

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC



R E P O R T F O R 1 9 8 4

Highlights of the year

(millions of dollars)

ASSETS UNDER MANAGEMENT	1984	1983
Total book value	20 133.1	18 221.9
Surplus market value over book value of investments	636.7	782.4
Total market value	20 769.8	19 004.3

BREAKDOWN OF ASSETS UNDER MANAGEMENT

Investments		
Bonds	12 850.3	11 486.0
Mortgage financing	1 155.0	1 156.9
Total - Fixed income securities	14 005.3	12 642.9
Shares and convertible securities	5 395.6	4 852.7
Real estate investments	339.0	309.0
Total - Variable income securities	5 734.6	5 161.7
Deposits and short-term investments	626.8	829.1
Total investments	20 366.7	18 633.7
Other assets	403.1	370.6
Total market value	20 769.8	19 004.3

DEPOSITORS' HOLDINGS

Régie des rentes du Québec	10 538.8	9 805.3
Commission administrative des régimes de retraite et d'assurances	4 210.5	3 685.4
Régie de l'assurance automobile du Québec	2 514.2	2 094.3
Commission de la santé et de la sécurité du travail	1 956.4	1 900.8
Office de la construction du Québec	1 474.7	1 394.7
Other depositors	(3.8)	19.3
Total - Depositors' holdings	20 690.8	18 899.8
Liabilities	79.0	104.5
Total market value	20 769.8	19 004.3

DEPOSITORS' NET INCOME	1 963.9	1 772.3
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NET CONTRIBUTIONS	(133.3)	146.6
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INTERNAL RATE OF RETURN ON DEPOSITORS' TOTAL HOLDINGS	10.1%	17.2%
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CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

Nineteenth Annual Report - 1984

COVER

*"...the Caisse wishes to contribute to the opening up of Québec's world business activities that is currently manifested in the economic, financial and commercial sectors as well as to the development of Montréal as an international financial capital."
(Board of Directors' Report)*

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Jean Campeau
Chairman of the Board
General Manager
Caisse de dépôt et placement
du Québec



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From left to right: **Robert Normand**, Deputy Minister of Finance, Gouvernement du Québec; **Claude Legault**, Vice-Chairman of the Board and President of the Régie des rentes du Québec; **André Marier**, President of the Société québécoise d'initiatives agro-alimentaires; Judge **Richard Beaulieu**, President of the Commission municipale du Québec.



1



2



3

2
In the usual order: **Michel Caron**, Executive Vice-president of Finance and Resources at Hydro-Québec; **Raymond Blais**, President of the Confédération des caisses populaires et d'économie Desjardins du Québec; **Fernand Paré**, President and General Manager of La Solidarité, compagnie d'assurance sur la vie.

3
In the usual order: **Louis Laberge**, President of the Fédération des travailleurs du Québec; **Gaston Pelletier**, President and General Manager of the Lombard Odier Trust Company; **Pierre Péladeau**, President of Quebecor Inc.

The Caisse's depositors' net income reached a record high of \$1,964 million in 1984, representing an increase of \$192 million over the previous year. Moreover, the internal rate of return on investments totalled 10.1%, thus exceeding the inflation rate of 3.8% by 6.3%.

The results had a favourable impact on the actual yield of the Caisse's investments. The compound average annual rate of return for total funds under management was 12.3% computed over the last eight years, while the average rate of inflation for the same period reached 8.5%. Funds under the Caisse's administration therefore yielded 3.8% above inflation for the eight-year period.

The 1984 results are of course strongly dependent upon bonds which represent the largest percentage of the Caisse's investment portfolio. They also reflect the competence and expertise of dynamic portfolio managers, which largely compensated for the Canadian stock markets' negative results.

The strong growth of funds under the Caisse's administration at the end of the '70s and the beginning of the '80s is now not only over, but has been replaced by a relative decline. For the first time, total deposits from contributions levied by the depositors were lower than withdrawals. Some of the depositors, namely the Régie des rentes du Québec, the Office de la construction du Québec and the Commission de la santé et de la sécurité du travail, have withdrawn \$516 million from the income produced by the funds entrusted to the Caisse and not from the principal of these funds. However, the Régie de l'assurance automobile du Québec and the Commission administrative des régimes de retraite et d'assurances, which mostly manages the pension funds of employees from the public and parapublic sectors, made new deposits that were added to their investment income.

Last year, the Board stressed that the growth of funds entrusted to the Caisse had become basically dependent upon investment income due to the narrowing spread between contributions and withdrawals. The Board must now recognize that this growth is slackening because depositors are compelled to draw upon their investment income to meet their obligations. Thus, failing an adjustment of contributions to the Québec Pension Plan, a major increase in withdrawals must be expected over the next few years.

During 1984, the Board's activities included studying and approving the investment program, operating budget and financial statements. Moreover, several investment proposals recommended by Management were submitted for the Board's approval.

For the fifth consecutive year, the Caisse aimed at increasing the quantity of variable income securities in its overall portfolio. Furthermore, an amount similar to that of last year was allocated to investments in the Québec public sector.

BOARD OF DIRECTORS' REPORT

BOARD OF DIRECTORS' REPORT

The Board was pleased with the increase, although moderate, in the number and volume of investments made throughout 1984 in Québec medium-sized businesses that are not listed on the stock exchange. However, it would like such investments to be upgraded and intends to devote all necessary efforts to this. In many respects, the vigour of Québec's economy in 1984, which is likely to be sustained in 1985, bodes well for the possibility of success in this area.

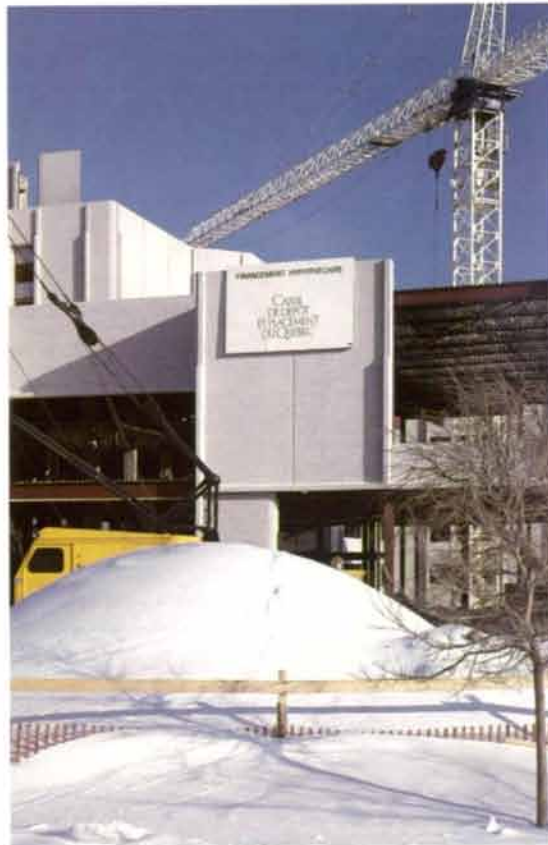
The international portfolio also saw some growth in 1984, although it was moderate. The Board recognizes that this new area of investment that the Caisse has been developing since 1983 seems to be on the way to achieving the anticipated results. Although the period of operation has been short, results appear to be favourable as much in terms of liquidity and profitability as international financial contacts that may be beneficial to the Caisse's investments, the profitability of businesses in which it holds shares and Québec's economy. In this regard, the Caisse wishes to contribute to the opening up of Québec's world business activities that is currently manifested in the economic, financial and commercial sectors as well as to the development of Montréal as an international financial capital.

The Caisse expects the businesses in which it invests to be administered with the competence and efficiency that are necessary to provide its shareholders with security and maximum return on their investments. Moreover, it expects these businesses to act as good corporate citizens and to bring equitable economic repercussions to those societies in which they operate, and particularly to Québec, whether it be through the purchase of goods and services, investments, research or through a type of human resources management that respects and reflects the population concerned by their operations.

These businesses' goals are also those of the Caisse and, in 1984, vigorous and dynamic steps were taken in this regard. The Board believes that in this way the Caisse is fulfilling its mandate to efficiently manage the funds it is entrusted with, as it ensures security, return on investment and supports the economic growth of our society through its overall policies. And this is achieved through the cooperation, continued efforts and expertise of a dynamic team which, in both times of trouble and success, devotes its best efforts to managing the collective savings of Quebecers with which it is entrusted. The Board wishes to thank these women and men.



REPORT
OF
OPERATIONS



THE ECONOMIC ENVIRONMENT

In 1984, the North American economy experienced a second year of expansion, marked by the absence of inflationary pressures, the strength of the American dollar, as well as by the persistence of major government deficits, as much in the United States as in Canada. Moreover, rising interest rates during the first half were a major destabilizing factor. However, the softer monetary policy introduced in September allowed a more optimistic climate to be restored and stilled fears of a major slowdown as early as the beginning of 1985.

THE AMERICAN ECONOMY

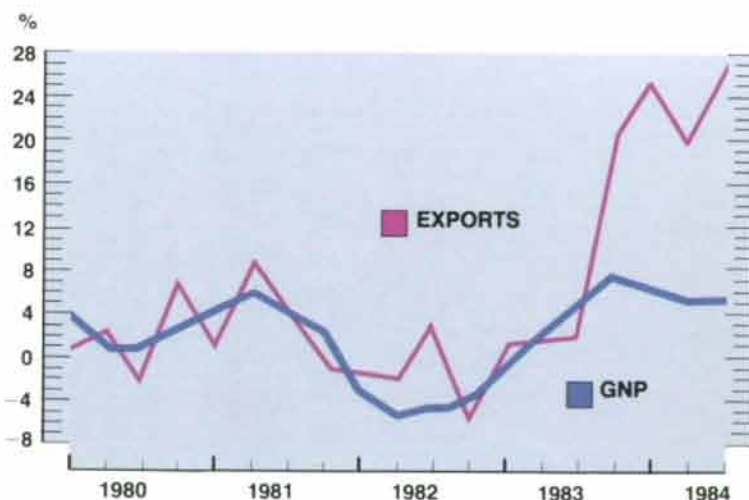
For the United States, 1984 was a very successful year. After an excellent recovery in 1983, the American economy benefited from a 6.8% increase in production, without any significant pressures being exerted on prices. This result is very different from what had been anticipated in the early part of the year.

The growth of most of the major demand-related categories, including exports, exceeded that of 1983. Residential construction is the only sector in which

expenditures grew more slowly, after a strong rally in 1983. However, substantial vigour of private investments is the highlight of this second year of expansion. Several factors are responsible for this surge in capital expenditures: first, higher corporate working capital resulting from fiscal changes made in 1981 and, second, in some segments, the need to increase competitiveness which had been weakened by the appreciation of the dollar, the latter giving no sign of falling at the end of the year.

It should be noted, however, that contrary to the situation which occurred in 1983, the American economy did not grow steadily. Actually, after literally booming during the first half, demand then slackened, thus affecting the continuous rise in interest rates between March and August. These higher rates prevailed at a time when the demand for funds from the private sector was clearly increasing and the Federal Reserve was restricting available credit. Growth consequently slowed down in the third quarter.

EVOLUTION* OF REAL GNP AND EXPORTS IN CANADA



* % change over 12 months.

Sources: Statistics Canada and CDPQ.

Monetary authorities then adopted a more conciliatory attitude and dropping interest rates started to have a positive impact towards the end of the year. Nevertheless, the increase in personal income remained sufficiently strong and indices of consumer attitude were sufficiently high for optimism to be maintained in 1985.

And yet, the American economy is left with two burdens: the federal deficit which cannot be brought down by growth alone and the international trade deficit for goods and services, which has increased at a phenomenal rate.

THE CANADIAN ECONOMY

In Canada, the growth experienced in 1984 exceeded the average for the past ten years. During the third quarter, the real gross national product increased by 4.8% over the same period last year. Fluctuations recorded during the year and sources of growth were not the same as in the United States. Increases in the first two quarters were lower than those in 1983. Moreover, domestic demand was not as strong and the contribution from exports was clearly dominating (*Graph 1*).

It is noteworthy that increases in personal income were not very strong. Canadians experienced a very definite drop in the growth of salary rates, as did Americans, but did not benefit from the personal tax breaks granted in the U.S. Therefore, the increase in consumer spending in 1984 was partially achieved by a reduction of the personal savings rate.

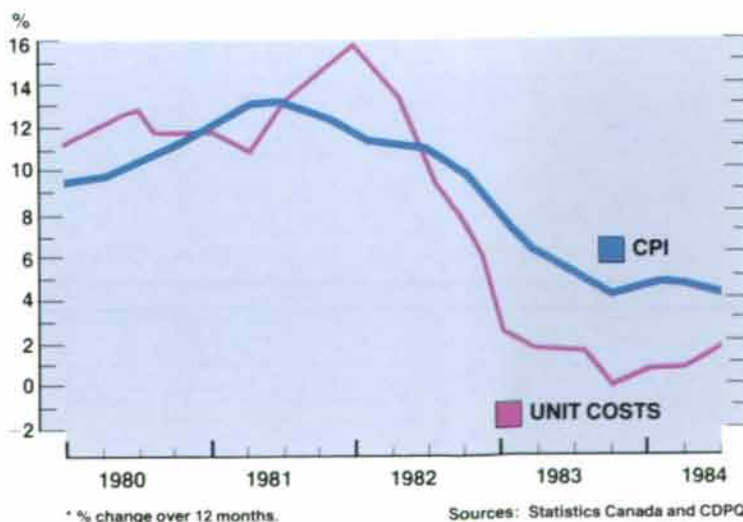
Activity in the housing sector slumped in 1984 due to higher interest rates throughout the first half of the year, and the end in 1983, of federal housing assistance programs. Corporate profits were nevertheless excellent during the first quarter, as in 1983, but later declined and varied widely among the various segments: they were excellent in



The Caisse publishes *Cycles et tendances*, containing the Economic Research Department's forecasts.

EVOLUTION* OF CONSUMER PRICE INDEX AND UNIT LABOUR COSTS IN CANADA

2





Concerned about informing the public, the Caisse takes part in financial and economic information activities.

manufactured goods exporting industries but poor in the resources sector as well as financial services. Thus, investment did not play its usual role of an accelerator after now two years of recovery. This situation reflects a very uneven sectorial and regional apportionment of growth for this cycle. However, in the third quarter, corporate capital expenditures seemed to be gaining momentum.

The two major achievements of the Canadian economy in 1984 were thus the ability to maintain a large surplus in the current account and to control inflation and wages. Furthermore, the generally interesting performance of profits is closely linked to the reduction of unit labour costs (*Graph 2*). Unemployment reduction is still a problem and the ever-growing federal government deficit continues to cast a shadow over the horizon.

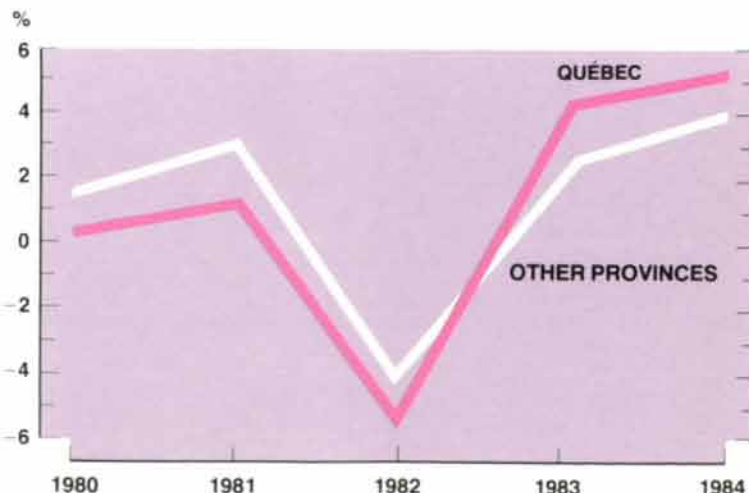
THE QUÉBEC ECONOMY

Québec recorded an increase in production of almost 5% in 1984, after a 4% rise in 1983 (*Graph 3*). Since the turning point of the cycle, Québec's economy has shown better performance than Canada as a whole.

This relatively higher growth stems from several factors, namely the greater importance of Québec's manufacturing industry, which is benefiting from the current recovery to a greater extent. As far as the residential sector is concerned, Québec's share of Canadian housing starts exceeded 30% in 1984 due to the favourable impact of the Corvée-Habitation program.

GROWTH* OF REAL GROSS DOMESTIC PRODUCT IN QUÉBEC AND OTHER PROVINCES

3



* % change over 12 months.

Sources: Statistics Canada and CDPQ.

Québec consumers upgraded their level of real expenditures by some 4% last year. They enjoyed a 2.7% increase in real income and used up a portion of their savings which exceeds the Canadian average in terms of income ratio. It should be stressed that this higher income was much more dependent upon job creation than wage increases. Average weekly wages in September exceeded those prevailing twelve months earlier by only 2.9%; moreover, salary increases in 1983 and 1984 were not only definitely lower than those of previous years, but a significant portion (30%) of jobs created since the recovery were part-time jobs, which very often call for lower salary rates.

In terms of sectorial employment, the most significant contribution came from the trade and personal services sectors where 39,000 of the 53,000 new jobs were created between November 1983 and November 1984. The manufacturing and construction sectors each boosted their labour forces by 10,000 employees, while minor drops were recorded in public administration, financial services and public utilities. From a peak of 15.4% at the trough of the recession, unemployment dropped to 11.9% in December 1984.

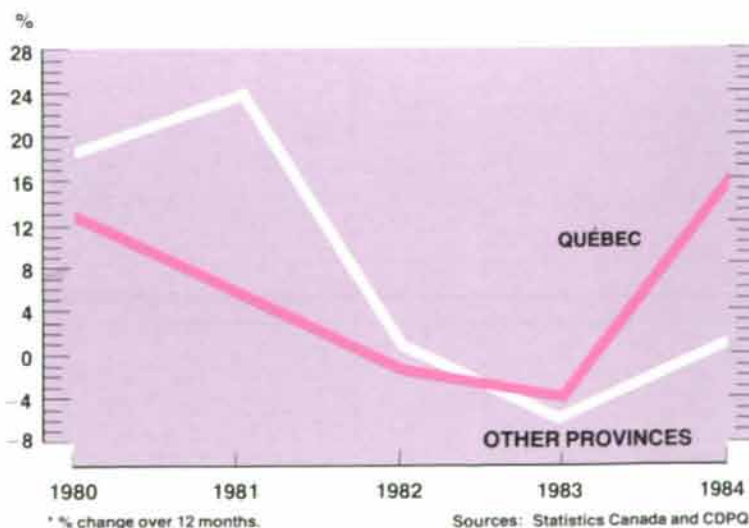
The highlight of the year in Québec was the vigour of private investments (*Graph 4*). Non-residential capital expenditure projections in the middle of the year indicated a substantial increase: 14% for all sectors and 38% in the manufacturing sector.



The Caisse contributes to the development of the manufacturing sector and in particular the textiles industry.

GROWTH* OF NON-RESIDENTIAL CAPITAL EXPENDITURES IN QUÉBEC AND OTHER PROVINCES

4



*The Caisse invests in prime real estate
in all regions of Québec.*



The Caisse administers funds it is entrusted with by various public bodies that are so authorized by virtue of an act of the Assemblée nationale. Of the Caisse's 11 depositors, 7 accumulate reserves to meet future commitments and the other 4 entrust the Caisse with liquidities.

At December 31, 1984, the market value of total depositors' holdings with the Caisse reached \$20.7 billion, an increase of \$1.8 billion during the year.

Without considering the general reserve, the book value of these assets totalled \$19.6 billion, an increase of \$1.8 billion which, on the whole, is due to the reinvestment of 93.2% of investment income amounting

to \$1,964 million. Despite the net contributions of \$419 million made by some depositors, the effect of withdrawals of \$552 million made by others was not completely offset. Therefore, net disbursements of \$133 million were recorded, representing 6.8% of investment income for 1984.

GENERAL FUND

The first depositor to the Caisse's General Fund is the Régie des rentes du Québec, the universal pension plan of Québec workers created in 1965. Its equivalent in the other provinces is the Canada Pension Plan.

Despite an increase in assets of over \$670 million during the year, the Régie des rentes du Québec had to fund current requirements by withdrawing \$372 million from some \$1,042 million in investment income. In the previous year, \$157 million was withdrawn. At year-end, the Régie des rentes du Québec's assets with the Caisse accounted for 50.9% of total depositors' holdings.

Another depositor to the General Fund is the Régie de l'assurance automobile du Québec, formed in 1977 to provide insurance against bodily harm resulting from automobile accidents. The plan operates much in the same way as the workmen's compensation plan.

DEPOSITORS

THE DEPOSITORS

5

Régie des rentes du Québec

Commission administrative des régimes de retraite et d'assurances
Government and Public Employees Retirement Plan
General Retirement Plan for Mayors and Councillors of Municipalities
Individual Plans

Régie de l'assurance automobile du Québec

Commission de la santé et de la sécurité du travail

Office de la construction du Québec

Supplemental Pension Plan for Employees of the Québec Construction Industry

Fonds d'assurance-prêts agricoles et forestiers

Régie des assurances agricoles du Québec

Régimes d'assurance-stabilisation des revenus agricoles et d'assurance-récolte du Québec

Régie des marchés agricoles du Québec

Régie de l'assurance-dépôts du Québec



The principal depositor is the Régie des rentes du Québec which provides retirees with their retirement income.

Contributions are levied yearly to constitute a reserve for benefits to be paid out to victims. At December 31, 1984, the holdings of the Régie de l'assurance automobile du Québec reached \$2.3 billion, or \$390 million over last year. This increase is due to investment income of \$233 million and \$157 million in new contributions. The plan represents 12.2% of the overall depositors' holdings entrusted to the Caisse, and 19.2% of the General Fund.

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

INDIVIDUAL FUNDS

Since 1969, the Caisse has administered the holdings of certain supplemental pension plans. The first supplemental plan is that of the employees of the construction industry. The type of benefits and source of contributions make this plan rather special. At December 31, the assets of the Supplemental Pension Plan for Employees of the Québec Construction Industry totalled \$1.4 billion, apportioned among three accounts: active participants, retired participants and additional contributions from certain workers. During 1984, the assets of the basic plan, including the accounts of both active and retired participants,

were allotted to Individual Funds 311 and 312, respectively, whereas those from additional contributions are deposited in Individual Fund 313. Moreover, the assets that had been entrusted to the Caisse by the Office de la construction du Québec for separate management were allotted to Individual Fund 311 on October 1st at book value. The growth of this pension plan has slowed down over the last few years.

During the year, despite withdrawals of \$25 million, a \$109 million increase was recorded for the plan, due to investment income of \$134 million.

SUMMARY OF ASSETS UNDER MANAGEMENT as at December 31, 1984 (in millions of dollars)

6

	General Fund ¹	Individual Funds	Total	% of total	Net change in 1984	Total
	book value					market value
Investments						
Bonds	9,363.8	3,720.6	13,084.4	65.0	1,071.0	12,850.3
Mortgage financing	488.5	687.4	1,175.9	5.8	(2.9)	1,155.0
Shares and convertible securities	2,113.6	2,456.8	4,570.4	22.7	1,006.8	5,395.6
Real estate investments	269.1	4.1	273.2	1.4	7.2	339.0
Short-term investments	609.5	16.6	626.1	3.1	(203.4)	626.8
Deposits in the General Fund	(198.9)	198.9	—	—	—	—
Total investments	12,645.6	7,084.4	19,730.0	98.0	1,878.7	20,366.7
Other assets	283.2	119.9	403.1	2.0	32.5	403.1
1984 Total	12,928.8	7,204.3	20,133.1	100.0	1,911.2	20,769.8
1983 Total ²	11,831.9	6,390.0	18,221.9	100.0	1,983.1	19,004.3
Net change in 1984	1,096.9	814.3	1,911.2			1,765.5

¹ For purposes of this presentation, the assets of the General Fund were reduced by the amount of demand deposits of the Individual Funds and accrued interest thereon. Assets of real estate subsidiaries are included in the General Fund.

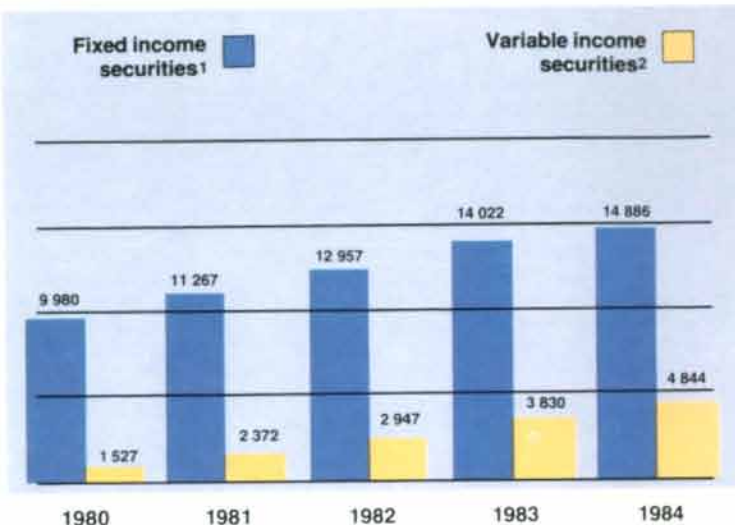
² Portfolios under separate management were integrated into the depositors' respective Individual Funds.

The second supplemental pension plan to entrust the Caisse with its assets is that of the government and public employees. This pension plan (RREGOP) was set up in 1974 and covers the entire public sector: the employees of the government, education and social affairs sectors. It is managed by the Commission administrative des régimes de retraite et d'assurances (CARRA) which turns over the contributions of employees to the Caisse. Since 1974, the plan has accumulated \$3.9 billion, representing 20.2% of the holdings of the Caisse's depositors. The growth of this plan is important for several reasons: it is fairly new, its members are continually increasing in number and they are relatively young. During the year, the plan's assets increased by \$626 million, of which \$261 million came from new contributions and the rest from reinvested investment income.

The Government and Public Employees Retirement Plan (RREGOP) features two accounts: one for unionized employees and another for non-unionized employees, and the respective holdings of these accounts are found in Individual Funds 301 and 302. In 1984, the portfolio under separate management for non-unionized employees was integrated into Individual Fund 302.

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

7

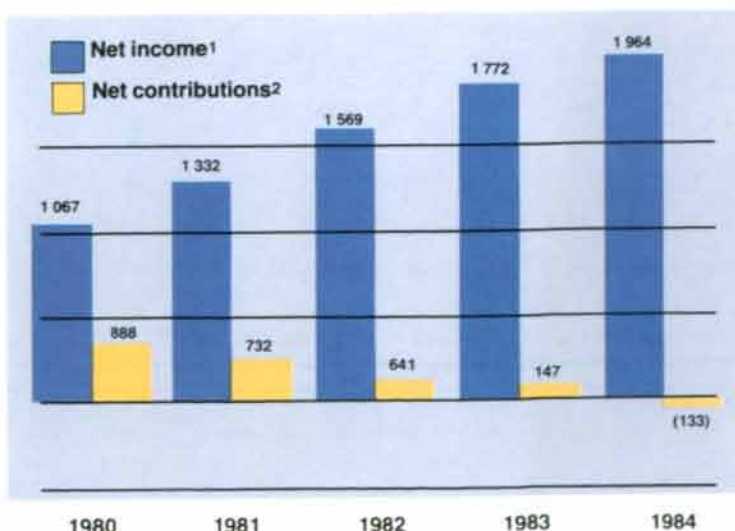


¹ Bonds, mortgages, deposits and short-term investments.

² Shares, convertible securities, real estate.

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

8



¹ Investment income less administrative expenditures.

² Deposits less withdrawals.



The Caisse administers the funds of the Québec construction industry workers' pension plan.



The Caisse invests in the farm and forest industries.

The Commission administrative des régimes de retraite et d'assurances administers other public

sector pension plans and the holdings of some of those plans are also entrusted to the Caisse. Such is the case for the

General Retirement Plan for Mayors and Councillors of Municipalities whose assets of almost \$12 million are

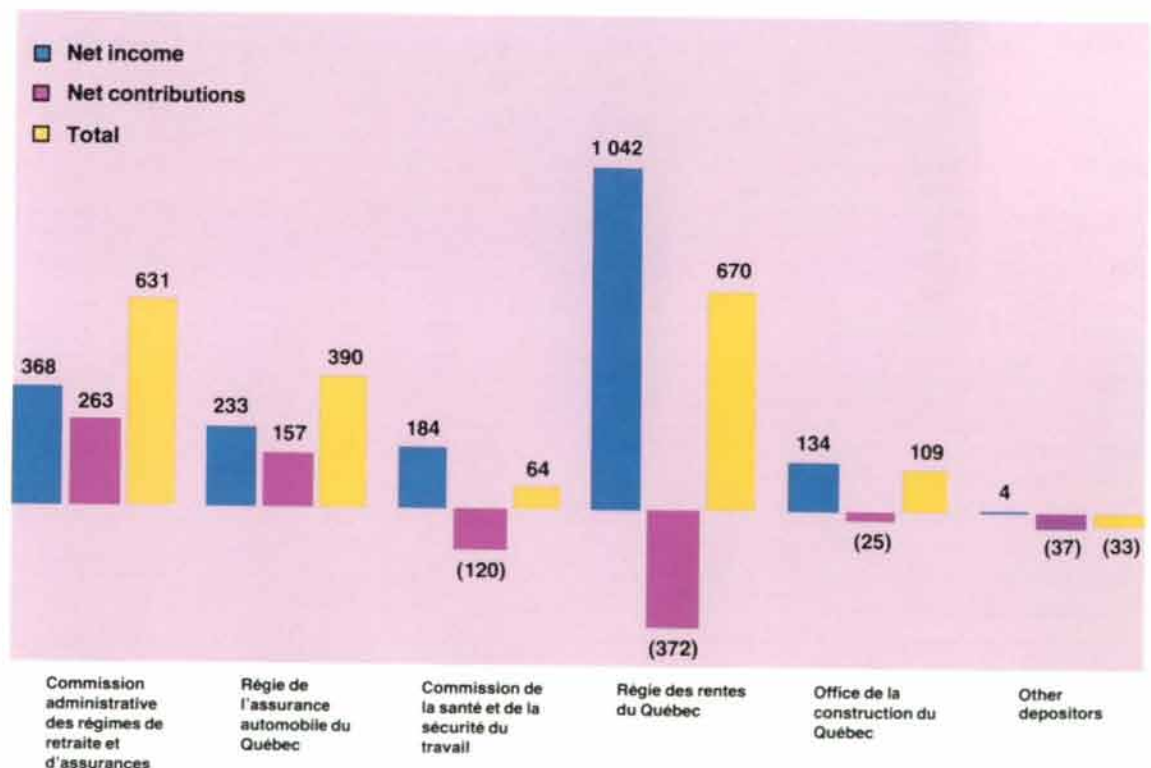
BREAKDOWN OF TOTAL DEPOSITORS' HOLDINGS as at December 31 (percentage of market value)

9

	1984	1983	1982	1981	1980
Régie des rentes du Québec	50.9	51.9	53.8	56.0	58.7
Commission administrative des régimes de retraite et d'assurances	20.3	19.5	17.5	16.5	15.3
Régie de l'assurance automobile du Québec	12.2	11.1	10.5	8.9	7.6
Commission de la santé et de la sécurité du travail	9.5	10.1	10.2	9.8	9.6
Office de la construction du Québec and other depositors	7.1	7.4	8.0	8.8	8.8

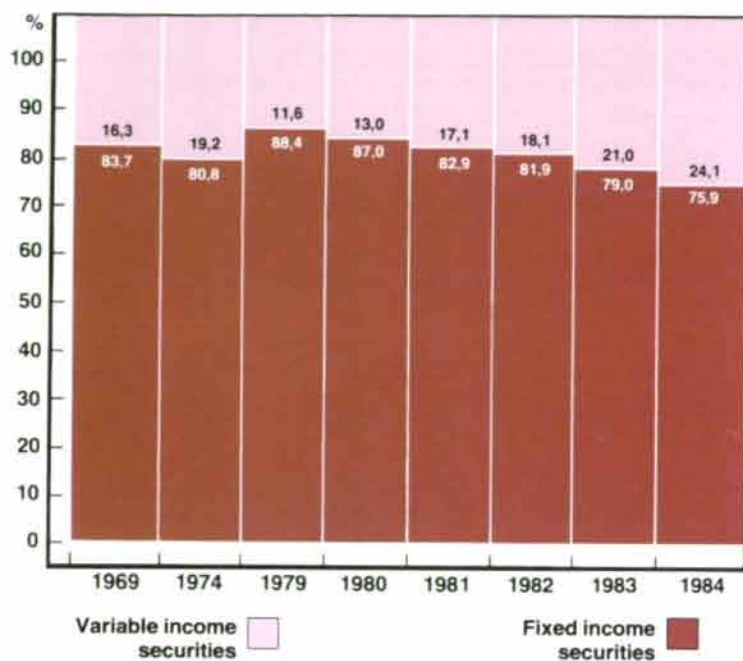
ALLOCATION OF EACH DEPOSITOR'S NET INCOME AND CONTRIBUTIONS for fiscal 1984 (in millions of dollars)

10



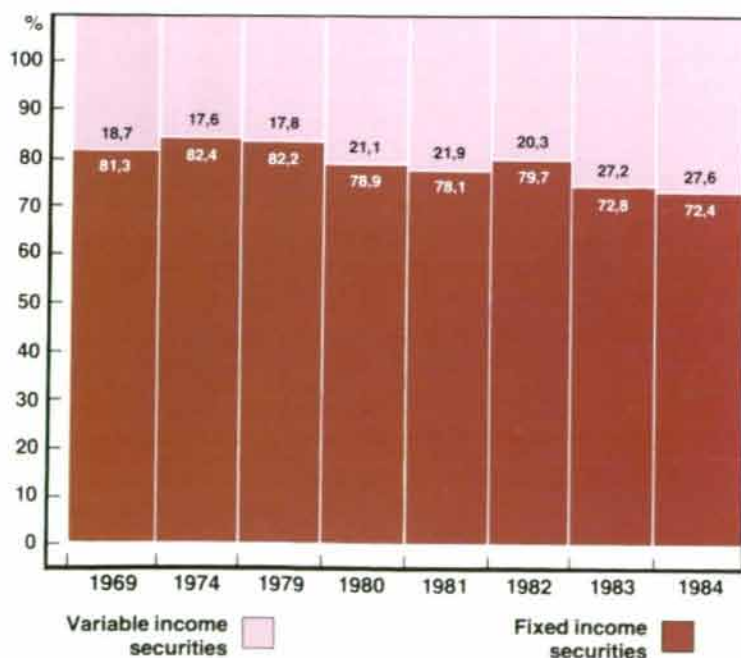
EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT AT BOOK VALUE as at December 31

11



EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT AT MARKET VALUE as at December 31

12



invested mostly in Individual Fund 304. Similarly, several other plans designated as Individual Plans can be found in Individual Fund 303; their assets total \$19 million.

The Commission de la santé et de la sécurité du travail entrusts to the Caisse the reserves it accumulates to meet workmen's compensation benefits it is required to pay and these are indexed at the same rate as the Québec Pension Plan. The Commission receives contributions from all employers for insurance against accidents occurring in their sector or industry. At its inception in 1973, the Commission transferred a portfolio of investments, which during the last quarter of 1984 was integrated into Individual Fund 330 at book value. As at December 31, 1984, the Commission had assets of \$1.9 billion, representing 9.5% of the Caisse's total depositors' holdings. Several changes brought to the plan have limited the growth of the Commission's reserve, which in 1984 increased by \$64 million despite withdrawals of \$120 million from investment income of \$184 million.



The investment of funds from the public sector employees retirement plan is administered by the Caisse.

PERFORMANCE

ASSET MIX

The weighting of variable income securities (shares and real estate investments) and fixed income securities (bonds, mortgage financing and short-term investments) within total assets is the main explanation for the performance of funds under the Caisse's administration. Since 1980, variable income securities have increased from \$1.5 to \$4.8 billion, as compared to \$9.98 to \$14.9 billion for fixed income securities (Table 7). In terms of percentage and book value (Table 11), this apportionment of the Caisse's total assets represents an increase in variable income securities from 11.6% at the end of 1979 to 24.1% in 1984.

This long-term orientation reflects the Caisse's preoccupation with maintaining good performance and guarding against the effects of inflation. On the long-term as well as the very long-term, experience has proven that variable income securities show a better return. At market value, the proportion of variable income securities has risen to an all-time high of 27.6% (Table 12).

Since it has reached the objective of increasing the portion of variable income securities within the portfolio, in the future, the Caisse's asset mix should tend to be more in line with medium-term financial cycle projections.

WEIGHTED RETURN

The rate of return obtained by portfolio managers compares with major market indices when using the time-weighted rate of return. Thus, bond investments posted a 16.5% yield for 1984 and 10.6% for the last eight years. This performance is higher than that of the MYW medium-term index which was 14.4% in 1984 and 9.6% for eight years in the case of the MYW long-term index.

In 1984, the mortgage investment portfolio performed remarkably well against the MYW mortgage index, recording a weighted return of 13.5% compared to 11.8%. For the eight-year period, the return is slightly lower due to the somewhat longer maturity of the Caisse's portfolio: 11.5% as opposed to 12.3%. Canadian stocks provided a somewhat lower weighted return than the TSE 300 index, mainly because of the strong proportion of securities from cyclical sectors.

However, for the eight-year period, the rate of return obtained by portfolio managers was slightly above that of the TSE 300 market index, or 16.6% against 16.5%. Finally, foreign stocks, at 3.2%, posted a better weighted return than Canadian stocks. Owing to the specific diversification in sectors that are not represented in Canada, this return cannot be compared with international indices.

INTERNAL RETURN

The Caisse obtained a 10.1% internal rate of return for total funds under management in 1984. Table 13 shows the investment returns of the General Fund and eight Individual Funds as well as those of the bond, stock, mortgage and real estate portfolios which are outlined for the fiscal year and for the eight-year period which constitutes a complete economic and financial cycle.

The asset mix within each of the General and Individual Funds explains most of the return differentials between funds. The General Fund, which holds a greater proportion of fixed income securities (bonds, mortgages, etc.), performed better than the Individual Funds: 11.4% versus 7.9%. In 1983, the Individual Funds had been favoured due to their greater proportion of stocks, yielding

20.2% as opposed to 15.3% for the General Fund. Lower interest rates and sagging stock markets throughout the year are the reason for the spread between investment vehicles. For an eight-year economic and financial cycle, overall funds recorded an average annual return of 12.3% as the consumer price index increased by only 8.5%, representing a 3.8% return after inflation.



The weighting of assets reflects the preoccupation with maintaining good performance.

INTERNAL RATE OF RETURN

13

	1984	Compound average annual rate for the 1977-1984 period (8 years)
TOTAL DEPOSITORS' HOLDINGS		
General Fund	10.1%	12.3%
Individual Funds	11.4%	12.1%
	7.9%	12.6%
FINANCIAL ASSETS		
Bonds	16.3%	11.2%
Mortgages	13.0%	11.5%
Canadian equity	-4.2%	15.1%
Foreign equity	3.6%	—
Real estate	15.3%	—

The internal rate of return method is a generally accepted benchmark for measuring the performance of funds invested.

The Caisse has over \$5.5 billion invested in variable income securities, whereby it takes part in the growth and profitability of many enterprises.



SITUATION

In January 1984, the rising market was finally restrained by investors' fears. The effects of much too rapid growth were feared since the latter could generate a rise of inflation and justified the high interest rates policy. As anticipated, economic growth was stifled by interest rates, but the noose was slackened in July. Then, in only a few weeks, the major upturn of the stock exchange market permitted most of the losses to be recovered. Enthusiasm was however rapidly dampened and new fears replaced those prevailing at the beginning of the year. Was the economic slowdown going to intensify and become a recession? Increasing income taxes seemed to be the only remedy for government deficits. A weaker economy and higher income taxes did not bode well for corporate profits and stock market investments.

The changing attitude of investors was reflected by market indices. The strong increase which had begun in August 1982 continued in 1983, ending in the first week of 1984. The gradual market decline throughout the first half bottomed out in July. After a rally in August, the Canadian market remained hesitant. XXM, the new index of the Montreal Exchange's Canadian portfolio, which had started at a theoretical value of

125 at the beginning of the year, fell to 100.3 in July (TSE 300: from 2552 to 2079, or an 18.6% drop) and fluctuated between 115 and 120 from September to the end of the year (TSE 300: between 2325 and 2425).

GENERAL POLICY

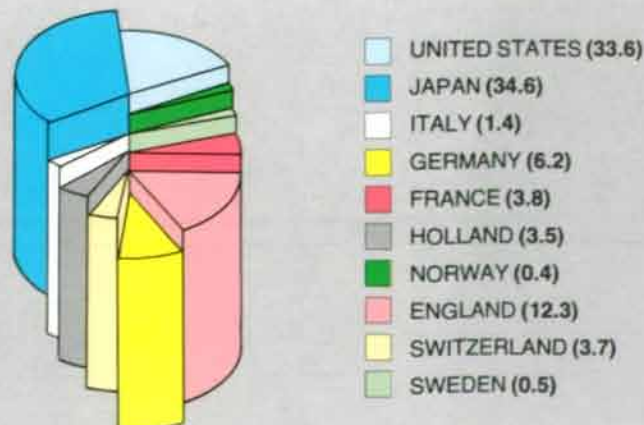
The market value of the Caisse's total variable income securities was \$5.7 billion at the end of December 1984, for an increase of \$573 million over 1983. The period was one of transition during which the decline of listed securities permitted portfolios to be reoriented towards sectors offering the best potential for the next market upturn.

In this perspective, the decrease of early 1984 enabled the Caisse to give more importance to cyclical sectors within its share portfolios. Net purchases were significant especially in the metals and minerals, industrial products and investment companies sectors. Moreover, the utilities sector benefited from a definite net increase in investments. As for the energy sector, a major transfer from pipelines to oil companies took place.

VARIABLE INCOME SECURITIES

BREAKDOWN OF INVESTMENTS WITHIN THE INTERNATIONAL PORTFOLIO as at December 31, 1984 (percentage of market value)

14





The investments of the variable income securities portfolio are distributed among several sectors, such as the oil sector.

FOREIGN EQUITY

In December 1984, the international portfolio reached a book value of \$148 million, apportioned among the various markets as follows, excluding cash: \$48 million for the United States, \$54 million for Japan and \$46 million for Europe.

From a profitability perspective, investments are made with a view to diversifying the overall portfolio of shares held and increasing its liquidity, thereby reducing risk. Stocks that are more particularly sought are those related to sectors of activity which have little representation in Canada, such as high technology as well as pharmaceuticals and health care products, which account for 28.7% and 8.2% of the international portfolio, respectively.

During the past year, international markets were largely influenced by events related to the American economy and its "super dollar"

Foreign market indices, as measured by Capital International, climbed considerably in terms of local currencies: by 25.7% for

England, 25.5% for Japan, 23.5% for Holland and 23.1% for Italy. Despite the devaluation of these currencies in relation to the Canadian dollar, foreign market performances, in Canadian dollars, were definitely higher than the Canadian market. As for the American market, although the increase was not as significant, it was still above the Canadian market, yielding 1.4% as measured by Standard and Poor's 500. Consequently, the growth recorded for all these markets in 1984 was higher than the domestic market.

PERFORMANCE

The performance of the Caisse's Canadian stock portfolio did not escape the negative trend of Canadian markets in 1984, especially since the positioning of the portfolio reflected anticipations of a rise of the most cyclical sectors, based on a favourable economic and financial outlook for 1985. This situation, which could generate a better return in 1985, had a negative impact on the portfolio's performance for the year, which was -4.2%.

Nevertheless, as was mentioned in last year's Annual Report when the return was high "It should be noted that the true gauge for assessing a portfolio is the

performance over an entire market cycle: this is how one can judge the results of management policy both for the bull and the bear markets."

Consequently, for the eight-year reference period, the weighted return of the Canadian stock portfolio reached 16.6% per year, against 16.5% for the TSE 300.

Furthermore, the foreign stock portfolio performed better than the Canadian stock portfolio in 1984, as anticipated.

MAJOR TRANSACTIONS

During the year, the Caisse acquired an important interest in Power Financial Corporation, a subsidiary of Power Corporation. This promising association lies within the scope of the financial supermarket concept. Moreover, the Caisse sold a material block of shares of Domtar Inc.

MEDIUM-SIZED BUSINESSES

The Caisse contributes to the development of Québec businesses by investing in medium-sized enterprises that are well established, with solid management teams and promising growth potential.

In 1984, the Caisse further increased its financial participation program promoting partnership in medium-sized businesses located in Québec and not listed on the stock exchange, in order to meet a certain need for capitalization. Since 1981, 44% of investments authorized under this program were private, representing 47% of total funds disbursed. During 1984, this proportion rose to 63%, or 74% of total funds disbursed. Investments made by the Caisse in medium-sized businesses yielded 11.6% during the year.

The number of businesses that received new investments from the Caisse increased from 10 in 1983 to 18 for the fiscal year just ended. Of total investments made, \$11,612,000 was allotted to such investments and, of this amount, \$10,579,000 went to

enterprises operating in Québec. Moreover, loans of \$4,392,000 were made to Québec medium-sized businesses and investment agreements totalling \$10,410,000 were concluded.

The participation of the Caisse in minority partnerships, together with the dynamic management of Québec entrepreneurs, contributed to the development of several medium-sized businesses during the year. Thus, the Caisse invested in, among others, Groupe Canam Manac Inc., well known for its steel products, John Meunier Inc.,

specialized in water treatment for several years, National Telesystem Ltd., which operates in the field of communications, and Artopex Canada Ltée, an important manufacturer of office equipment.

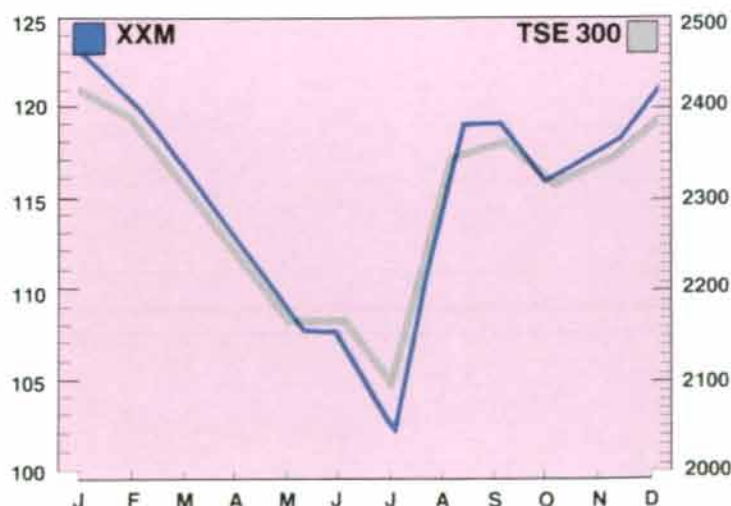
The Caisse also made new investments in the form of shares of companies such as Investissements Novacap Inc. and Innocan Inc. These venture capital vehicles offer attractive yield potential and are of great interest to the Caisse which is devoting special efforts to promote the number of such investments.



The Caisse has made sizeable investments in mining enterprises.

XXM AND TSE 300 INDICES IN 1984

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Auberge des Gouverneurs, in downtown Quebec City, is an example of the Caisse's contribution to the development of Quebec's hotel business.

Furthermore, the Caisse acquired shares of some Québec medium-sized businesses listed on the stock exchange during 1984. At year-end, the portfolio included shares of nine additional expanding companies.

REAL ESTATE INVESTMENTS

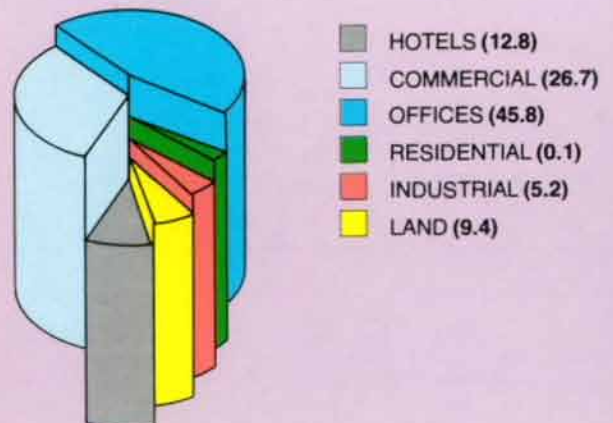
In 1984, the Caisse continued its policy of investing in prime real estate. With the participation of financial partners and real estate managers, two major complexes were acquired for a net value of \$35.2 million. At December 31, the real estate portfolio reached \$273 million and had a market value of \$339 million. Moreover, it yielded a 15.3% return for the year.

Through its real estate investments, the Caisse seeks not only a certain geographic diversification, but also an apportionment among the various sectors. At year-end, their breakdown was as follows: land 9.4%, offices 45.8%, hotels 12.8%, commercial 26.7%, industrial 5.2% and residential 0.1%.

It may also be noted that during the year, the Caisse completed its association with seven Québec financial institutions and pension funds in the Société immobilière Trans-Québec Inc., which pursues real estate management and syndicate creation operations.

BREAKDOWN OF THE REAL ESTATE PORTFOLIO as at December 31, 1984 (percentage of market value)

16



SITUATION

Interest rates, contrary to their stability of 1983, fluctuated with such amplitude and rapidity throughout the year that there were several moments of apprehension among portfolio managers. First, the strength of the economic recovery caused a general rise in interest rates, but the absence of inflationary pressures and the slackened pace of North American economic activity then led to a drop that was almost as rapid. Thus, Québec long-term bonds, which yielded 12¾% in the earlier part of the year, increased to

15% in June and stood at 12½% at the end of December 1984.

GENERAL POLICY

The proportion of strategic securities acquired on a temporary investment basis reached 15% of the fixed income securities portfolio at the end of the year, in accordance with the management principles set out last year. This category includes securities that can be accumulated or sold in large numbers by the Caisse without any great impact on market prices. They also offer the

possibility of acting according to market behaviour forecasts for transaction volumes and terms prescribed by internal management needs. The acquisition of these securities therefore gives efficiency and flexibility to the important fixed income securities portfolio administered by the Caisse. Throughout 1984, the major source of such securities was again the American bond market.

FIXED INCOME SECURITIES

SUMMARY OF FIXED INCOME SECURITIES PORTFOLIOS ACCORDING TO ISSUERS as at December 31, 1984

17

Securities	Market value		Average nominal rate (percentage)	Average maturity (years)	Modified duration
	(in millions of dollars)	(percentage)			
On a permanent investment basis					
Issued by the Gouvernement du Québec	6,850.9	48.9	11.84	10.62	5.42
Government guaranteed	2,189.3	15.6	10.90	12.72	5.93
Guaranteed by grants	733.3	5.2	12.95	7.99	4.29
Municipal and school	698.7	5.0	11.14	6.27	3.72
Corporate and other	341.7	2.5	11.95	7.33	4.12
Mortgage financing	1,155.0	8.3	11.68	5.31	2.56
On a temporary investment basis					
Government issued or guaranteed					
Canada	682.3	4.9	11.93	7.67	4.15
United States	1,235.3	8.8	11.83	5.90	4.16
Others	118.8	0.8	13.14	6.27	3.48
Total	14,005.3	100.0	11.71	9.54	4.90

The Caisse has a large and profitable investment in Gouvernement du Québec and public sector bonds.



Because of this portfolio structure, a larger volume of securities from the Québec public sector was traded. This enabled the diversified contents of existing bond portfolios to be developed, allowing a better apportionment of Québec securities. Furthermore, due to the particularly intense activity of the Québec securities market throughout the year, especially regarding Gouvernement du Québec bonds, operations on the secondary market were distributed about evenly between Canadian bonds, American bonds and Québec securities.

After having reduced the average maturity of fixed income portfolios to less than ten years and their modified duration (which measures the extent of the risk in relation to interest rate fluctuations) to around five years, a strategy of maintaining this position was pursued, taking into account interest rate

fluctuations and the time factor. Therefore, most new permanent investments had maturities ranging from 10 to 20 years (Table 17). Moreover, the positioning of investments acquired on a temporary basis aimed at long maturities in the early part of the year and at average maturities at year-end.

For total portfolios, the market value of fixed income securities held by the Caisse at December 31 was \$14 billion, while the average nominal rate was 11.7%, the average maturity was 9.5 years and the modified duration was 4.9 years.

PERFORMANCE

In 1984, the performance of fixed income securities was higher than the average for the eight previous years. The annual return on the Caisse's bond portfolio reached 16.3% for the year and 11.2% for the last eight years.

The shrinking spread between yields of Québec public sector securities and other Canadian securities was particularly evident during the period. The very low and sometimes even negative return differentials between Canadian and American securities permitted a somewhat similar performance for Canada and U.S. government bonds with the same maturities.

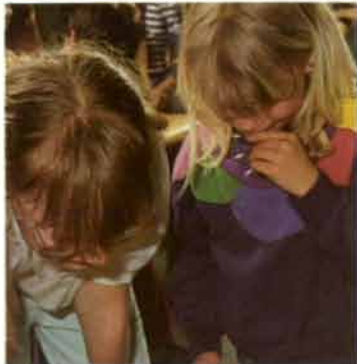


Hydro-Québec bonds are a sound investment and contribute to the development of that company's operations as the manager of Québec's hydroelectric wealth.

SUMMARY OF ACQUISITIONS BY THE CAISSE OF NEW BONDS ISSUED BY THE QUÉBEC PUBLIC SECTOR IN 1984 (par value - in millions of dollars)

18

	Amounts of issues			Acquisitions by the Caisse	
	Canadian market	Other markets	Total	Amount	Percentage of total
Gouvernement du Québec	1,612.6	722.2	2,334.8	862.0	37
Hydro-Québec	880.0	353.1	1,233.1	150.0	12
Municipalities and guaranteed by grants	1,602.5	382.0	1,984.5	268.2	14
1984 Total	4,095.1	1,457.3	5,552.4	1,280.2	23
1983 Total	1,590.0	1,567.0	3,157.0	975.0	31



Through its bond portfolio, the Caisse takes part in the financing of 147 school boards, 38 colleges and all of Québec's universities.

As for mortgage financing, the rate of return was 13% in 1984, compared to 11.5% for the last eight years. This good performance was obtained because of the longer average maturity of securities within the Caisse's portfolio as compared to that of the market.

BOND INVESTMENTS

Net investments related to the bond portfolio during the year reached \$1.07 billion. Moreover, purchases of new Gouvernement du Québec bonds totalled approximately the same as in 1983, at \$862 million. This amount represents 36.9% of total issues.

Furthermore, new bonds acquired from other Québec public sector bodies amounted to \$418 million, or 13% of total issues (Table 18). The net change in the book value of securities from this sector only totalled \$242 million however, due to the volume of sales that were made.

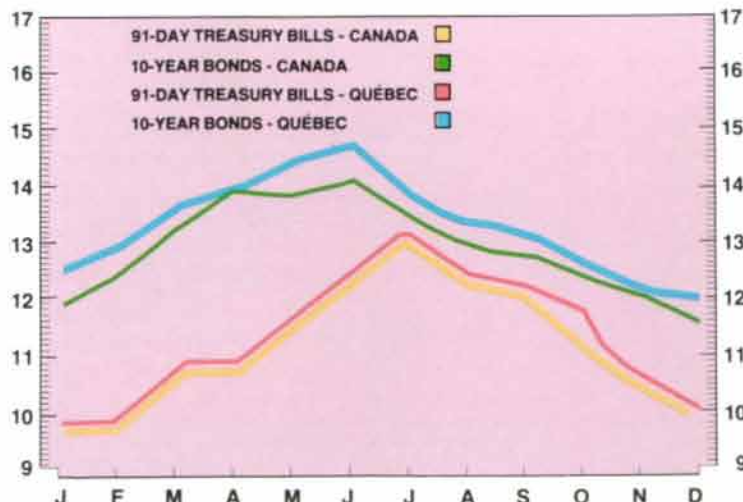
At December 31, 1984, the market value of bonds held by the Caisse aggregated \$12.9 billion — a \$1.4 billion increase compared to the previous year — while the average maturity was 9.9 years, the average coupon rate was 11.7% and the modified duration was 5.1 years. The average maturity of the portfolio was reduced by six months.

SHORT-TERM INVESTMENTS

At year-end, short-term investments totalled \$626 million, representing 3.2% of the Caisse's overall assets on that date and \$203 million less than at the end of 1983. Moreover, this portfolio's average maturity was 55 days and the return was approximately 11.2%, versus 9.8% for the previous year.

EVOLUTION OF YIELD IN 1984

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Sources: Bank of Canada and CDPQ.

MORTGAGE FINANCING

Mortgage financing activities followed an inversely proportional curve to that of interest rates throughout 1984. The upward trend of interest rates in the first half contributed to the slackening of the demand for mortgage loans, which revived in the second half when rates dropped. On the whole, this change during the second half permitted a good year to be recorded in terms of investments, which reached \$143 million at December 31, 1984.

Of this amount, the Caisse invested \$50 million under the Corvée-Habitation program, thereby bringing its participation to almost \$120 million. The amounts paid out by the Caisse represent 15% of the total investments of participating institutions since the inception of the program.

At year-end, the book value of mortgage financing was \$1.2 billion for aggregate portfolios. Their breakdown is in the following proportions: residential 58.4%, commercial 35.3% and industrial 6.3%. Moreover,

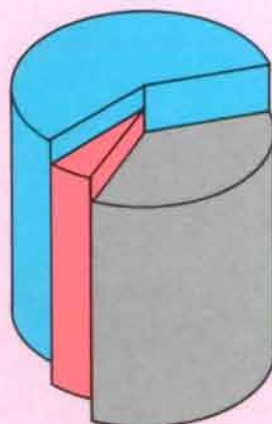
the average rates and maturities at December 31 were as follows: General Fund 10.6% and 7.4 years, Individual Funds 12.9% and 3.9 years.



In 1984, the Caisse invested \$50 million under the Corvée-Habitation program.

BREAKDOWN OF MORTGAGE FINANCING as at December 31, 1984 (percentage of market value)

20



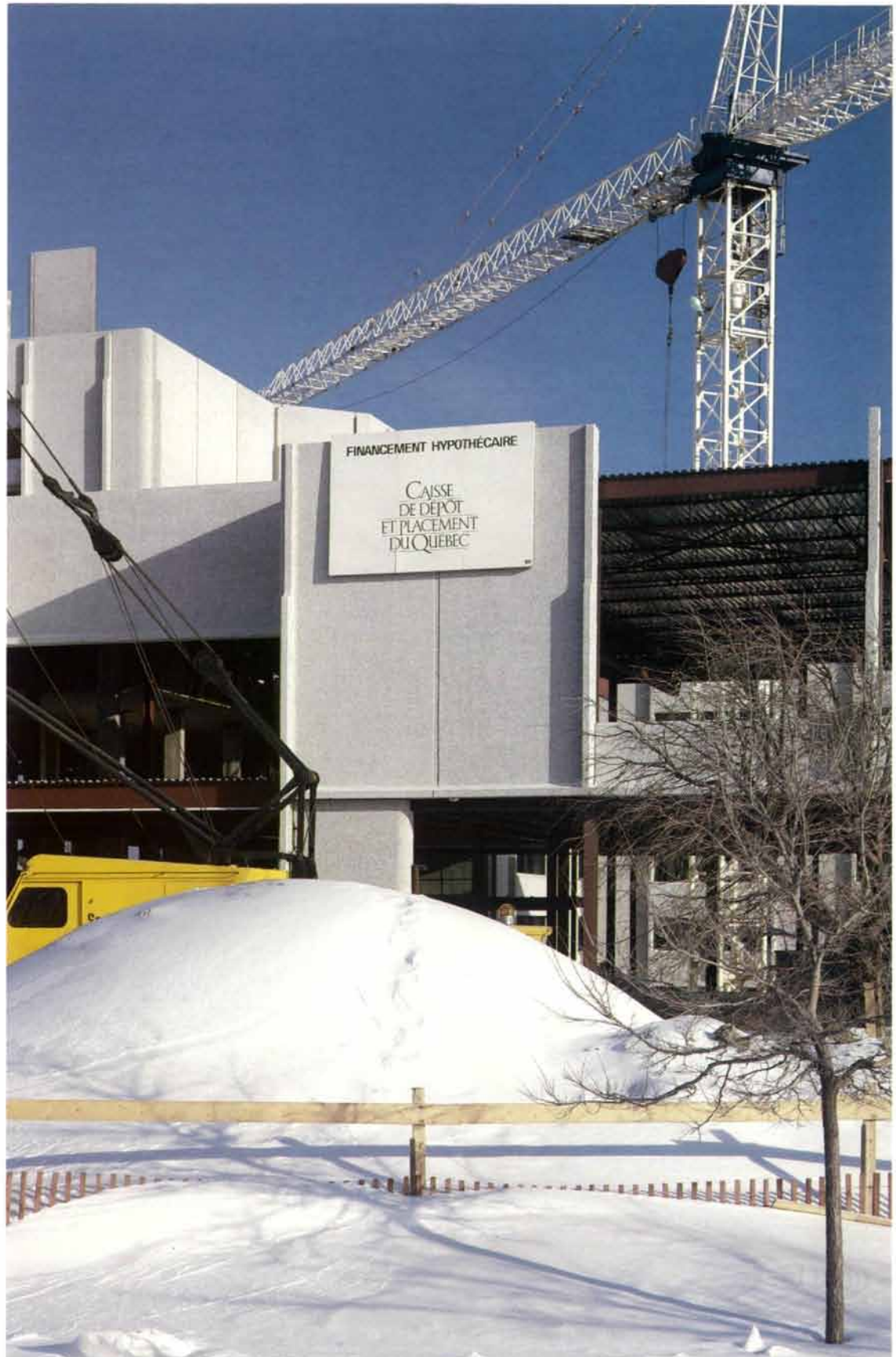
- INDUSTRIAL (6.3)
- COMMERCIAL (35.3)
- RESIDENTIAL (58.4)

EVOLUTION OF LONG-TERM INVESTMENTS IN THE PRIVATE SECTOR as at December 31 (book value - in millions of dollars)

21

	Shares and convertible securities	Bonds	Mortgage financing and real estate investments	Total
1984	4,570.4	368.6	1,449.1	6,388.1
1983	3,563.6	519.7	1,444.8	5,528.1
1982	2,759.6	746.6	1,271.1	4,777.9
1981	2,316.7	887.4	1,159.9	4,364.0
1980	1,496.4	964.3	982.0	3,442.7

The construction of Motel Universel was made possible by means of a mortgage loan from the Caisse. Hundreds of individuals and enterprises have obtained loans of this type, now totalling \$1,155 million.



HUMAN RESOURCES

Over the past few years, the Caisse's needs in terms of human resources have evolved significantly, as a result of the growth of operations as much as the sophistication of existing investment instruments.

The dynamic evolution of Québec's financial institutions throughout 1984, as well as their expansion, gave rise to increased competition in the recruiting of investment specialists. This external environment coupled with internal needs represented a challenge for the management of human resources in terms of recruiting managers and training future portfolio managers.

A training program which was implemented a few years ago permitted some twenty young professionals to make their debut in the financial sector, and several of them are now integrated in various departments of the Caisse. The program aims at familiarizing trainees with financial markets, while enabling them to explore the various disciplines of the Caisse.

Among the Human Resources Department's various administrative activities is the development of computerized tools to provide the necessary support for benefits administration and career planning. Furthermore, the number of employees at the Caisse was maintained at a level close to that of the previous year, totalling 173 at year-end.

ADMINISTRATIVE EXPENDITURES

The Caisse's administrative expenditures for 1984 reached \$13.1 million, of which \$7.6 million was charged to the General Fund and \$5.5 million to the various Individual Funds. Salaries and employee benefits were again the greatest expenditure, representing 51% of total administrative expenditures.

As a whole, such expenditures increased by 10.5% over the previous year: salaries and employee benefits rose by 6.8% while other expenditure items were up 14.7%. The main items responsible for the increase in these other expenditures are professional fees as well as service and safekeeping charges related to international transactions, which account for 11.2% of the 14.7% increase.

DATA PROCESSING

Efficiency and productivity needs for the administration of the Caisse's investments require a variety of state-of-the-art tools that are essential to managers. The continuous upgrading of such equipment and the development of its applications are therefore a major preoccupation.

During the year, data processing orientations consisted of enhancing computer access, supplying managers with new productivity tools and starting up a partial decentralization of data processing. Moreover, the implementation of the data processing master plan was pursued.

ADMINISTRATION



The administration of investments requires a variety of state-of-the-art tools.

Development efforts were mainly oriented towards setting up systems for the management of bonds and the processing of all of the Caisse's data. The demand for simulation, financial analysis and data processing tools was met by the acquisition of software for the central computer as well as micro-computers.

Also, important steps were taken towards implementing the office automation master plan. Word processing services were decentralized and units were installed at secretarial work stations having the highest volume of work. The execution of this master plan will be continued in 1985.

The Caisse's Data Processing Department employs 19 people, representing 10% of employees. Furthermore, over 60% of the personnel require computer tools to perform their jobs while almost all employees use the products of data processing.

INFORMATION

The information distribution policy which has been in effect for three years continues to be developed and the Caisse provides more information on its operations and investments than most financial institutions. The Caisse is devoting increased efforts to informing the public about its role, operations and activities. Also, similar efforts were made outside Québec to establish and develop contacts with the financial and business circles of various countries.

Cycles et tendances, the semiannual publication of forecasts from the Caisse's Economic Research Department, has been issued for two years now to meet the needs of an increasing readership.

Furthermore, the continued interest in quality inter-corporate relations has led the Caisse to set up Inter-Corporate Relations Services.

PRINCIPAL OFFICERS

The principal officers, in addition to the Chairman of the Board and General Manager Jean Campeau, include the following senior vice-presidents: Michel Nadeau, Planning and Depositors' Affairs; Yvon Sauvageau, Fixed-Yield Investments; Jean-Claude Scraire, Legal and Corporate Affairs, and Jean Trudel, Administration and Control as well as Marcel Camu, Secretary.

The principal vice-presidents, directors and managers are: Yves Benoit, Jacques Bouré, Jean-Claude Cyr, Serge Desjardins, Pierre Garceau, Denis Giroux, Maurice Hébert, Serge Houle, Louis Journault, Gody Lienhard, Jean Michaud, Denis Ouellet, Denise Simard Chaput and Alain Tessier.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC
Combined Summary Financial Statements
BALANCE SHEET

as at December 31, 1984

(thousands of dollars)

ASSETS	1984	1983
Investments		
Bonds	\$ 13 084 435	\$ 11 927 577
Shares and convertible securities	4 570 443	3 563 592
Mortgage financing	1 175 885	1 175 610
Real estate investments	273 178	265 981
Short-term investments	626 041	829 505
	19 729 982	17 762 265
Other assets	403 123	368 564
	\$ 20 133 105	\$ 18 130 829
LIABILITIES	\$ 79 934	\$ 105 197
DEPOSITORS' HOLDINGS		
General Fund	12 845 493	11 726 107
Individual Funds	7 207 678	6 299 525
	20 053 171	18 025 632
	\$ 20 133 105	\$ 18 130 829

INCOME AND EXPENDITURE

for the year ended December 31, 1984

(thousands of dollars)

INCOME	1984	1983
Investment income	\$ 1 930 848	\$ 1 751 253
Gain and loss on sale of investments	147 694	60 856
Other income	265	329
	2 078 807	1 812 438
EXPENDITURE		
Administrative expenditures	13 104	11 818
Transfer of gain and loss to general reserve	106 291	33 728
BALANCE OF INCOME	1 959 412	1 766 892
INCOME ATTRIBUTED		
Interest on demand and term deposits	32 583	30 487
Income on participation deposits	\$ 1 926 829	\$ 1 736 405

Note: Detailed financial statements are provided in the booklet FINANCIAL STATEMENTS AND FINANCIAL STATISTICS of the 1984 Annual Report.

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

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