



HIGHLIGHTS

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A tradition of Boldness, Caution and Expertise

THE MAKINGS OF A BRIGHT FUTURE

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

MISSION

The mission of the Caisse de dépôt et placement du Québec is to achieve optimal financial returns and contribute through its activities to the vitality of the economy while safeguarding the capital under management.

The photographs in this brochure show just a few of the investments made by the Caisse and its subsidiaries, including those in the Caisse Private Investments Group and in the Caisse Real Estate Group.

All figures are expressed in Canadian dollars.

Caisse de dépôt et placement du Québec,
A MAJOR FUND MANAGER

Managing assets totalling \$83 billion at the end of 1998, the Caisse de dépôt et placement du Québec is a leading fund manager in Canada and among the largest portfolio managers in North America. Ever vigilant in safeguarding the capital under its management, the Caisse seeks an optimal return on investment while contributing to the vitality of the Québec economy. The Caisse acts as an investor on behalf of its many depositors and clients, pension funds, insurance plans, public and private bodies, and mutual funds.

Active on the major financial markets, the Caisse is the leading investor in the Québec and Canadian stock market and the largest holder of Québec government bonds. The Caisse also has the largest real estate portfolio in Canada. This portfolio, which is diversified among the commercial, residential and office sectors, is actively managed primarily by the companies in the Caisse Real Estate Group. The Caisse also holds Canada's largest portfolio of private investments, managed by the Private Investments Group, its subsidiaries and their satellite companies.

Conducting its operations in over 40 countries on five continents, the Caisse has its principal place of business in Montréal. It is also present through 11 business offices, which make up the Québec-wide Accès Capital network, as well as representative and business offices in Hong Kong, Bangkok, Hanoi, Milan, Warsaw and Mexico City, shortly to be joined by Paris, Bruxelles and Buenos Aires.

QUALIFIED RESOURCES PROVIDE ACTIVE MANAGEMENT

At the Caisse, portfolios are actively managed. Always seeking excellence, the Caisse has formed a professional team of 233 employees, 147 of whom hold university degrees, including four PhDs and 63 Master's. Furthermore, the Caisse and its private investment subsidiaries boast the largest number of Certified Financial Analysts (CFA) in Canada, 47 employees having earned this recognized designation.

Intent on ensuring continuity, the Caisse not only offers an internship program but also finances a development program in cooperation with Montréal brokerage houses. In 1998, these two programs enabled 78 young university graduates to acquire relevant work experience in a professional setting.

A VISION FOCUSED ON EXCELLENCE

Over the years, the Caisse de dépôt et placement du Québec has carved a solid reputation both in Canada and abroad. It has adapted to the new realities of the financial markets by creating private investment subsidiaries that meet the needs of enterprises of all sizes in all economic sectors, and by opting for an international shift leading to an enhanced asset mix. In the coming years, the Caisse will continue to focus on the excellence on which its reputation as a major fund manager hinges, and will increase its presence and expertise in value-added products in all promising markets with a view to establishing itself as a world leader in fund management.



MESSAGE FROM THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

At the end of 1998, total assets managed by the Caisse de dépôt et placement du Québec's teams amounted to more than \$83 billion. With net assets exceeding \$68 billion and an overall return in 1998 of 10.2%, the Caisse ranks among the leading managers of diversified institutional funds in Québec and Canada.

A REMARKABLE RETURN

This return is outstanding given the turbulence on world financial markets throughout this past year: economic disturbances affecting several world regions, restructuring of major international corporations, and changes in markets ranging from raw materials to knowledge-based industries.

However, to fully appreciate this return, other factors besides the world economic context must be taken into consideration. This year for the first time, the Caisse, under an amendment to the Act respecting the Caisse, was able to increase the percentage of equities in its portfolio beyond the 40% limit, a daunting challenge given the market situation. One must be mindful that an annual return is but a snapshot in the life of a portfolio. For example, a portfolio based on high risk could also entail the probability of yielding a poor return in the short term. For this reason, we believe that only a fairly long-term horizon is suitable for assessing the quality of a fund's management.

The results achieved in 1998 complete a five-year period that illustrates the excellence of the returns in each asset class. These results prove the soundness of the Caisse's management policy, based on fundamental analysis, a cautious yet at times bold approach, and diversification according to financial product, geographical area and management units and methods.

EFFECTIVE BUSINESS PARTNERSHIPS

The Caisse also stands out for the size of its private investment activities, whether negotiated directly by its teams or made through specific investment funds. This approach calls not only for in-depth analysis but also for the forging of partnerships through sustained relationships with business executives. Still, the superior returns achieved in these investments clearly justify our teams' efforts.

In 1998, these investments totalled \$6.9 billion, representing 10% of the Caisse's net assets. The overall return of its private investment subsidiaries was 27.8%, confirming the soundness of the approach adopted in 1995 to increase this type of investment. We will therefore pursue this objective in the coming years with a view to enlarging the private investment portfolio in the domestic market and substantially increasing our position in the international market.

At the end of 1998, private real estate investments, combining net assets and loans, accounted for 7.5% of the overall portfolio. Not only do such investments provide substantial current income, but their overall active management promises worthwhile returns.

Today, through the private investment expertise it has developed, the Caisse and its partners can offer a full range of technical services and financing tools for the start-up, growth and consolidation of enterprises of all sizes. In fact, the industry views the Caisse and its subsidiaries as Canadian leaders ranking among the best in the industrial world in this field.

MANAGING RAPIDLY CHANGING FUNDS

Recent innovations in information technology and telecommunications have had a major impact on fund management by making it easier and faster for investors to conduct their transactions around the world. But this trend has been accompanied by instant access to increasingly sophisticated information, allowing for ever more detailed analysis within an increasingly short timeframe. In such a context, it is imperative that the Caisse be able to count on qualified specialists and sophisticated technological tools.

The various investment and administrative teams at the Caisse and its subsidiaries thus boast 47 Certified Financial Analysts (CFA), the largest concentration in Canada. Furthermore, the Caisse places great emphasis on training, ensuring not only that its teams continuously enhance their skills but also that the next generation of Caisse employees receives quality training.

Similarly, with respect to technology, several years ago the Caisse initiated a major migration toward a new generation of advanced management software and communications tools. Critical phases of this program were completed in 1998, including measures designed to ensure a smooth passage to the year 2000. These changes were implemented with particular attention to keeping operating costs at a competitive level and with a view to achieving optimal global fund management. In fact, the portfolios managed by the Caisse include assets from all continents, denominated in most major currencies.

MEETING GLOBAL MARKET NEEDS THROUGH EXCELLENCE

The Caisse has the skilled teams and quality technological environment required to provide its depositors and clients with investment policies that are ever more dynamic and best suited to their needs. It is this expertise that will also allow the Caisse to take on and serve new clients, in Québec and abroad. And as the year 2000 approaches, the Caisse de dépôt et placement du Québec is poised to meet this challenge with enthusiasm.

Excellence, however, is not acquired by chance. It is the outcome of policies, decisions, actions and efforts to which Caisse employees all contribute in their own way, according to their specialties and responsibilities. This of course includes the Caisse's Board of Directors and its subsidiaries' boards, whose members contribute a clear understanding of the issues and provide support and advice to our teams in their key decisions. I would like to draw particular attention to the work carried out in 1998 by our administrative and technical support teams, especially those assigned to meeting computer-related challenges and implementing new accounting systems. Lastly, on behalf of the Board of Directors, I would like to thank and congratulate our investment teams for achieving such outstanding returns.



Jean-Claude Scaire

HIGHLIGHTS *in millions of dollars*

	1998	1997
Total assets under management	83,327	70,524
Net assets at fair value	68,568	63,611
Total income from investments	6,366	7,261
Net depositor's withdrawals	1,409	864
Increase in net assets	4,957	6,397
TOTAL RETURN	10.2%	13.0%



CGB

OGB

Options on
contracts à
terme sur
obligations du
gouvernement
du Canada de
10 ans

Options on
the Ten-Year
Government
of Canada
Bond
Future

Excellent returns

YEAR AFTER YEAR

As the millennium draws to a close, with information moving at the speed of light and communication tools providing instant access to news from around the world, we are forced to conclude that market globalization is not just a passing fad but an inescapable reality. Thus, as the ups and downs of 1998 attest, financial markets have become very vulnerable to world economic and political changes. The Asian economic crisis, the debt moratorium in Russia, or the alarm sounded by Brazil to the International Monetary Fund, while occurring in different parts of the globe, each had a significant impact on all the major financial markets.

In this context, the Caisse's fundamental objective remains more than ever to increase profits when markets are up and limit losses when they are down. Its overall strategy is both to safeguard capital and to optimize the return on its clients' portfolios.

Investment activities generated \$6.4 billion in revenues in 1998, which after net withdrawals of \$1.4 billion by depositors increased net assets to \$68.6 billion, up from \$63.6 billion in 1997.

THE RIGHT COMBINATION OF BOLDNESS AND CAUTION

In 1998, the Caisse increased the equity weighting in its overall portfolio. An amendment to the Act respecting the Caisse, adopted by the National Assembly in 1997, allows the Caisse to hold over 40% of its assets under management in equities. In consequence, the equities portion of its asset mix has been increased in 1998. Implemented when markets were in decline, this new portfolio weighting strategy, combined with geographical diversification, proved to be a wise move.

Year after year, the Caisse confirms the excellence and stability of its returns, which it achieves through a combination of cautious and bold management and the expertise of its talented managers and analysts. Also, despite turbulent markets, its management teams posted an overall return of 10.2% in 1998, bringing the average annual return to 14.2% over four years, 10.7% over five years and 11.1% over 10 years.

Left page

*The Montréal Stock Exchange
and the trading room at
the Caisse de dépôt et placement
du Québec.*

SPECIALIZED PORTFOLIOS RETURNS

in percentage

	1998	1995-1998 (4 years)	1994-1998 (5 years)	1989-1998 (10 years)
Short-term investments	5.4	5.5	5.5	7.6
Mortgage	7.1	9.7	8.0	10.3
Bond	9.3	13.5	9.7	11.9
Canadian equity	7.6	16.6	13.4	11.1
U.S. equity	25.4	28.4	-	-
Foreign equity and emerging markets ¹	8.5	11.0	8.4	8.3
Real estate	9.7	10.9	6.2	2.5
TOTAL RETURN ²	10.2	14.2	10.7	11.1

¹ Data prior to April 1994 includes U.S. shares.

² The total return includes results of asset allocation transactions, tactical and strategic investments, which are largely made using derivatives.

Experts follow

MAJOR FINANCIAL MARKETS

In an environment where major financial markets evolve rapidly and virtual companies such as Yahoo have a higher market capitalization than established multinationals, the likes of Boeing, Kellogg or Seagram, the traditional models used to predict market fluctuations are often of little value. As well, managers must be well versed in the sectors and countries in which they invest and be well tuned to economic, political and financial news likely to influence markets. For this reason, the Caisse organizes its management into responsive, autonomous and specialized units, with teams designated according to specific market niches, geographic regions or areas of expertise. To enhance this approach, the Caisse combines various investment styles such as strategic, tactical and sectorial.

AN OUTSTANDING PERFORMANCE

BY THE CANADIAN AND QUÉBEC EQUITIES PORTFOLIO

The defining achievement of 1998 was without question the performance of the Canadian equities portfolio. Running counter to the losses posted in these markets during the year, the managers of this portfolio achieved excellent returns, allowing the Caisse to rank among the best performing fund managers in these markets. This performance was in large part attributable to private investments, which are managed by teams that closely follow movements in financial markets and have detailed knowledge of the sectors and enterprises in which they invest. At 7.6%, the overall return of the Canadian equities portfolio exceeded the benchmark index by more than 9.2%.

A TEAM OF SPECIALISTS FOR EVERY CORNER OF THE WORLD

Internationally, return spreads reflect the wide fluctuations in world financial markets. Thus, despite a sharp correction in the third quarter, American stock markets once again distinguished themselves, allowing the designated in-house and external U.S. equities portfolio managers at the Caisse to post a return of 25.4%, slightly under their objective.

In Europe, stock markets were severely affected by the Asian crisis and the imminent switch to the Euro. In Asia, the deteriorating Japanese economy along with political and economic problems in Indonesia and Malaysia had an overall negative effect on stock markets, particularly in the first three quarters of the year. Also, the Asian and Russian crises and the subsequent weakening of the South American economies all had a negative impact on emerging markets.

In this particularly difficult context, the teams of specialists in each region adopted strategies suited to their respective markets, thereby allowing the foreign, other than American, and emerging markets equities portfolios to perform slightly better than their benchmark index with a return of 8.5%.

BREAKDOWN OF INVESTMENTS BY SPECIALIZED PORTFOLIO

as at December 31, 1998
fair value - in percentage



THE BOND MARKET: A SAFE INVESTMENT IN 1998

In the bond market, despite an increase in the return spread between Québec and Canada ten-year bonds and an overweighting in Québec bonds, Caisse bond portfolio managers posted a return of 9.3%, thus exceeding their benchmark index.

With respect to short-term investments, whose performance has been affected by the weak Canadian dollar, the managers also substantially bettered their benchmark with a return of 5.4%.

KNOWING HOW TO BENEFIT FROM VOLATILE WORLD FINANCIAL MARKETS

The tactical team managers use investment vehicles such as futures and options to take short-term positions in equity, bond and currency markets in major industrialized nations. During 1998, which was characterized by extreme volatility, the expertise of the internal team accounted for profits of \$63 million, exceeding annual objectives.

Created under the aegis of an external management partnership with Northern Trust Global Advisors and combined with other funds managed in Europe, Asia and South America, the Varan tactical fund, which is managed by a team of Caisse specialists, ranked in the first quartile worldwide for all similar hedge funds. Relying on the expertise of management teams close to the targeted markets, this partnership allocates risk over four continents.

GENERATING RETURNS THROUGH ECONOMIC FORECASTING

The strategic management team seeks to forecast market and economic changes over a 12- to 18-month horizon. To do this, they select financial derivatives in order to benefit from fluctuations in world capital markets. Over the year, their transactions generated profits of \$74 million.

Services financiers GDPQ issued management mandates to Montréal companies, including:

- a) *Holdun Investment Management Inc.*
- b) *Capital Guardian*
- c) *Standard Life*

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a.

The subsidiaries of the Caisse Private Investments Group:
DYNAMIC PARTNERS FOR ENTERPRISES OF ALL SIZES

Active and committed, the Caisse's private investment subsidiaries contribute to the expansion of enterprises of all sizes, especially SMEs, by offering intelligent capital to meet the specific needs of different economic sectors. Posting a remarkable return of 27.8% in 1998, these specialized teams contribute to making Montréal a leader in private investments.

CAPITAL GEARED TO THE NEEDS OF SMES

Either directly or through its Accès Capital companies, Capital CDPQ supports promising small and medium-sized companies in a variety of sectors with investments of up to \$1 million in shares and \$2 million in loans. During 1998, this subsidiary approved investments in Les Pêcheries Marinard ltée of Rivière-au-Renard in the Gaspé region, Gecko Électronique inc. in Québec City and Les Services Générations.Net in Montréal. The Capital CDPQ team realized a return of 7.2%.

THE QUÉBEC-WIDE BUSINESS NETWORK OF THE CAISSE

With 11 investment companies across Québec, the Accès Capital network contributes to the development of small and medium-sized companies through investments ranging from \$50,000 to \$750,000 and provides regional entry points for Québec enterprises seeking to benefit from the financial products and services offered by the Caisse and its subsidiaries. In 1998, the network's allocation rose by \$10 million to \$100 million. During the year, companies in the network approved investments in Modelex inc. in Sainte-Claire, a manufacturer of molds and prototypes for the plastics and metal processing industries and in Bois + Value inc., a Dolbeau-based enterprise that produces and markets special studs for the construction industry.

SUPPORTING THE GROWTH OF MEDIUM-SIZED AND LARGE COMPANIES

Capital d'Amérique CDPQ offers financing to medium-sized and large companies in many sectors. Among the main investments approved this year are Albums DF Ltd, Bois Oméga ltée and Équipement Industriel GBA. The company also manages a Québec small-cap portfolio, which has grown more than 40% since 1997, reaching \$227 million on December 31, 1998. The specialized teams of Capital d'Amérique CDPQ posted a global return of 21.1% in 1998, representing 30,8% in equity investments and 6,9% in debt instruments.

Created in participation with SOQUEM, the limited partnerships Sodémex and Sodémex II have the mandate to invest in junior mining companies with capitalization under \$125 million. In 1998, the two companies made investments totalling \$8.9 million, increasing the value of their consolidated portfolio to \$12.7 million.

Capital CDPQ supports small companies that are sponsored by recognized centres and have the potential to generate a high rate of return:

RECOGNIZED SPONSORING CENTRES

- Centre de haute technologie Jonquière inc. (CHTJ)
- Centre d'entrepreneurship technologique de l'ÉTS (CENTECH)
- Centre d'entreprises et d'innovation de Montréal (CEIM)
- Centre d'entreprises technologiques montréalais (CETM)
- Centre d'incubation technologique d'entreprises 2001
- Centre québécois d'innovation en biotechnologie (CQIB)
- Centre régional d'entrepreneurship (CRE)
- Enviro-Accès
- Fondation de l'entrepreneurship (Base)
- Inno-Centre Québec inc.
- Société de développement économique de Drummondville
- Centre régional de développement d'entreprises de Québec (CREDEQ)

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Covitec-Astral, Canada's largest supplier of technical services for movie producers and television programming (Capital Communications CDPQ)
and
Groupe Héroux of Longueuil, an industrial production company operating in the aeronautics sector (Capital d'Amérique)
a) Montréal Mode, promoting Québec designer clothing (Capital CDPQ)



a) *Groupe RT, a commercial fishing and seafood processing company (Accès Capital CDPQ)*

b) *Nexia Biotechnologies, a company that uses transgenics (genetic engineering) as a platform technology to develop and market proteins at low cost. (Sofinov)*

c) *Chronogen, a startup company specializing in applications related to genes that influence the aging process (T²C²)*

A ROBUST GROWTH IN THE COMMUNICATIONS SECTOR

Capital Communications CDPQ invests as a partner in companies operating in the vast communications sector seeking to penetrate promising markets. The high growth of some investments, combined with the team's expertise, contributed to an excellent return of 46,4% in 1998. The main investments approved last year include Public Technologies Multimedia (PTM), Toon Boom Technologies and Hybride Technologies Inc.

SUPPORTING PROMISING TECHNOLOGICAL INNOVATIONS

Sofinov, a venture capital company, provides strategic financing to promising innovative technology companies. A leader in its field, the company put together 35 financial packages in syndication with investors from inside and outside Québec. In 1998, the number of investments in its portfolio rose by over 36%. Especially active in 1998, Sofinov approved new investments in biotechnology and health care, including North American Vaccine Inc. (NAVA) and Life Imaging Systems; in information technology, for example, Tecsys and Semantix; and in industrial technologies, including PyroGenesis Inc. and Bondface Technologies. Sofinov had an excellent return of 28.8%.

T²C²/Bio and T²C²/Info were set up jointly by Sofinov and the Business Development Bank of Canada in May 1997 as satellite technology investors. Their mission is to provide the venture capital needed to identify, evaluate and market technologies developed by universities and private research centres. The two companies invested \$3.6 million in 1998.

MUTUAL FUNDS GROW IN QUÉBEC

In partnership with financial services companies, primarily managers and promoters of mutual and segregated funds, Services financiers CDPQ's mission is to contribute to the increase in fund assets under management in Québec by investing in their promotion and distribution. Its portfolio comprises 19 investments in capital and debt securities, representing a value of \$113 million, as well as \$48 million in portfolio management mandates. Among the principal investments approved were Alain, Guilmette et associés, a portfolio management company specializing in U.S. stocks and private portfolios and Capital Teraxis, a new mutual fund company in Québec City. Services financiers generated a return of 2.4% in its first full fiscal year.

BREAKDOWN OF THE CAISSE PRIVATE INVESTMENTS GROUP PORTFOLIO as at December 31, 1998
fair value - in millions of dollars

Subsidiaries	Investments	
	Number	\$
Capital CDPQ – Réseau Accès Capital	88	58
Capital Communications CDPQ	51	1,696
Capital d'Amérique CDPQ	210	3,733
Small capitalizations	47	227
Medium-sized businesses	89	537
Large companies	23	1,430
Debt securities	51	1,539
Capital International CDPQ	32	571
Services financiers CDPQ	19	161
Sofinov, Société financière d'innovation	105	680
CONSOLIDATED TOTAL¹	491	6,899

¹ Certain investments are managed jointly by more than one subsidiary.



a.



b.



c.



d.



e.

VISIBILITY ON AN INTERNATIONAL SCALE

Intent on seizing the opportunities offered by market and economic globalization, the Caisse has developed several vehicles with a view to enhancing its visibility internationally or accompanying companies in their projects abroad.

Thus, through its network of partners in Europe, the Middle East, Asia and the Americas, Capital International CDPQ contributes to establishing the profile of the Caisse in the international marketplace and accompanies its partner firms abroad. Capital International also manages an investment portfolio in foreign merchant banks and investment funds. In 1998, its managers achieved a 17.6% return. In addition, the company has developed several interesting projects, including setting up the Asia Equity Infrastructure Fund and the Accès Capital International program, whose objective will be to co-invest abroad with Québec companies.

Jointly with several partners - Télésystème Ltée, Bombardier Inc., Bronterra International Corporation (Claridge), SNC-Lavalin International Inc., and the Export Development Corporation (EDC) - Capital International has also created the Groupe Expordev, with the mandate to respond concretely to the specific needs of enterprises, particularly Québec SMEs wishing to export. The company's mission is to export value-added products, develop and maintain an international business network, invest in export-driven partnerships, structure export operations and execute long-term mandates for its clients.

As well, in cooperation with Services financiers CDPQ, Capital International created CDPQ Conseil, a company mandated to evaluate and implement new business opportunities, thus allowing the Caisse and its partner firms to set up, administer and manage pension plans as well as insurance, investment and savings reserves on behalf of foreign clients. An initial consultation agreement has already been reached with the Caisse de Dépôt et de Gestion du Maroc.

Furthermore, Capital International, in partnership with Cadim, a real estate subsidiary of the Caisse, and the Fonds de solidarité des travailleurs du Québec, has set up the Cadim-FSTQ new markets Fund which will finance real estate promotion and construction projects abroad. This new fund which was allocated capital of \$50 million will promote the international expansion of Québec construction companies.

Another company, Infradev International, has the mandate to meet the needs of startup companies with regard to financing and capital contributions for infrastructure projects abroad. In 1998, the company studied some 30 projects submitted by various sectors, primarily the energy sector, and participated in nine of them.

a) *Addenda Capital, a fixed income portfolio manager (Services financiers CDPQ)*

b) *Touchtunes Digital Jukebox, a Montréal developer of digital jukeboxes (Sofinov)*

c) *Groupe Coscient, a producer and distributor of large format films IMAX 3D (Capital Communications CDPQ)*

d) *Station Mont-Tremblant, one of the top mountain recreation centres in North America (Capital d'Amérique CDPQ)*

e) *Gestion Courvie, a brokerage house of the Financière Courvie network (Services financiers CDPQ)*





a.

Real estate

DIVERSIFICATION PAYS OFF

The activities of the Caisse Real Estate Group include the operations of the specialized real estate and mortgage investment portfolios. A sectorial, geographic and product diversification strategy ensured a sound balance and good liquidity of investment in 1998. The Group's companies once again reaped benefits from the asynchronous nature of cycles in the world's economies, seizing opportunities to make wise investments both in foreign markets and in Québec.

This year, the specialized real estate portfolio realized a return of 9.7% at \$8.6 billion, investments were up \$3.4 billion over last year. Bank and related mortgage loans, third party minority interests and other items of assets and liabilities totalled \$5.1 billion over \$2 billion in 1997. This increase may be attributed primarily to the consolidation of the Bentall portfolio held by SITQ IMMOBILIER the effect of which is more pronounced than that of net investments made in 1998. The net assets of the consolidated real estate portfolio totalled \$3.5 billion, or 5.1% of the total Caisse portfolio.

The specialized mortgage investment portfolio totals \$1,6 billion, representing 2,4% of the total Caisse portfolio, with a return of 7,1%.

The specialized real estate portfolio made numerous acquisitions, for a total of \$221 million in Québec, \$175 million in Canada and \$1.7 billion internationally. In addition to acquisitions, the real estate subsidiaries made capital investments of \$109 million and recorded sales of \$538 million.

The Caisse real estate subsidiaries were very active last year, launching several major projects in Québec, including the construction of Complexe Sphèretch in Ville Saint-Laurent, an investment of over \$100 million; an alliance with Laval Technopole in the Centre de développement des technologies de l'information (CDTI) in Laval, a project valued at \$60 million, as well as an association with the Société de développement de Montréal and the Fonds de solidarité des travailleurs du Québec in the Montréal CDTI project and Cité du Multimédia, investments which could amount to \$70 million.

MANAGING AND PROMOTING SHOPPING CENTRES

Ivanhoe operates in the shopping centre sector in major cities. In 1998, it reinvested \$22 million in Cambridge Shopping Centres, raising its interest to 41.7% and on March 1, 1999, following an additional investment of \$331 million, became the majority shareholder in Cambridge with the goal of further diversifying geographically and complementing the activities of Ivanhoe.

At the international level, Ivanhoe acquired a portfolio of six shopping centres in the United States in partnership with General Growth Properties Inc.

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Montréal's World Trade Centre, a prestigious office building (SITQ IMMOBILIER), and the Ritz, in the heart of the Times Square Theatre District, New York (Cadim)

a) Tour Pacific in La Défense district of Paris (SITQ IMMOBILIER)



a.

a) Place Sainte-Foy, expansion and renovation of a shopping centre in suburban Québec City (Ivanhoe)

INVESTING IN INDUSTRIAL AND OFFICE BUILDINGS AND SMALL SHOPPING CENTRES

SITQ IMMOBILIER operates in the industrial buildings, office buildings and small shopping centre sector. In 1998, it acquired a portfolio of four office buildings in Laval and became the sole owner of Place Laval. The company also increased its interest in four shopping centres throughout Québec.

Through its subsidiary Pen York Properties of Toronto, SITQ IMMOBILIER acquired seven office buildings in Ontario. The company also invested \$16 million in the real estate company Bentall Corp. of Vancouver, raising its stake to 47.9%.

SITQ IMMOBILIER was also very active in the United States, acquiring 10 office buildings in Denver and in Texas and Louisiana with Québec real estate company Canderel. In Europe, the company acquired three shopping centres in the United Kingdom with Pillar Properties and Schroder Properties. It also acquired an interest in a portfolio of four London hotels and increased its holdings of Paris office buildings in partnership with Blackstone and CGIS (Vivendi) respectively, and invested in two Blackstone real estate funds.

THE RESIDENTIAL SECTOR AND NON-CONVENTIONAL INVESTMENTS

Operating in the residential sector and in short-term, less conventional investments, Cadim invests with partners who generally handle asset and day-to-day property management. In 1998, the company acquired three retirement homes as well as land with the Québec company Thibault, Messier, Savard et Associés. Furthermore, in partnership with Intracorp, Cadim invested in the promotion, acquisition and management of retirement homes in Canada.

In the United States, through its association with Boston Financial, Cadim acquired a 49.4% interest in residential projects located in California, Illinois, Massachusetts, Maryland and Virginia. It also invested in the Lazard Frères, and Lone Star Opportunity Funds I and II.

CAISSE REAL ESTATE GROUP PORTFOLIO¹

as at December 31, 1998

fair value - in millions of dollars

Subsidiaries	Value ²	Percentage
Cadim	732.4	13.8
Ivanhoé	1,487.4	28.0
SITQ IMMOBILIER	1,442.9	27.1
Hypothèques CDPQ	1,655.6	31.1
TOTAL	5,318.3	100.0

¹ Includes the specialized mortgage portfolio and the specialized real estate portfolio and excludes other assets and liabilities.

² Represents the value of the Caisse's net holdings in the subsidiaries.



a.

b.

c.

In Europe, Cadim purchased a portfolio of residential buildings, most of which are located in Paris, with the Immobilière Batibail. Pursuing its acquisition program in partnership with Lone Star and Astotel, Cadim also increased its hotel portfolio in France.

The Caisse Real Estate Group also pursued the development of Montréal International District project. Designed to attract tourists, international organizations and conventions, this urban development project should generate investments of more than \$1 billion from promoters, builders and real estate owners.

MORTGAGE INVESTMENTS

A mortgage loans and securities specialist, CDPQ Mortgage also exploits new niches with a view to offering a full range of financial products to investors and real estate owners. In 1998, the company posted results were 194 basis points above the return on Canadian bonds.

In Québec, the company acquired a Royal Bank mortgage portfolio and approved \$17 million in financing for a diversified buildings portfolio. Outside Québec, CDPQ Mortgage granted two mortgages totalling \$45 million for office buildings in Vancouver and financed an industrial building in Brampton, Ontario, for \$30 million. The company also invested \$55 million in a first public mortgage-backed bond issue secured on a regional shopping centre in Ontario.

During the year, 15 loans totalling \$16.5 million became non-performing, while four properties valued at \$5.5 million were repossessed. CDPQ Mortgage also concluded several sales, thus reducing its portfolio by 43%.

a) *Apartment building on Boulevard Saint-Germain in Paris (Cadim and Immobilière Batibail)*

b) *L'Esplanade de l'Île on Nuns' Island, a residential development project (Cadim and LSR Construction)*

c) *Anjou-sur-le-Lac, a residential development project (Cadev and Groupe Montclair Boisfrancs)*

Projects

FOR A NEW MILLENNIUM

A NEW ARRIVAL IN THE CURRENCY MARKET

The Caisse has chosen to use the Euro for transactions involving the 11 countries participating in the Euro as of January 1999. Investments in the Euro zone account for about 5% of Caisse holdings. A team of experts prepared throughout the year to adapt all systems to the new currency. Corporate bonds, real estate investments and mutual fund units will also be conducted in Euros.

THE YEAR 2000 CHALLENGE

Information systems play a key role in the smooth operation of Caisse activities. In 1996, the institution has given a specialized firm the mandate to make all systems likely to cause problems Y2K compliant and formed a steering committee to follow up each stage of this project.

To achieve this objective, an inventory of computer systems was compiled and an impact analysis conducted to prioritize the conversion process. All critical modifications were begun in 1998 and should be completed by April 1999, at which time final testing will begin.

In order to ensure the continuity of its operations, the Caisse also had an outside firm validate the management and control processes of its Y2K project. Consequently, the Caisse is confident of a smooth transition into the new millennium.

Contributing to the vitality

OF THE ECONOMY

While present on the international scene, the Caisse remains a powerful economic force in its immediate environment. By investing in Québec enterprises and conducting a significant portion of its financial transactions in Montréal, the Caisse allows its clients to benefit from its singular perspective of the Québec economic scene and contributes actively to the vitality of the economy.

Thus, the institution carried out most of its stock market trading on the Montreal Exchange, where its total volume of \$7.8 billion accounted for 9.3% of that Exchange's total transactions in 1998, up from 8.1% in 1997. In addition, with 69% of its bond portfolio in Québec-issues, the Caisse is a key player in the bond market. In the currency market, Caisse operations totalled \$529 billion, two thirds of which were conducted with Montréal companies. The Caisse also does most of its derivatives trading through Montréal-based brokerages and with heavy trading of \$140 billion, contributes actively to the success of the Montreal Exchange's three-month Canadian Bankers Acceptance futures (BAX).

The Québec small-caps portfolio also posted remarkable growth, increasing from \$162 million in 1997 to \$227 million by the end of 1998. Despite market corrections in the fall, this portfolio generated a return of 24.5%, superior to the Lévesque Beaubien Geoffrion subindex return of 14.3%, confirming the vitality of Québec small caps.

With over 60% of their investments in Québec firms, the Caisse Private Investments Group subsidiaries constantly expand their financial product offering with a view to achieving higher returns. In 1998, in addition to supporting its international strategy, fund management and the new economy, the Caisse Private Investments Group developed three new niches vehicles: Montréal Mode, which markets Québec designer garments, Corporation Alter Moneta, a financing company specialized in leasing and Orleans General Insurance Company, a company launched with the National Bank of Canada that provides bonds to meet the needs of small construction contractors.

In the firm belief that globalization generates wealth and jobs, the Caisse promotes the export of Québec goods and services and the establishment of foreign companies in Québec, serving as a bridge between local enterprises and world markets. Capital International CDPO, the international arm of the Caisse, has considerably expanded its operations, by increasing its investments in foreign funds and expanding its network business offices. Representation are now assured through business offices in Milan, Warsaw, Mexico City, Hanoi, Hong Kong and Bangkok, shortly to be joined by Paris, Bruxelles and Buenos Aires.

MEASURING, EVALUATING AND REPORTING

Meeting the highest standards

The operations of the Caisse are in conformity with the requirements of the Act respecting the Caisse and industry practices. Financial statements are prepared in accordance with generally accepted accounting principles, and the calculation of returns meets the requirements of the AIMR (Association for Investment Management and Research).

The Auditor General of Québec audits the financial statements and ensures that the institution's activities are in compliance with the Act. The AON Consulting Group has certified that the presentation of results and calculation of returns meet the high standards established by the AIMR.

The market value given for investments are those quoted on the major stock markets, for securities in the core portfolios. For private investments the values are assessed annually either by outside corporations or through a process of detailed analysis independent of management.

Through its active presence on the Internet, the Caisse provides nearly instant access to information that is both relevant and of public interest.

DEPOSITORS

as at December 31

	Abbreviation	First deposit	Number of contributors ¹	Depositors ²			
				1998		1997	
				\$	%	\$	%
PUBLIC PENSION PLANS							
Régie des rentes du Québec	RRQ						
Fonds du Régime de rentes du Québec		1966	3,249,700	15,831	23.1	15,838	24.9
Commission de la construction du Québec	CCQ						
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	90,441	6,637	9.7	6,128	9.6
Commission administrative des régimes de retraite et d'assurances	CARRA						
Government and Public Employees Retirement Plan (unionized level)	RREGOP	1973	400,000	25,555	37.3	22,781	35.8
Government and Public Employees Retirement Plan (non-unionized level)	RREGOP	1973	20,000	4,057	5.9	3,722	5.9
Retirement Plan for Mayors and Councillors of Municipalities ³		1975	-	-	-	-	-
Individual Plans		1977	335	169	0.3	156	0.3
Pension Plan for Elected Municipal Officers		1989	2,100	169	0.2	154	0.2
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	RRTAQ	1990	3,180	90	0.1	76	0.1
Fonds d'amortissement des régimes de retraite gouvernementaux	FARRG	1994	1	1,359	2.0	1,232	1.9
INSURANCE PLANS							
Régie des marchés agricoles et alimentaires du Québec	RMAAQ						
Fonds d'assurance-garantie		1967	70	4	-	3	-
Régie des assurances agricoles du Québec		1968	57,299	51	0.1	115	0.2
Régie de l'assurance-dépôts du Québec		1969	1,271	166	0.2	141	0.2
Commission de la santé et de la sécurité du travail	CSST	1973	181,876	7,644	11.1	6,883	10.8
Société de l'assurance automobile du Québec	SAAQ	1978	4,450,765	6,436	9.4	6,028	9.5
Fonds d'assurance-prêts agricoles et forestiers du Québec	FAPAF	1978	1	59	0.1	47	0.1
La Fédération des producteurs de bovins du Québec		1989	24,916	2	-	2	-
Régime de rentes de survivants		1997	1	321	0.5	296	0.5
OTHER DEPOSITORS							
Office de la protection du consommateur	OPC	1992	1,153	8	-	9	-
Centre de recherche industrielle du Québec⁴	CRIQ	1994	-	-	-	-	-
Société des alcools du Québec⁴	SAQ	1994	-	-	-	-	-
Commission des valeurs mobilières du Québec⁴	CVMQ	1998	-	10	-	-	-
TOTAL				68,568		63,611	

¹ Estimate.

² Fair value in millions of dollars.

³ In 1992, the net assets of this plan's fund were merged with that of the Pension Plan for Elected Municipal Officers.

⁴ These depositors solely use the Caisse's cash management services.

CASH FLOWS OF DEPOSITORS IN 1998

in millions of dollars

	Net income allocated	Deposits (withdrawals)	Increase (decrease) in funds available for investment
CARRA - RREGOP ¹	1,577	470	2,047
RRQ	1,294	(1,548)	(254)
CSST	489	65	554
CCQ	533	(127)	406
SAAQ	425	(193)	232
CARRA - RREGOP ²	268	(37)	231
FARRG	89	-	89
Other	69	(39)	30
TOTAL	4,744	(1,409)	3,335

¹ Unionized employees.

² Non-unionized employees.

FINANCIAL HIGHLIGHTS

As at December 31
in millions of dollars

NET ASSETS

	1998	1997
ASSETS		
Investments at fair value		
Specialized portfolios		
Short-term investments ¹	2,213	-
Mortgage	1,645	1,539
Bond	27,977	29,669
Canadian equity	17,375	16,598
U.S. equity	5,927	3,049
Foreign equity and emerging markets	9,429	8,824
Real estate	3,464	3,226
	68,030	62,905
Other net assets	538	706
DEPOSITORS' HOLDINGS	68,568	63,611

CHANGES IN NET ASSETS FOR THE YEAR

	1998	1997
INVESTMENT OPERATIONS		
Net investment income	2,902	2,757
Gains and losses on the sale of investments	3,694	3,726
Unrealized increase (decrease) in value	(230)	778
TOTAL INCOME FROM INVESTMENTS	6,366	7,261
Excess depositors' withdrawals over deposits	1,409	864
INCREASE IN NET ASSETS	4,957	6,397
NET ASSETS, BEGINNING OF YEAR	63,611	57,214
NET ASSETS, END OF YEAR	68,568	63,611

¹ In 1997, short-term investments were included in other net assets.

BREAKDOWN OF INVESTMENTS

in millions of dollars

	1998			1997		
	Fair value	Cost	%	Fair value	Cost	%
Specialized portfolios						
Bonds						
Bonds						
Gouvernement du Québec	11,352	10,375		10,511	9,593	
Government of Canada	4,454	4,418		9,498	9,440	
U.S. Government	3,948	3,949		712	680	
Government guaranteed	8,102	6,941		8,345	7,178	
Corporate and other	3,737	3,597		1,590	1,535	
	31,593	29,280		30,656	28,426	
Other net liabilities	(3,616)	(3,404)		(987)	(910)	
	27,977	25,876	40.8	29,669	27,516	46.6
Canadian equity						
Shares and convertible securities						
Domestic securities						
Industrial products	2,951	2,229		2,523	1,781	
Utilities	2,282	1,294		1,808	1,000	
Financial services	3,594	2,153		3,150	1,513	
U.S.	1,021	1,015		480	482	
Other	8,817	7,754		9,300	7,445	
	18,665	14,445		17,261	12,221	
Other net liabilities	(1,290)	(1,278)		(663)	(603)	
	17,375	13,167	25.3	16,598	11,618	26.1
U.S. equity						
Shares and convertible securities – U.S.	3,368	2,334		2,412	1,823	
Short-term investments	2,838	2,838		676	677	
Other net liabilities	(279)	(293)		(39)	(44)	
	5,927	4,879	8.6	3,049	2,456	4.8
Foreign equity and emerging markets						
Shares and convertible securities						
United Kingdom	2,112	1,525		1,659	1,188	
Other European countries	3,608	2,602		2,524	1,848	
Japan	1,858	2,086		1,762	2,081	
Emerging markets	979	1,255		1,160	1,307	
Other	2,184	2,053		1,577	1,461	
	10,741	9,521		8,682	7,885	
Other net assets (net liabilities)	(1,312)	(1,131)		142	(12)	
	9,429	8,390	13.8	8,824	7,873	13.9
Mortgage						
Mortgages						
Commercial and office buildings	1,175	1,143		996	955	
Industrial	238	231		247	239	
Residential	165	159		162	155	
	1,578	1,533		1,405	1,349	
Other net assets	67	92		134	156	
	1,645	1,625	2.4	1,539	1,505	2.4
Real estate						
Real estate holdings	7,287	7,293		4,181	4,732	
Shares and convertible securities	954	1,023		798	667	
Mortgages	268	250		142	139	
Other net liabilities	(5,045)	(4,729)		(1,895)	(1,880)	
	3,464	3,837	5.1	3,226	3,658	5.1
Short-term investments						
Short-term investments	1,931	1,930		-	-	
Other net assets	282	282		-	-	
	2,213	2,212	3.2	-	-	
Other net assets held directly by the funds	538	554	0.8	706	741	1.1
Net assets	68,568	60,540	100.0	63,611	55,367	100.0

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Information

Caisse Real Estate Group

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Coordinating Vice-President

GINETTE DEPELTEAU ▶
Corporate Secretary of
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