Régie to slow down the increase in its liquidity requirements by creating a slight surplus of investment income over withdrawals in the coming year. Its long-term capital in the General Fund should therefore remain almost intact.

CARRA manages several plans, including the RREGOP, which is divided between unionized and non-unionized employees,

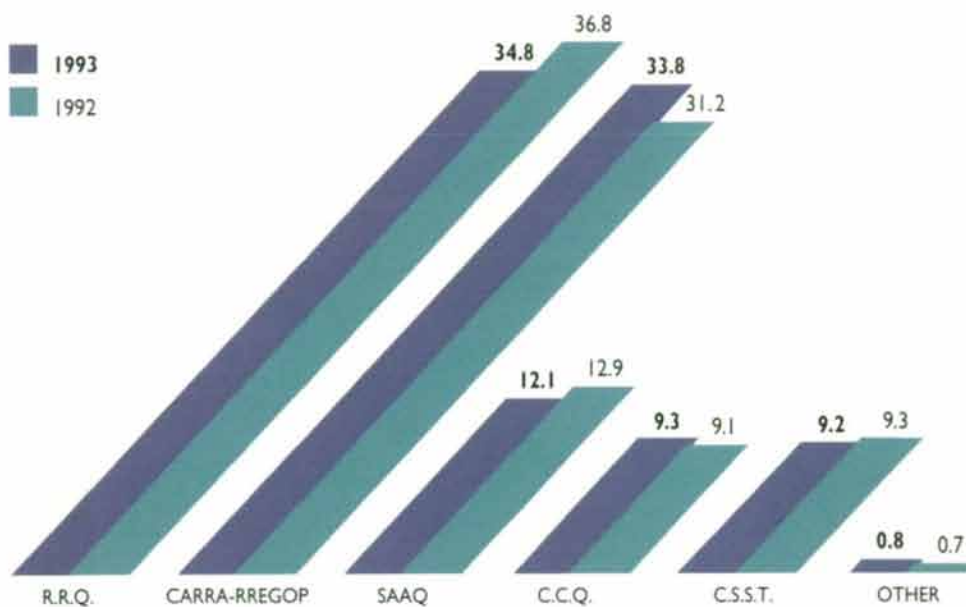
	Abbreviation	First deposit	Number of contributors ¹	Depositors' holdings ²
Régie des rentes du Québec	R.R.Q.	1966	3,061,100	16,401.2
Commission administrative des régimes de retraite et d'assurances	CARRA			
Government and Public Employees Retirement Plan	RREGOP	1973	493,000	15,916.6
General Retirement Plan for Mayors and Councillors of Municipalities		1975	-	-
Individual Plans		1977	480	106.6
Pension Plan for Elected Municipal Officers		1989	2,350	97.2
Société de l'assurance automobile du Québec	SAAQ	1978	4,196,201	5,709.6
Commission de la santé et de la sécurité du travail	C.S.S.T.	1973	180,185	4,315.2
Commission de la construction du Québec	C.C.Q.			
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	92,500	4,359.8
Fonds d'assurance-prêts agricoles et forestiers	FAPAF	1978	1	23.2
Régie des assurances agricoles du Québec		1968	50,757	-
Régie des marchés agricoles et alimentaires du Québec	R.M.A.A.Q.	1967	59	3.1
Régie de l'assurance-dépôts du Québec		1969	1,376	145.4
La Fédération des producteurs de bovins du Québec		1989	25,353	1.2
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	R.R.T.A.Q.	1990	3,100	29.7
Office de la protection du consommateur	O.P.C.			
Fonds des cautionnements collectifs des agents de voyages		1992	1,050	7.9

as at December 31, 1993

¹ estimate

² market value - in millions of dollars

BREAKDOWN OF DEPOSITORS' HOLDINGS



as at December 31
market value - in percentage

and which also includes employer contributions and transfers from supplemental pension plans. The RREGOP, which covers government employees, as well as employees in the education and social services sector, is the Caisse's second-largest depositor and has posted the highest growth since 1987. Its holdings at market value were \$15.9 billion at year-end, or 33.8% of depositors' holdings, compared with \$12.9 billion in 1992. Net contributions of \$479.9 million were added to reinvested investment income of \$1.2 billion, so that its holdings at cost rose by \$1.7 billion to \$14.2 billion at the end of 1993.

The other plans managed by CARRA are the Individual Plans, the General Retirement Plan for Mayors and Councilors of Municipalities and the Pension Plan for Elected

Municipal Officers. Their holdings total \$203.8 million at market value and \$190 million at cost. On December 17, 1993, the National Assembly passed Bill 134 which will enable the government to begin depositing

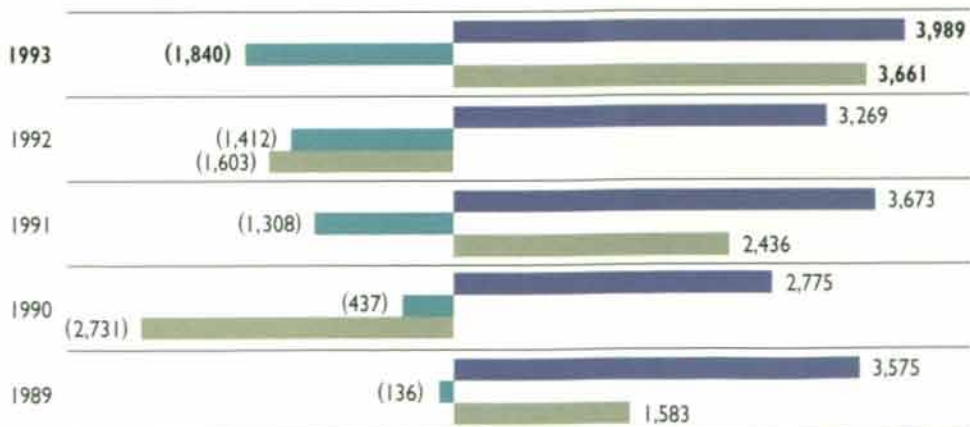
with the Caisse employer contributions to various pension plans.

The Société de l'assurance automobile du Québec (SAAQ), the Caisse's

third-largest depositor, administers the general plan that provides insurance against bodily injuries caused by traffic accidents. With a mandate to reduce risks related to the use of roads, it controls access to the road system and road transport, in addition to promoting road safety and compensating victims of traffic accidents. As at December 31, 1993, the SAAQ's holdings were \$5 billion at cost as opposed to \$5.7 billion at market value, or 12.1% of depositors' holdings and 25.6% of the General Fund. During the year, the SAAQ withdrew a net amount of \$50.2 million from its investment income of \$527.8 million and its cash resources. Most of these amounts went into the consolidated income fund for capital expenditures to improve road safety.

With holdings of \$4.4 billion at market value as at December 31, 1993, the Commission de la construction du

EVOLUTION OF DEPOSITORS' HOLDINGS

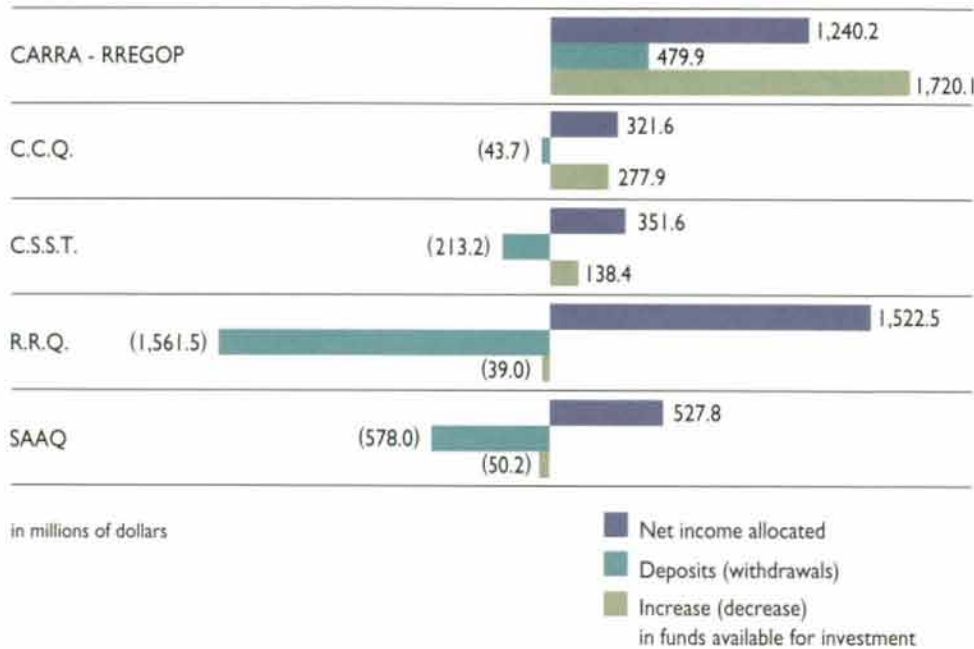


in millions of dollars

Only the figures for 1992 have been restated to conform with the presentation of 1993.

■ Net income allocated
■ Deposits less withdrawals
■ Unrealized increase (decrease) in value

CASH FLOWS OF MAJOR DEPOSITORS IN 1993



Québec (C.C.Q.), which administers the plan for workers subject to the Québec Construction Decree, is another depositor with assets of more than \$1 billion.

The C.C.Q.'s holdings grew by more than \$277.9 million in 1993, to \$4 billion at cost at year-end, compared with \$3.7 billion at the end of 1992. This increase is attributable to net withdrawals of \$43.7 million, which were entirely offset by income of \$321.6 million. The withdrawals made during the year were due to the unfavourable economic conditions in the construction industry, which caused a sharp decline in the number of hours worked. The plan is divided into three accounts: the active participants' account, the retired participants' account, and the additional contributions account of certain workers, which at market value

amounted to \$2.5 billion, \$1.4 billion and \$0.4 billion respectively.

The Commission de la santé et de la sécurité du travail (C.S.S.T.) was created to reduce work-related risks, to pay industrial-accident and occupational-disease benefits and to facilitate worker rehabilitation. It collects contributions from all employers, thereby providing them with insurance coverage against risks

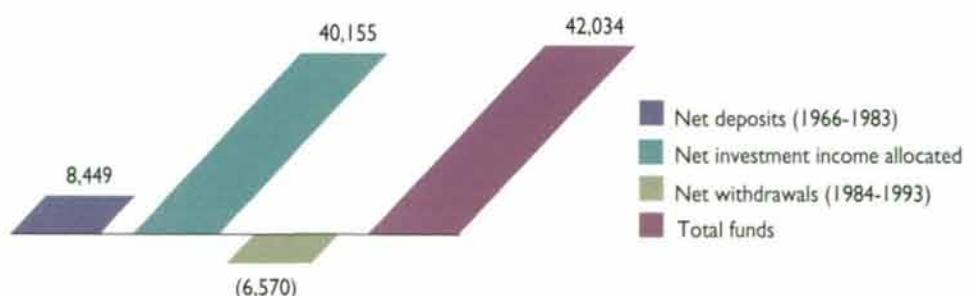
in their sectors of activity. As at December 31, 1993, the C.S.S.T. had holdings of \$3.9 billion at cost. Its holdings at market value increased by \$480.6 million to more than \$4.3 billion, representing 9.2% of depositors' holdings. To fulfil its obligations, the C.S.S.T. withdrew \$213.2 million of its income of \$351.6 million during the year, compared with withdrawals of \$313.4 million in 1992, thereby creating a surplus of \$138.4 million. Withdrawals

declined in 1993 and are expected to continue to decrease gradually in future years, mainly as a result of improved cost control made possible by amendments to the legislation governing the C.S.S.T. and the higher contribution rate, which rose from \$2.50 in 1992 to \$2.75 in 1993.

The total holdings of the Caisse's seven other depositors, which are in the form of demand, term or participation deposits in the General Fund, totalled \$206.6 million at cost and \$210.5 million at market value as at December 31, 1993. These 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.

New depositors will benefit from the Caisse's low operating costs given the amount of assets

VALUE ADDED TO DEPOSITORS' FUNDS SINCE 1966



as at December 31, 1993
cost - in millions of dollars

under management. Seeing that the Caisse has no equity, it makes an integral distribution of the income earned on its investments. Depositors receive the return achieved by the Caisse's money market specialists.

Research

The research team was formed in 1993 and given a mandate to apply new developments in finance to portfolio management. These specialists use their advanced mathematical and financial expertise to make in-depth analyses of market opportunities, for the purpose of making investment decisions. For instance, the team has begun a precise analysis of neuron networks and their potential uses for market forecasts. They also ensure that the Caisse's investment professionals and other employees involved in portfolio management receive suitable training. Rigorous, innovative management of relevant information is indeed quickly becoming an imperative in the investment world. The team therefore organizes training seminars as required and ensures that investment experts have access to external professional development, such as the program leading to accreditation as a chartered financial analyst (CFA).

In 1993, the team concentrated mainly on measuring overall risk. One of the Caisse's most important risks is defined as the probability that it will not outperform the benchmark index for a specific investment category, in other words, that its performance will be below

that of the market. The risk level associated with the Caisse's investments depends on a number of factors, such as market type, size, liquidity and participants. Still, the Caisse's work on measuring overall risk focuses mainly on three elements: the portfolio structure, the volatility of market securities and the relationship between these securities. These three factors determine the risk that the portfolio's return will fall short of the yield of the benchmark indices. In a subsequent phase, other types of risks will also be measured.

The introduction of an integrated risk measurement system puts the Caisse at the forefront of pension fund managers worldwide. This system, whose foundations were laid in 1993, will essentially permit better evaluation of results and better allocation of funds available for investment according to risk. Evaluating return relative to risk means recognizing that efforts to obtain the highest return must take risks into account.

Measuring overall risk requires a range of mathematical tools and a number of sophisticated information systems. Combining them successfully depends partly on data availability and access, as well as the ability to process the data efficiently.

A large portion of the mathematical analysis was completed in 1993 to obtain a preliminary, approximate measurement of risk for various investment classes making up close to 75% of the Caisse's assets. Although much work remains, increasingly rigorous risk management will definitely become an integral part of the Caisse's asset allocation and management process.

Strategic Affairs

The strategic affairs team was set up in 1992 and completed its first full year in 1993. It carries out two types of activities: strategic management and strategic studies. In management, the team's first undertakings were to formulate the Caisse's mission and management principles, to identify key success factors and to improve the strategic planning process by preparing and coordinating the strategy committee meetings, setting institutional and departmental priorities, and developing, disseminating and monitoring the application of the business plan. Overall, the group had a busy and productive year.

As for strategic studies, the main task was to assess the Caisse's contribution to the vitality of the Québec economy and then to make a thorough analysis of the areas

where the Caisse can be active without losing sight of its goal of achieving an optimal return: financing Québec businesses, strengthening Montréal as a financial centre, facilitating the operation of the Québec public sector securities market, supporting efforts by Québec companies to expand internationally, and developing links with all of Québec's business communities. Several of these studies have already given rise to recommendations which have been applied.

The strategic affairs specialists also began establishing cooperative relationships and partnerships with various consulting and research teams which study issues of mutual interest. In particular, they will closely follow the work of the Centre Interuniversitaire de Recherche en Analyses des Organisations (CIRANO), whose research teams are drawn from six Québec universities. CIRANO has received funding from the government and several sponsors in the business community, notably the Caisse, and its research on Québec's economic fabric and on finance in general may be of direct interest to the Caisse.

The strategic affairs team is also responsible for work involving corporate governance, which is a strategic area for the Caisse since it concerns the nature of its relationships with the businesses in which it invests.

ADMINISTRATION

The team responsible for administration and control ensures that the Caisse's specialists in all sectors have the human, technical and financial resources they need to achieve their objectives and to execute their plans of action, while ensuring the security of personnel and of assets under management.

The Caisse places considerable emphasis on professional development and has therefore introduced an institutional training program so that employees can advance their knowledge in work-related areas such as office automation, stock market investment, the new Civil Code of Québec and human resources management. The Caisse allocated almost three-quarters of a million dollars to training in 1993, the equivalent of 3% of its payroll, compared with 2% in 1992.

Given that its assets are evolving quickly and its investment operations are becoming increasingly diversified, the Caisse hired eight new employees in 1993, six in investment and two in administration. It now has 336 positions authorized by the Board of Directors, of which 321 are occupied, as well as 41 temporary positions. The regular staff was allocated as follows in 1993: 50 managers, 176 professionals and 110 technical and administrative employees. Eight trainees with master's degrees in areas relating to finance or economics completed on-the-job training in analysis and research.

The Caisse also continued to invest in technology to optimize the execution of its transactions on the various markets and to provide efficient communication tools to its personnel. Approximately 30% of the 1993 budget was allocated to information systems. The Caisse began installing an integrated information system that will gradually give the team responsible

PROFESSIONAL
DEVELOPMENT
AND INFORMATION
TECHNOLOGIES ARE OF THE
UTMOST IMPORTANCE
TO THE CAISSE.
IT ALLOCATED THE
EQUIVALENT
OF 3% OF ITS PAYROLL
TO TRAINING ACTIVITIES
AND CLOSE TO 30%
OF ITS BUDGET
TO INVESTMENTS
IN COMPUTERIZED
COMMUNICATION TOOLS.

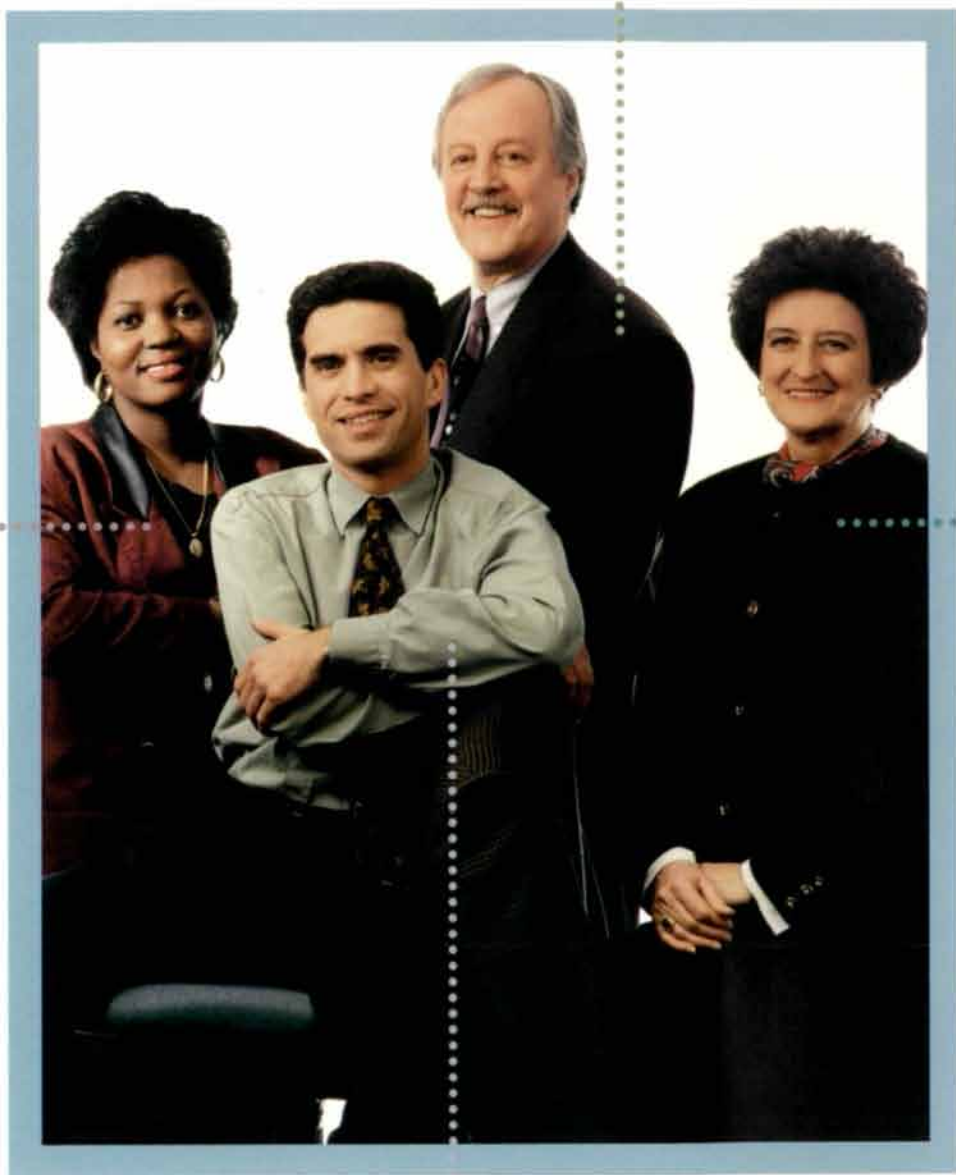
systems are developed by in-house staff with assistance from specialized consulting firms. An overall architecture plan, which will ensure flexible, rapid execution in the years to come, was also developed during the year. Furthermore, the Caisse continued revising and testing its information systems backup plan.

With regard to protecting the environment, the Caisse continued to encourage the purchase of recycled paper and joined the recycling program coordinated by the manager of the building where its offices are located.

for Canadian equity investments access to a vast network providing research data on companies and markets. Sophisticated new trading and risk management systems were also added for its bond, money market and foreign exchange teams, and the Caisse continued setting up leading-edge systems to manage mortgages, derivative products and real estate. These information

To make public its formal purchase and leasing procedures for goods and services, the Caisse distributed its new policy on contracts to all of its suppliers in 1993. By formally stating its procedures in this area, the Caisse aims to respect the principles of openness, equity and sound management that must underlie its relations with suppliers of goods and services. Moreover, the Caisse has entered into a five-year value-for-money audit process.

MICHEL DELORME
TRADER,
MORTGAGE INVESTMENTS



RAYMONDE FORTUNÉ
PAYROLL AGENT,
FINANCE

COLETTE BOUTIN
ASSISTANT TO
THE VICE-PRESIDENT
AND CORPORATE
SECRETARY

LUC MALLETTE
HUMAN RESOURCES
OFFICER

I n t e g r i t y

IS REFLECTED IN THE CAISSE'S CODE OF ETHICS,
ITS MANAGEMENT POLICIES AND THE ACTIONS
OF ITS PROFESSIONAL, DYNAMIC STAFF.

In 1993, administrative expenses totalled \$43.2 million, compared with \$37.4 million in 1992. These expenses represented 9.3 basis points, or less than one-tenth of one per cent of net investments at market value as at December 31, 1993. An independent comparative study of expenses, which involved seventeen other comparable pension fund managers in Canada and the United States, placed the Caisse at the median. The growth of administrative expenses in 1993 was due mainly to staff additions over the past two years, namely the eight positions added in 1993 and the eighteen in 1992, of which fourteen were related directly to the Caisse's increased activity on the financial markets. The breakdown of expenses was as follows: salaries and employee benefits, 55%; professional fees, 14%; premises and equipment, 14%; depreciation of fixed assets, 7%; and other expenses, 10%. In accordance with provisions governing the allocation of administrative expenses, they were allocated on a pro rata basis among the depositors' different funds, according to the market value of each fund's assets.

The Caisse paid \$8.5 million to financial institutions for external investment management, settlement, and handling and custodial services. Of that amount, \$5.7 million was paid to foreign institutions. These expenses were down \$0.3 million from 1992 because active management of certain foreign investment portfolios was done in-house, the fees paid for external investment management and for foreign custodial services were reduced, and fewer mortgage investments were managed by external agents.

THE CAISSE CONTINUED TO MONITOR APPLICATION OF AN ACT RESPECTING THE PROTECTION OF NON-SMOKERS IN CERTAIN PUBLIC PLACES BY FOLLOWING UP ON REQUESTS SUBMITTED TO IT.

BOARD OF DIRECTORS

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

●▲



GUY SAVARD
President and Chief
of Operations

▲



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

▲



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
du Québec



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
du Québec



● also a member of the
audit committee

▲ also a member of the
resources committee

SENIOR MANAGEMENT

Jean-Claude Delorme

Chairman of the Board of Directors and
Chief Executive Officer

Guy Savard

President and Chief of Operations

SENIOR VICE-PRESIDENTS

Michel Nadeau

Investment Planning and Strategic Affairs

Serge Rémillard

Administration and Control

Jean-Claude Scraire

Caisse Real Estate Group and Chairman
of Subsidiaries Cadim, Ivanhoe and SITQ

Carmen Crépin

Vice-President and Corporate Secretary

VICE-PRESIDENTS

Yves Benoit - Information Systems and Technology

Claude Bergeron - Legal Affairs

Pierre Bouvier - Research and Professional Development - Investments

André Charest - Administration and Finance (Caisse Real Estate Group)

Serge Desjardins - Internal Audit

Réal Desrochers - International Private Investments

André Duchesne - Bond Investments and Money Market

Pierre Fortier - Private Investments - Special Projects

Philippe Gabelier - Public Affairs

Hubert Lapierre - Canadian Stock Markets

Richard Lesage - Economics

Jacques Malenfant - Human Resources

Germain B. Mathieu - Real Estate Portfolio Planning and Management (Caisse Real Estate Group)

Yves Moquin - Tactical Investments

Walter Murkens - Depositors' Affairs

Jean C. Pinard - Mortgage Investments

Normand Provost - National Private Investments

Adel Sarwat - International Stock Markets

Alain Tessier - Finance

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FINANCIAL STATEMENTS

COMBINED STATEMENT OF NET ASSETS AS AT DECEMBER 31, 1993

	1993	1992
	(in millions of dollars)	
ASSETS		(Note 3)
Investments at market value (Notes 4 and 5)		
Bonds	22,506	19,896
Shares and convertible securities (Note 6)	17,782	15,464
Mortgages	1,958	2,047
Real estate investments	2,324	2,337
Short-term investments	2,794	1,989
	47,364	41,733
Investment income, accrued and receivable	568	538
Other assets	90	99
	48,022	42,370
LIABILITIES		
Deposits on loans of securities	-	191
Bank loans and notes payable	222	286
Mortgage loans payable (Note 4)	550	471
Transactions being settled	17	-
Other liabilities	30	47
Non-controlling interests (Note 4)	86	68
	905	1,063
DEPOSITORS' HOLDINGS (Note 7)	47,117	41,307
COMMITMENTS (Note 10)		
SUBSEQUENT EVENT (Note 11)		

On behalf of the Board of Directors,
 Jean-Claude Delorme
 Raymond Sirois

AUDITOR'S REPORT

I have audited the combined statement of net assets of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 1993, 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, 1993 and the results of their operations and the changes in their net assets for the year then ended in accordance with generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, taking into account the retroactive change applied to the method of accounting for investments and any related assets and liabilities in order to record them at market value as explained in Note 3, these principles have been applied on a basis consistent with that of the preceding year.

Guy Breton, F.C.A.
 Auditor General of Québec
 Québec City, March 8, 1994

COMBINED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1993

	1993	1992
	(in millions of dollars)	
INCOME		(Note 3)
Investment income (Note 8)		
Interest on bonds	1,776	1,777
Dividends, interest on convertible securities	423	476
Interest on mortgages	186	206
Net income from real estate investments	140	134
Interest on short-term investments	156	142
	2,681	2,735
Other income	-	1
	2,681	2,736
EXPENDITURE		
Administrative expenses (Note 9)	43	37
INCOME BEFORE THE FOLLOWING ITEM	2,638	2,699
Non-controlling interests	7	6
NET INVESTMENT INCOME	2,631	2,693

COMBINED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 1993

	1993	1992
	(in millions of dollars)	
INVESTMENT OPERATIONS		(Note 3)
Net investment income	2,631	2,693
Gains (losses) on sale of investments		
Bonds	733	466
Shares and convertible securities	634	136
Mortgages	1	-
Real estate investments	(6)	(28)
Short-term investments	(4)	1
	1,358	575
Non-controlling interests	-	(1)
	1,358	576
Unrealized increase (decrease) in value		
Investments		
Bonds	1,124	(474)
Shares and convertible securities	2,657	(802)
Mortgages	38	(12)
Real estate investments	(159)	(347)
Short-term investments	11	13
	3,671	(1,622)
Mortgage loans payable	(1)	2
Non-controlling interests	11	(21)
	3,661	(1,603)
Total investment operations	7,650	1,666
Excess depositors' withdrawals over deposits	1,840	1,412
INCREASE IN COMBINED NET ASSETS	5,810	254
COMBINED NET ASSETS RESTATED, BEGINNING OF YEAR (Note 3)	41,307	41,053
COMBINED NET ASSETS, END OF YEAR	47,117	41,307

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993**

I CONSTITUTION AND OPERATIONS

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

GENERAL FUND

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

	1993		1992	
	Number of units	%	Number of units	%
Régie des rentes du Québec	18,321,906	74.0	18,321,906	74.0
Société de l'assurance automobile du Québec	6,381,818	25.8	6,381,818	25.8
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	21,923	0.1	14,720	0.1
Régie des marchés agricoles et alimentaires du Québec	3,309	-	3,493	-
Fonds des cautionnements collectifs des agents de voyages	6,305	-	6,027	-
Fédération des producteurs de bovins du Québec	1,041	-	-	-
	24,749,173	100.0	24,740,835	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 and the General Retirement Plan for Mayors and Councillors of Municipalities, administered by the Commission administrative des régimes de retraite et d'assurances.

Fund 311

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

Fund 312

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

Fund 313

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

Fund 330

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

SPECIFIC PORTFOLIOS

The specific portfolios are comprised of one category of investments only. The portfolios are pooled funds for participation deposits of the various Funds. As at December 31, 1993, 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

	1993		1992	
	Number of units	%	Number of units	%
General Fund	1,884,075	44.2	2,127,081	47.3
Individual Fund 301	1,370,342	32.2	1,307,310	29.1
Individual Fund 302	264,304	6.2	290,377	6.5
Individual Fund 303	10,307	0.2	4,707	0.1
Individual Fund 305	11,045	0.3	10,067	0.2
Individual Fund 311	190,837	4.5	209,424	4.7
Individual Fund 312	104,481	2.4	96,692	2.2
Individual Fund 313	20,586	0.5	19,119	0.4
Individual Fund 330	404,003	9.5	428,912	9.5
	4,259,980	100.0	4,493,689	100.0

Specific real estate investments portfolio

	1993		1992	
	Number of units	%	Number of units	%
General Fund	989,714	47.4	853,373	45.7
Individual Fund 301	654,172	31.3	524,895	28.1
Individual Fund 302	117,765	5.6	101,516	5.5
Individual Fund 303	2,048	0.1	1,736	0.1
Individual Fund 305	4,762	0.2	3,811	0.2
Individual Fund 311	82,954	4.0	135,306	7.2
Individual Fund 312	41,862	2.0	60,181	3.2
Individual Fund 313	16,657	0.8	23,142	1.2
Individual Fund 330	180,724	8.6	163,591	8.8
	2,090,658	100.0	1,867,551	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 consolidated specific real estate investments portfolio. 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 commitment date, except transactions involving bonds, mortgages and real estate investments, which are recorded as at the settlement date.

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

c) INCOME

Dividend income is recognized on the ex-dividend date.

The income from loans of securities and financial hedging instruments is included with the interest and dividend income from the underlying investments.

Interest on short-term investments is reduced by interest expenses on loans.

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

d) FOREIGN CURRENCY TRANSLATION

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

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

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

e) **FIXED ASSETS**

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

f) **ADMINISTRATIVE EXPENSES**

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

3 CHANGE IN ACCOUNTING POLICIES

As of the year 1993, the Caisse records its investments and any related assets and liabilities at market value. This change reflects the accounting practice common to mutual funds, which the Caisse resembles. Previously, investments were carried at cost or amortized cost, or accounted for using the equity method. In addition, when there was a loss in value of an investment that was other than a temporary decline, the book value of the investment was written down to recognize this loss. The consequences of adopting this new accounting method can be summarized as follows:

- The combined statement of net assets replaces the combined balance sheet;
- The combined statement of changes in net assets has been modified;
- An unrealized increase or decrease in value of investments and any related assets and liabilities is recorded in the combined statement of changes in net assets. This increase or decrease in value is not distributed to the depositors until it has been realized, in accordance with the Caisse's regulations;
- Real estate holdings are no longer amortized;
- Other than temporary losses in value are no longer applied against the cost or unamortized cost of investments;
- Investments in joint ventures and those which enable the Caisse to exercise significant influence over a company are no longer accounted for using the equity method.

The effect of this change, which was applied retroactively, was to increase (decrease) the following items in the financial statements as at December 31, 1992:

COMBINED STATEMENT OF NET ASSETS

	1992 (in millions of dollars)
ASSETS	
Investments	
Bonds	696
Shares and convertible securities	1,178
Mortgages	81
Real estate investments	(188)
Short-term investments	5
LIABILITIES	
Mortgage loans payable	43
Other liabilities	(16)
Non-controlling interests	(17)
DEPOSITORS' HOLDINGS	1,762

COMBINED STATEMENT OF INCOME

Investment income	
Dividends, interest on convertible securities	5
Net income from real estate investments	33
Non-controlling interests	4
Write-down of investments	321
Gains (losses) on sale of investments	(592)
NET INVESTMENT INCOME	(237)

The combined net assets at the beginning of the year were restated as follows:

	1993	1992
	(in millions of dollars)	
COMBINED NET ASSETS, BEGINNING OF YEAR		
Balance as previously recorded	39,545	38,027
Adjustment: Posting at market value of investments and any related assets and liabilities	1,762	3,026
Balance as restated	41,307	41,053

4 INVESTMENTS AND LIABILITIES AT COST

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

	1993	1992
	(in millions of dollars)	
Investments		
Bonds	20,689	19,203
Shares and convertible securities	14,179	14,518
Mortgages	1,847	1,974
Real estate investments	2,873	2,727
Short-term investments	2,778	1,984
	42,366	40,406
Mortgage loans payable	508	428
Non-controlling interests	100	93

The cost of shares and convertible securities was increased by the amount of the losses carried over to financial foreign exchange risk hedging instruments which totalled \$403 million as at December 31, 1993 (\$353 million in 1992). The unamortized cost of bonds and short-term investments was decreased by the amount of \$31 million as at December 31, 1993 (\$42 million in 1992) to reflect the difference between the exchange rate on the date of acquisition and the average rate of the financial foreign exchange risk hedging instruments held at the end of the year.

5 INVESTMENTS - FOREIGN SECURITIES

	1993	1992
	(in millions of dollars)	
Bonds	804	1,760
Shares	4,666	4,192
Short-term investments	102	225
	5,572	6,177

The foreign exchange position for investments in foreign securities, excluding transactions under securities loan agreements and those in emerging markets, is hedged by financial instruments as shown in Note 10.

6 SHARES AND CONVERTIBLE SECURITIES

	1993	1992
	(in millions of dollars)	
Shares and convertible securities held directly by the Funds	13,346	11,356
Shares held through the specific foreign equity investments portfolio	4,436	4,108
	17,782	15,464

7 DEPOSITORS' HOLDINGS

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

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

	1993	1992
	(in millions of dollars)	
Indebtedness toward depositors		
Demand deposits	61	103
Term deposits	146	219
Interest on demand and term deposits	2	4
Net income to be paid out to participation deposit holders	848	470
	1,057	796
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	39,089	37,093
Units issued	2,357	2,425
Units cancelled	(468)	(429)
Balance, end of year	40,978	39,089
Amount not allocated with respect to real estate investments*	112	113
Unrealized increase (decrease) in value of investments and any related assets and liabilities	4,970	1,309
	46,060	40,511
DEPOSITORS' HOLDINGS	47,117	41,307

* Represents the restated amount of accumulated amortization of real estate properties to be allocated upon the sale of the properties (Note 3).

8 INVESTMENT INCOME

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

	1993	1992
	(in millions of dollars)	
Interest on bonds	1	1
Dividends, interest on convertible securities	6	6
Interest on mortgages	1	2
	8	9

9 ADMINISTRATIVE EXPENSES

	1993	1992
	(in millions of dollars)	
Salaries and employee benefits	24	22
Professional fees	6	5
Premises and material	6	4
Depreciation of fixed assets	3	2
Other	4	4
	43	37

10 COMMITMENTS

a) FINANCIAL INSTRUMENTS

Pursuant to its investment operations, the Caisse conducts transactions involving various derivative financial instruments to hedge against the risks associated with fluctuations in exchange and interest rates as well as market fluctuations. As at December 31, the value of these instruments was as follows:

	Nominal Principal	
	1993	1992
	(in millions of dollars)	
Foreign exchange risk hedging		
Forward exchange contracts	4,325	4,598
Foreign currency swaps	1,010	1,288
Interest rate futures	-	(1)
	5,335	5,885

These financial instruments, the terms of which generally range from one to three months in the case of forward exchange contracts and from one to two years in the case of foreign currency swaps, provide for an exchange of principal in foreign currencies for Canadian dollars at maturity; on that date, new hedging instruments are negotiated to maintain an effective long-term hedge against the exchange risks associated with foreign investments.

	Notional Principal	
	1993	1992
	(in millions of dollars)	
Interest rate and market risk hedging		
Interest rate futures		
Purchases	-	17
Sales	-	(2)
Bond futures		
Purchases	473	80
Sales	(334)	(108)
Stock market index futures		
Purchases	246	9
Sales	(69)	(51)
Forward rate agreements		
Purchases	59	-
Sales	(100)	-
Asset swaps	271	150
Interest rate swaps	268	300
Stock market index swaps	71	-
	885	395

	Commitment value	
	1993	1992
	(in millions of dollars)	
Foreign currency options		
Purchases	209	31
Sales	(127)	(15)
Options on bond futures		
Purchases	304	-
Sales	(569)	-
Options on stock market index futures		
Purchases	1	-
Sales	(1)	-
	(183)	16

The risks of the different investment portfolios are hedged using futures, forward rate agreements and swaps, financial instruments which are characterized by a given notional principal that is used as a measuring unit for determining their income and market value, as well as options represented by a commitment value which reflects the probability of materializing the notional value of the underlying financial instrument. These financial instruments allow certain fixed-income investment risks to be turned into variable-income investment risks or local investment risks to be turned into international investment risks, and vice versa.

b) INVESTMENT SUBSCRIPTIONS

The Caisse has committed to purchase shares and limited partnership units, which will be settled over the next few years in accordance with the terms and conditions agreed to. As at December 31, 1993, these commitments totalled \$264 million (\$34 million in 1992).

11 SUBSEQUENT EVENT

On December 17, 1993, the Québec National Assembly passed Bill 134, which will allow the Government to deposit amounts with the Caisse in order to create a sinking fund for the purpose of paying a portion of or all government pension benefits. Since January 1, 1994, the Caisse received contributions totalling \$850 million and distributed them to the Individual Fund created for this purpose.

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

NET ASSETS AS AT DECEMBER 31, 1993

	GENERAL FUND			
	1993	1992	1993	301 1992
ASSETS				
Investments at market value				
Bonds	11,754.3	10,976.4	6,192.2	4,847.2
Shares and convertible securities	7,761.8	7,222.3	5,566.2	4,449.7
Mortgages	545.0	598.9	296.7	278.2
Real estate investments	781.7	739.7	528.9	456.8
Short-term investments	2,311.6	1,868.4	-	37.7
Demand deposits in the General Fund	-	-	731.1	522.1
	23,154.4	21,405.7	13,315.1	10,591.7
Other assets	379.4	309.3	208.4	156.7
	23,533.8	21,715.0	13,523.5	10,748.4
LIABILITIES				
Demand and term deposits	1,326.9	1,167.2	-	-
Other liabilities	261.9	284.0	353.8	191.0
	1,588.8	1,451.2	353.8	191.0
PARTICIPATION DEPOSIT HOLDERS' NET HOLDINGS				
	21,945.0	20,263.8	13,169.7	10,557.4

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1993

INCOME				
Investment income				
Interest on bonds	978.8	984.4	448.8	424.2
Dividends, interest on convertible securities	193.5	226.9	127.8	134.2
Interest on mortgages	53.4	66.4	28.4	28.9
Income from real estate investments	60.3	60.5	39.5	35.9
Interest on short-term investments	138.5	113.0	1.1	16.5
Interest on deposits in the General Fund	-	-	44.2	17.4
	1,424.5	1,451.2	689.8	657.1
Other income	0.3	0.6	0.2	0.1
Total income	1,424.8	1,451.8	690.0	657.2
EXPENDITURE				
Administrative expenses	20.4	18.5	12.1	9.5
Interest on demand and term deposits	89.4	72.7	-	-
NET INCOME FROM INVESTMENTS	1,315.0	1,360.6	677.9	647.7

CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 1993

INVESTMENT OPERATIONS				
Net income from investments	1,315.0	1,360.6	677.9	647.7
Gains (losses) on sale of investments	727.4	307.5	380.8	136.1
Unrealized increase (decrease) in value of investments and other assets and liabilities	1,674.0	(804.0)	1,103.2	(412.2)
Total investment operations	3,716.4	864.1	2,161.9	371.6
Net proceeds from participation deposit units issued	7.2	110.1	1,282.1	1,278.0
Transfer of funds	-	-	227.0	-
Net income allocated to participation deposit holders	(2,042.4)	(1,668.1)	(1,058.7)	(783.8)
INCREASE (DECREASE) IN NET ASSETS	1,681.2	(693.9)	2,612.3	865.8
NET ASSETS RESTATED, BEGINNING OF YEAR	20,263.8	20,957.7	10,557.4	9,691.6
NET ASSETS, END OF YEAR	21,945.0	20,263.8	13,169.7	10,557.4

INVESTMENTS AND TERM DEPOSITS AT COST AS AT DECEMBER 31, 1993

Investments				
Bonds	10,762.8	10,581.1	5,699.4	4,670.6
Shares and convertible securities	6,012.8	6,618.4	4,445.8	4,163.6
Mortgages	505.5	574.6	275.0	267.1
Real estate investments	1,034.1	902.0	735.9	605.5
Short-term investments	2,297.6	1,862.9	-	38.1
Demand deposits in the General Fund	-	-	731.1	522.1
	20,612.8	20,539.0	11,887.2	10,267.0
Term deposits	145.0	218.4	-	-

Certain figures for 1992 have been restated to conform with the presentation of 1993.

312		313		330	
1993	1992	1993	1992	1993	1992
338.8	279.1	177.2	139.4	2,273.7	2,033.3
537.9	427.4	65.4	53.3	1,519.4	1,350.2
325.6	297.0	115.4	106.6	98.1	112.5
33.9	53.3	13.3	20.5	141.4	141.7
127.5	19.5	58.1	15.1	-	4.8
1.6	22.3	1.6	13.4	217.0	153.5
1,365.3	1,098.6	431.0	348.3	4,249.6	3,796.0
17.3	13.5	6.5	5.2	65.7	56.6
1,382.6	1,112.1	437.5	353.5	4,315.3	3,852.6
-	-	-	-	-	-
31.7	21.3	12.5	8.3	117.2	91.5
31.7	21.3	12.5	8.3	117.2	91.5
1,350.9	1,090.8	425.0	345.2	4,198.1	3,761.1
25.6	23.6	13.0	11.5	175.9	184.7
12.4	12.7	1.5	1.5	35.5	41.2
29.7	27.7	9.1	9.0	10.9	12.0
2.5	4.1	1.0	1.5	11.0	11.8
5.0	1.5	2.0	1.2	0.2	3.5
1.1	0.9	0.6	0.7	13.2	4.7
76.3	70.5	27.2	25.4	246.7	257.9
-	0.1	-	-	-	-
76.3	70.6	27.2	25.4	246.7	257.9
1.4	1.1	0.4	0.3	3.8	3.3
-	-	-	-	-	-
74.9	69.5	26.8	25.1	242.9	254.6
74.9	69.5	26.8	25.1	242.9	254.6
20.9	9.6	7.0	2.3	108.6	76.6
112.2	(34.5)	21.6	(8.6)	342.1	(169.2)
208.0	44.6	55.4	18.8	693.6	162.0
147.9	176.1	58.2	66.9	94.9	41.6
-	-	-	-	-	-
(95.8)	(79.1)	(33.8)	(27.4)	(351.5)	(331.2)
260.1	141.6	79.8	58.3	437.0	(127.6)
1,090.8	949.2	345.2	286.9	3,761.1	3,888.7
1,350.9	1,090.8	425.0	345.2	4,198.1	3,761.1
307.3	268.2	164.0	134.2	2,061.4	1,944.2
445.7	415.8	56.5	54.0	1,246.8	1,309.0
304.6	283.5	109.7	103.9	92.1	108.2
47.4	70.3	19.2	27.4	202.5	188.7
127.5	19.5	58.1	15.1	-	4.9
1.6	22.3	1.6	13.4	217.0	153.5
1,234.1	1,079.6	409.1	348.0	3,819.8	3,708.5
-	-	-	-	-	-

The following employee appears in
the photograph on the front cover
of this report:

Réjeanne Caron,
Bond Investments and Money Market

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