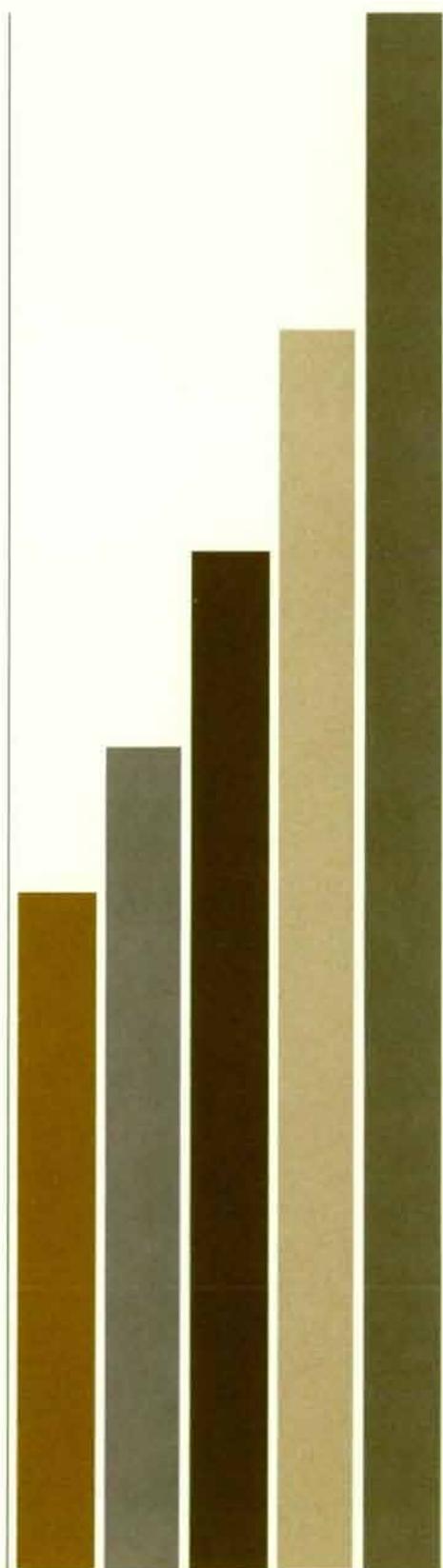
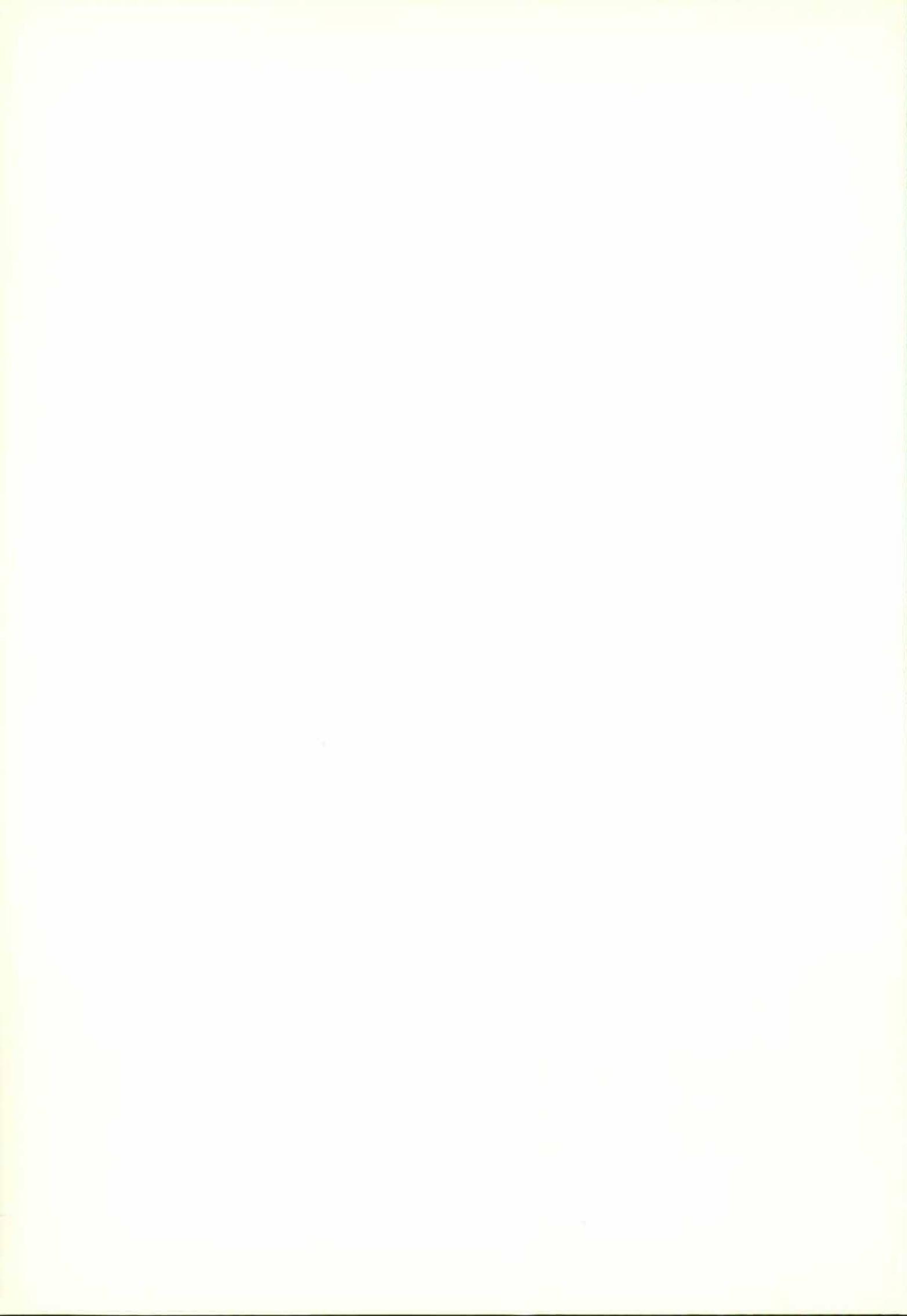


**CAISSE DE DÉPÔT
ET PLACEMENT
DU QUÉBEC**

Annual Report
1978





CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

(1965 Statutes, Chapter 23 and amendments)

Monsieur Jacques Parizeau
Ministre des Finances
Gouvernement du Québec

Monsieur le Ministre,

Conformément aux dispositions
de la charte de la Caisse de dépôt
et placement du Québec, j'ai
l'honneur de vous soumettre
notre treizième rapport annuel
de gestion de l'exercice terminé
le 31 décembre 1978.

Le président du conseil d'adminis-
tration et directeur général,



Marcel Cazavan

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If you wish to receive an additional copy of this report, please fill in the card on the inside back cover or forward your request to:

Le secrétaire
Caisse de dépôt et placement
du Québec
C.P. 74, La Tour de la Bourse
Montréal (Québec)
H4Z 1B4

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BOARD OF DIRECTORS

Marcel Cazavan, président
Directeur général, Caisse de dépôt
et placement du Québec

Le juge Gill Fortier, vice-président
Président
Régie des rentes du Québec

Le juge Richard Beaulieu*
Président
Commission municipale du Québec

Michel Caron*
Sous-ministre des Finances

Hon. Eric Kierans, C.P.
Professeur de sciences économiques
Université McGill

Louis Laberge
Président
Fédération des travailleurs du Québec

Georges Lafond*
Trésorier Hydro-Québec

André Marier
Président-directeur général
Centre de recherche industrielle du Québec

Fernand Paré
Directeur général
La Solidarité Compagnie d'assurance sur la vie

Pierre Péladeau
Président
Quebecor Inc.

Gaston Pelletier
Vice-président
Fiducie Crédit Foncier

Alfred Rouleau
Président et chef de la direction
La Fédération de Québec
des Caisses populaires Desjardins

*Associate member

DEPOSITORS

Bodies whose constituent act prescribes the deposit of moneys with the Caisse de dépôt et placement du Québec

Commission administrative des régimes d'assurance-stabilisation des revenus agricoles

Commission administrative du régime de retraite
Government and public employees retirement plan
General retirement plan for mayors and councillors of Québec municipalities
Individual plans

Commission des accidents du travail du Québec

Fonds d'assurance-prêts agricoles et forestiers

Fonds d'indemnisation automobile du Québec

Office de la construction du Québec
Supplemental pension plan for employees of the Québec construction industry

Régie de l'assurance automobile du Québec

Régie de l'assurance-dépôts du Québec

Régie de l'assurance-récolte du Québec

Régie des marchés agricoles du Québec

Régie des rentes du Québec

Supplemental pension plans which have entrusted the management of funds to the Caisse de dépôt et placement du Québec

Supplemental pension plan of l'Université du Québec

Supplemental pension plan of the Municipalité de la Baie James

Supplemental pension plan of the Société de développement de la Baie James

Supplemental pension plan (C.S.N. – A.H.P.Q. – Ministère des Affaires sociales)

HIGHLIGHTS OF THE YEAR

(in millions of dollars)

		1978	1977	Increase
Total funds	Assets under management	7 988.1	6 494.1	23.0%
	Investments	7 919.0	6 301.0	25.7%
	Long-term investments	7 027.9	5 851.6	20.1%
	Administrative expenditures	5.9	6.7	(11.6%)
	Income	627.2	501.1	25.2%
	Net contributions	865.6	529.4	63.5%
	Number of depositors	17	14	—
	Number of employees	114	122	—
General Fund	Assets ⁽¹⁾	5 872.8	4 891.0	20.1%
	Income to be paid out to participation deposit holders	455.9	381.1	19.6%
	Net contributions	475.9	158.4	200.4%
	Yield on average deposits	8.99%	8.63%	—
Segregated funds	Combined assets	1 411.2	1 063.5	32.7%
	Income	117.7	77.7	51.5%
	Net contributions	257.2	287.9	(10.7%)
Individual Fund	Assets	503.6	309.8	62.6%
	Income	37.9	23.2	63.3%
	Net contributions	155.0	121.6	27.5%
Portfolios under management	Assets	200.5	229.8	(12.8%)
	Income	15.7	19.1	(17.8%)
	Net contributions	(22.5)	(38.5)	—

(1) Assets of the General Fund do not reflect, for the purpose of this presentation, demand and term deposits of the segregated funds and the Individual Fund, which are included with their total assets.

REPORT OF THE GENERAL MANAGER

An impressive number of achievements highlighted the thirteenth year of operations of the Caisse de dépôt et placement du Québec. Total funds under management continued their upward trend, increasing by close to one and one half billion dollars. Money and stock markets were unusually active and the staff, though smaller than the previous year, engaged in an unprecedented level of transactions. Before reviewing events of the year, changes in the composition of the Board of Directors, introduced by the government in 1978, should be noted.

Changes in the Board

Following adoption of Bill 97 (1977 Statutes, Chapter 62), amending the Charter of the Caisse, the Board now consists of nine members and three associate members, the latter without voting rights.

The appointments of the Chairman of the Board, the Vice-Chairman, and the three associate members are prescribed in the Charter. Of the seven other directors, two are chosen among officers of the government or directors of a government agency, one is selected among representatives of employee associations, one is appointed among directors of cooperative associations, while the three others are named by the government at its discretion.

Two directors, Messrs. Hervé Belzile and Raymond Lavoie, remained on the Board until October, 1978 though their terms of office had expired. Under Section 9 of the Charter, directors remain in office until they are replaced. The resignation of Mr. Claude Castonguay was accepted in September.

Mr. Lavoie had been a director of the Caisse since its inception. Over a 13-year period, the Caisse benefited from his extensive business experience and real estate expertise. In particular, he played a major role in the development of mortgage and real estate investment policy. We extend to him our deep gratitude for his valued and sustained cooperation.

Mr. Belzile was appointed to the Board in 1970. He is a discerning administrator and his regular attendance at meetings is commendable. He showed a keen interest in the evolution of the Caisse and, through his judicious observations, made an important

contribution to its orientation. We are indeed grateful for his unflagging participation.

When Mr. Castonguay, an actuary by profession, joined the Board in 1973, he was already thoroughly familiar with the activities of the Caisse. His sound thinking and unusual ability to analyze and synthesize a situation made him an invaluable advisor. We wish to thank him sincerely for his contribution.

On October 18th, 1978, the government appointed five new members of the Board for a three-year term, namely the Honorable Eric Kierans, P.C., Messrs. Fernand Paré, Pierre Péladeau, Gaston Pelletier, and Alfred Rouleau, the latter representing cooperative associations. At the same time, the term of office of Mr. Louis Laberge was extended to January 15th, 1981.

The new members have made their mark in the community at large as well as in their own fields. Their diversified talents and experience will further the growth of the Caisse.

Board meetings

There were thirteen meetings of the Board of Directors in 1978, six in Québec and seven in Montréal. The new members attended their first meeting October 23rd. The main item of business was the study of changes in the regulations stemming from amendments to the Charter approved December 22nd, 1977. Under the amendments, the Caisse is responsible, among other things, for the management and remuneration of its staff. The new regulations were submitted for government approval before the close of 1978.

Revised regulations

Some regulations had to be changed to concur with the new titles of existing funds, deposits, the principle of accepting deposits in individual funds, and replacement of the term "fonctionnaires" in the French version by "employés" or "dirigeants", as the case may be.

It also was necessary to modify certain provisions dealing with notices related to the cancellation of participation deposits and resulting withdrawals. In addition, a uniform method of apportioning operating and management expenses of the Caisse was established. Effective January 1st, 1979, the apportionment will be made on the basis of each depositor's total funds under management and the nature of investments.

Finally, the regulations recognize the principle that the Board henceforth will rule on all sales of stocks which may have an impact on the controlling interest of a company. However, the mechanisms provided for this purpose will in no way impede regular Caisse transactions on the stock market.

Title V of the regulations concerning appointments and remuneration of employees was modified substantially. The number of authorized employees was increased from 142 to 156, as provided in the plan adopted by the Conseil du Trésor in 1976. However, the Caisse had only 114 employees at December 31st, 1978, eight less than at the end of the previous year.

The appointment of senior officers and other executives will be made by the Board of Directors on the recommendation of the General Manager; all other appointments will be made by the General Manager who may, however, delegate his authority. It has been agreed that all officers and other permanent employees of the Caisse will maintain their acquired rights by virtue of their prior appointment under the Civil Service Act.

Personnel regulations

Early in 1978, the management of the Caisse established an ad hoc committee which initially evaluated various posts required up to the start of 1980. To guide the committee, made up of the Personnel Manager and three senior officers, the Caisse retained the services of a human resources consulting firm whose job evaluation and remuneration system has been adopted by a number of major Canadian corporations.

The ad hoc committee later was asked to submit to general management a draft of regulations governing personnel management. In carrying out its work, the committee considered regulation policies of other parapublic bodies outside the public service and also endeavored to develop policies not significantly different from provisions of existing collective agreements in the Québec public sector.

The committee's report and the recommendations of the consulting firm specifically retained to propose a salary policy in keeping with the needs of the Caisse were turned over to three members of the Board for preliminary study October 12th, 1978 and then were submitted to a meeting of the Board of Directors as a whole October 23rd, 1978.

Clarification of Section 18a

Last year, the Caisse indicated it would request a clarification of the meaning of the word "resources" appearing in paragraph a) of Section 18a of its Charter. According to these provisions, the funds of a supplemental pension plan to which contributions are made by a school board or a body which derives more than half of its resources from the consolidated revenue fund may be deposited with the Caisse, subject to governmental approval.

In May, the Ministère de la Justice was asked for a ruling on the legality of the management agreement entered into February 11th, 1972, by the Caisse and the

Supplemental pension plan of the Société de développement de la Baie James pursuant to Order in Council No. 618, dated March 1st, 1972. The plan was split up in 1976, requiring that an additional management agreement be signed with the Supplemental pension plan of the Municipalité de la Baie James for registration with the Régie des rentes du Québec and the Department of National Revenue.

On August 9th, 1978, the Ministère de la Justice advised that "because of the natural meaning of the word 'resources' in paragraph a) of Section 18a of your Charter, it is very doubtful that the Municipalité de la Baie James and the Société de développement de la Baie James can legally entrust the Caisse de dépôt et placement du Québec with the management of funds derived from their supplemental pension plans".

Consequently, at its meeting October 23rd, 1978, the Board of Directors duly adopted a proposed amendment to the Charter of the Caisse which was submitted to the Minister of Finance on October 25th. By this proposed amendment, the Caisse requests that it be authorized to accept deposits of funds derived "from a supplemental pension plan to which contributions are made, at the time of the first deposit with the Caisse from said supplemental pension plan, by a school board, a government corporation, an agency in which the government or one of its corporations holds an interest

of more than fifty per cent, or an agency which derives more than half of its resources or revenue from the consolidated revenue fund or from a government corporation".

Various achievements

During the year, the Caisse was called upon to submit to the Minister of Finance, for the benefit of the savings committee, an analysis of the distribution of its depositors' holdings at December 31st of the years 1972 to 1977. Table 13 of the present report shows the distribution of overall depositors' funds at December 31st, 1978. In future, it will make it possible to follow the trend in asset growth. This information generally will be published prior to its disclosure in the annual report which most agencies authorized to deal with the Caisse must submit to the Assemblée nationale.

The Caisse maintained close relations with its various depositors, keeping them informed of its investment policy and results obtained from the management of their funds. It also met the needs of some of them with respect to large-scale studies. In addition, it hosted a group of executives from the Caisse des dépôts et consignations de France and received French senior officials participating in a France-Québec exchange program. The Caisse disseminated information on its operations to libraries of institutions of higher learning and more generally cooperated with various departments and agencies which requested its assistance.

As an agency of the Administration within the meaning of the Charter of the French Language, the Caisse established a Francization Committee which submitted its linguistic analysis and francization program report to the Office de la Langue française December 18th, 1978.

Finally, the Caisse intends to hold in Spring an intensive information and planning session for its directors, senior management and departmental heads to review performance to date and set guidelines for the 1980's. At the beginning of the decade as it enters its fifteenth year of operations, its assets will exceed the impressive figure of \$10 billion.



Marcel Cazavan
General Manager

THE ECONOMY

In 1978, the Government of Canada had to maintain restrictive economic policies which were significantly different from the direction it would have preferred to strengthen sluggish domestic demand.

Monetary policy

Under the pressure of interest rates on U.S. money markets and in an effort to curb the decline of the Canadian dollar and its unfavorable effects on inflation, the Bank of Canada policy of effecting repeated increases in interest rates led to a substantial rise in the cost of borrowing money. This increasingly tight situation prevailed throughout the year despite limited growth of monetary aggregates and surprising moderation in salary increases as a result of a stagnant domestic demand in the first case and Anti-inflation Board regulations in the second. Exceptionally, this structure of higher interest rates was extended to the long-term market towards the close of the year when the Bank of Canada undertook strategic liquidation of a portion of its portfolio of long-term securities.

Budget policy

With respect to the budget policy, a substantially higher deficit compelled the federal government to make drastic cuts in its expenditure projects in keeping with the decreasing level of tax receipts brought about by income tax indexation and slow income growth. This rationalization involved the granting of temporary and conditional tax relief so as to produce an immediate favorable impact on demand and inflation. Finally, the negative effect of these reallocations on the income of other government levels forced the latter to control their expenses carefully.

Economic situation

The profile of the Canadian economy in 1978 remained essentially unchanged from that of the previous year. Stringent economic policies did, in fact, heavily influence the development of domestic demand while the sustained drop of the dollar largely contributed to the continuing importance of foreign markets in world growth. Similarly, fluctuations in food costs and the value of the Canadian dollar were determining factors in the sharp progression of inflation rates. Finally, a greater rise in prices than in salaries again was a deterrent to an improvement in the consumer's purchasing power. However, temporary sales tax reductions provided a better consumer contribution to growth in 1978 than in the previous year.

In such a climate of slow demand and overcapacity, capital expenditures in production, housing, and inventories remained at a standstill. On the other hand, the pressure of budget restrictions resulted in a slow rate of governmental expenses. All in all, the growth rate of the Gross National Product volume should approximate 3.6% in 1978 compared to 2.7% in 1977. Inflation, at the consumer price level, averaged 9% in 1978 as opposed to 8% the previous year.

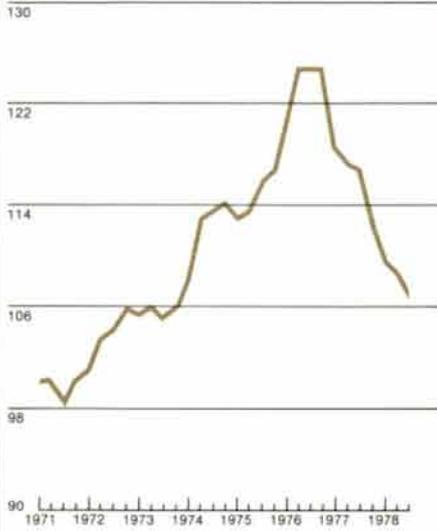
Beyond lackluster 1978 results, developments in the Canadian economy in recent years point to an encouraging outlook for the next decade. The significant slowdown in salary increases, coupled with the sharp devaluation of the Canadian dollar, largely contributed to the recovery of Canada's competitive position on foreign markets, as shown in Graph 1.

On the other hand, despite a disappointing growth rate, the profitability and cash position of companies improved significantly over the past few years, as illustrated in Graph 2. We can therefore look forward to dynamic investments in the near future, along with accelerated production, productivity, employment and revenues.

Graph 1

**Unitary labor costs
Canada / United States**
Sources: Statistics Canada and
U.S. Department of Commerce

(in U.S. dollars) (1971 = 100)

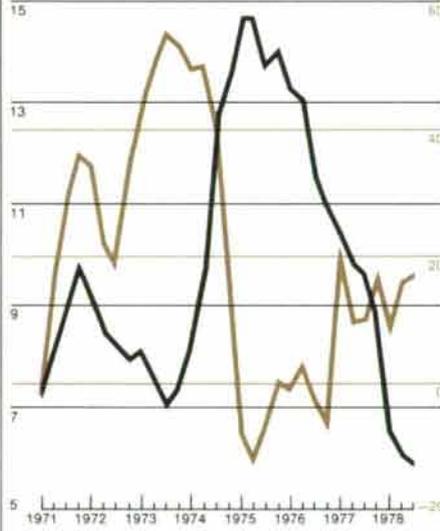


Graph 2

Salaries and operating profit
Source: Statistics Canada

— Salaries
— Profits

(variation (%) in relation to previous year)



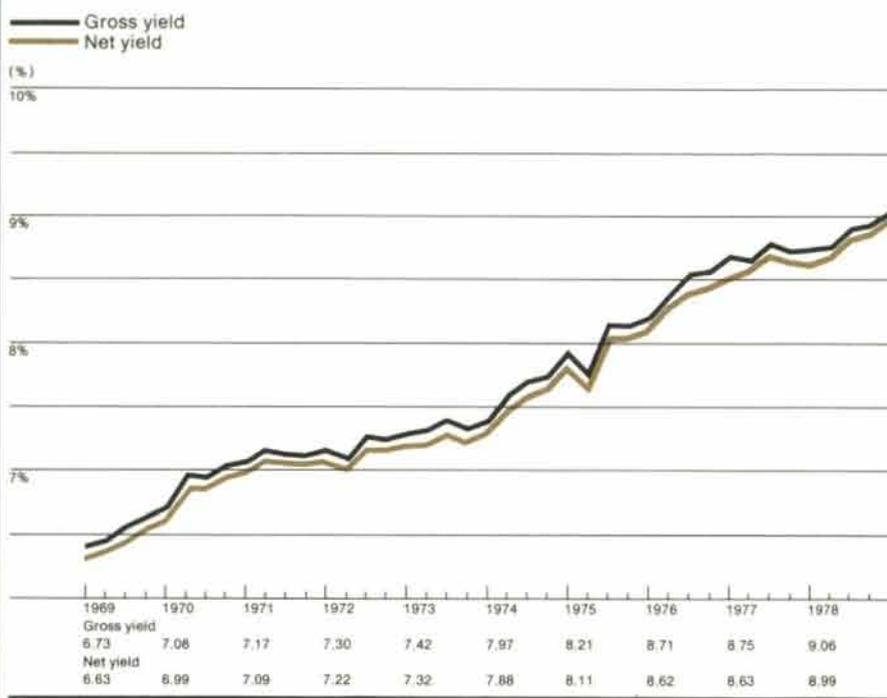
MANAGEMENT REPORT

The remarkable growth rate and results of the Caisse de dépôt et placement du Québec were maintained during its thirteenth fiscal year ended December 31st, 1978. Overall assets under management reached \$7,988.1 million, an increment of \$1,494 million over the previous year. In point of fact, its assets increased by more than one billion dollars during each of the last three years.

General Fund assets totalled \$5,966.3 million and, after deduction of deposits of the segregated funds and the Individual Fund, amounted to \$5,872.8 million, or 73.5% of total funds under management. The four segregated funds and the Individual Fund, representing 24% of overall assets, totalled \$1,411.2 million and \$503.6 million, respectively. At \$200.5 million, portfolios under management accounted for 2.5% of overall assets.

Graph 3 shows gross and net yields of average General Fund deposits increased in 1978. Gross yield advanced from 8.75% at the end of 1977 to 9.06% while net yield, after administration expenditures and amount transferred to the General Fund reserve account, reached 8.99%, an improvement of 0.36% over the previous year. Thus, the two yield rates followed an upward trend for the thirteenth consecutive year.

Graph 3
Yield on average deposits in the General Fund



DEPOSITORS

Three new agencies were added to the list of depositors in 1978, namely the Régie de l'assurance automobile du Québec, the Fonds d'indemnisation automobile du Québec, and the Fonds d'assurance-prêts agricoles et forestiers. However, the Régie de l'assurance-maladie du Québec made a final withdrawal of \$17.2 million at the beginning of 1978 and is no longer authorized to deal with the Caisse. At year-end, the Caisse had seventeen depositors.

Following adoption of Bill 79 (1978 Statutes, Chapter 60), the General retirement plan for mayors and councillors of cities and towns, whose moneys are deposited in the segregated funds, became the General retirement plan for mayors and councillors of Québec municipalities. It remains

under the management of the Commission administrative du régime de retraite and will continue to deal with the Caisse.

As shown in Table 1, net contributions received in 1978 reached a record level of \$865.6 million, an increase of \$336.2 million over the previous year when the Régie de l'assurance-maladie du Québec withdrew \$83 million.

One depositor's net contributions in 1978 topped those of the Régie des rentes, an unprecedented event in the history of the Caisse. The Régie de l'assurance automobile deposited \$261.8 million,

Table 1
Net contributions by depositors
(in millions of dollars)

Depositors	1978	1977	1976	1975	1974
Régie de l'assurance automobile du Québec	261.8	—	—	—	—
Régie des rentes du Québec	212.0	236.1	298.7	254.4	241.1
Commission administrative du régime de retraite					
<i>Government and public employees retirement plan</i>					
— Contributions of unionized employees	150.7	144.9	101.0	67.7	34.7
— Contributions of non-unionized employees and of employers	31.1	64.2	38.9	13.7	0.4
	181.8	209.1	139.9	81.4	35.1
Commission des accidents du travail du Québec	132.5	83.1	72.5	22.1	22.7
Office de la construction du Québec	68.9	74.8	84.2	86.8	49.4
Régie de l'assurance-maladie du Québec	(17.2)	(83.0)	(7.0)	—	17.0
Others	25.8	9.3	4.5	2.1	2.3
Total	865.6	529.4	592.8	446.8	367.6

Net contributions are made up of deposits received less withdrawals.

nearly \$50 million more than the Régie des rentes. Moreover, the latter's contributions, which were equivalent to 44.6% of the 1977 total, dropped to 24.5% in 1978. Total RRQ contributions also declined by \$24.1 million, a 10.2% reduction compared with the previous year.

In 1978, the Commission administrative du régime de retraite deposited a net total of \$181.8 million on behalf of the Government and public employees retirement plan (RREGOP), a decrease of \$27.3 million over 1977. Unionized employees' contributions to the RREGOP increased by \$5.8 million while those of non-unionized employees and employers were \$33.1 million lower than last year when special contributions were made.

L'Office de la construction du Québec remittances declined for the third consecutive year from \$74.8 million in 1977 to \$68.9 million in 1978.

Total net contributions received have been or will be allocated as follows: \$475.9 million to the General Fund, \$257.2 million to the segregated funds, and \$132.5 million to the Individual Fund.

INVESTMENT POLICY

The general investment policy of the Caisse is based on the statement made in the Assemblée nationale June 9th, 1965 when its constituent Act came up for second reading. Since its establishment, the Caisse has continued to be mindful of the legislator's objectives. It believes it has met his expectations. Thirteen years

later, it is timely to reiterate the guidelines of the Charter and to stress the care taken by successive members of the Board and management to honor them.

Economic and social objectives

The document notes at the start that a considerable portion of the savings of Quebecers would henceforth be invested by a government agency and specifies that the latter's orientation must ensure that the interest of the people as a whole be served as effectively as possible. How? First of all, by protecting the capital against the erosion of its value and also by making it grow so as to stimulate the development of the private and public sectors alike, thereby achieving Québec's social and economic objectives.

It was clear that under no circumstances was the capital to be used to finance "social or economic projects, essential as they might be". Nor was it to be employed to subsidize government, municipalities, school boards, or companies. In short, the Caisse was asked to meet acceptable profitability criteria while making its funds available for Québec's long-term development. In the legislator's mind, such objectives were not incompatible provided "basic prudence was combined with specific economic and financial objectives".

In addition, the document emphasizes that the Caisse was not to replace the government in any of its duties. It was to ensure that "government and private sector policies are pursued through appropriate management of investable resources". Industrial decentralization and industrial development assistance programs were to remain under government jurisdiction.

Investment criteria

The Caisse has used these guidelines as the framework of its basic investment policy. It has observed them from the start. This policy remains consistent with its four original objectives - protection of capital, diversity in investments, optimization of yield, and promotion of economic growth.

Protection of capital

Nearly 65% of overall long-term investments managed by the Caisse are Québec public sector securities, mainly bonds issued or guaranteed by the Gouvernement du Québec, including Hydro-Québec and Sidbec. Also included are municipality, school board, cegep, hospital, and university securities. Corporate bonds and securities issued or guaranteed by other governments bring the total proportion of bonds held to 77.3%. Mortgage debts are all guaranteed by a first mortgage on real estate and a good portion of them are insured.

At December 31st, 1978, the aforementioned investments represented 86.5% of fixed income securities, thus providing good guarantees and income stability.

Table 4 shows almost all share and convertible debenture investments consist of securities in Canadian corporations listed on stock exchanges. Along with real estate, they constitute the variable income portion of the portfolio which provides some protection against erosion caused on the long-term by price increases. They represented 13.5% of overall long-term investments at December 31st, 1978.

Table 4
Total funds
Summary of corporate investments
based on the status of companies
as at December 31st, 1978
(in millions of dollars)

Status of companies	Number of corporations	Shares and convertible securities (at cost) \$	Bonds (at amortized cost) \$	Total	
				\$	%
Companies and subsidiaries whose shares are listed on stock exchanges	220	906.6	532.4	1 439.0	90.0
Private companies	53	8.7	78.7	87.4	5.5
Public companies and cooperatives	19	4.8	66.6	71.4	4.5
Total	292	920.1	677.7	1 597.8	100.0

Short-term investments held by the Caisse, which generally mature within twelve months, carry exceptional guarantees given the solvency of the issuers.

It is clear Caisse investments completely meet the criterion of protection of capital, the primary concern of any trustee.

Diversity in investments

Some people believe the diversity of Caisse investments is much more restricted than that of portfolios of private sector institutions and, consequently, that the principle of risk distribution is not as fully observed. However, it is important to point out that these institutions try to balance their portfolios according to their geographic sources of savings and the nature of their operations. In the case of the Canada Pension Plan, it should be noted that equalization exists between the source of funds and their reinvestment since any province may borrow the whole of the contributions made by its own citizens.

Because the Caisse manages funds derived from Québec public or parapublic agencies alone, it is

logical that they be invested so that the benefits be reaped primarily in Québec. This explains why the portfolios of its four funds at December 31st included securities of some 140 municipalities, 106 school boards, 84 cegeps, hospitals and universities, and 292 corporations, a large number of which have operations which are considered important to Québec. Mortgage debts and real estate cover close to 8,500 properties located in Québec.

On the whole, Caisse investments represent a more than acceptable level of diversity.

Optimization of yield

The optimization of yield reflects the quality of results as well as the effectiveness of management.

It implies the combination of qualities such as talent, experience and desire to contribute to the attainment of the organization's exacting objectives. Over the years, the Caisse has built up a team of highly competent and respected specialists and it spares no effort to further their development and to retain their services.

The main factors which the Caisse deems essential to yield optimization include, among others, development of an overall strategy of sound investment; a judicious balance of various types of securities; constant activity on money, financial, and stock markets; the timely purchase of securities at the best price possible; a reasonable range of securities from which a choice may be made; the underwriting of private issues at fair prices; an active trading policy; timely liquidation of large blocks of shares; and prospection for an elite clientèle for private placements and real estate investments.

The financial results obtained to date by the Caisse and the respect it enjoys in financial and business circles bear witness to the quality of management of its various funds. Its diversified and voluminous operations on various markets make it a leader in the financial field not only in Québec but elsewhere in Canada.

Economic promotion

Through its financial support, the Caisse contributed to the launching of several large-scale projects which proved beneficial to

Québec. Its joint or sole participation in large projects such as Sidbec-Normines in Port-Cartier, Donohue in Saint-Félicien, the complexes of La Laurentienne, L'Industrielle and Place Hauteville in Québec City, the Saint-Romuald refinery, the Place du Royaume shopping centre in Chicoutimi and those of L'Estrie and Brossard, the RO-NA distribution centre in Boucherville, Place Dupuis and 2020 University buildings in Montréal, and the Terrasses La Chaudière complex in Hull are only a few examples of remarkable achievements in the four corners of the province in which the participation of the Caisse totalled several million dollars. Investments of over \$100 million in private placements with Québec-based organizations also should be mentioned.

As specified by the legislator, the role of the Caisse is not to undertake new ventures on its own since it is not a promoter but rather a pool of funds. As such, it is indeed proud to be associated with several large projects.

Only a few years ago, the Caisse received little attention. Nowadays, it has assumed sudden significance in the eyes of many. In some circles, it is even viewed as an organization which could play several other roles and which could resolve almost all of Québec's financial or economic problems.

There is no doubt the framework provided by statute is broad enough to enable it to achieve the goals it seeks. However, it should

be kept in mind that despite its phenomenal growth, it nonetheless remains a fairly young fiduciary institution.

BOND INVESTMENTS

Total investments by the Bond Department represented 78.6% of overall investments under Caisse management at December 31st, 1978. Bonds and short-term investments held at that date totalled \$6,228 million, as shown in Table 8. They broke down as follows:

- General Fund: \$4,161.2 million in bonds and \$729.1 million in short-term investments;
- Segregated funds: \$620.9 million in bonds and \$68.5 million in short-term investments;
- Individual Fund: \$456 million;
- Commission des accidents du travail du Québec portfolio under management: \$156.6 million;
- Office de la construction du Québec and Commission administrative du régime de retraite portfolios under management: \$25.2 million and \$10.4 million, respectively.

Tables 9, 11, and 12 in the Statistical information section list data on nominal value, book value, market value, weighted average yield, and net change in 1978 for each category of bond investment.

**Participation in new
Gouvernement du Québec and Hydro-Québec issues
on the Canadian market in 1978**

Date of issue	Nature	Amount in nominal value	Date of maturity	Redeemable on or after	Interest rate	Yield to maturity	Price	Amount purchased by the Caisse de dépôt (nominal value)
		\$			%	%		\$
February 20th	Private	110 000 000	December 16th, 1996	December 16th, 1993	9.75	10.06	97.375	110 000 000
May 24th	Private	100 000 000	June 12th, 1998	June 12th, 1995	10.00	10.00	100.00	100 000 000
July 25th	Private	100 000 000	June 12th, 1998	June 12th, 1995	10.00	10.06	99.50	100 000 000
September 26th	Private	125 000 000	October 16th, 2000	October 16th, 1996	10.00	10.01	99.875	125 000 000
November 28th	Private	150 000 000	December 15th, 2002	December 15th, 1998	10.00	10.30	97.375	150 000 000
Total — Gouvernement du Québec								585 000 000
April 19th	Public	120 000 000	May 15th, 2003	May 15th, 1998	10.25	10.25	100.00	60 000 000
June 7th	Public	125 000 000	July 5th, 2003	July 5th, 1997	10.00	10.10	99.125	60 000 000
August 1st	Public	125 000 000	July 5th, 2003	July 5th, 1997	10.00	10.07	99.375	65 000 000
Total — Hydro-Québec								185 000 000
Grand total								770 000 000

Québec public sector

The Caisse acquired 67% of the total \$1,150 million in bonds issued or guaranteed by the Gouvernement du Québec on the Canadian market in 1978, or \$770 million compared with \$560 million in 1977. As shown in Table 2, the sum of \$770 million includes \$585 million in Gouvernement du Québec bonds and \$185 million in Hydro-Québec securities. The latter all were purchased out of public issues and represented 50% of total value. Gouvernement du Québec bond acquisitions result entirely from private issues arranged directly with the Caisse. It should be noted the fiscal years of the Caisse and the government do not coincide.

All such purchases are listed above. In addition, Table 3 shows the breakdown among the General Fund, the segregated bond funds, and the Individual Fund. Bonds issued or guaranteed by the

**Table 2
Acquisition by the Caisse de dépôt
of new bonds issued or guaranteed
by the Gouvernement du Québec
on the Canadian market in 1978***
(in millions of dollars)

	Amounts of issues			Amount acquired by the Caisse de dépôt	
	Public	Private	Total	Amount	Percentage of total
Gouvernement du Québec	110	670	780	585	75
Hydro-Québec	370	—	370	185	50
Total	480	670	1 150	770	67

*Excluding savings bonds.

Gouvernement du Québec recorded a net increase of \$722.6 million, 45.7% of the net increase of \$1,580.3 million in overall Caisse investments during the year. This is shown in Table 8.

Due to various factors, the participation of the Caisse in new issues of municipal or school bonds or bonds guaranteed by grants declined.

It should be recalled such bonds in Québec are sold through a network without parallel anywhere in Canada. It is made up of investment firms which, through

tenders or private negotiations, acquire, individually or as members of a syndicate, issues which are sold to them by municipalities, school boards, or other public organizations.

Moreover, the volume of new issues in this sector in Québec diminished in 1978 from the previous year by approximately \$60 million, intensifying competition between an increasing

Table 3
Breakdown of amounts of new bonds
issued or guaranteed by the
Gouvernement du Québec on the
Canadian market and acquired by
the Caisse de dépôt
 (in millions of dollars)

Year ended December 31st	General Fund	Segre- gated funds	Individual Fund	Total	Issues	
					Private	Public
1966	61.3	—	—	61.3	—	61.3
1967	95.0	—	—	95.0	—	95.0
1968	145.0	—	—	145.0	60.0	85.0
1969	142.0	—	—	142.0	75.0	67.0
1970	167.5	—	—	167.5	90.0	77.5
1971	162.5	—	—	162.5	120.0	42.5
1972	214.5	0.5	—	215.0	60.0	155.0
1973	209.2	0.8	—	210.0	50.0	160.0
1974	292.5	12.5	—	305.0	175.0	130.0
1975	381.4	17.9	—	399.3	238.0	161.3
1976	378.8	45.2	51.0	475.0	255.0	220.0
1977	375.0	120.0	65.0	560.0	450.0	110.0
1978	555.5	89.0	125.5	770.0	585.0	185.0
Total	3 180.2	285.9	241.5	3 707.6	2 158.0	1 549.6

number of underwriters working within a market where competition is the strongest in Canada.

Furthermore, maturity and sinking fund provisions of the new issues were modified mainly to meet requirements of institutions which previously had not been overly interested in this type of security but which no longer could invest their liquid assets in mortgage loans due to lack of activity in the field. Finally, a high level of savings, coupled with the attractive yields of these bonds, prompted individuals to invest in these securities.

The policy of the Caisse in this respect has long been known. Its participation in this type of issue is traditional, subject, of course, to the stipulation in its Charter that its participation be limited to 20% of the total issue of any Québec municipality or school board and that it not hold more than 20% of outstanding bonds of such bodies.

Where possible, the Caisse also has always endeavored to allocate its investments in relation to the requirements of the entire province. Formerly, when the market proved unresponsive to this type of security, the Caisse increased its participation. Conversely, it decreased the level of its investments whenever the opposite situation prevailed.

In 1978, the Caisse acquired \$55.1 million of such bonds on the primary market as opposed to \$115.6 million the previous year. They include \$24.1 million and \$12.3 million in municipal and school bonds, respectively, and \$18.7 million in issues of Québec universities and hospitals. The Caisse also acquired approximately \$6.7 million in bonds on the secondary market.

Private sector

In 1978, the participation of the Caisse on the primary Canadian market of the private sector was lower than anticipated even though the portfolios as a whole held a further \$84.7 million in corporate bonds at year-end. In point of fact, the volume of issues declined again during the year. Caisse figures show overall gross issues of financial and other companies in Canada, excluding income debentures, dropped from \$3.1 billion in 1977 to approximately \$2.5 billion in 1978.

This decline is attributable to several factors. Among others are increased profit margins on export markets brought about by devaluation of the Canadian dollar as well as more generous tax provisions which were conducive to internal financing. Moreover, a number of companies consolidated their financial structure through issues of retractable preferred shares or income debentures. As the Caisse is not taxable, it does not invest in these types of securities.

Consequently, the relative dearth of securities on the primary market narrowed the yield spreads between Government of Canada bonds and high-grade Canadian industrial bonds (A++), and between the latter and intermediate quality bonds (B++), as shown in Graph 4.

Under such market conditions, it was normal to favor investments in high-quality securities. Government of Canada bonds therefore served as a palliative to the strategy of investing in corporate bonds.

In fact, because of their negotiability on the secondary market, trading of Government of Canada bonds not only can eliminate and exceed the yield spread in relation to corporate securities but also allow a turnaround when conditions warrant it.

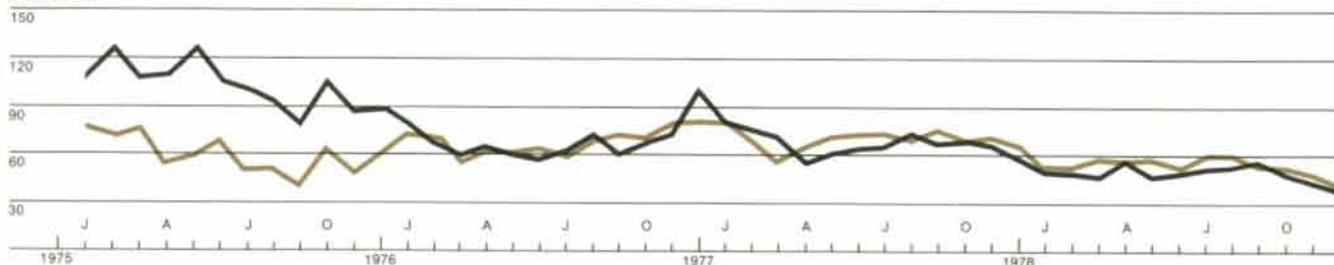
Graph 4

Long-term bond yield spreads

Source: Canadian Bond Rating Service Ltd.

— Canada/Industrial A⁺
 — Industrial A⁺⁺/Industrial B⁺⁺

(basis points)



The Caisse always has strived to optimize the yield of its various bond portfolios. In 1978, this policy led to intensive trading on the secondary market through sustained use of increasingly sophisticated management tools. For the first time in the history of the Caisse, its activity on the secondary long-term bond market exceeded the one billion dollar mark. This resulted in a significant improvement in bond yields during the year, as evidenced by the weighted average yield to maturity of 9.50% for the General Fund bond portfolio in 1978 compared with 9.35% the previous year.

Money market

The presence of the Caisse on the money market was felt increasingly in 1978 as a result of heavy receipts, higher interest rates, and its overall investment strategy. Total short-term investments held in the General Fund at December 31st, 1978 amounted to \$729.1 million. However, a deduction of some \$275 million must be made from this figure to reflect various General Fund commitments to the segregated funds, the Individual Fund, some depositors, and out-

standing private, public, and mortgage financing proposals at year-end.

The unrest felt on money markets on the heels of successive increases in short-term interest rates and the reversal of the yield curve raised the volume of transactions to \$12.5 billion during 1978 compared with \$8 billion the previous year. Short-term investments in the General Fund, through which cash management of all Caisse funds and portfolios is carried out, reached an exceptionally high monthly average of \$731 million as opposed to \$400 million in 1977.

**INVESTMENTS
IN STOCKS**

The Stock Department is responsible for management of three stock and convertible security portfolios. At December 31st, 1978, their overall value was \$920.1 million, as shown in Table 8. They broke down as follows:

- General Fund portfolio: its cost value dropped by \$5.5 million in 1978, bringing its book value to \$612.8 million at year-end;
- Segregated Stock Fund (Fund "A") portfolio: Showing a balance of \$304.2 million, it increased by \$88.7 million over the preceding year;

- Office de la construction du Québec portfolio under management: Gradually being liquidated, it totalled \$3.1 million in relation to \$5.1 million in 1977.

Tables 9 and 11 in the Statistical information section provide data on General Fund and Fund "A" stock portfolio costs, market values, weighted average yields, and net changes in 1978 for each of the fourteen sectors of activity, based on TSE 300 classifications.

Stock markets

Notwithstanding a rate of growth of the Canadian economy lower than its potential, six successive increases in the discount rate totalling 3¼%, and tensions on international currency markets, the Canadian stock market nevertheless showed vitality in 1978.

The volume of transactions hit record levels and the increase in prices was impressive. The Montréal Stock Exchange industrial average advanced from 182.5 at December 31st, 1977 to 224.8 at the end of 1978, a 23.2% increase. The TSE 300 index closed at 1310, an improvement of 23.6% over the previous year. The trend remained unsteady in the United States, as

Table 5
Total funds
Shares and corporate bonds
 as at December 31st, 1978
 (in millions of dollars)

Sector of activity	Shares and convertible securities		Bonds		Number of corporations	Total	
	Net change in 1978 (at cost)		Net change in 1978 (at amortized cost)			Net change in 1978	
	\$	\$	\$	\$			\$
Metals and minerals	181.0	23.9	47.9	(3.0)	21	228.9	20.9
Gold	4.5	(0.6)	—	—	1	4.5	(0.6)
Oil and gas	105.6	1.6	49.3	2.1	17	154.9	3.7
Paper and forest products	40.7	(8.2)	29.1	0.4	22	69.8	(7.8)
Consumer products	68.3	10.6	52.0	5.6	34	120.3	16.2
Industrial products	106.3	12.2	104.8	(3.7)	53	211.1	8.5
Real estate and construction	6.2	(2.0)	61.0	25.7	21	67.2	23.7
Transportation	41.7	5.4	11.1	(0.6)	10	52.8	4.8
Pipelines	32.4	(7.0)	20.0	(3.4)	5	52.4	(10.4)
Utilities	93.6	14.5	122.6	33.4	15	216.2	47.9
Communications and media	12.0	7.0	2.8	2.0	7	14.8	9.0
Merchandising	46.1	7.0	29.0	0.3	39	75.1	7.3
Financial services	160.9	19.1	145.5	25.9	40	306.4	45.0
Investment companies	20.8	(4.1)	2.6	—	7	23.4	(4.1)
Total	920.1	79.4	677.7	84.7	292	1 597.8	164.1

illustrated by the Dow Jones industrial average and Standard & Poor's 500 composite index which dropped by 3.2% and rose by 1.1%, respectively.

The federal budget policy aimed at limiting growth in government expenditures so as to stimulate long-term private sector investments seems to have reduced skepticism and distrust on the part of business circles. This encouraging context, combined with the removal of anti-inflation controls, prompted companies to increase their dividends towards year-end. In addition, the adoption of such measures as improvement of dividend tax credits and tax exemptions applicable to life insurance companies contributed to reviving investors' interest in the stock market.

Finally, several corporate take-over bids were made in 1978. These transactions stemmed mainly from the fact that several institutions had greater funds available. In addition, quoted market value of several securities were lower than their deemed liquidation or replacement value.

Operating results

Overall performance of the General Fund share portfolio was 31.4%. Unrealized capital appreciation advanced by \$111.3 million during the year while net realized appreciation reached a record level of \$46.7 million, mainly as a result of the acceptance of take-over bids. Overall capital appreciation is equivalent to 25.7% of the average cost of investments during the year to which must be added revenues which produced a weighted average yield of 5.7%.

CORPORATE INVESTMENTS

During the year, net corporate investments increased by \$164.1 million — \$79.4 million in shares and \$84.7 million in bonds. At December 31st, overall Caisse funds and portfolios included \$920.1 million in shares and convertible securities and \$677.7 million in bonds.

Table 5 shows an advance of \$92.9 million in "Utilities" and "Financial services", or 56.7% of overall increase. "Metals and minerals" and "Real estate and

construction" recorded a combined rise of \$44.6 million. However, "Pipelines", "Paper and forest products", "Investment companies", and "Golds" sectors diminished by \$22.9 million, mainly because of reduced share investments in these fields.

Table 6 illustrates the distribution of corporate share and bond investments by order of importance. At December 31st, 1978, the Caisse had investments in 292 companies. In 51 cases, the amount invested exceeded \$10 million and such holdings represented 74.7% of total funds.

Table 4 indicated that 90% of all corporate share and bond investments held at December 31st were in companies listed on stock exchanges.

PRIVATE PLACEMENTS

The Private Placement Department negotiates, on a private basis, the financing of companies involved in the Québec economy. Such financing usually is effected by way of loans, the purchase of bonds, mortgages and, occasionally, stocks. They generally range between \$250,000 and \$5 million.

The year was highlighted by a greater availability of capital for the financing of companies and, generally, the profitability of manufacturing and commercial enterprises improved. However, because companies operated at some 85% of overall capacity, the volume of capital expenditures in Canada advanced only moderately and companies largely were able to meet their financial needs out of cash flow. Established companies therefore had a lesser need for outside capital whose cost gradually increased during the year.

Table 6
Total funds
Distribution of corporate investments
in shares and bonds
as at December 31st, 1978
(in millions of dollars)

Category	Number of corporations	Total	
		\$	%
Up to \$10 million	241	403.4	25.3
\$10 to \$20 million	29	392.5	24.6
\$20 to \$30 million	12	307.5	19.2
\$30 to \$40 million	6	201.9	12.6
\$40 million and more	4	292.5	18.3
Total	292	1 597.8	100.0

Nevertheless, despite limited demand for capital in 1978, the arrival of new institutions on the market and the added services provided by existing organizations favored the ongoing development of long-term corporate financing. These factors made greater and more diversified funds available to the private sector for expansion projects. There is no doubt that Québec manufacturing and business enterprises will reap the benefits of greater competition among financial institutions.

During the past year, the Caisse submitted 22 private financing proposals, 17 of which were accepted, representing \$30.1 million and bringing total transactions to 103 and cumulative commitments to \$142 million, as shown in Graph 5. The Private Placement Department thus experienced the most active year of its history. The number of companies with which the Caisse is associated increases from year to year. It is also able to promote expansion, as evidenced by the 11 new financing agreements concluded in 1978 with companies in which the Caisse already held an interest.

At December 31st, the balance of outstanding commitments totalled \$26.1 million. During the year, outlays amounted to \$12.3 million, increasing the portfolio to \$98.3 million. Consisting of securities issued by 57 companies which are an integral part of the Québec economy, this portfolio includes \$90.9 million in fixed income securities and \$7.4 million in shares or convertible securities. Its weighted average yield is 10.62%.

MORTGAGE INVESTMENTS

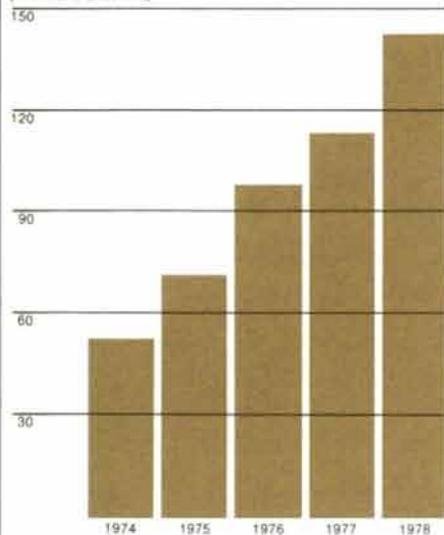
The Mortgage Department handles all real estate activities. The Charter of the Caisse stipulates its operations must be limited to the Province of Québec. Its staff works out of the Montréal and Québec regional offices and the department manages five portfolios totalling \$677.5 million, as shown in Table 8. They broke down as follows at December 31st, 1978:

- General Fund mortgage debts of \$315.3 million;
- General Fund real estate investments of \$25.4 million; the details of this category are given in Table 10 of the Statistical information section, as required by paragraph d) of Section 41 of the Caisse Charter;

Graph 5

Cumulative commitments — Private placements

(In millions of dollars)



- Segregated Mortgage Fund (Fund "H") mortgage debts of \$336 million;
- Office de la construction du Québec and Commission administrative du régime de retraite portfolios under management mortgage debts of \$743,163 and \$67,324, respectively.

During 1978, the "Mortgage Investments" account shown in Table 8 recorded a net increase of \$156.4 million, \$45.8 million in the General Fund and \$110.9 million in Fund "H". Since portfolios under management are being liquidated gradually, their total value dropped slightly.

Total value of General Fund real estate investments remained more or less static in 1978 due to limited activity in the field.

Construction decline

The rate of activity in the construction field slowed down in 1978. L'Office de la construction du Québec reports the number of hours worked during the first ten months of the past year dropped by 8.9% in relation to the corresponding period in 1977.

In Québec, the number of housing starts fell by 24.2% during the year; from 68,748 units in 1976, it successively declined to 57,580 in 1977 and 43,671 in 1978. In Canada as a whole, statistics for the same period also reflect a downward trend from 273,203 units in 1976 to 245,724 in 1977 and 227,667 in 1978.

Without engaging in an in-depth analysis of causes which influence the level of housing starts, it may be said that it follows the curve of economic cycles and reflects any increase or decrease in number of new households as well as fluctuations in mortgage interest rates and construction and operating costs. To some extent, these considerations also hold true for commercial and industrial construction.

There does not appear to be any sign of a significant recovery in real estate in 1979. The vacancy rate in the residential sector is relatively high while the economic climate does not yet seem conducive to an upswing in commercial or industrial construction. In truth, architects and promoters have few projects on the drawing board which are likely to be undertaken in 1979, particularly if mortgage costs remain high.

Mortgage rates

During the year, mortgage interest rates on insured loans were on an upward trend. They rose from a level of 10 to 10.25% at the beginning of the year to between 11 and 11.25% towards year-end, varying slightly from one lender to another depending on availability of funds, the quality of proposed transactions, and investment policies.

In view of this, it is understandable that lending institutions, including the Caisse, competed intensely for the few important projects to be financed; at the same time, lenders remained wary because of controls and escalating interest rates. This situation partly explains the narrowing of the traditional spread between mortgage and bond interest rates.

Operating results

During 1978, General Fund mortgage and real estate investments amounted to \$340.7 million, a net increase of \$45.8 million. This amount includes \$315.3 million in mortgage debts and \$25.4 million in real estate. At December 31st, 1978, mortgage and real estate investments were distributed as follows: residential, 20.2%; commercial, 70.6%; and industrial, 9.2%. Their weighted average yield dropped from 10.02% in 1977 to 9.89%. Outlays in 1978 totalled close to \$59 million and, at year-end, outstanding commitments amounted to \$22.9 million.

SEGREGATED FUNDS

During their ninth year of existence segregated funds continued their rapid growth. Their combined assets, which represented 17.7% of all assets under Caisse management, totalled \$1,411.2 million, an increment of \$347.7 million over 1977.

Fund "O"

Assets of the Segregated Bond Fund recorded an increase of \$164 million during the year to total \$599,845,000 at December 31st, 1978. It comprised \$528.5 million in bonds, \$57.8 million in short-term investments and accrued interest of \$13.6 million. The market value of all investments was \$577.9 million, \$8.4 million lower than book value.

Net income rose from \$35.3 million in 1977 to \$48.9 million in 1978; income accumulated in the Fund since 1970 totalled \$126.7 million at year-end.

Table 11 gives a breakdown of categories of the Fund's investments at December 31st, 1978, including net change during the year. At year-end, 81.3% of long-term investments were concentrated in public sector issues while 18.7% were investments in 55 Canadian public corporations. The weighted average yield to maturity was 10.18% on long-term bonds and 10.45% on short-term investments.

During 1978, 64,819 participation deposit units were issued for a total of \$130.1 million. At year-end, each unit had a market value of \$2,084.86, an increase of 6.4% over 1977.

Fund "G"

At December 31st, 1978, assets of the Segregated Government Bond Fund were \$100,636,000, a rise of \$9.3 million over 1977. This increase is entirely attributable to the reinvestment of income since no new funds were received during the year. Accumulated income thus increased to \$15.3 million.

Market value of investments in the Fund was \$95.5 million, a depreciation of \$2.4 million in relation to book value. Table 11 provides data on various categories of Fund "G" investments and shows the weighted average yield to maturity of long-term securities increased to 10.01% at year-end. These investments are made up exclusively of Québec public sector issues.

Market value of participation deposit units increased by 6.4% to \$1,158.22 at the close of 1978.

Fund "A"

Assets of the Segregated Stock Fund totalled \$343,221,000 at December 31st, 1978, an increment of \$107.1 million in relation to 1977. This increase stems from the issue of 51,839 participation deposit units for an amount of \$79.1 million and the reinvestment of net income for the year in the amount of \$26.9 million, of which \$9.8 million were derived from net profits on sales of investments. At December 31st, accumulated income in the Fund totalled \$61.3 million.

At year-end, the Fund held share investments in 90 Canadian companies, all listed on stock exchanges, which cost \$304.2 million compared with a quoted market value of \$367.4 million. The balance sheet shows overall investments of the Fund were \$340.1 million and their total market value \$403.3 million, an increment of \$63.2 million.

The overall performance of Fund "A" was 28.1% as evidenced by the capital appreciation of the market value of participation deposit units. They rose from \$1,444.69 at the end of 1977 to \$1,850.52 at the close of 1978. In fact, the realized net profit totalled \$9.8 million while the unrealized profit soared by \$57.4 million during the year. Dividends and interest on convertible debentures made up the balance.

Fund "H"

Assets of the Segregated Mortgage Fund increased by \$67.4 million in 1978 to \$367,453,000 at December 31st, 1978. It included \$336 million in mortgage debts and \$26.5 million in short-term investments and deposits. These investments had a market value of \$355.8 million, or \$6.7 million less than book value.

The \$110.9 million increase in mortgage debts was financed by issuing 28,781 participation deposit units for an amount of \$53.9 million and by reducing short-term investments by \$50.2 million during the year. At year-end, residential sector mortgages represented 76.4% of overall outstanding mortgages compared with 80.2% in 1977. In 1978, 69% of outlays went to this particular sector while 31% were invested in industrial and commercial fields. The breakdown of the portfolio is shown in Table 11.

Due to the construction slump, demand eased off on the primary market, forcing the Caisse to deal on the secondary market. It thus acquired from various financial institutions approximately \$50 million in existing debts in 1978 to meet requirements of Fund "H" depositors.

The renewal of an important block of mortgage debts during the first semester, when mortgage rates were about 10.25%, led to a reduction of 0.21% in the weighted average yield which was 10.55% at the end of 1978. Fund "H" commitments totalled \$51 million at year-end and the participation deposit unit was valued at \$1,965.13, an 8.38% improvement over 1977.

Table 7
Yield on average deposits in
the General Fund

	Average deposits (in thousands of dollars)	Interest paid or due (in thousands of dollars)	Yield	
			1978	1977
Demand deposits	164 660	14 212	8.631%	7.623%
Term deposits	81 246	7 266	8.943%	7.615%
Participation deposits	5 064 178	455 898	9.002%	8.654%
Total	5 310 084	477 376	8.990%	8.631%

INDIVIDUAL FUND

Assets of the Individual Fund, which belong exclusively to the Commission des accidents du travail du Québec, totalled \$503,615,000 at December 31st, 1978, an increase of \$193.8 million derived from net contributions of \$155 million and net income of \$37.9 million. Details in respect to this Fund are given in the Statistical information section.

FINANCIAL STATEMENTS

Financial statements of the General Fund, the four segregated funds, and the Individual Fund for the year ended December 31st, 1978, duly audited by the Vérificateur général, are presented in a separate section.

The General Fund income and expenditure statement shows income totalled \$525.3 million in 1978; this amount includes a \$42 million net profit on sales of investments, compared with \$21 million in 1977. Administrative expenditures total \$5,890,000, a decrease

of \$769,000 from the previous year. During the latter period, the Caisse charged to its operations a transfer of \$1,602,464 to the Commission administrative du régime de retraite to settle the balance of the cost of prior services for its employees as well as the commuted value of outstanding pensions, including accrued interest.

After deducting administrative expenditures, interest on demand and term deposits and the transfer of net profit on sales of investments to the general reserve, the income allocated to holders of General Fund participation deposits was \$455.9 million in 1978 compared with \$381.1 million the previous year. Table 7 shows the yield on average deposits in the General Fund for the various categories of deposits.

Total net income from overall Caisse funds and portfolios under management in 1978 was \$627.2 million, compared with \$501.1 million in 1977.

STAFF

As noted in the General Manager's report, the Caisse in 1978 diligently developed standards, salary scales and other working conditions for its personnel as a result of amendments to its Charter in

December, 1977. For various reasons, new appointments had to be deferred until the new regulations, including those concerning personnel management, receive government approval.

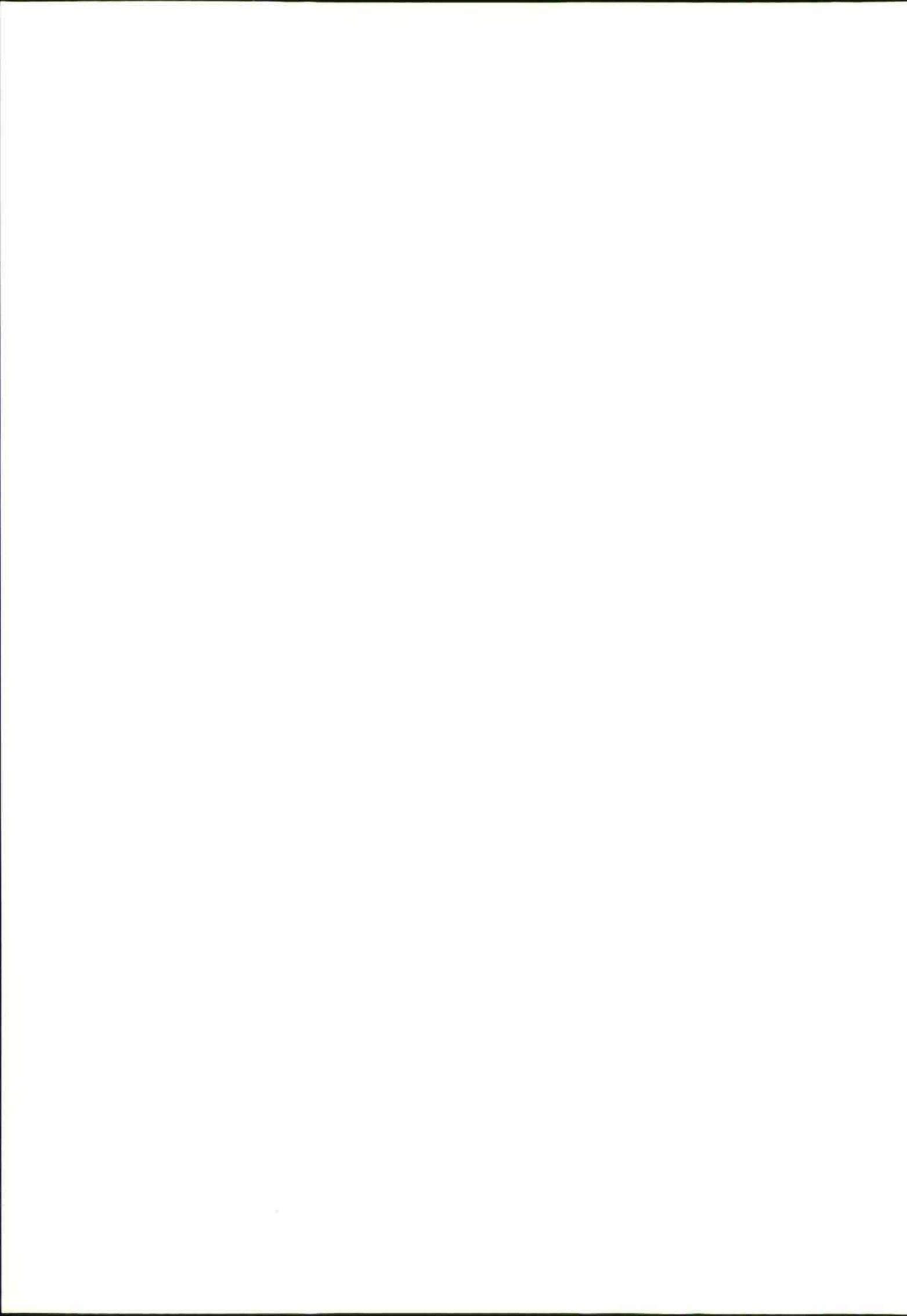
Due to departures during the year, the staff was reduced from 122 at the end of 1977 to 114 in December 1978, even as the Caisse achieved another exceptional year. Through their competence, initiative and dedication, the officers and other employees once again were able to meet a sizeable challenge. The Board wishes to express its deep gratitude to all employees for the services they rendered and the excellent results they obtained.

On behalf of the Board of
Directors,



Chairman

Montréal, February 2nd, 1979



FINANCIAL **STATEMENTS**

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**GENERAL
FUND**

Balance sheet as at December 31st, 1978 (in thousands of dollars)	Assets	1978	1977
	Cash	\$ —	\$ 346
	Investment income accrued and receivable	112 003	94 166
	Advances		
	to participation deposit holders	7 500	42 000
	to other funds	1 939	37 883
	Other assets	1 063	1 588
		<u>122 505</u>	<u>175 983</u>
	Investments (Note 3)		
	Bonds	4 161 148	3 525 790
	Shares and convertible securities	612 767	618 276
	Mortgages	315 339	269 542
	Real estate	25 421	25 395
	Short-term investments	729 116	326 869
		<u>5 843 791</u>	<u>4 765 872</u>
		<u>\$ 5 966 296</u>	<u>\$ 4 941 855</u>
	Liabilities		
	Deposits (Note 4)		
	Demand	\$ 206 357	\$ 82 341
	Term	85 400	47 470
	Bank overdraft	24	—
	Income and interest to be paid out to depositors (Note 4)	130 811	100 382
	Transactions under settlement	4 366	2 466
	Other liabilities	3 543	3 405
		<u>430 501</u>	<u>236 064</u>
	Participation deposit holders' equity		
	Participation deposits (notes 6 and 7)	5 416 262	4 628 182
	General reserve (Note 7)	119 533	77 609
		<u>5 535 795</u>	<u>4 705 791</u>
		<u>\$ 5 966 296</u>	<u>\$ 4 941 855</u>

The accompanying notes are an integral part of the financial statements.

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Income and expenditure for the year ended December 31st, 1978 (in thousands of dollars)	Income	1978	1977 (Note 9)
	Investment income		
	Interest on bonds	\$ 355 004	\$ 301 898
	Dividends, interest on convertible securities	35 111	33 975
	Interest on mortgages	27 633	22 970
	Real estate revenue	2 930	3 552
	Interest on short-term investments	60 039	31 082
		<u>480 717</u>	<u>393 477</u>
	Profit and loss on sale of investments	42 048	21 431
	Management fees	2 417	1 422
	Other income	132	353
	Total income	<u>525 314</u>	<u>416 683</u>
	Administrative expenditures		
	Directors' fees and expenses	8	6
	Salaries and fringe benefits	3 259	2 881
	Cost of pension for prior years' services	—	1 602
	Travel expenses	126	106
	Professional fees	339	272
	Service fees on mortgages	646	418
	Bank and safekeeping charges	189	152
	Fidelity and other insurance	144	170
	Premises and office equipment	920	827
	Documentation and stationery	130	92
	Other	129	133
		<u>5 890</u>	<u>6 659</u>
	Balance of income	519 424	410 024
	Interest on demand and term deposits — net	21 478	7 519
		<u>497 946</u>	<u>402 505</u>
	Net income for the year	497 946	402 505
	Transfer of profit and loss on sale of investments to general reserve (Note 7)	42 048	21 431
	Income to be paid out to participation deposit holders	\$ 455 898	\$ 381 074

Income and interest to be paid out to depositors for the year ended December 31st, 1978 (in thousands of dollars)	Deposit holders		Total
	Demand and term	Parti- cipation	
Balance to be paid out at beginning of year	\$ 146	\$100 236	\$ 100 382
Interest on demand and term deposits, and income to be paid out to participation deposit holders	21 478	455 898	477 376
	<u>21 624</u>	<u>556 134</u>	<u>577 758</u>
Amounts paid	16 963	429 984	446 947
Balance to be paid out a year-end	<u>\$ 4 661</u>	<u>\$126 150</u>	<u>\$ 130 811</u>

The accompanying notes are an integral part of the financial statements.

Notes to financial statements

1. Disclosure of significant accounting policies

a) Investments

Shares, land, mortgages, and short-term investments are accounted for at cost, and other investments at amortized cost.

b) Recording of transactions

Purchases and sales of investments are recorded according to the settlement date.

c) Participation deposits

Participation deposits consist of units giving their holders a proportionate share in the net equity and net revenues of the Fund. The value of such units at the end of each quarter is established by dividing the market value of the net assets of such Fund by the total number of units outstanding at that date; such value is used to calculate the price at which units are to be issued or cancelled at the beginning of the following quarter.

d) General reserve

The general reserve is made up of net gains on sales of investments and the variance between the book value and the market value of cancelled units of participation deposits.

e) Dividend income

Dividends are taken into income on record date.

f) Fixed assets

Furniture and equipment purchases and disbursements for leasehold improvements are charged to administrative expenditures.

g) Interest on advances

Interest earned on advances to participation deposit holders, to the segregated funds or to the Individual Fund is deducted from interest on demand and term deposits.

2. Consolidation

The financial statements include the accounts of the General Fund of the Caisse de dépôt et placement du Québec and its wholly-owned subsidiaries, Cadim Inc. and Développements Pasteur Inc. Separate financial statements cover the segregated funds, the Individual Fund and portfolios under management.

3. Market value of investments

At December 31st, 1978, the market value of investments was \$5 727 010 000 (1977, \$4 697 157 000).

4. Deposits

Moneys entrusted to the Caisse de dépôt are deposited on a demand, term or participation basis, at the option of the depositor. Demand and term deposits constitute an indebtedness of the Caisse de dépôt towards the depositors and bear interest.

Demand and term deposits of the General Fund include the following deposits of the segregated funds and the Individual Fund, broken down as follows at December 31st:

	1978 (in thousands of dollars)	1977 (in thousands of dollars)
Segregated funds		
Bonds (Fund "O")	\$ —	\$ 15 485
Government bonds (Fund "G")	5 450	1 632
Stocks (Fund "A")	35 898	13 470
Mortgages (Fund "H")	15 799	9 500
Individual Fund	36 316	10 811
	<u>\$ 93 463</u>	<u>\$ 50 898</u>

- 5. Distribution of net income** At the end of each quarter, the net income of the Fund, after deduction of the amount transferred to general reserve, is apportioned among holders of participation deposits. At the beginning of the following quarter, such income is credited to the demand deposit account of the depositors.
- 6. Units of participation deposits** At December 31st, 1978, participation deposits consisted of 6 382 945 units (1977, 5 449 535). During the year, 1 002 350 units were issued for an amount of \$846 619 066 while 68 940 units, for an amount of \$58 538 709, were cancelled as a result of withdrawals.

7. General reserve	1978	1977
	(in thousands of dollars)	(in thousands of dollars)
Adjusted balance at beginning of year	\$ 77 609	\$ 55 658
Transferred from Statement of income and expenditure	42 048	21 431
	119 657	77 089
Variance between the book value and the market value of cancelled units of participation deposits	(124)	520
Balance at year-end	\$ 119 533	\$ 77 609

The Caisse de dépôt has modified its method of calculating the book value of cancelled units of participation so as to reflect the average book value of participation deposit units as a whole instead of that of the cancelled units; comparative figures for 1977 were restated accordingly and an adjustment of \$898 000 was made to participation deposits and general reserve as at December 31st, 1977.

- 8. Redrafting of regulations** Sections 19 and 20 of the Charter of the Caisse de dépôt et placement du Québec were amended by Chapter 62 of the 1977 Statutes of Québec, assented to December 22nd, 1977. New regulations giving effect to such amendments were established by the Board of Directors of the Caisse de dépôt and were submitted for Government approval towards the close of 1978. In the meantime, the Caisse de dépôt is continuing to apply its present regulations.
- 9. Comparative figures** Figures of the Statement of income and expenditure for 1977 have been restated to enable comparison with those of 1978.

Auditor's Report

I have examined the balance sheet of the General Fund of the Caisse de dépôt et placement du Québec as at December 31st, 1978 and the statement of income and expenditure and the statement of income and interest to be paid out to depositors for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the investments and the financial transactions of the General Fund of the Caisse de dépôt were made in compliance with its charter and these financial statements present fairly the financial position of this Fund as at December 31st, 1978 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles and the particular accounting policies mentioned in the financial statements, applied on a basis consistent with that of the preceding year.

Gérard Larose, C.A.
Vérificateur général
Québec, March 2nd, 1979

SEGREGATED FUND
BONDS
(Fund "O")

Balance sheet at at December 31st, 1978 (in thousands of dollars)	Assets	1978	1977
	Investments (Note 2)		
	Bonds	\$ 528 520	\$ 384 272
	Short-term investments	57 770	26 674
	Deposits in the General Fund		
	Demand	—	—
	Term	—	15 485
		<u>586 290</u>	<u>426 431</u>
	Accrued interest	13 555	9 439
		<u>\$ 599 845</u>	<u>\$ 435 870</u>
	Liabilities		
	Advances from the General Fund	\$ 1 940	\$ 18 967
	Transactions under settlement	2 509	515
		<u>4 449</u>	<u>19 482</u>
	Participation deposit holders' equity		
	Participation deposits (Note 3)	468 674	338 576
	Accumulated income (Note 4)	126 722	77 812
		<u>595 396</u>	<u>416 388</u>
		<u>\$ 599 845</u>	<u>\$ 435 870</u>

On behalf of the Board of Directors,
Marcel Cazavan
Gill Fortier

Income and accumulated income (Note 4) for the year ended December 31st, 1978 (in thousands of dollars)	Investment income	1978	1977
	Interest on bonds	\$ 44 511	\$ 31 645
	Interest on short-term investments	3 367	1 771
	Interest on deposits in the General Fund — net	2 657	779
		<u>50 535</u>	<u>34 195</u>
	Profit and loss on sale of investments	<u>(1 625)</u>	<u>1 135</u>
	Net income for the year	48 910	35 330
	Accumulated income at beginning of year	<u>77 812</u>	<u>42 482</u>
	Accumulated income at year-end	<u>\$ 126 722</u>	<u>\$ 77 812</u>

The accompanying notes are an integral part
of the financial statements.

Notes to financial statements

- 1. Disclosure of significant accounting policies**
- a) Investments*
Bond investments are accounted for at amortized cost, short-term investments and deposits in the General Fund at cost.
- b) Recording of transactions*
Purchases and sales of investments are recorded according to the settlement date.
- c) Participation deposits*
Participation deposits consist of units giving their holders a proportionate share in the net equity and net revenues of the Fund. The value of such units at the end of each month is established by dividing the market value of the net assets of such Fund by the total number of units outstanding at that date; such value is used to calculate the price at which units are to be issued or cancelled at the beginning of the following month.
- d) Interest paid on advances*
Interest paid on advances by the General Fund is deducted from interest on deposits in the General Fund.
- 2. Market value of investments**
At December 31st, 1978, the market value of investments was \$577 942 000 (1977, \$434 843 000).
- 3. Units of participation deposits**
At December 31st, 1978, participation deposits consisted of 281 577 units of participation (1977, 216 758). During the year, 64 819 units were issued for an amount of \$130 098 000 and there was no withdrawal.
- 4. Redrafting of regulations**
Sections 19 and 20 of the Charter of the Caisse de dépôt et placement du Québec were amended by Chapter 62 of the 1977 Statutes of Québec, assented to December 22nd, 1977. Pursuant to such sections, the holders of participation deposits in a segregated fund share the net annual income and the Caisse de dépôt establishes by regulation the method of calculating reserves to be set up for such fund. The net annual income, after such reserves have been deducted, must fully be paid to the holders of participation deposits of the fund.
New regulations giving effect to such amendments have been established by the Board of Directors of the Caisse de dépôt and were submitted for Government approval towards the close of 1978. In the meantime, the Caisse de dépôt is continuing to apply its present regulations. Consequently, the net income of the Segregated Fund — Bonds (Fund "O") has not been distributed but is being held in such Fund as accumulated income.
- 5. Management fees**
Management fees of the Fund are charged directly to the participants and amounted to \$517 000 for the year ended December 31st, 1978 (1977, \$356 000).

Auditor's Report

I have examined the balance sheet of the Segregated Fund — Bonds (Fund "O") of the Caisse de dépôt et placement du Québec as at December 31st, 1978 and the statement of income and accumulated income for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the investments and the financial transactions of the Fund were made in compliance with the charter of the Caisse de dépôt and these financial statements present fairly the financial position of this Fund as at December 31st, 1978 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles and the particular accounting policies mentioned in the financial statements, applied on a basis consistent with that of the preceding year.

Gérard Larose, C.A.
Vérificateur général
Québec, March 2nd, 1979

SEGREGATED FUND
GOVERNMENT BONDS

(Fund "G")

Balance sheet	Assets	1978	1977
at at December 31st, 1978 (in thousands of dollars)	Investments (Note 2)		
	Bonds	\$ 92 428	\$ 84 292
	Short-term investments	—	2 953
	Demand deposits in the General Fund	5 450	1 632
		<u>97 878</u>	<u>88 877</u>
	Accrued interest	2 758	2 431
		<u>\$ 100 636</u>	<u>\$ 91 308</u>
	Participation deposit holder's equity		
	Participation deposits (Note 3)	\$ 86 116	\$ 86 116
	Accumulated income (Note 4)	15 328	6 000
	Variance between the cost to depositor and the market value of cancelled units of participation deposits	(808)	(808)
		<u>\$ 100 636</u>	<u>\$ 91 308</u>

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Income and accumulated income	Investment income	1978	1977
(Note 4) for the year ended December 31st, 1978 (in thousands of dollars)	Interest on bonds	\$ 8 973	\$ (Note 6) 4 994
	Interest on short-term investments	75	486
	Interest on deposits in the General Fund — net	280	520
		<u>9 328</u>	<u>6 000</u>
	Net income for the year	9 328	6 000
	Accumulated income at beginning of year	6 000	—
		<u>6 000</u>	<u>—</u>
	Accumulated income at year-end	\$ 15 328	\$ 6 000
		<u>\$ 15 328</u>	<u>\$ 6 000</u>

The accompanying notes are an integral part of the financial statements.

Notes to financial statements

- 1. Disclosure of significant accounting policies**
- a) Investments*
Bond investments are accounted for at amortized cost, short-term investments and deposits in the General Fund at cost.
- b) Recording of transactions*
Purchases and sales of investments are recorded according to the settlement date.
- c) Participation deposits*
Participation deposits consist of units giving their holders a proportionate share in the net equity and net revenues of the Fund. The value of such units at the end of each month is established by dividing the market value of the net assets of such Fund by the total number of units outstanding at that date; such value is used to calculate the price at which units are to be issued or cancelled at the beginning of the following month.
- d) Interest paid on advances*
Interest paid on advances by the General Fund is deducted from interest on deposits in the General Fund.
- 2. Market value of investments** At December 31st, 1978, the market value of investments was \$95 478 000 (1977, \$89 910 000).
- 3. Units of participation deposits** At December 31st, 1978 and 1977, participation deposits consisted of 84 816 units of participation.
- 4. Redrafting of regulations** Sections 19 and 20 of the Charter of the Caisse de dépôt et placement du Québec were amended by Chapter 62 of the 1977 Statutes of Québec, assented to December 22nd, 1977. Pursuant to such sections, the holders of participation deposits in a segregated fund share the net annual income and the Caisse de dépôt establishes by regulation the method of calculating reserves to be set up for such fund. The net annual income, after such reserves have been deducted, must fully be paid to the holders of participation deposits of the fund.
- New regulations giving effect to such amendments have been established by the Board of Directors of the Caisse de dépôt and were submitted for Government approval towards the close of 1978. In the meantime, the Caisse de dépôt is continuing to apply its present regulations. Consequently, the net income of the Segregated Fund — Government Bonds (Fund "G") has not been distributed but is being held in such Fund as accumulated income. At December 31st, 1978, there was only one deposit holder in the Fund.
- 5. Management fees** Management fees of the Fund are charged directly to the participant and amounted to \$95 000 for the year ended December 31st, 1978 (1977, \$67 000).
- 6. Comparative figures** Comparative figures of the Statement of income and accumulated income for 1977 present the result of operations of the period from March 15th, 1977, when the Fund was established, to December 31st, 1977.

Auditor's Report

I have examined the balance sheet of the Segregated Fund — Government Bonds (Fund "G") of the Caisse de dépôt et placement du Québec as at December 31st, 1978 and the statement of income and accumulated income for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the investments and the financial transactions of the Fund were made in compliance with the charter of the Caisse de dépôt and these financial statements present fairly the financial position of this Fund as at December 31st, 1978 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles and the particular accounting policies mentioned in the financial statements, applied on a basis consistent with the preceding period.

Gérard Larose, C.A.
Vérificateur général
Québec, March 2nd, 1979

SEGREGATED FUND
STOCKS
(Fund "A")

Balance sheet at at December 31st, 1978 (in thousands of dollars)	Assets	1978	1977
	Investments (Note 2)		
	Shares and convertible securities	\$ 304 251	\$ 215 534
	Short-term investments	—	5 490
	Deposits in the General Fund		
	Demand	35 898	7 985
	Term	—	5 485
		<u>340 149</u>	<u>234 494</u>
	Investment income accrued and receivable	3 072	1 632
		<u>\$ 343 221</u>	<u>\$ 236 126</u>
	Liabilities		
	Transactions under settlement	\$ 3 092	\$ 2 002
	Participation deposit holders' equity		
	Participation deposits (Note 3)	278 796	199 684
	Accumulated income (Note 4)	61 333	34 440
		<u>340 129</u>	<u>234 124</u>
		<u>\$ 343 221</u>	<u>\$ 236 126</u>

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Income and accumulated income (Note 4) for the year ended December 31st, 1978 (in thousands of dollars)		1978	1977
	Investment income		
	Dividends, interest on convertible securities	\$ 14 336	\$ 9 056
	Interest on short-term investments	777	476
	Interest on deposits in the General Fund — net	1 994	870
		<u>17 107</u>	<u>10 402</u>
	Profit and loss on sale of investments	9 786	2 113
	Net income for the year	26 893	12 515
	Accumulated income at beginning of year	34 440	21 925
	Accumulated income at year-end	<u>\$ 61 333</u>	<u>\$ 34 440</u>

The accompanying notes are an integral part of the financial statements.

Notes to financial statements

- 1. Disclosure of significant accounting policies**
- a) Investments*
Investments in shares, convertible securities, short-term investments and deposits in the General Fund are accounted for at cost.
- b) Recording of transactions*
Purchases and sales of investments are recorded according to the settlement date.
- c) Participation deposits*
Participation deposits consist of units giving their holders a proportionate share in the net equity and net revenues of the Fund. The value of such units at the end of each month is established by dividing the market value of the net assets of such Fund by the total number of units outstanding at that date; such value is used to calculate the price at which units are to be issued or cancelled at the beginning of the following month.
- d) Dividend income*
Dividends are taken into income on record date.
- e) Interest paid on advances*
Interest paid on advances by the General Fund is deducted from interest on deposits in the General Fund.
- 2. Market value of investments**
At December 31st, 1978, the market value of investments was \$403 312 000 (1977, \$240 251 000).
- 3. Units of participation deposits**
At December 31st, 1978, participation deposits consisted of 217 883 units of participation (1977, 166 044). During the year, 51 839 units were issued for an amount of \$79 112 000. There was no withdrawal.
- 4. Redrafting of regulations**
Sections 19 and 20 of the Charter of the Caisse de dépôt et placement du Québec were amended by Chapter 62 of the 1977 Statutes of Québec, assented to December 22nd, 1977. Pursuant to such sections, the holders of participation deposits in a segregated fund share the net annual income and the Caisse de dépôt establishes by regulation the method of calculating reserves to be set up for such fund. The net annual income, after such reserves have been deducted, must fully be paid to the holders of participation deposits of the fund.
New regulations giving effect to such amendments have been established by the Board of Directors of the Caisse de dépôt and were submitted for Government approval towards the close of 1978. In the meantime, the Caisse de dépôt is continuing to apply its present regulations. Consequently, the net income of the Segregated Fund — Stocks (Fund "A") has not been distributed but is being held in such Fund as accumulated income.
- 5. Management fees**
Management fees of the Fund are charged directly to the participants and amounted to \$477 000 for the year ended December 31st, 1978 (1977, \$286 000).

Auditor's Report

I have examined the balance sheet of the Segregated Fund — Stocks (Fund "A") of the Caisse de dépôt et placement du Québec as at December 31st, 1978 and the statement of income and accumulated income for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the investments and the financial transactions of the Fund were made in compliance with the charter of the Caisse de dépôt and these financial statements present fairly the financial position of this Fund as at December 31st, 1978 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles and the particular accounting policies mentioned in the financial statements, applied on a basis consistent with that of the preceding year.

Gérard Larose, C.A.
Vérificateur général
Québec, March 2nd, 1979

SEGREGATED FUND
MORTGAGES
(Fund "H")

Balance sheet as at December 31st, 1978 (in thousands of dollars)	Assets	1978	1977
	Investments (Note 2)		
	Mortgages	\$ 336 019	\$ 225 092
	Short-term investments	10 697	60 951
	Deposits in the General Fund		
	Demand	4 399	—
	Term	11 400	9 500
		<u>362 515</u>	<u>295 543</u>
	Accrued interest	4 938	4 493
		<u>\$ 367 453</u>	<u>\$ 300 036</u>
	Liabilities		
	Advances from the General Fund	\$ —	\$ 18 916
	Mortgage deposits	155	356
		<u>155</u>	<u>19 272</u>
	Participation deposit holders' equity		
	Participation deposits (Note 3)	279 611	225 682
	Accumulated income (Note 4)	87 687	55 082
		<u>367 298</u>	<u>280 764</u>
		<u>\$ 367 453</u>	<u>\$ 300 036</u>

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Income and accumulated income (Note 4) for the year ended December 31st, 1978 (in thousands of dollars)	Investment income	1978	1977
	Interest on mortgages — net (Note 5)	\$ 28 781	\$ 18 556
	Interest on short-term investments	2 428	5 486
	Interest on deposits in the General Fund — net	1 396	(158)
	Net income for the year	<u>32 605</u>	<u>23 884</u>
	Accumulated income at beginning of year	<u>55 082</u>	<u>31 198</u>
	Accumulated income at year-end	<u>\$ 87 687</u>	<u>\$ 55 082</u>

The accompanying notes are an integral part of the financial statements.

Notes to financial statements

- 1. Disclosure of significant accounting policies**
- a) Investments*
Mortgages negotiated directly with borrowers by the Caisse de dépôt are accounted for at cost; those negotiated en bloc with third parties are accounted for at amortized cost. Short-term investments and deposits in the General Fund are recorded at cost.
- b) Participation deposits*
Participation deposits consist of units giving their holders a proportionate share in the net equity and net revenues of the Fund. The value of such units at the end of each quarter is established by dividing the market value of the net assets of such Fund by the total number of units outstanding at that date; such value is used to calculate the price at which units are to be issued or cancelled at the beginning of the following quarter.
- c) Interest paid on advances*
Interest paid on advances by the General Fund is deducted from interest on deposits in the General Fund.
- 2. Market value of investments** At December 31st, 1978, the market value of investments was \$355 752 000 (1977, \$295 423 000).
- 3. Units of participation deposits** At December 31st, 1978, participation deposits consisted of 183 466 units of participation (1977, 154 685). During the year, 28 781 units were issued for an amount of \$53 929 000. There was no withdrawal.
- 4. Redrafting of regulations** Sections 19 and 20 of the Charter of the Caisse de dépôt et placement du Québec were amended by Chapter 62 of the 1977 Statutes of Québec, assented to December 22nd, 1977. Pursuant to such sections, the holders of participation deposits in a segregated fund share the net annual income and the Caisse de dépôt establishes by regulation the method of calculating reserves to be set up for such fund. The net annual income, after such reserves have been deducted, must fully be paid to the holders of participation deposits of the fund.
New regulations giving effect to such amendments have been established by the Board of Directors of the Caisse de dépôt and were submitted for Government approval towards the close of 1978. In the meantime, the Caisse de dépôt is continuing to apply its present regulations. Consequently, the net income of the Segregated Fund — Mortgages (Fund "H") has not been distributed but is being held in such Fund as accumulated income.
- 5. Mortgage service fees** An amount of \$334 000 (1977, \$204 000) for the servicing of mortgages by third parties has been deducted from interest on mortgages.
- 6. Management fees** Management fees of the Fund are charged directly to the participants and amounted to \$505 000 for the year ended December 31st, 1978 (1977, \$382 000).

Auditor's Report

I have examined the balance sheet of the Segregated Fund — Mortgages (Fund "H") of the Caisse de dépôt et placement du Québec as at December 31st, 1978 and the statement of income and accumulated income for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the investments and the financial transactions of the Fund were made in compliance with the charter of the Caisse de dépôt and these financial statements present fairly the financial position of this Fund as at December 31st, 1978 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles and the particular accounting policies mentioned in the financial statements, applied on a basis consistent with that of the preceding year.

Gérard Larose, C.A.
Vérificateur général
Québec, March 2nd, 1979

**INDIVIDUAL
FUND**

Balance sheet as at December 31st, 1978 (in thousands of dollars)	Assets	1978	1977
	Investments (Note 2)		
	Bonds	\$ 455 957	\$ 286 471
	Short-term investments	—	4 908
	Deposits in the General Fund		
	Demand	12 316	811
	Term	24 000	10 000
		<u>492 273</u>	<u>302 190</u>
	Interest accrued and receivable	11 342	7 593
		<u>\$ 503 615</u>	<u>\$ 309 783</u>
	Liabilities		
	Account payable (Note 3)	\$ 4	\$ 22
	Transactions under settlement	950	—
	Net income to be paid out to the depositor (Note 4)	37 899	23 171
		<u>38 853</u>	<u>23 193</u>
	Participation deposit holder's equity (Note 5)		
	Participation deposits (Note 4)	464 762	286 590
		<u>\$ 503 615</u>	<u>\$ 309 783</u>

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Income and expenditure for the year ended December 31st, 1978 (in thousands of dollars)	Income	1978	1977
	Investment income		
	Interest on bonds and short-term investments	\$ 36 811	\$ 21 378
	Interest on deposits in the General Fund — net	1 562	1 276
		<u>38 373</u>	<u>22 654</u>
	Profit and loss on sale of investments	(91)	589
		<u>38 282</u>	<u>23 243</u>
	Expenditure		
	Management and safekeeping fees (Note 3)	383	72
	Net income for the year, to be paid out to participation deposit holder	<u>\$ 37 899</u>	<u>\$ 23 171</u>

The accompanying notes are an integral part of the financial statements.

Notes to financial statements

1. Disclosure of significant accounting policies

a) Investments

Bond investments are accounted for at amortized cost, short-term investments and deposits in the General Fund at cost.

b) Recording of transactions

Purchases and sales of investments are recorded according to the settlement date.

c) Interest paid on advances

Interest paid on advances by the General Fund is deducted from interest on deposits in the General Fund.

2. Market value of investments

At December 31st, 1978, the market value of investments was \$484 954 000 (1977, \$310 196 000).

3. Management and safekeeping fees

Safekeeping charges to be paid totalling \$18 000 (1977, \$14 000) are not recorded at December 31st, 1978; the practice of the Caisse de dépôt is to account for such charges in the following quarter.

4. Regulations governing individual funds

In keeping with provisions of Chapter 62 of the 1977 Statutes of Québec, assented to December 22nd, 1977, the Caisse may receive participation deposits in individual funds. Individual funds each have one depositor only and may be made up of various categories of investments. Regulations governing operations of such funds have been established by the Board of Directors of the Caisse de dépôt and were submitted for Government approval towards the close of 1978.

Until Government approval of the regulations, net revenues for the year are being transferred, at the beginning of the following year, to the demand deposit account of the holder of participation deposits. Figures for 1977 have been restated to enable comparison with those of 1978.

5. Participation deposit holder's equity

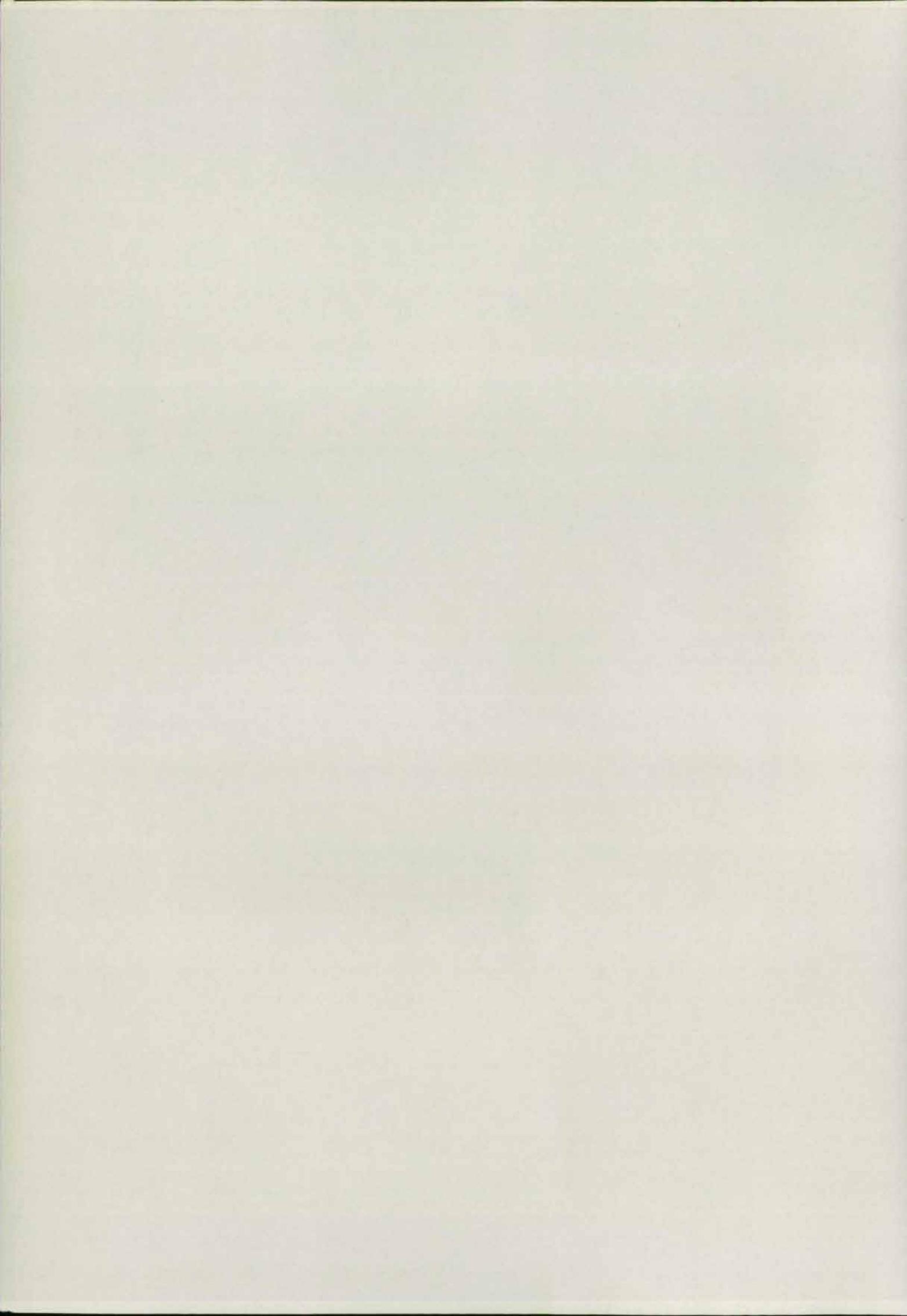
The holder of participation deposits in the Individual Fund is the Commission des accidents du travail du Québec.

Auditor's Report

I have examined the balance sheet of the Individual Fund of the Caisse de dépôt et placement du Québec as at December 31st, 1978 and the statement of income and expenditure for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the investments and the financial transactions of the Fund were made in compliance with the charter of the Caisse de dépôt and these financial statements present fairly the financial position of this Fund as at December 31st, 1978 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles and the particular accounting policies mentioned in the financial statements, applied on a basis consistent with that of the preceding year.

Gérard Larose, C.A.
Vérificateur général
Québec, March 2nd, 1979



STATISTICAL **INFORMATION**

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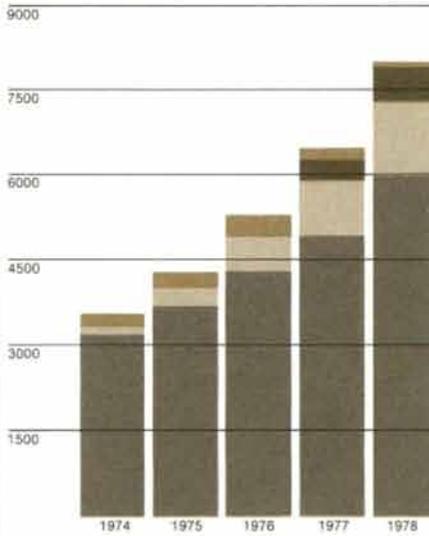
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TOTAL FUNDS

Graph 6
Assets under management

Portfolios under management
Individual Fund
Segregated funds
General Fund

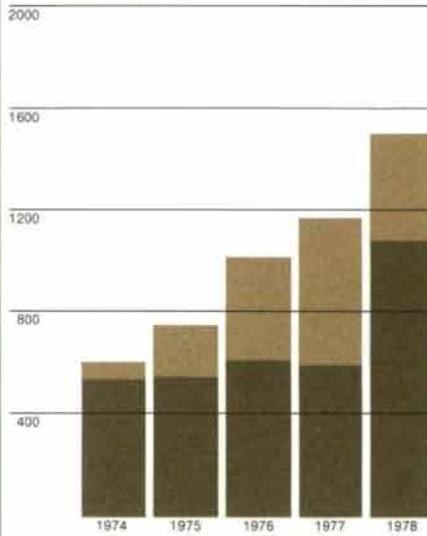
(in millions of dollars)



Graph 7
Net increase in assets under management

Other funds and portfolios
General Fund

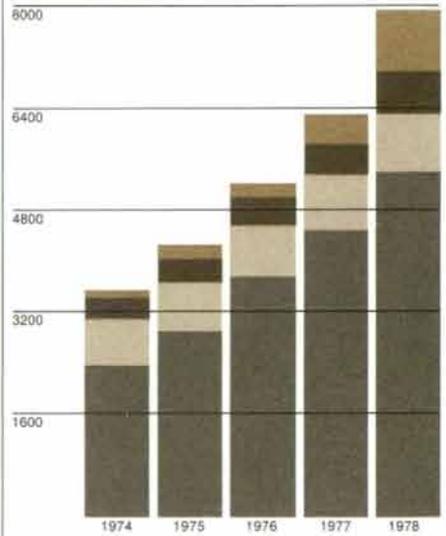
(in millions of dollars)



Graph 8
Investments

Deposits and short-term investments
Real estate and mortgages
Shares and convertible securities
Bonds

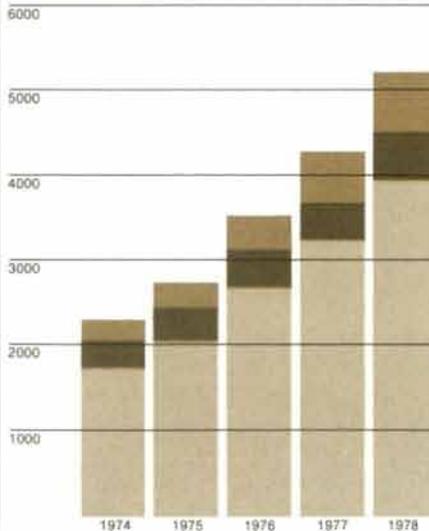
(in millions of dollars)



Graph 9
Long-term investments in Québec

Real estate and mortgages
Municipal and school bonds
Bonds issued, guaranteed or subsidized by the Gouvernement du Québec

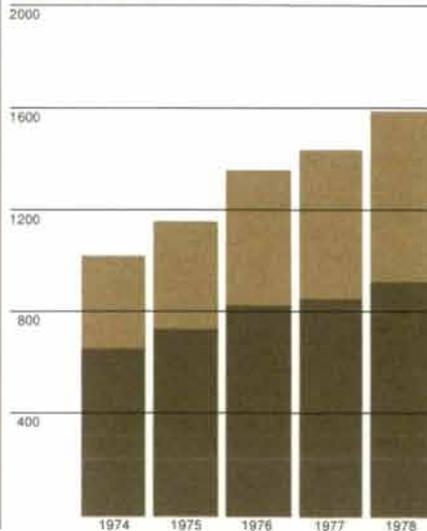
(in millions of dollars)



Graph 10
Corporate investments in Canadian firms

Bonds
Shares and convertible securities

(in millions of dollars)



Graph 11
Québec public sector securities to long-term investments

(%)

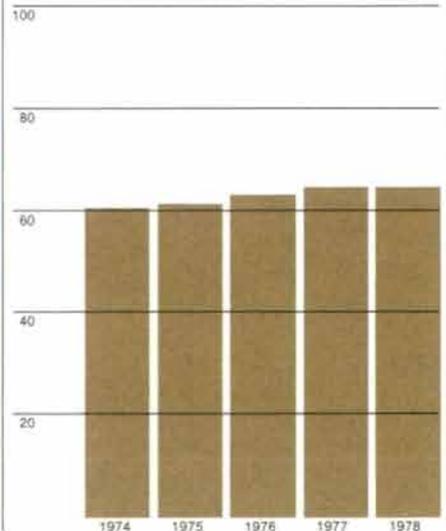


Table 8
Total funds
 Summary of investments
 as at December 31st, 1978
 (in millions of dollars)

Book value %	Categories	General Fund \$	Segregated funds \$	Individual Fund \$	Portfolios under management \$	Total ⁽¹⁾		Net change in 1978 (book value) \$
						Nominal value \$	Book value \$	
Long-term investments								
Bonds								
Issued or guaranteed by the Government of Canada								
2.83	<i>Government of Canada</i>	122.3	59.5	40.5	2.1	228.4	224.4	98.6
—	<i>Other</i>	—	—	—	0.2	0.2	0.2	—
2.83		122.3	59.5	40.5	2.3	228.6	224.6	98.6
Issued or guaranteed by the Gouvernement du Québec								
30.64	<i>Gouvernement du Québec</i>	1 934.8	250.0	192.9	48.7	2 453.9	2 426.4	558.9
14.49	<i>Hydro-Québec</i>	1 016.4	58.7	53.2	18.8	1 168.5	1 147.1	183.7
1.73	<i>Other</i>	119.4	10.9	5.0	2.0	138.3	137.3	(20.0)
46.86		3 070.6	319.6	251.1	69.5	3 760.7	3 710.8	722.6
Guaranteed by grants								
1.27	<i>Cegeps</i>	64.0	19.5	11.6	5.5	103.4	100.6	(0.8)
0.86	<i>Hospitals</i>	41.5	12.8	3.0	10.7	69.2	68.0	(4.5)
1.20	<i>Universities</i>	52.5	18.3	20.1	4.4	97.3	95.3	14.9
3.33		158.0	50.6	34.7	20.6	269.9	263.9	9.6
Municipal and school								
4.30	<i>Municipalities</i>	176.1	72.0	38.4	54.1	350.2	340.6	17.9
2.68	<i>School boards</i>	138.7	20.6	26.6	26.1	217.6	212.0	9.0
6.98		314.8	92.6	65.0	80.2	567.8	552.6	26.9
0.01	<i>Other governments</i>	—	—	—	0.7	0.7	0.7	(1.2)
8.56	<i>Corporate</i>	495.5	98.6	64.7	18.9	686.3	677.7	84.7
68.57	Total bonds	4 161.2	620.9	456.0	192.2	5 514.0	5 430.3	941.2
Shares and convertible securities								
2.29	<i>Metals and minerals</i>	126.7	54.2	—	0.1	—	181.0	23.9
0.06	<i>Golds</i>	2.1	2.4	—	—	—	4.5	(0.6)
1.34	<i>Oil and gas</i>	67.7	37.4	—	0.5	—	105.6	1.6
0.51	<i>Paper and forest products</i>	25.4	15.1	—	0.2	—	40.7	(8.2)
0.86	<i>Consumer products</i>	47.0	21.1	—	0.2	—	68.3	10.6
1.34	<i>Industrial products</i>	71.2	33.5	—	1.6	—	106.3	12.2
0.08	<i>Real estate and construction</i>	6.1	0.1	—	—	—	6.2	(2.0)
0.53	<i>Transportation</i>	26.1	15.6	—	—	—	41.7	5.4
0.41	<i>Pipelines</i>	21.4	11.0	—	—	—	32.4	(7.0)
1.18	<i>Utilities</i>	60.8	32.6	—	0.2	—	93.6	14.5
0.15	<i>Communications and media</i>	9.0	3.0	—	—	—	12.0	7.0
0.58	<i>Merchandising</i>	33.5	12.3	—	0.3	—	46.1	7.0
2.03	<i>Financial services</i>	100.3	60.6	—	—	—	160.9	18.4
0.26	<i>Investment companies</i>	15.5	5.3	—	—	—	20.8	(4.1)
11.62	Total shares and convertible securities	612.8	304.2	—	3.1	—	920.1	78.7
Mortgage investments								
Residential								
3.83	<i>Insured mortgages</i>	56.8	245.3	—	0.8	—	302.9	78.7
0.24	<i>Conventional mortgages</i>	7.6	11.6	—	—	—	19.2	(1.4)
4.07		64.4	256.9	—	0.8	—	322.1	77.3
3.64	<i>Commercial</i>	228.5	59.9	—	—	—	288.4	74.9
0.53	<i>Industrial</i>	22.4	19.2	—	—	—	41.6	4.2
8.24	Total mortgage investments	315.3	336.0	—	0.8	—	652.1	156.4
Real estate investments								
0.19	<i>Land</i>	15.2	—	—	—	—	15.2	0.1
0.13	<i>Land and buildings</i>	10.2	—	—	—	—	10.2	(0.1)
0.32	Total real estate investments	25.4	—	—	—	—	25.4	—
88.75	Total long-term investments	5 114.7	1 261.1	456.0	196.1	—	7 027.9	1 176.3
Short-term investments	10.07	729.1	68.5	—	—	750.4	797.6	361.4
Deposits in the General Fund	1.18	—	57.2	36.3	—	93.5	93.5	42.6
Total investments	100.00	5 843.8	1 386.8	492.3	196.1	—	7 919.0	1 580.3

(1) Investments of the various funds and portfolios are accounted for separately.

Breakdown of long-term investments (in percentage)

67.62	Public sector	71.67	41.41	85.81	88.32	—	67.62	72.80
32.38	Private sector	28.33	58.59	14.19	11.68	—	32.38	27.20
100.00		100.00	100.00	100.00	100.00	—	100.00	100.00

Table 8 synthesizes total investments at December 31st, 1978. Their book value was \$7.919 million, an increase of \$1,580.3 million over the previous year.

Under Section 42 of the Caisse Charter, investments in stocks, land, short-term investments, and mortgage debts must be recorded at cost while bonds, real estate, and other investments are shown at amortized cost.

Whenever possible, the market value must be stated. It is given in tables 9, 11 and 12 for each of the six funds, calculated on the basis of quoted market value and interest rates in effect on the mortgage market at the end of the year. Where there is no market or valid quote for an asset, it is evaluated by the Caisse according to a yield criterion or shown at book value.

Funds and portfolios

There are six funds: the General Fund, which dates to 1966; three segregated funds – bonds (Fund "O"), stocks (Fund "A"), and mortgages (Fund "H"), all established in August 1970; the Segregated Government Bond Fund (Fund "G"), created in March 1977; and the Individual Fund, constituted in December, 1977.

As for portfolios under management, the Caisse has carried them only since 1970; the securities in these portfolios are managed with a view to their liquidation on a more or less short-term basis.

The General Fund and four segregated funds are operated according to the principles governing pooled funds. Holders of participation deposits, based on the number of units held, each quarter share the income allocated under the calculation method stipulated in Caisse regulations. Assets of the Individual Fund belong to a single depositor.

Trends

The accompanying graphs show the pattern of all funds and investments managed by the Caisse over the last five years. They indicate total funds under management during the period increased from approximately \$3 billion at the end of 1973 to nearly \$8 billion at December 31st, 1978.

Graph 9 shows Québec securities at year-end represented over 74% of Caisse funds and portfolios.

Graph 10 indicates that total investments in Canadian companies is on the upswing. In fact, the reduction in General Fund stock investments during the past two years has been offset largely by the increase recorded in the Segregated Stock Fund (Fund "A").

Finally, Graph 11 shows the proportion of Québec public sector bonds has remained constant during the last two years, representing almost two thirds of investments.

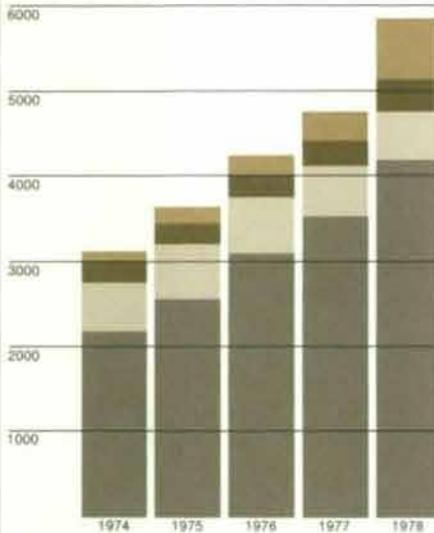
GENERAL FUND

Graph 12

Breakdown of investments

- Short-term investments
- Real estate and mortgages
- Shares and convertible securities
- Bonds

(in millions of dollars)

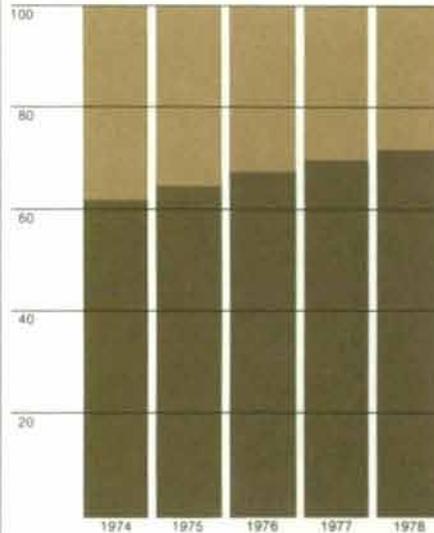


Graph 13

Breakdown of long-term investments

- Private sector
- Public sector

(%)

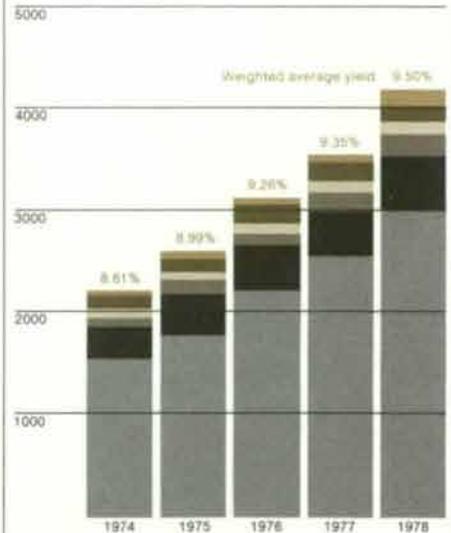


Graph 14

Bonds

- Government of Canada and guaranteed
- Guaranteed by grants
- School
- Municipal
- Corporate
- Gouvernement du Québec and guaranteed

(in millions of dollars)

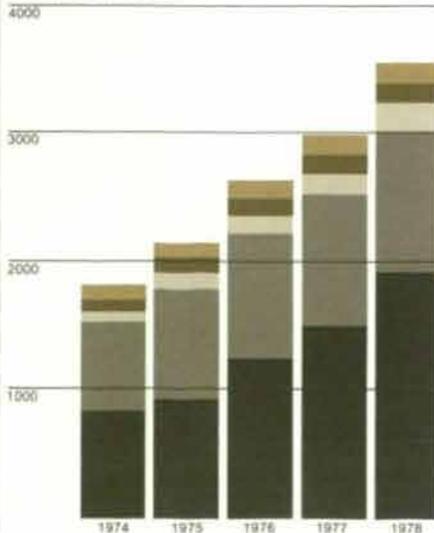


Graph 15

Québec public sector bonds

- Guaranteed by grants
- School
- Municipal
- Hydro-Québec and other
- Gouvernement du Québec

(in millions of dollars)

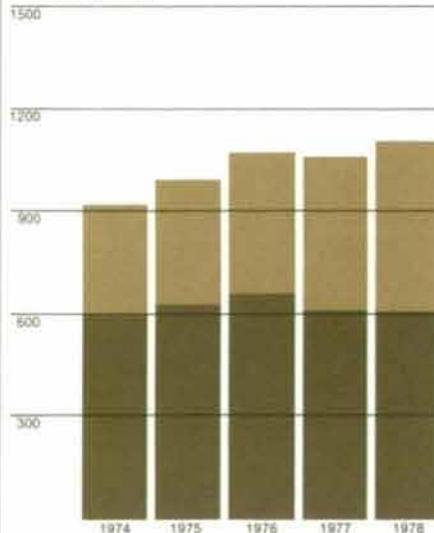


Graph 16

Corporate investments in Canadian firms

- Bonds
- Shares and convertible securities

(in millions of dollars)



Graph 17

Accumulated net gains on sales of investments

(in millions of dollars)

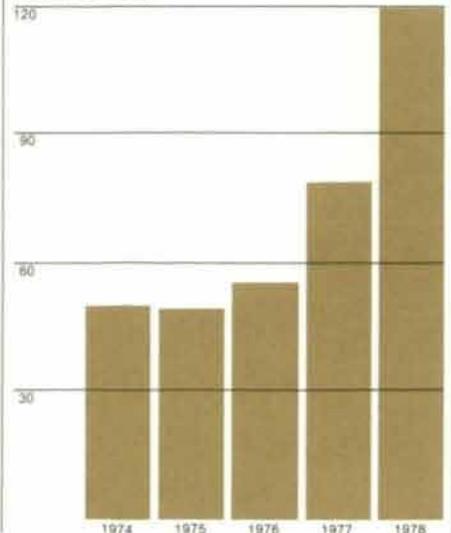


Table 9
General Fund
Summary of investments
as at December 31st, 1978
(in thousands of dollars)

	Book value %	Categories	Number	Nominal value \$	Book value \$	Market value \$	Yield ⁽¹⁾ %	Net change in 1978 (book value) \$
Long-term investments		Bonds						
	2.09	Government of Canada Issued or guaranteed by the Gouvernement du Québec	1	123 925	122 301	118 779	9.60	40 800
	33.11	<i>Gouvernement du Québec</i>	1	1 959 092	1 934 820	1 824 696	9.54	426 066
	17.39	<i>Hydro-Québec</i>	1	1 036 788	1 016 394	927 849	9.17	121 440
	2.04	<i>Other</i>	8	120 254	119 347	114 625	9.95	(15 819)
	52.54		10	3 116 134	3 070 561	2 867 170	9.43	531 687
		Guaranteed by grants						
	1.10	<i>Cegeps</i>	34	65 687	64 061	60 506	9.40	(196)
	0.71	<i>Hospitals</i>	41	42 246	41 508	38 046	8.94	(2 398)
	0.90	<i>Universities</i>	9	53 536	52 463	50 192	9.93	4 312
	2.71		84	161 469	158 032	148 744	9.46	1 718
		Municipal and school						
	3.02	<i>Municipalities</i>	140	181 689	176 104	164 482	9.52	2 882
	2.37	<i>School boards</i>	106	142 816	138 683	130 717	9.55	7 589
	5.39		246	324 505	314 787	295 199	9.53	10 471
	8.48	Corporate	129	501 303	495 467	472 971	9.91	50 682
	71.21	Total bonds	470	4 227 336	4 161 148	3 902 863	9.50	635 358
		Shares and convertibles securities						
	2.17	Metals and minerals	16	—	126 677	126 347	3.70	7 709
	0.04	Gold	1	—	2 108	1 988	3.21	(285)
	1.16	Oil and gas	13	—	67 684	94 423	4.72	(8 305)
	0.43	Paper and forest products	9	—	25 339	39 326	10.75	(5 602)
	0.80	Consumer products	12	—	47 038	54 714	5.07	5 397
	1.22	Industrial products	21	—	71 167	74 687	3.85	2 528
	0.10	Real estate and construction	4	—	6 143	5 023	3.08	(1 908)
	0.45	Transportation	4	—	26 075	44 040	7.73	37
	0.37	Pipelines	4	—	21 464	30 845	9.05	(6 524)
	1.04	Utilities	7	—	60 785	80 860	9.32	385
	0.15	Communications and media	6	—	8 930	10 075	1.83	4 361
	0.57	Merchandising	16	—	33 524	45 118	4.43	2 647
	1.72	Financial services	12	—	100 329	145 775	7.07	(540)
	0.27	Investment companies	6	—	15 504	23 948	4.63	(5 409)
	10.49	Total shares and convertible securities	131	—	612 767	777 169	5.72	(5 509)
		Mortgage investments						
		Residential						
	0.97	<i>Insured mortgages</i>	45	—	56 791	50 387	—	1 582
	0.13	<i>Conventional mortgages</i>	7	—	7 596	6 730	—	(342)
	1.10		52	—	64 387	57 117	—	1 240
	3.91	Commercial	53	—	228 502	212 618	—	44 645
	0.38	Industrial	17	—	22 450	21 707	—	(88)
	5.39	Total mortgage investments	122	—	315 339	291 442	10.00	45 797
		Real estate investments						
	0.26	Land	30	—	15 164	16 163	—	95
	0.17	Land and buildings	12	—	10 257	10 257	—	(69)
	0.43	Total real estate investments	42	—	25 421	26 420	8.60	26
	87.52	Total long-term investments	—	—	5 114 675	4 997 894	9.04	675 672
Short-term investments	12.48			683 164	729 116	729 116	10.19	402 247
Total investments of General Fund	100.00			—	5 843 791	5 727 010	9.21	1 077 919

(1) This weighted average yield does not take into account profit and loss on sale of investments.

Table 9 shows General Fund investments increased by \$1,077.9 million during the year. Their book and market values reached \$5,843.8 million and \$5,727 million, respectively, at December 31st, 1978.

Bonds remain the major component of the portfolio though they have declined slightly from 73.9% last year to 71.2% in 1978. This change is due mainly to the greater proportion of short-term investments at the end of 1978. In fact, 12.5% of investments were short-term in nature compared with 6.9% at the close of the previous year. Never before have short-term investments reached such a level at year-end. This situation stems from the strategy policy, heavy cash inflow, and the extent of commitments. Furthermore, the proceeds of large sales of shares added to an already sizeable liquid position.

Unit value

Each of the 6,382,945 participation deposit units issued and outstanding at December 31st, 1978 had a market value of \$848.98 compared with \$850.91 at the end of the previous year. The yield on average participation deposits in 1978 was 9% in relation to 8.65% in 1977.

Trends

The accompanying graphs bring out the trends of some important elements of the Fund during the past five years. It is particularly interesting to note that the proportion of bonds issued or guaranteed by the Gouvernement du Québec during this period remained relatively stable in relation to the overall portfolio.

This proportion is higher in the General Fund; at December 31st, 1978, it accounted for 52.5% of investments. At year-end, 95.2% of General Fund participation deposits were held by the Régie des rentes du Québec and the balance of 4.8% was divided between the Régie de l'assurance automobile du Québec (3.7%), the Commission des accidents du travail du Québec (approximately 1%), the Fonds d'assurance-prêts agricoles et forestiers, and the Régie de l'assurance-dépôts du Québec.

Table 10
General Fund
 Statement of real estate investments
 held at December 31st, 1978
 and rented under long-term leases
 (Section 41d of the Charter)

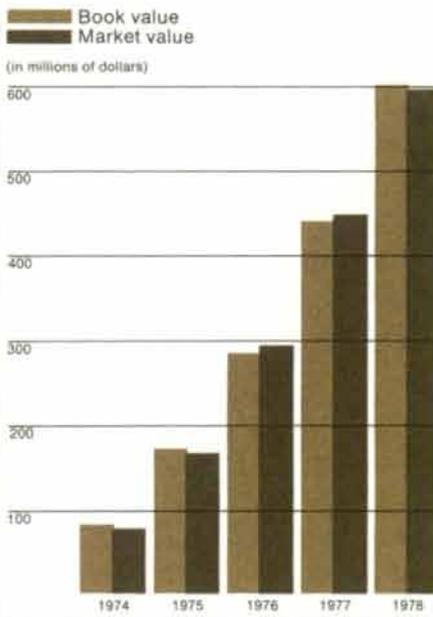
Localities	Land and buildings	Cost	Net book value
Baie d'Urfé	Lots (327-1, part 58-1 and part 343), Parish of Sainte-Anne	\$ 831 813	\$ 780 690
Dorval	Lots (87 and 88), Parish of Pointe-Claire	725 000	686 463
Jonquière	Lot (29-1), Rang 4, Jonquière Township	809 000	801 297
Laval	Lots (352-1-19, 20, 21, 22), Parish of Saint-Martin	170 000	167 231
Laval	Lot (616-3), Parish of Saint-Martin	900 000	831 032
Laval	Lots (616-7, 617-3), Parish of Saint-Martin	1 452 516	1 329 700
Pointe-Claire	Lot (130-17), Parish of Pointe-Claire	580 000	540 608
Pointe-Claire	Lots (116-7, 117-6), Parish of Pointe-Claire	1 300 000	1 196 001
Sainte-Foy	Lots (86-51, 87-122, 91-48), Parish of Sainte-Foy	653 000	594 046
Saint-Laurent	Lots (477-3, 475-413), Parish of Saint-Laurent	1 400 000	1 256 843
Sherbrooke	Lots (113-5-1-1, 113-5-2-1, 113-11, 113-12-1, 113-12-2, 113-22, 113-23), Orford Township	425 000	413 332
Ville Mont-Royal	Lot (577-4), Parish of Saint-Laurent	1 712 639	1 660 005
	Subtotal	\$10 958 968	\$10 257 248

Table 10 (continued)

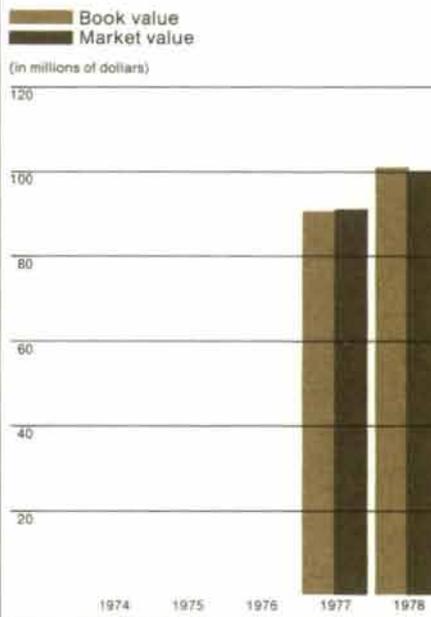
Localities	Land	Cost	Net book value
Alma	Lots (36-B-1, 37-1), Rang 4, Labarre Township	\$ 300 000	\$ 300 000
Baie Comeau	Lots (9-240, 241), Town of Lafèche, Saguenay	40 000	40 000
Cap-de-la-Madeleine	Lots (552-5, 6, 7, 553-4, 5, 6, 554-21, 22) in the plan and official records of Champlain District, now incorporated into the Town of Cap-de-la-Madeleine	200 000	200 000
Côte Saint-Luc	Lot (101-141), Municipality of the Parish of Montréal	80 000	80 000
Dollard-des-Ormeaux	Lot (244-145), Parish of Sainte-Geneviève	53 000	53 000
Hull	Lots (345, 346, 355, northern half of lot 358 and northern half of lot 356), Subdivision 5	150 000	150 000
Hull	Lots (244-626, 244-363, 364, 365, 366, 244-408, 409, 410, 244 part 595), Subdivision 1	560 000	560 000
Laval	Lots (654-20, 21, 22, 23, part 654-57), Parish of Saint-Martin	84 000	84 000
Longueuil	Lot (parts 68-69), Parish of Saint-Antoine	500 000	500 000
Montréal	Lots (816, 817-1, 817-2, 818, 819, 820-1, 820-2, 821-1, 821-2, 1261, 1262), District of Saint-Jacques	2 400 000	2 400 000
Montréal	Lots (1282, 1282-1, 1283 part N.W.), Parish of Saint-Antoine	700 000	700 000
Montréal	Lots (182-1 and 2), District of Saint-Laurent	250 000	250 000
Montréal	Lots (10-274A to 277A, 275 to 277, part 278, part 287, 291 and 294, 291A to 293A, and part 294A) of the Incorporated Village of Côte Saint-Louis	230 000	230 000
Montréal	Lots (1275 to 1279), Parish of Saint-Antoine	600 000	600 000
Montréal	Lots (1286, 1287, 1288, 1289, 1290, (-1-6) 1297A, 1297B, 1297B-1, 1297C, 1297D, 1901), Parish of Saint-Antoine	1 275 000	1 275 000
Québec	Lots (509-1058-2, 509-1085, 1104 and 1105), Parish of Saint-Roch Nord	32 000	32 000
Québec	Lots (509-1092, 1106, 1107), Parish of Saint-Roch Nord	26 000	26 000
Québec	Lot (part 417-4), Parish of Saint-Roch Nord	66 680	66 680
Québec	Lots (227 N.S., 227-379, 380, 381, 227-382, 227-361-3), Parish of Saint-Colomb de Sillery	3 837 903	3 837 903
Québec	Lot (4536, 4547), Montcalm District	2 500 000	2 500 000
Québec	Lots (585-46, 585-54-3, 585-54-7, 585-54-4, 585-49-2, 585-49-1, 585-53-4-4), Parish of Saint-Roch Nord	85 000	85 000
Québec	Lot (part 47), Parish of Québec, Suburb	275 000	275 000
Rimouski	Lot (548-56-101), Parish of Saint-Germain	163 000	163 000
Rivière-du-Loup	Lots (202-255, 246, 247, 248, 239-240), Town of Fraserville	155 000	155 000
Sainte-Foy	Lot (61-55), Parish of Sainte-Foy	100 000	100 000
Sainte-Foy	Lot (403-540), Parish of Sainte-Foy	40 000	40 000
Sainte-Foy	Lot (110-1), Parish of Sainte-Foy	78 029	78 029
Sept-Iles	Lots (16-1-38 and 16-1-39 and part N.S. 2660) Rang 2, Village of Sept-Iles, Letellier Township	280 000	280 000
Sept-Iles	Lot (497 part 2) Rang 2, Village of Sept-Iles, Letellier Township	71 500	71 500
Sept-Iles	Lots (1842-1, 1493-1) Rang 2, Village of Sept-Iles, Letellier Township	31 500	31 500
	Subtotal	\$15 163 612	\$15 163 612
	Total real estate investments	\$26 122 580	\$25 420 860

SEGREGATED FUNDS

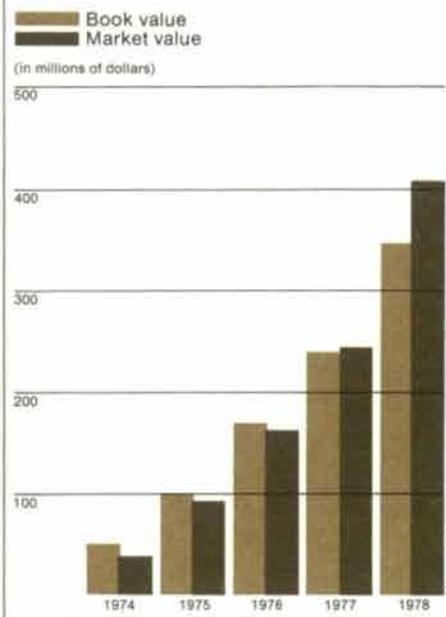
Graph 18
Assets — Fund "O"



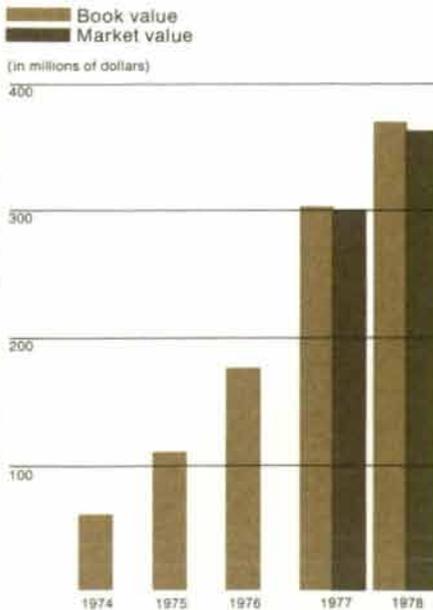
Graph 19
Assets — Fund "G"
Note: Fund "G" has been created in 1977.



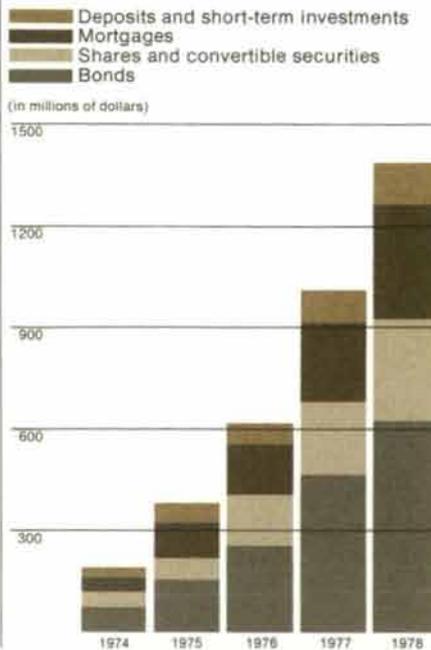
Graph 20
Assets — Fund "A"



Graph 21
Assets — Fund "H"
Note: the market value of this Fund was established only in 1977.



Graph 22
Breakdown of investments



Graph 23
Corporate investments in Canadian firms

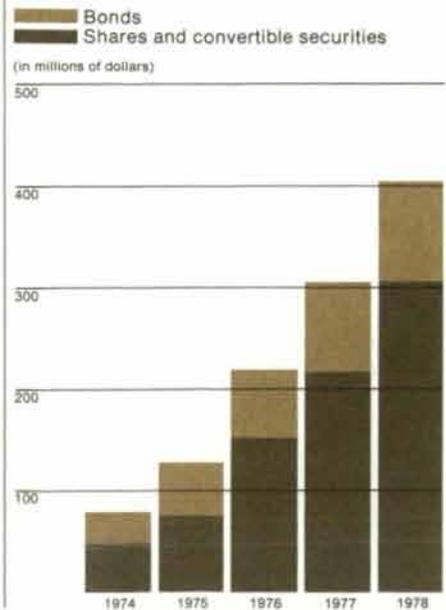


Table 11
Segregated funds
Summary of investments
as at December 31st, 1978
(in thousands of dollars)

	Book value %	Categories	Number	Nominal value \$	Book value \$	Market value \$	Yield ⁽¹⁾ %	Net change in 1978 (book value) \$
Fund "O"		Bonds						
	4.29	Government of Canada	1	60 900	59 491	58 984	9.87	41 274
		Issued or guaranteed by the Gouvernement du Québec						
	13.92	<i>Gouvernement du Québec</i>	1	193 925	193 080	189 669	10.16	54 095
	3.73	<i>Hydro-Québec</i>	1	52 075	51 714	50 432	10.05	28 820
	0.79	<i>Other</i>	1	11 000	10 966	10 946	10.62	(3 859)
	18.44		3	257 000	255 760	251 047	10.16	79 056
		Guaranteed by grants						
	1.15	<i>Cegeps</i>	16	16 494	15 952	15 938	10.55	(264)
	0.79	<i>Hospitals</i>	13	11 089	11 010	10 830	10.22	(1 326)
	1.14	<i>Universities</i>	8	16 160	15 808	15 794	10.69	5 955
	3.08		37	43 743	42 770	42 562	10.51	4 365
		Municipal and school						
	3.82	<i>Municipalities</i>	43	53 680	53 043	52 349	10.30	7 535
	1.36	<i>School boards</i>	23	19 163	18 791	18 426	10.32	874
	5.18		66	72 843	71 834	70 775	10.31	8 409
	7.11	Corporate	55	99 810	98 665	96 804	10.20	11 144
	38.10	Total bonds	162	534 296	528 520	520 172	10.18	144 248
	4.17	Short-term investments	6	57 187	57 770	57 770	10.45	31 096
	—	Deposits in the General Fund	—	—	—	—	—	(15 485)
	42.27	Total investments — Fund "O"	168	591 483	586 290	577 942	10.21	159 859
Fund "G"		Government bonds						
		Issued or guaranteed by the Gouvernement du Québec						
	4.11	<i>Gouvernement du Québec</i>	1	57 000	56 909	55 090	9.78	2 002
	0.50	<i>Hydro-Québec</i>	1	7 000	6 951	6 731	9.97	2 001
	—	<i>Other</i>	—	—	—	—	—	—
	4.61		2	64 000	63 860	61 821	9.80	4 003
		Guaranteed by grants						
	0.26	<i>Cegeps</i>	9	3 690	3 585	3 574	10.54	7
	0.13	<i>Hospitals</i>	3	1 800	1 759	1 738	10.40	987
	0.17	<i>Universities</i>	3	2 550	2 486	2 438	10.46	1
	0.56		15	8 040	7 830	7 750	10.49	995
		Municipal and school						
	1.37	<i>Municipalities</i>	25	19 360	18 941	18 693	10.49	3 135
	0.13	<i>School boards</i>	10	1 830	1 797	1 764	10.30	3
	1.50		35	21 190	20 738	20 457	10.47	3 138
	6.67	Total bonds	52	93 230	92 428	90 028	10.01	8 136
	—	Short-term investments	—	—	—	—	—	(2 953)
	0.39	Deposits in the General Fund	—	5 450	5 450	5 450	10.10	3 818
	7.06	Total investments — Fund "G"	52	98 680	97 878	95 478	10.02	9 001
Fund "A"		Shares and convertible securities						
	3.91	Metals and minerals	15	—	54 212	57 385	3.74	16 857
	0.17	Gold	1	—	2 375	2 153	3.09	(290)
	2.70	Oil and gas	12	—	37 427	48 189	4.10	10 361
	1.09	Paper and forest products	5	—	15 149	20 075	8.28	(2 340)
	1.52	Consumer products	7	—	21 058	25 855	5.14	5 645
	2.42	Industrial products	15	—	33 526	35 574	4.10	9 895
	0.01	Real estate and construction	1	—	85	136	6.50	(42)
	1.13	Transportation	2	—	15 640	21 994	6.60	5 410
	0.79	Pipelines	4	—	10 951	14 298	8.50	(404)
	2.35	Utilities	6	—	32 653	39 332	8.47	14 421
	0.22	Communications and media	4	—	3 025	3 500	3.07	2 800
	0.88	Merchandising	7	—	12 252	16 538	4.12	5 053
	4.37	Financial services	10	—	60 587	75 231	6.11	19 890
	0.38	Investment companies	1	—	5 311	7 154	4.76	1 461
	21.94	Total shares and convertible securities	90	—	304 251	367 414	5.47	88 717
	—	Short-term investments	—	—	—	—	—	(5 490)
	2.59	Deposits in the General Fund	—	35 898	35 898	35 898	10.10	22 428
	24.53	Total investments — Fund "A"	—	—	340 149	403 312	5.88	105 655
Fund "H"		Mortgage investments						
		Residential						
	17.69	<i>Insured mortgages</i>	7 911	—	245 289	240 405	—	77 310
	0.83	<i>Conventional mortgages</i>	242	—	11 593	11 565	—	(1 030)
	18.52		8 153	—	256 882	251 970	—	76 280
	4.32	Commercial	96	—	59 889	58 661	—	30 241
	1.39	Industrial	49	—	19 248	18 625	—	4 406
	24.23	Total mortgage investments	8 298	—	336 019	329 256	10.55	110 927
	0.77	Short-term investments	2	10 000	10 697	10 697	9.28	(50 254)
	1.14	Deposits in the General Fund	—	15 799	15 799	15 799	9.67	6 299
	26.14	Total investments — Fund "H"	—	—	362 515	355 752	10.47	66 972
Total investments of segregated funds	100.00		—	—	1 386 832	1 432 484	9.20	341 487

(1) This weighted average yield does not take into account profit and loss on sale of investments.

The four segregated funds of the Caisse are pooled funds, each consisting of one particular category of investment, namely bonds (Fund "O"), government bonds (Fund "G"), stocks (Fund "A"), and mortgages (Fund "H"). These funds are reserved exclusively for Québec public and parapublic pension funds. Investments made are subject to provisions of the Supplemental Pension Plans Act and related regulations.

Eight agencies participate in the segregated funds and their net contributions in 1978 were \$257.2 million compared with \$287.9 million in 1977. Growth was not as spectacular as in the previous year due to a reduction in net contributions from the Commission administrative du régime de retraite and the Office de la construction du Québec, their two largest participants.

Analysis of the actual amounts invested in the various segregated funds in 1978 shows pension fund administrators generally have distributed their contributions as follows: 49.4% in bonds, 30.1% in stocks, and 20.5% in mortgages. At year-end, the proportion of long-term investments of the segregated funds in the private sector was 58.6%.

The combined total of these investments increased by \$351.9 million to \$1,261.1 million at December 31st, 1978. The most significant increases were recorded in Fund "O" and "H" in amounts of \$144.2 million and \$110.9 million, respectively. Fund "A" and "G" investments recorded respective increases of \$88.7 million and \$8.1 million.

Total income from the funds during the year ended December 31st, 1978, increased to \$117.7 million from \$77.7 million in 1977.

INDIVIDUAL
FUND

At December 31st, 1978, assets of the Fund included \$456 million in bonds, \$36.3 million in demand and term deposits, and \$11.3 million in accrued interest for a total of \$503.6 million. Market value of overall investments was \$485 million. Table 12 gives their breakdown and weighted average yield to maturity which, at year-end, was 10.21%.

The "Net income to be paid out to the depositor" account, as shown in the financial statements of the Fund, represents the amount to be paid to the Commission des accidents du travail du Québec. Due to the fact that regulations of the Caisse covering Individual Fund operations were not yet in force at December 31st, 1978, net income for the year was not credited to the Commission's account but accumulated instead. Once the regulations are approved, the sum of \$37.9 million will be transferred to the "Participation deposits" account.

Individual Fund investment policy is established by the Board of Directors of the Caisse, keeping in mind the needs of the depositor. So far, investments have been limited to bonds and short-term investments. However, the range of securities in this portfolio could be extended.

In addition to the Individual Fund, the Caisse, on behalf of the Commission des accidents du travail du Québec, also manages a portfolio of \$156.6 million in bonds which had a market value of \$138.5 million at December 31st, 1978. The weighted average yield to maturity of this portfolio was 7.75%.

Table 12.
Individual Fund
Summary of investments
as at December 31st, 1978
(in thousands of dollars)

Book value %	Categories	Number	Nominal value \$	Book value \$	Market value \$	Yield ⁽¹⁾ %	Net change in 1978 (book value) \$
8.23	Bonds			40 508	40 361	9.67	20 037
	Government of Canada Issued or guaranteed by the Gouvernement du Québec	1	41 525				
39.19	Gouvernement du Québec	1	194 575	192 910	188 494	10.08	80 565
10.81	Hydro-Québec	1	53 575	53 216	51 891	10.06	33 390
1.01	Other	1	5 000	4 983	4 958	10.59	—
51.01		3	253 150	251 109	245 343	10.09	113 955
2.35	Guaranteed by grants						
	Cegeps	11	11 879	11 576	11 735	10.83	22
0.62	Hospitals	3	3 160	3 060	3 122	11.01	(14)
4.08	Universities	7	20 560	20 090	19 977	10.61	5 506
7.05		21	35 599	34 726	34 834	10.72	5 514
7.79	Municipal and school						
	Municipalities	61	39 682	38 370	38 281	10.65	5 779
5.40	School boards	31	27 096	26 557	26 465	10.60	3 059
13.19		92	66 778	64 927	64 746	10.63	8 838
13.14	Corporate	41	65 303	64 687	63 354	10.26	21 142
92.62	Total bonds	158	462 355	455 957	448 638	10.20	169 486
	Short-term investments						
	Deposits in the General Fund						(4 908)
7.38			36 316	36 316	36 316	10.27	25 505
100.00	Total investments of Individual Fund	158	498 671	492 273	484 954	10.21	190 083

(1) This weighted average yield does not take into account profit and loss on sale of investments.

DEPOSITORS'
HOLDINGS

Table 13 synthesizes the financial situation at December 31st, 1978, of the funds entrusted to Caisse management by various agencies or retirement plans. On analysis, it is evident that participation deposits constitute the main asset component of the holdings of most depositors. Made on a long-term basis into the General Fund, the segregated funds, or the Individual Fund, the deposits totalled \$7.3 billion, or 92.3% of the overall assets of some \$7.9 billion.

Portfolios under management are made up of long-term securities whose management is entrusted to the Caisse and which, for various reasons, cannot be integrated in the investments of its various funds. As a result, these securities are administered with a view to an orderly liquidation over an undetermined period. The proceeds of sales and other transactions generally is applied to the purchase of participation deposits in the segregated funds or the Individual Fund, as the case may be.

Demand and term deposits constitute an indebtedness as regards the General Fund. Demand deposits bear interest at a variable rate determined from day to day, based on money market conditions. On request, they may be recalled within three working days. Term deposits bear interest at a rate set by the Caisse in respect to the money market at the time of deposit, such rate being accepted by the depositor. They are repayable on expiry date.

As for the accrued interest and income of \$130.8 million at December 31st, 1978, it was applied, in significant part, to the purchase of participation deposit units in the various funds of the Caisse January 1st, 1979, according to the directives of the depositors.

The breakdown of depositors' holdings shows five agencies – the Régie des rentes du Québec, the Commission administrative du régime de retraite, the Commission des accidents du travail du Québec, the Office de la construction du Québec, and the Régie de l'assurance automobile du Québec – held over 98% of total assets.

Table 13
Breakdown of depositors' holdings
with the Caisse de dépôt
as at December 31st, 1978
(in thousands of dollars)

	Participation deposits		Subtotal	Portfolios under manage- ment	Total long-term holdings	Net demand and term deposits	Accrued interest and income	Depositors' holdings		Net change in 1978
	General Fund	Segregated funds						Individual Fund	\$	
Régie des rentes du Québec	5 158 954	—	5 158 954	—	5 158 954	(7 500)	120 516	5 271 970	66.42	655 000
Commission administrative du régime de retraite Government and public employees retirement plan	—	747 401	747 401	10 709	758 110	72 020	399	830 529	10.46	258 974
General retirement plan for the mayors and councillors of the municipalities of Québec	—	1 543	1 543	—	1 543	27	1	1 571	0.02	489
Individual plans	—	2 314	2 314	—	2 314	42	—	2 356	0.03	2 240
Commission des accidents du travail du Québec	—	751 258	751 258	10 709	761 967	72 089	400	834 456	10.51	261 703
Office de la construction du Québec	52 361	—	502 660	159 746	714 767	9 487	1 349	725 603	9.14	186 494
Supplemental pension plan for employees of the Québec construction industry	—	625 574	625 574	30 011	655 585	14 518	80	670 183	8.44	124 303
Régie de l'assurance automobile du Québec	198 450	—	198 450	—	198 450	73 407	6 323	278 180	3.51	278 180
Fonds d'indemnisation automobile du Québec	—	—	—	—	—	12 990	309	13 299	0.17	13 299
Supplemental pension plan of l'Université du Québec	—	12 946	12 946	—	12 946	284	1	13 231	0.17	4 140
Supplemental pension plan (C.S.N. — A.H.P.Q. — Ministère des Affaires sociales)	—	9 009	9 009	—	9 009	1	—	9 010	0.11	757
Régie de l'assurance-récolte du Québec	—	—	—	—	—	7 569	119	7 688	0.10	2 447
Régimes d'assurance-stabilisation des revenus agricoles	—	—	—	—	—	6 720	166	6 886	0.09	2 015
Supplemental pension plan of the Société de développement de la Baie James	—	4 375	4 375	—	4 375	170	1	4 546	0.06	1 155
Fonds d'assurance-prêts agricoles et forestiers	3 382	—	3 382	—	3 382	—	78	3 460	0.04	3 460
Régie de l'assurance-dépôts du Québec	919	—	919	—	919	285	35	1 239	0.02	(388)
Supplemental pension plan of the Municipalité de la Baie James	—	1 105	1 105	—	1 105	1	—	1 106	0.01	309
Régie des marchés agricoles du Québec	—	—	—	—	—	774	19	793	0.01	167
Others	2 196	—	2 196	—	2 196	—	—	2 196	0.03	—
Net deposits of segregated funds and Individual Fund into the General Fund	—	—	—	—	—	91 523	1 415	92 938	1.17	42 040
Total	5 416 262	1 404 267	502 660	200 465	7 523 655	282 318	130 811	7 936 784	100.00	1 575 071

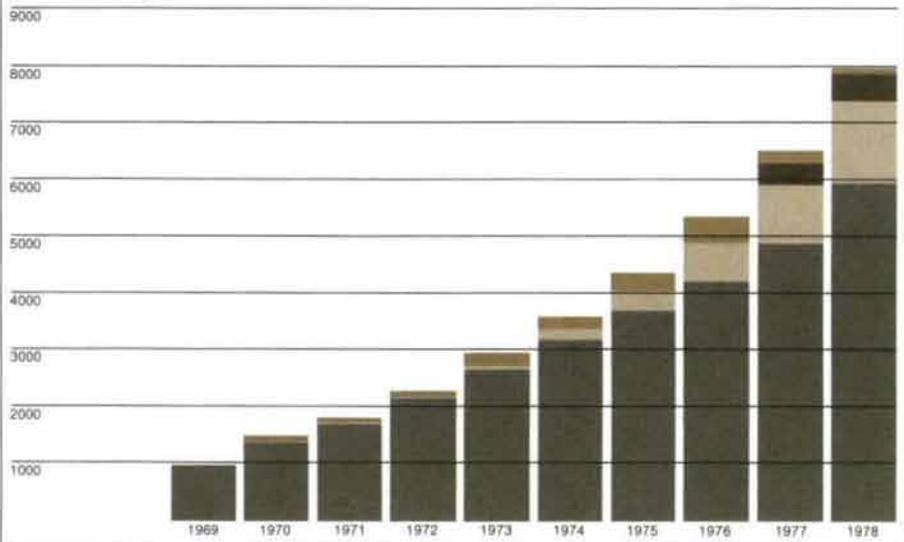
FINANCIAL RETROSPECTIVE

Graph 24

Assets under management

- Portfolios under management
- Individual Fund
- Segregated funds
- General Fund

(in millions of dollars)



Graph 25

Annual cash flow

- Net contributions
- Income

(in millions of dollars)

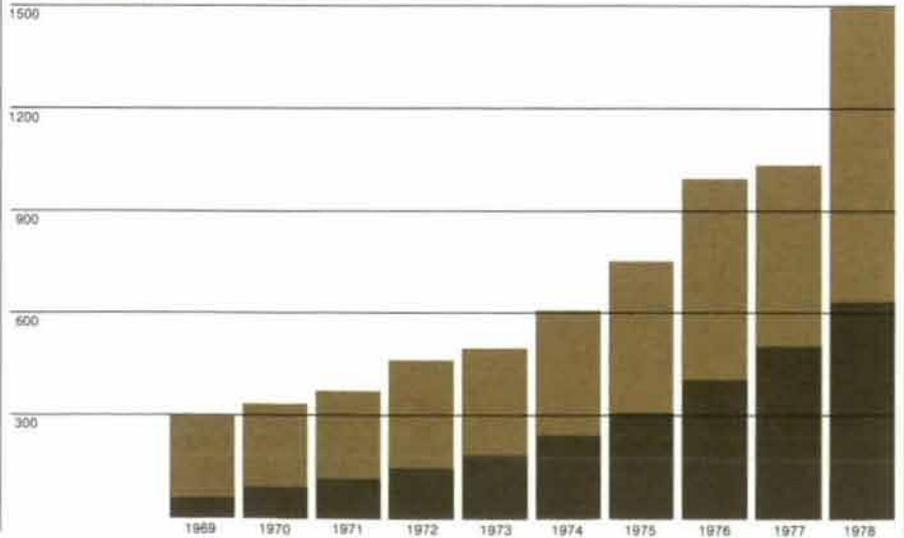


Table 14
Ten-year financial retrospective
(in millions of dollars)

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
General Fund										
Bonds										
Government of Canada	122.3	81.5	56.4	64.2	36.7	57.1	55.7	57.9	73.3	46.7
Gouvernement du Québec and guaranteed	3 070.6	2 536.9	2 208.6	1 799.3	1 534.3	1 317.5	1 088.5	882.9	711.8	538.4
Guaranteed by grants	158.0	156.3	148.2	123.7	103.3	87.8	65.0	38.7	28.1	21.0
Municipal and school	314.8	304.3	267.6	233.4	183.7	141.3	121.6	106.8	98.6	83.6
Corporate	495.5	444.8	420.4	357.3	318.5	261.9	244.3	186.3	93.1	45.6
Total bonds	4 161.2	3 525.8	3 101.2	2 577.9	2 176.5	1 865.6	1 575.1	1 272.6	1 004.9	735.3
Shares and convertible securities	612.8	618.3	661.4	638.7	601.9	491.7	352.6	280.9	212.4	156.6
Mortgages	315.3	269.5	224.4	199.0	197.9	128.9	72.9	67.2	44.8	25.5
Real estate	25.4	25.4	25.4	26.0	25.7	23.9	21.9	20.9	14.8	4.4
Short-term investments	729.1	326.9	226.4	191.5	105.0	85.9	90.9	29.4	28.7	54.2
Total investments — General Fund	5 843.8	4 765.9	4 238.8	3 633.1	3 107.0	2 596.0	2 113.4	1 671.0	1 305.6	976.0
Segregated funds										
Bonds	620.9	468.6	255.7	145.3	67.8	30.2	12.5	7.9	3.2	—
Shares and convertible securities	304.2	215.5	150.3	75.6	46.3	18.6	11.3	5.2	0.2	—
Mortgages	336.0	225.3	145.1	100.6	44.7	25.3	18.1	3.4	—	—
Deposits and short-term investments	125.6	98.3	60.6	43.8	21.6	10.9	9.5	11.0	5.2	—
Total investments — Segregated funds	1 386.7	1 007.7	611.7	365.3	180.4	85.0	51.4	27.5	8.6	—
Individual Fund										
Bonds	456.0	286.5	—	—	—	—	—	—	—	—
Deposits and short-term investments	36.3	15.7	—	—	—	—	—	—	—	—
Total investments — Individual Fund	492.3	302.2	—	—	—	—	—	—	—	—
Portfolios under management										
Bonds	192.2	208.3	374.5	233.2	208.8	214.4	21.0	22.0	22.9	—
Shares and convertible securities	3.1	7.6	12.1	7.2	7.9	8.3	8.0	9.2	12.2	—
Mortgages	0.8	0.9	1.6	1.6	2.2	8.0	11.7	14.0	15.7	—
Short-term investments	—	8.4	4.5	—	—	—	—	—	—	—
Total investments — Portfolios under management	196.1	225.2	392.7	242.0	218.9	230.7	40.7	45.2	50.8	—
Total funds										
Assets under management										
General Fund ⁽¹⁾	5 872.8	4 891.0	4 299.1	3 688.9	3 156.4	2 630.9	2 138.1	1 688.8	1 320.5	990.4
Segregated funds										
Fund "O"	599.9	435.9	281.5	161.1	77.6	31.2	17.2	9.3	3.0	—
Fund "G"	100.6	91.3	—	—	—	—	—	—	—	—
Fund "A"	343.2	236.1	166.1	99.3	46.8	21.6	13.6	7.4	2.5	—
Fund "H"	367.5	300.2	172.9	109.7	58.3	33.0	20.9	11.2	3.1	—
	1 411.2	1 063.5	620.5	370.1	182.7	85.8	51.7	27.9	8.6	—
Individual Fund	503.6	309.8	—	—	—	—	—	—	—	—
Portfolios under management	200.5	229.8	401.2	246.4	219.4	234.8	46.1	50.2	54.1	—
Total assets under management	7 988.1	6 494.1	5 320.8	4 305.4	3 558.5	2 951.5	2 235.9	1 766.9	1 383.2	990.4
Net income										
General Fund	455.9	381.1	327.0	262.6	213.4	165.8	133.3	103.8	77.9	52.9
Segregated funds										
Fund "O"	48.9	35.3	24.0	10.3	4.5	1.8	1.1	0.6	0.1	—
Fund "G"	9.3	6.0	—	—	—	—	—	—	—	—
Fund "A"	26.9	12.5	10.1	6.4	2.2	2.1	0.9	0.2	—	—
Fund "H"	32.6	23.9	14.7	8.2	4.3	2.4	1.2	0.4	—	—
	117.7	77.7	48.8	24.9	11.0	6.3	3.2	1.2	0.1	—
Individual Fund	37.9	23.2	—	—	—	—	—	—	—	—
Portfolios under management	15.7	19.1	27.7	17.3	15.7	9.0	3.2	3.4	3.1	—
Total net income	627.2	501.1	403.5	304.8	240.1	181.1	139.7	108.4	81.1	52.9
Net contributions										
General Fund	475.9	158.4	249.1	265.4	280.9	293.5	302.5	246.6	246.3	246.9
Segregated funds	257.2	287.9	227.5	170.4	86.8	21.3	13.3	10.8	4.2	—
Individual Fund and portfolios under management	132.5	83.1	116.2	11.0	—	—	—	—	—	—
Total net contributions	865.6	529.4	592.8	446.8	367.7	314.8	315.8	257.4	250.5	246.9
Administrative expenditures	5.9	6.7	4.6	3.9	2.6	2.3	1.5	1.2	1.0	0.8

(1) Assets of the General Fund do not reflect for the purpose of this presentation, demand and term deposits of the segregated funds and the Individual Fund, which are included with their respective assets.

Table 14 shows the evolution of the Caisse during the past ten years. In 1969, it had only four depositors and the Régie des rentes du Québec was its sole major source of capital. The average of net contributions per working day was then slightly under \$1 million. Today, the Caisse has 17 depositors and the average is close to \$3.5 million.

During the 10-year period in question, total funds under management grew eightfold and the net income, roughly twelvefold. A remarkable increase, it results mainly from the substantial input of capital from new depositors - the Office de la construction du Québec, since 1970; the Commission des accidents du travail du Québec and the Commission administrative du régime de retraite, both since 1973; and, finally, the Régie de l'assurance automobile du Québec, as of 1978.

As indicated by Graph 25, the proportion of income in the overall cash flow rose from 17.6% to 42% in ten years. In relation to total net income during the same period, administrative expenditures represented only 0.116%.

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Marcel Camu, secrétaire
Colette Boutin, secrétaire adjoint

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Caisse de dépôt et placement du Québec
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