

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC



1985
REPORT



20
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CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

TWENTIETH
ANNUAL
REPORT
1985

The Caisse de dépôt et placement du Québec, a totally autonomous institution in its investment management operations, was formed in 1965 to manage the funds arising from various public pension and insurance plans. Its mandate is to ensure that the funds under its administration generate a profit through sound investments and also to support Québec's economic development. To achieve these objectives, it uses the best investment vehicles available, including bonds, shares and convertible securities, mortgages and real estate investments. The Caisse is one of North America's major financial institutions. Its principal place of business is located in the heart of Montréal, a first-class financial center.

Today, twenty years after its founding, the Caisse manages investments totalling over CA\$23 billion.

	Page
Highlights of the year	3
BOARD OF DIRECTORS' REPORT	4
REPORT OF OPERATIONS	6
THE ECONOMIC ENVIRONMENT	6
The American economy	
The Canadian economy	
The Québec economy	
DEPOSITORS	10
General Fund	
Individual Funds	
ASSET MIX	16
Return	
Internal return	
Time-weighted return	
Asset mix since the Caisse's founding	
VARIABLE INCOME SECURITIES	20
Situation	
Return	
Canadian stock markets	
Foreign stock markets	
Corporate investments	
Medium-sized enterprises	
Real estate investments	
FIXED INCOME SECURITIES	25
Situation	
General policy	
Return	
Bond investments	
Mortgage investments	
Short-term investments	
ADMINISTRATION	29
Human resources	
Administrative expenses	
Data processing	
Cycles et tendances	
COMBINED SUMMARY FINANCIAL STATEMENTS	31
Balance sheet	
Statement of income and expenditure	

HIGHLIGHTS OF THE YEAR
(in millions of dollars)

ASSETS UNDER MANAGEMENT	1985	1984
Total book value	22,543.4	20,148.3
Excess market value over book value of investments	2,699.9	636.8
Total market value	25,243.3	20,785.1
BREAKDOWN OF ASSETS UNDER MANAGEMENT		
Investments		
Bonds	14,541.9	12,850.3
Shares and convertible securities	6,821.4	5,395.6
Mortgages	1,269.9	1,155.0
Real estate investments	372.9	339.0
Short-term investments	1,797.7	642.1
Total investments	24,803.8	20,382.0
Other assets	439.5	403.1
Total market value	25,243.3	20,785.1
DEPOSITORS' HOLDINGS		
Régie des rentes du Québec	12,423.2	10,538.8
Commission administrative des régimes de retraite et d'assurances	5,438.4	4,210.5
Régie de l'assurance automobile du Québec	3,290.9	2,514.2
Commission de la santé et de la sécurité du travail	2,177.9	1,956.4
Office de la construction du Québec	1,745.3	1,474.7
Other depositors	12.7	11.0
Total depositors' holdings	25,088.4	20,705.6
Liabilities	154.9	79.5
Total market value	25,243.3	20,785.1
NET DEPOSITORS' INCOME	2,299.5	1,963.9
NET DEPOSITORS' WITHDRAWALS	358.9	22.9
INTERNAL RATE OF RETURN ON TOTAL DEPOSITORS' HOLDINGS (in percentage)	24.0	10.1

BOARD OF DIRECTORS' REPORT

The Caisse de dépôt et placement du Québec's Board of Directors is pleased to submit the financial results for the year ended December 31, 1985.

The rate of return for total funds under management reached 24% in 1985, exceeding the inflation rate by 19.6%.

Computed over the last eight years, which represents the main reference period used in previous reports, the compound average annual rate of return totalled 13.9%, while the average rate of inflation for the same period was 7.9%. Funds under management therefore yielded 6% above inflation for the eight-year period.

The Caisse, celebrating its twentieth anniversary, has obtained a compound average annual rate of return of 12.1% since its inception, exceeding the rate of inflation by 4.9% for the same period.

Those figures accurately reflect the results achieved throughout the years. The Caisse was created by an act of the Québec Assemblée nationale on July 15, 1965 and made its first investment on February 14, 1966. As the records show, the transaction consisted of acquiring \$500,000 in bonds of the International Reconstruction and Development Bank.

Twenty years later, in 1985, the Caisse generated investment income of \$2.7 billion. This new record high represents an increase of \$618 million over the previous year. Income for 1985 thus brings the total net income generated year after year by the

Caisse's investments since its inception to some \$14 billion. For the last five years alone (1981-1985), total net income amounted to \$9.4 billion.

During 1985, the Board held special meetings to assess the results and operations of the years 1981 to 1984 and define the policies and orientations for the next five-year period.

At those meetings, it was recognized to what extent the Caisse has been successful in reconciling its dual objective throughout the years by ensuring the security and optimal return of funds it is entrusted with and supporting Québec's economic development.

The Caisse intends to continue these efforts in coming years and is happy to note that an increasingly large number of business people subscribe to this dual objective and even strive to achieve it in their own business operations.

Our society's economic development is dependent upon the ever increasing cooperation of its various economic agents. As a Québec financial institution, the Caisse endeavours to promote this cooperation and actively encourages it.

The Caisse's objectives therefore naturally require its participation together with public or private enterprises in developing major financial or industrial projects, supporting the growth of new local businesses through loans or investments, and acting as an innovator and initiator on financial markets.

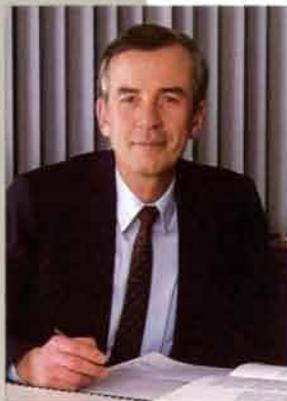
Furthermore, the Caisse devotes particular attention to the quality of Montréal's financial market, which is of the utmost importance for its healthy management, and is happy to see international financial activity expand in Montréal.

The Caisse itself manages a large volume of foreign investments. These investments are aimed at reducing, through diversification, the risks associated with managing a portfolio. They are also intended to yield a better return, specifically through investments in firms that operate in certain particularly dynamic sectors, which are almost nonexistent in our economy. Thus, for the third consecutive year, the Caisse invested in the share capital of foreign enterprises. Such investments, whose profitability is being established, now aggregate \$410 million, or 1.6% of the overall portfolio. As for investments in U.S. government securities acquired on a temporary basis and for purposes of strategy and the protection of the bond portfolio, they have ranged from CA\$1.1 to \$1.4 billion during the year. Such transactions generated profits of CA\$175 million.

Because of its openness to other economies and also because of the size of its assets and its excellent reputation, the Caisse has become a credible representative and an increasingly sought financial partner by foreign enterprises which wish to invest here.

For twenty years, the Caisse has been very active on the primary market for Gouvernement du Québec, Hydro-Québec, municipal and school board bonds. It also operates on the secondary market for Gouvernement du Québec and Hydro-Québec bonds.

Over the last twenty years, the Caisse's investments have generated over \$14 billion in net income owing to the outstanding efforts of its portfolio managers and partners. For 1985 alone, investment income reached \$2.7 billion. The 24% rate of return exceeds the inflation rate by 19.6%.



Those operations lie within the scope of several objectives that were set out at the time of its inception, namely; to meet the Québec public sector's financing needs without isolating it from financial markets and to ensure an orderly and broader market for securities of the public sector.

In this field, the ever fragile balance between the different requirements and objectives of the various institutions concerned can be kept by maintaining relations which respect these institutions and are ultimately concerned about the interests of all Québec men and women, whether taxpayers, depositors or beneficiaries, now or in the future.

In the mortgage sector, the Caisse has constituted a high quality portfolio favouring new construction projects. Amounting to \$1.26 billion, investments included in this portfolio are spread out in all regions of Québec. For almost five years now,

our Institution has been diversifying its investments by acquiring real estate. It has carefully acquired a portfolio of some \$311 million whose growth is expected to continue, particularly through the impetus of the Société Immobilière Trans-Québec, in which the Caisse is

associated with several institutional investors.

In addition to its stock market investments, the Caisse has diversified into corporate investments over the years by acquiring interests in dynamic enterprises so as to meet their needs for funding or growth.

These investments, which are generally large in terms of value or percentage, entail additional responsibilities with regard to the enterprises and their shareholders as a whole.

Our Institution thus strives to honour its commitments competently and open-mindedly, thereby hoping to further contribute to the development of these enterprises for the greater benefit of all Quebecers.

As a result of the pooling of the financial reserves and resources of Québec's population through various pension and insurance plans and the substantial income arising from healthy management, the Caisse's assets have reached, after twenty years, a size which entails great responsibilities. The Caisse is well aware of those responsibilities and

assumes them conscientiously. Over the years, activity has become concentrated on the international financial scene. In fact, the number of participants involved has increased but also, most remarkably, there has been strong growth in the volume of business and assets of a certain number of financial enterprises and institutions.

The Caisse can now start to act effectively in the world of financial and industrial giants where billions are the measuring unit and fierce competition between enterprises and countries is now a standard strategy.

On behalf of
the Board of Directors,

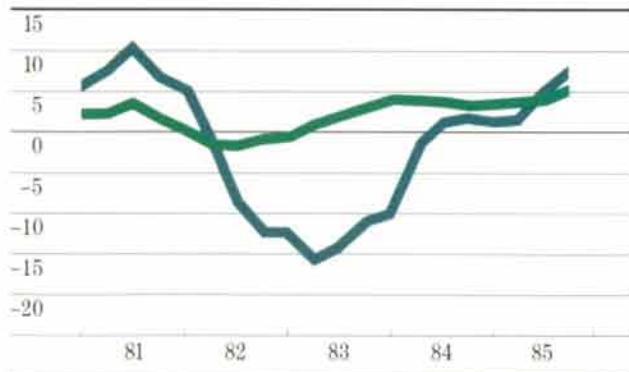
A handwritten signature in dark ink, reading "Jean Campeau". The signature is fluid and cursive, with a large initial "J" and "C".

Jean Campeau
Chairman of the Board
and General Manager
Montréal, March 14, 1986

Growth in the United States slackened considerably in 1985. In Canada, however, it continued at somewhat the same pace as in 1984. Nevertheless, interest rates, the inflation rate and profit increases in both countries revealed a similar pattern: all three dropped. In Canada as well as in the United States, the federal governments' failure to reduce the deficit was a great deception for all observers. These were the economic highlights of 1985.

1

EVOLUTION* OF PERSONAL EXPENDITURES
AND GROSS FIXED CORPORATE INVESTMENTS
IN CANADA (in percentage)



■ Investment
■ Expenditures

* % change over 12 months, in real terms.
Source: Statistics Canada



At the end of 1985, the economic situation continued to sustain anticipations of healthy growth for 1986.

The Caisse benefits from forecasts for the North American economy prepared by its team of economists to better define its investment policy. The forecasts help portfolio managers and analysts anticipate the repercussions of economic cycles and fluctuations on the performance of the Caisse's large portfolio.



THE AMERICAN ECONOMY

The decline in the growth rate of the U.S. real gross national product to 2.3% was surprising, and the causes of this fall, an even greater surprise. Demand remained very strong but proportionately it was stronger on world markets than in 1984, with the result that income and manufacturing employment losses undermined production. The drop in inventory investment which started during the second quarter reveals a very good picture of the producers' loss of confidence during the year.

The lack of vigour on the part of the United States' trading partners, excluding Japan and Canada, did not help either. Despite the fall of the American dollar which started in March, exports did not really recover.

The American monetary authorities reacted to the situation by emphasizing the easing of the dollar which had begun at the end of 1984 when certain economic indicators were already showing a decline. In fact, American monetary policy sharply changed course in 1985. Monetary aggregates, indebtedness and even the federal deficit were less causes for worry. The management of the Federal Reserve Board was very accommodating, and even truly expansionist. In September, the United States even sought cooperation from

Japan, Great Britain, the Federal Republic of Germany and France to weaken the dollar. The monetary authorities were openly in favour of letting interest rates continue to fall, and even more so since the rate of inflation was dropping slightly.

This choice seems to have had favourable repercussions, on the short term at least. Economic indicators picked up towards the end of the year.

THE CANADIAN ECONOMY

Canada's performance was better. In the third quarter, the real gross national product increased by 4.4% compared with the third quarter of 1984. Only exports grew more slowly than during the previous year. Domestic demand became the driving force of growth.

Personal expenditures of all types were up sharply. Automobile purchases were particularly high. Residential construction, which had not followed the general recovery too closely up to that time, started picking up momentum in April. The number of housing starts reached 185,000 during the last quarter of 1985, compared with 125,000 for the same period in the previous year.

Corporate expenditure programs were broadened in 1985. Corporate investments in new facilities and machinery rose by

5% in real terms, following the increase in the capacity utilization rate.

Labour market conditions improved. From the end of 1984 to the end of 1985, a total of 362,000 jobs were created and unemployment fell by almost 1%, sliding to 10%. This rate is still high and is responsible to a great extent for the slow growth of the average salary rate, at 3.5%. Also, Canada's inflation rate did not noticeably change. Indirect tax increases legislated by the federal

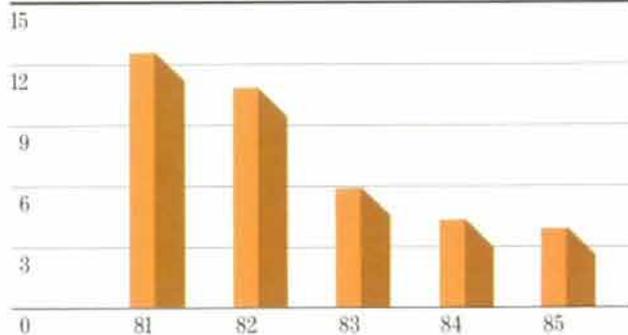
government and certain provincial governments were the only distinctive element in this area.

Profits were up by only around 5%, compared with 50% and 20% for 1983 and 1984, respectively. The weaker growth of exports was unhealthy for certain manufacturing sectors. Some financial institutions reported considerable losses and several industries of the resources sector had to face lower prices.

At year-end, the economic indicators were still forecasting a

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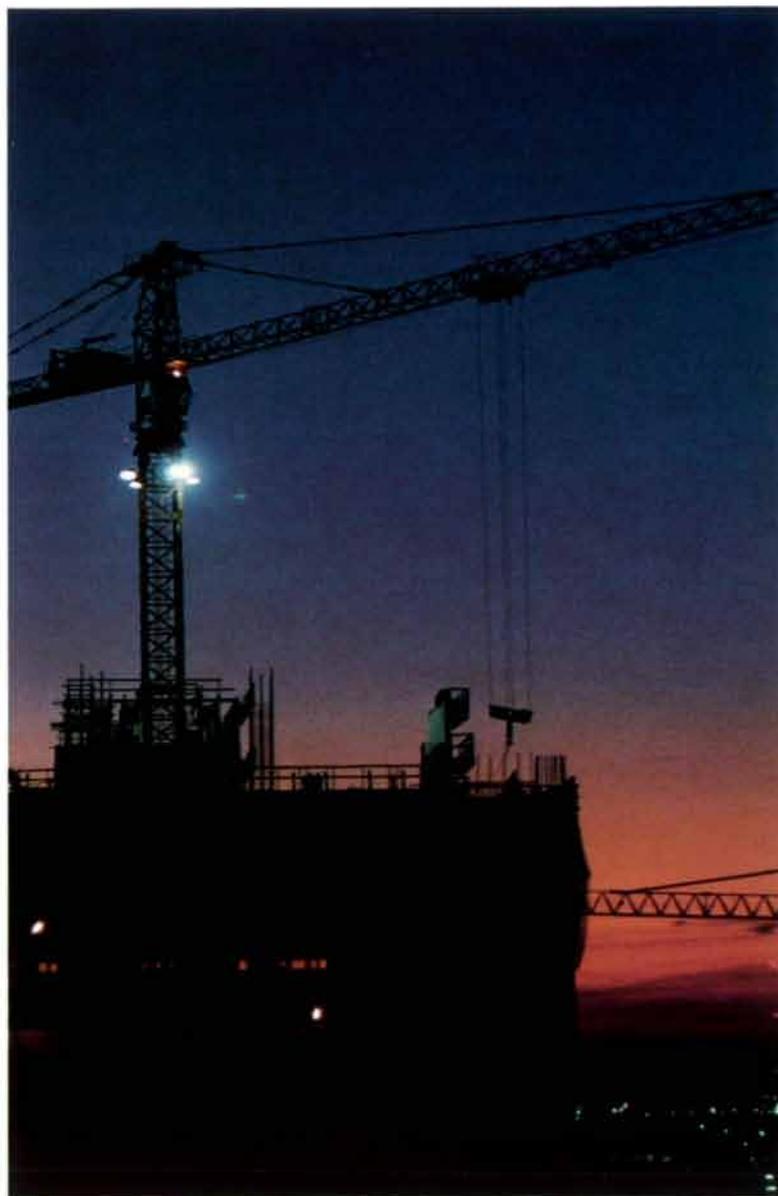
EVOLUTION*
OF PRICES IN CANADA
(in percentage)



■ Consumer price index

* % change over 12 months.
Source: Statistics Canada

In 1985, enterprises pursued the expenditure programs they had undertaken the previous year.



good growth rate being maintained. Optimism was however marred by doubts as to the vigour of our principal trading partner and limited by the negative impact anticipated as a result of tax increases included in the Wilson budget of May 1985.

Meanwhile, the federal government's deficit still remains just as high. This debt, one of the largest among industrialized countries in terms of the percentage of the gross national product, greatly reduces the possibility of resorting to fiscal measures in the event of a downturn in economic activity.

THE QUÉBEC ECONOMY

Québec recorded a third year of excellent growth. The real gross domestic product grew by an estimated 4.5% in 1985.

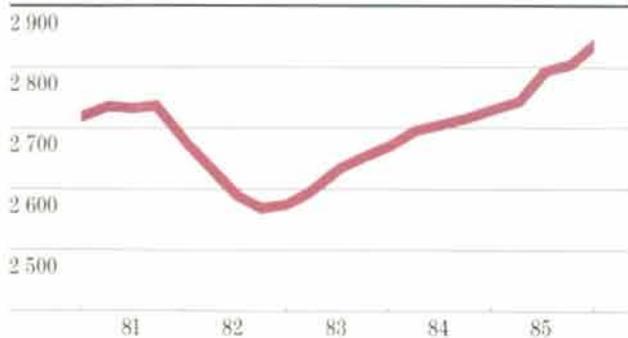
The consumption of goods and services by Québec households rose by 4% in real terms, which is a similar increase to that of 1984. As in Canada, salaries were up only slightly but new jobs created, 114,000 from December 1984 to December 1985, led to an increase in the sales volume.

Residential construction also remained very strong. Housing starts reached 46,000 as compared to 42,000 in 1984 when the Corvée-Habitation program was still offered. The impact of the 2% drop in mortgage rates between the last quarter of 1984 and the last quarter of 1985 was therefore very important. These lower interest rates also strengthened consumer confidence. This confidence, which was already well established at the beginning of the year, was also sparked by the improved labour market.

In 1985, Québec businesses continued the expenditure program they had undertaken the previous year. But such expenditures rose less sharply. The Statistics Canada report on investment intentions nonetheless indicated that in the middle of the year, manufacturing investments had increased by 24% in current dollars. The investment mix in 1985 was however different from that of 1984. Construction expenditures were higher than those for machinery and equipment, which is a normal evolution in this stage of the cycle.

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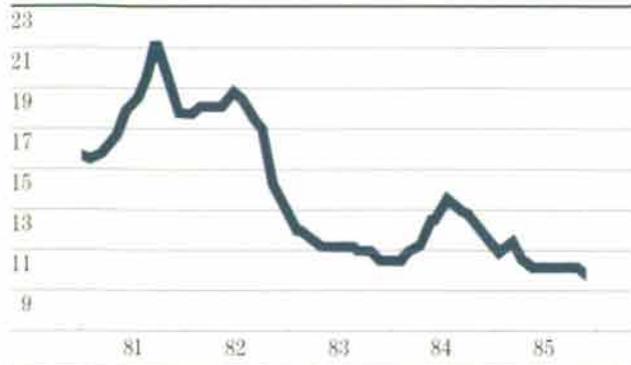
EMPLOYMENT IN QUÉBEC
(in thousands)



Source: Statistics Canada

4

MORTGAGE RATES - 1 YEAR
(in percentage)



Source: Bank of Canada

DEPOSITORS

The Caisse manages the money it is entrusted with by various pension and insurance plans by virtue of an act of the Assemblée nationale. These plans apply to over 3.5 million Quebecers whether active participants or future beneficiaries.

While the administration of these plans is assumed by individual organizations, the Caisse has the legal responsibility and the mandate to ensure the investment, protection and growth of their assets. Of its 11 depositors,

7 accumulate reserves to meet future commitments and the other 4 entrust the Caisse with liquid assets.

As at December 31, 1985, the market value of total depositors' holdings with the Caisse reached \$25.1 billion, an increase of \$4.4 billion during the year. The book value of these holdings totalled \$22.4 billion, an increase of \$2.3 billion which, on the whole, is due to the reinvestment of 99.1% of investment income, amounting to \$2.3 billion. Despite the net contributions of \$409 million made by some depositors, the effect of withdrawals of \$768 million made by others was not completely offset. Therefore, net disbursements of \$359 million were recorded, representing 15.6% of investment income for 1985. During 1985, the Caisse continued its efforts to manage the funds according to the requirements of each plan.



The various public pension and insurance plans, whose holdings are entrusted to the Caisse's management, serve a large percentage of Québec's population.

Created twenty years ago to manage the holdings of the Québec universal pension plan, the Caisse has been entrusted with managing the holdings of various other public pension and insurance plans over the years. The Caisse now manages the funds of over 3.5 million Quebecers.

GENERAL FUND

The principal depositor to the Caisse's General Fund is the Régie des rentes du Québec, which ensures the administration of the universal pension plan for Québec workers. The plan was

created in 1965 and its equivalent in the other provinces is the Canada Pension Plan.

Despite an increase in assets of almost \$1.2 billion during the year, the Régie des rentes du Québec had to fund current

requirements by withdrawing \$549 million from some \$1.1 billion in investment income. In the previous year, \$372 million was withdrawn. At year-end, the Régie des rentes du Québec's holdings deposited with the Caisse accounted for 49.6% of total depositors' holdings.

The Régie de l'assurance automobile du Québec, formed in 1977, is the second most important depositor to the General Fund. It administers the general plan which provides insurance against bodily harm resulting from automobile accidents. Contributions are levied yearly to constitute a reserve for benefits to be paid out to victims. As provided by law, the Régie must entrust the money collected from insurance premiums to the Caisse. As at December 31, 1985, the assets of the Régie de l'assurance automobile du Québec reached \$2.9 billion, or \$553 million over the previous year. This increase is due to investment income of \$273 million and \$158 million in new contributions, to which the Régie's \$122 million share of the general reserve should also be included. The plan represents 13.2% of total depositors' holdings with the Caisse and 20.9% of the General Fund.

5

DEPOSITORS

	Abbreviation	First deposit	Number of contributors ¹	Depositors' holdings ²
Régie des rentes du Québec	RRQ	1966	2,800,000	12,423.2
Commission administrative des régimes de retraite et d'assurances	CARRA			
Government and Public Employees Retirement Plan	RREGOP	1973	284,000	5,397.8
General Retirement Plan for Mayors and Councillors of Municipalities		1975	725	16.2
Individual plans		1977	200	24.4
Régie de l'assurance automobile du Québec	RAAQ	1978	3,700,000	3,290.9
Commission de la santé et de la sécurité du travail	CSST	1973	150,000	2,177.9
Office de la construction du Québec	OCQ			
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	80,000	1,745.3
Fonds d'assurance-prêts agricoles et forestiers	FAPAF	1978	—	11.7
Régie des assurances agricoles du Québec		1968	33,000	—
Régie des marchés agricoles du Québec		1967	65	1.0
Régie de l'assurance-dépôts du Québec		1969	—	—

¹estimate

²as at December 31, 1985 — at market value — in millions of dollars

Among the unitholders in the General Fund is the Fonds d'assurance-prêts agricoles et forestiers which maintains a \$11.8 million reserve as security for the loans it grants.

It may be noted that the general reserve of \$797 million accumulated as at December 31, 1985 was cancelled and allocated among all depositors to the General Fund in the form of participation deposit units. The apportionment was made on a pro rata basis of the number of participation

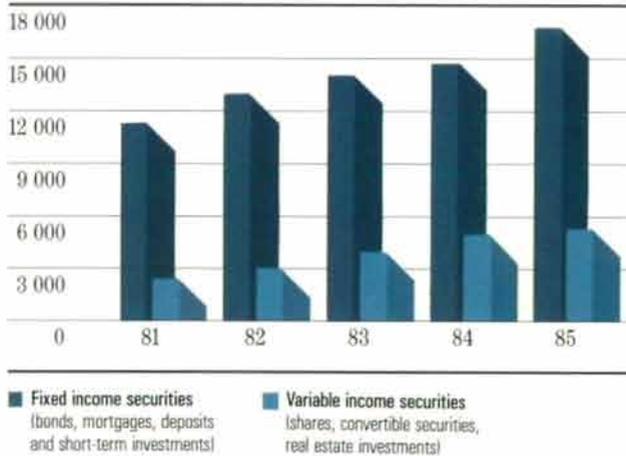
deposit units held by each depositor for any relevant quarterly period. Gains and losses on sales of investments, which were formerly deposited and accumulated in the general reserve, will be added to current income from now on and paid out every quarter to the depositors.

INDIVIDUAL FUNDS

The Government and Public Employees Retirement Plan (RREGOP), set up in 1974, applies to the entire public

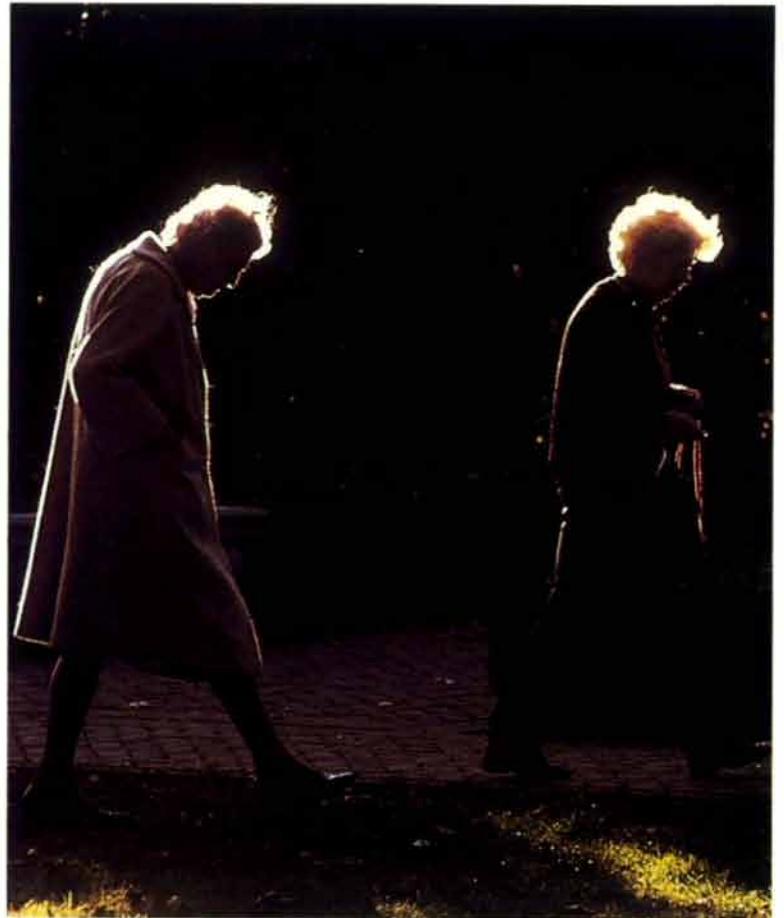
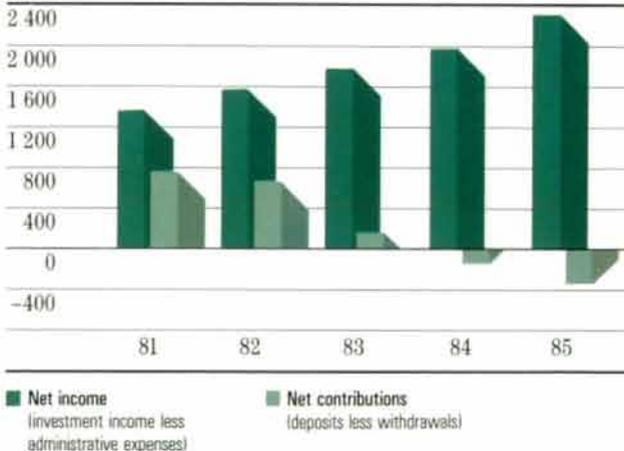
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EVOLUTION OF INVESTMENTS
as at December 31
(at book value - in millions of dollars)



7

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

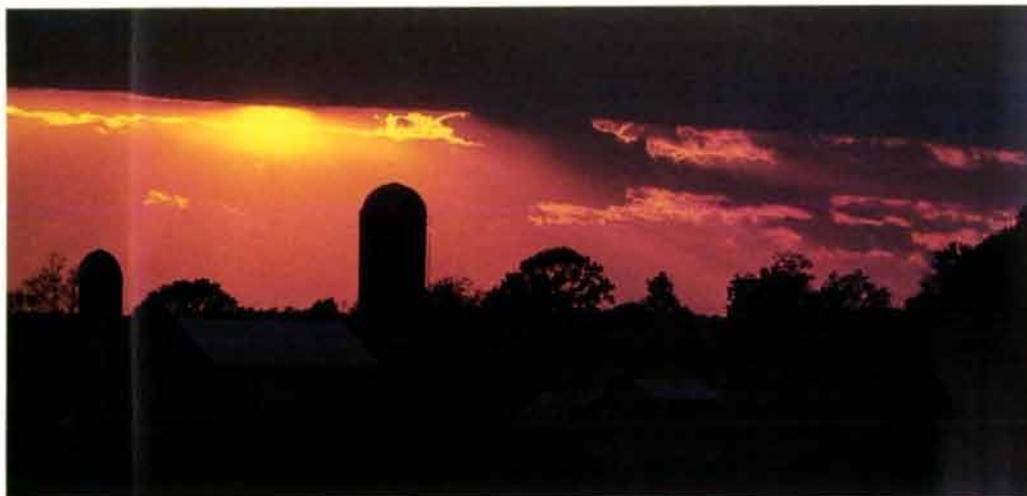


The Régie des rentes du Québec which provides an income to retirees is the principal depositor with the Caisse. Its holdings represent almost 50% of total assets.

sector: the civil servants as well as the employees of the education and social affairs sectors. It is managed by the Commission administrative des régimes de retraite et d'assurances (CARRA). Since 1974, the plan has accumulated \$4.6 billion, representing 21.5% of the total 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.

The Caisse manages the reserve which must be maintained by the Fonds d'assurance-prêts agricoles et forestiers as security for the loans it grants.



During 1985, the plan's assets increased by \$762 million, of which \$249 million arose from new contributions and the balance from reinvested investment income. The plan features two accounts: one for unionized employees and another for non-unionized employees, and the respective holdings of these accounts are included in Individual Funds 301 and 302.

8

BREAKDOWN OF THE FUNDS' ASSETS ACCORDING TO TYPE OF INVESTMENT
as at December 31, 1985
(in millions of dollars)

	General Fund ¹	Individual Funds	At book value		Net change	At market value
			Total	% of total		Total
INVESTMENTS						
Bonds	9,829.1	3,844.4	13,673.5	60.8	589.1	14,511.1
Mortgages	479.2	779.3	1,258.5	5.6	70.0	1,266.7
Shares and convertible securities	2,442.9	2,581.9	5,024.8	22.3	454.4	6,818.2
Real estate investments	221.8	93.8	315.6	1.4	42.4	376.5
Short-term investments	1,034.9	565.8	1,600.7	7.1	1,158.3	1,599.2
Deposits in the General Fund	—	194.7	194.7	0.8	(4.2)	194.7
	14,007.9	8,059.9	22,067.8	98.0	2,310.0	24,766.4
Other assets	300.1	134.0	434.1	2.0	31.0	436.9
1985	14,308.0	8,193.9	22,501.9	100.0	2,341.0	25,203.3
1984	12,944.0	7,216.9	20,160.9	100.0	1,911.2	20,785.1
Net change	1,364.0	977.0	2,341.0	—	0	4,418.2

Certain 1984 figures have been reclassified to conform with the 1985 presentation.

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.

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

	1985	1984	1983	1982	1981
Régie des rentes du Québec	49.6	50.9	51.9	53.8	56.0
Commission administrative des régimes de retraite et d'assurances	21.7	20.3	19.5	17.5	16.5
Régie de l'assurance automobile du Québec	13.2	12.2	11.1	10.5	8.9
Commission de la santé et de la sécurité du travail	8.7	9.5	10.1	10.2	9.8
Office de la construction du Québec and other depositors	6.8	7.1	7.4	8.0	8.8

The Commission administrative des régimes de retraite et d'assurances administers other pension plans, namely the General Retirement Plan for Mayors and Councillors of Québec Municipalities whose assets of almost \$15 million are invested in Individual Fund 304. Similarly, several other plans designated as Individual plans can be found in Individual Fund 303 with assets totalling \$22 million.

The Caisse also manages the holdings of certain other supplemental pension plans, including those of the plan for employees of the construction industry. The type of benefits paid out by this plan and the source of contributions which characterize it make it rather special. As at December 31, the assets of the Supplemental Pension Plan for Employees of the Québec Construction Industry totalled \$1.6 billion, allocated among three accounts: active participants (Fund 311), retired participants (Fund 312) and additional contributions from certain workers (Fund 313). During the year, despite withdrawals of \$23 million, a \$159 million increase was recorded for the plan, due to investment income of \$182 million. Nevertheless, the growth of this plan has been slowing down over the past few years.



Workers of the construction industry have accumulated funds totalling over \$1.5 billion.

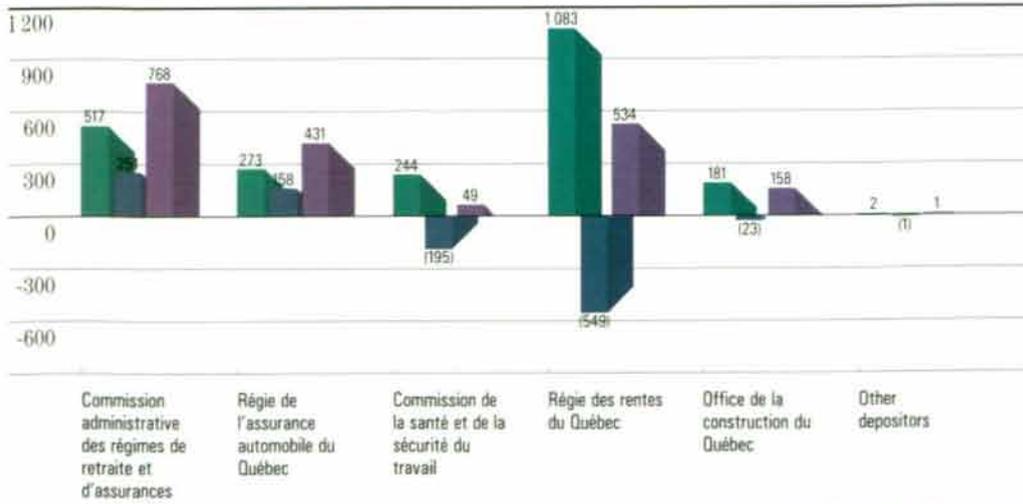


The Commission de la santé et de la sécurité du travail (CSST) entrusts to the Caisse the funds it accumulates to meet workmen's compensation benefits it is required to pay. The Commission receives contributions from all employers for insurance against accidents occurring in their sector of business. As at December 31, 1985, the Commission had assets of \$1.97 billion, representing close to 8.7% of the Caisse's total depositors' holdings. In 1985, the Commission's reserve increased by \$49 million despite withdrawals of \$195 million from investment income of \$244 million. Nevertheless, several changes made to the plan have limited the growth of this reserve.

Québec workers are insured by the Commission de la santé et de la sécurité du travail, a depositor with the Caisse since 1973.

10

DISTRIBUTION OF EACH DEPOSITOR'S NET INCOME AND CONTRIBUTIONS FOR 1985
(in millions of dollars)



■ Net income
■ Net contributions
■ Total

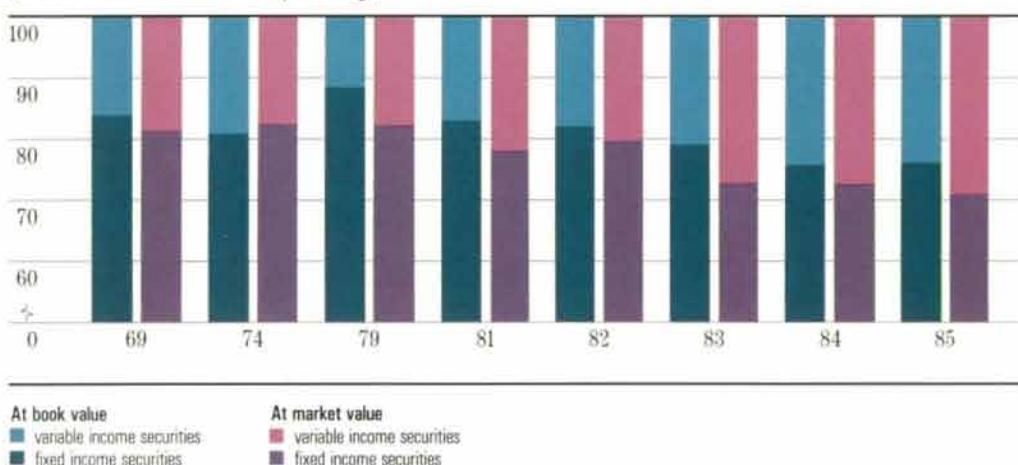
ASSET MIX

The weighting of variable income securities (shares and real estate investments) and fixed income securities (bonds, mortgages and short-term investments) within total assets is an important factor that affects the yield of portfolios such as those held by the Caisse.

Since 1980, variable income securities have increased from \$1.5 to \$5.3 billion, versus \$9.98 to \$16.8 billion for fixed income securities (Table 6). In terms of percentage and book value

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EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT
as at December 31
(at book and market value – in percentage)



12

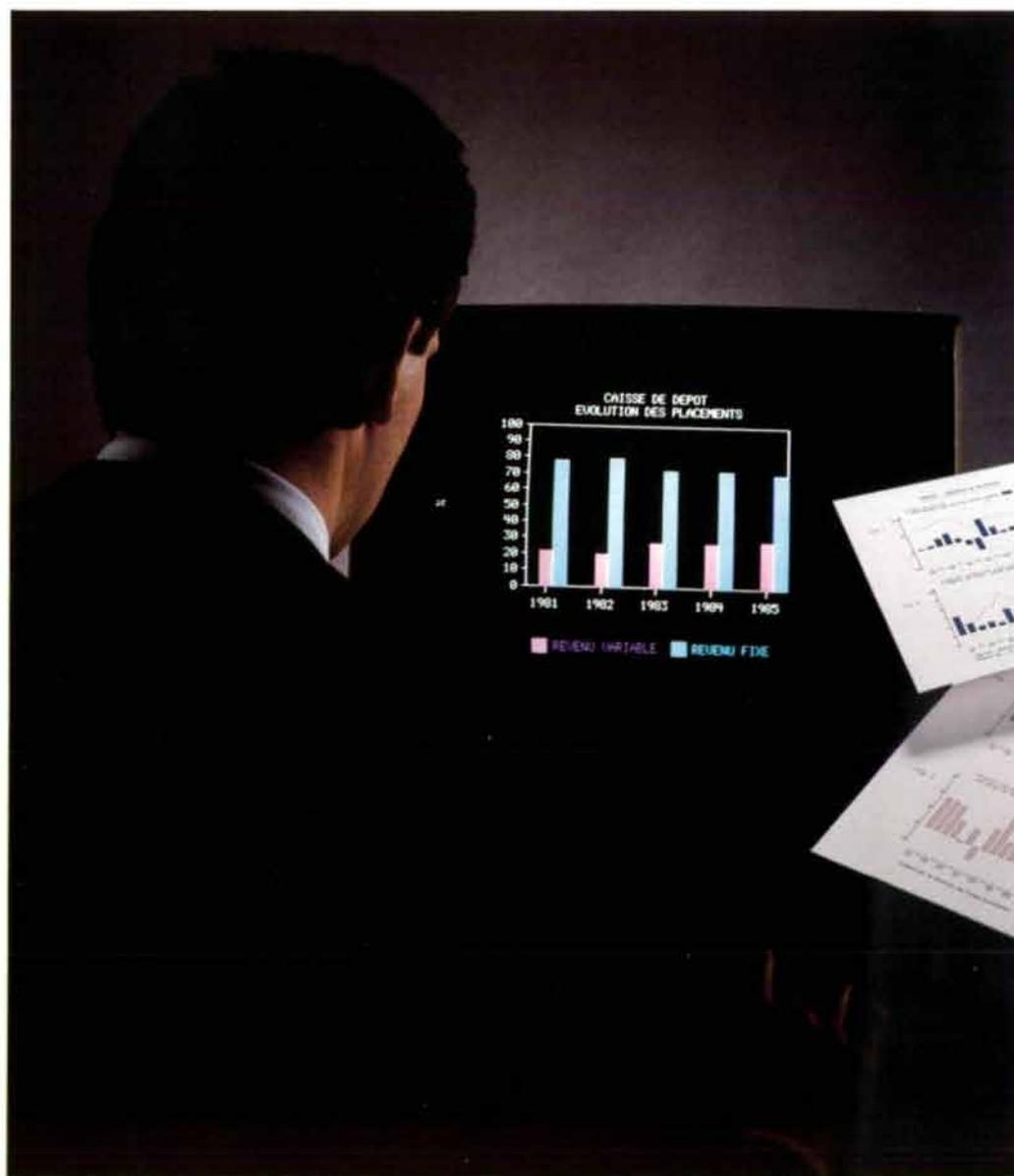
RETURN
(at market value – in percentage)

	1985	Compound average annual rate for the period	
		1982-1985 (4 years)	1978-1985 (8 years)
INTERNAL RATE OF RETURN			
Total depositors' holdings	24.0	20.8	13.9
General Fund	24.3	21.1	13.7
Individual Funds	22.7	20.1	14.2
WEIGHTED RATE OF RETURN			
Financial assets			
Bonds	25.3	23.9	12.5
Mortgages	16.0	18.0	12.0
Canadian equities	25.7	16.6	17.9
Foreign equities	56.1	—	—
Real estate investments	13.3	22.2	—

(Table 11), this breakdown of the Caisse's total assets represents an increase in variable income securities from 11.6% at the beginning of 1980 to 24.2% in 1985. Since variable income securities have reached approximately 25% of the overall portfolio, the Caisse's asset mix tends to give more importance to medium-term financial cycle forecasts.

Over the past years, long-term investment policies were developed for funds under the Caisse's administration, taking into account the particular restrictions and objectives of each. Consequently, the asset mix may vary from one fund to another.

Twenty years, more than \$20 billion. Over the years, asset mix quality has become increasingly important to the Caisse. A large variety of investment vehicles is therefore available to ensure optimal yield for the funds under administration, including bonds, Canadian and foreign equities, mortgages and real estate investments, which are selected according to economic conditions.



RETURN

Table 12 shows the internal rate of return obtained for the General Fund and for total Individual Funds. It also indicates the time-weighted rate of return for each type of investment, which helps evaluate the Caisse's contribution to the growth of funds invested. This does not take into account the timing variable for fund receipts, on which a portfolio manager like the Caisse has no influence.



The weighting of assets is a major planning and management operation that requires a sound knowledge of financial markets and analyses to forecast economic trends.

INTERNAL RETURN

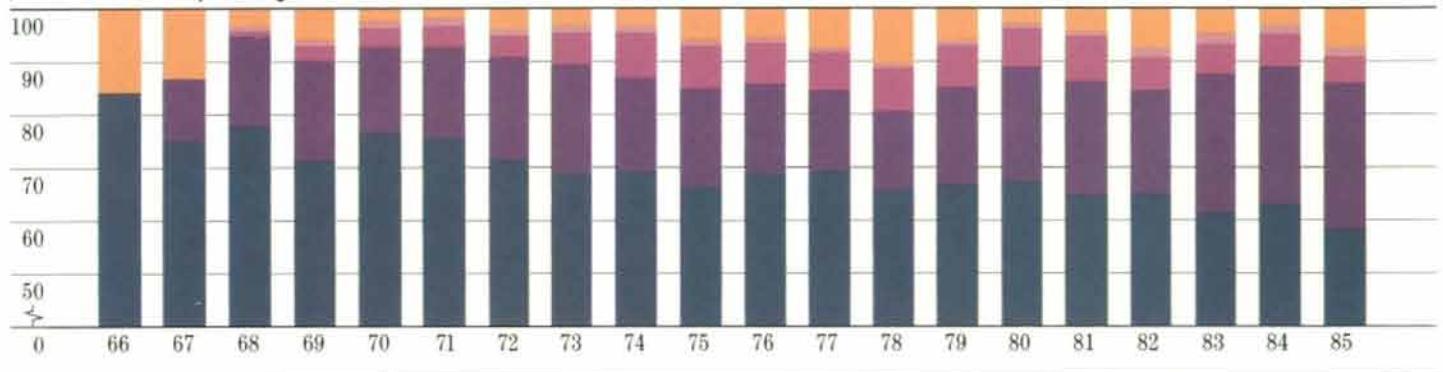
The Caisse obtained a 24% internal rate of return for total funds under its administration in 1985. The General Fund earned a 24.3% return versus 22.7% for total Individual Funds. This return differential is due to the distinct asset mix of portfolios. However, the spread in the performance of stocks and bonds was only 0.4% in 1985, while it was higher in 1984. Since the Caisse's inception, this is the first time that these two investment vehi-

TIME-WEIGHTED RETURN

The Caisse's bond investments yielded a 25.3% time-weighted rate of return for 1985, which compares favourably with the 21.9% return of the McLeod, Young, Weir (MYW) medium-term index. The Caisse's performance is partly due to the large proportion of Québec bonds held in its portfolios and the relatively longer maturity of securities. Moreover, for the four-year period ended in 1985, bonds yielded 23.9% versus 20.4% for

13

**DISTRIBUTION OF ASSETS UNDER MANAGEMENT
- 20 YEARS**
(at market value - in percentage)



- Short-term investments
- Real estate investments
- Mortgages
- Shares
- Bonds

cles have reported such high and almost identical returns.

Over the past four years, the average rate of return for the General Fund has stood at 21.1%, versus 20.1% for the Individual Funds. Funds which hold a greater proportion of bonds, such as the General Fund, performed better. Also, bonds yielded a better return than shares for the four-year period (Table 12). But experience has proven that on the long term, variable income securities perform better than fixed income securities.

Overall, the Caisse's average return for the last eight years was 13.9%, which is 6% higher than the inflation rate.

the MYW medium-term index. As for the mortgage investments portfolio, the return recorded for 1985 was 16%, compared with 14.4% in the case of the MYW mortgage index.

Canadian stocks provided a better return than the TSE 300 index in 1985. In addition, for the last four years, the Caisse's Canadian stock investments have stood at 16.6%, as opposed to 14.9% for the TSE 300 index, which proves that on the long term, the Caisse's more aggres-

sive position was more profitable.

Finally, foreign stocks offered a better weighted return than Canadian stocks in 1985, at 56.1%. Since these investments are concentrated in sectors that are not represented in Canada, their return cannot be compared with international indices owing to their diversification differential.

Investors reacted favourably to the economic climate of 1985 and most stock markets reached unprecedented highs towards the end of the year.



ASSET MIX SINCE THE CAISSE'S FOUNDING

The Caisse has shown excellent results since its founding. The rate of return on its investments stands at 12.1%, while the average annual rate of inflation is 7.2%, representing a return of over 4.9% after inflation. On the long term, the returns on shares and bonds held by the Caisse, 12.6% and 9.6%, respectively, were higher than the market indices of 11.1% and 9.2%.

The Caisse's asset mix has been substantially modified since its inception. Table 13 shows that in the very beginning, assets essentially included bonds (84.4% of total investments) and short-term investments. New types of investments were added over the years, such as shares, mortgages and real estate investments. Shares recorded the strongest growth among all these vehicles, especially since 1980, increasing from 21.3% to 27.5% of total investments at the 1985 year-end. This evolution in the asset mix reflects the Caisse's preoccupation with maintaining a higher rate of return than the inflation rate on the long term.

VARIABLE INCOME SECURITIES

SITUATION

North American as well as European and Asian investors reacted favourably to the economic conditions of 1985, with most stock markets reaching historic highs at the end of the year.

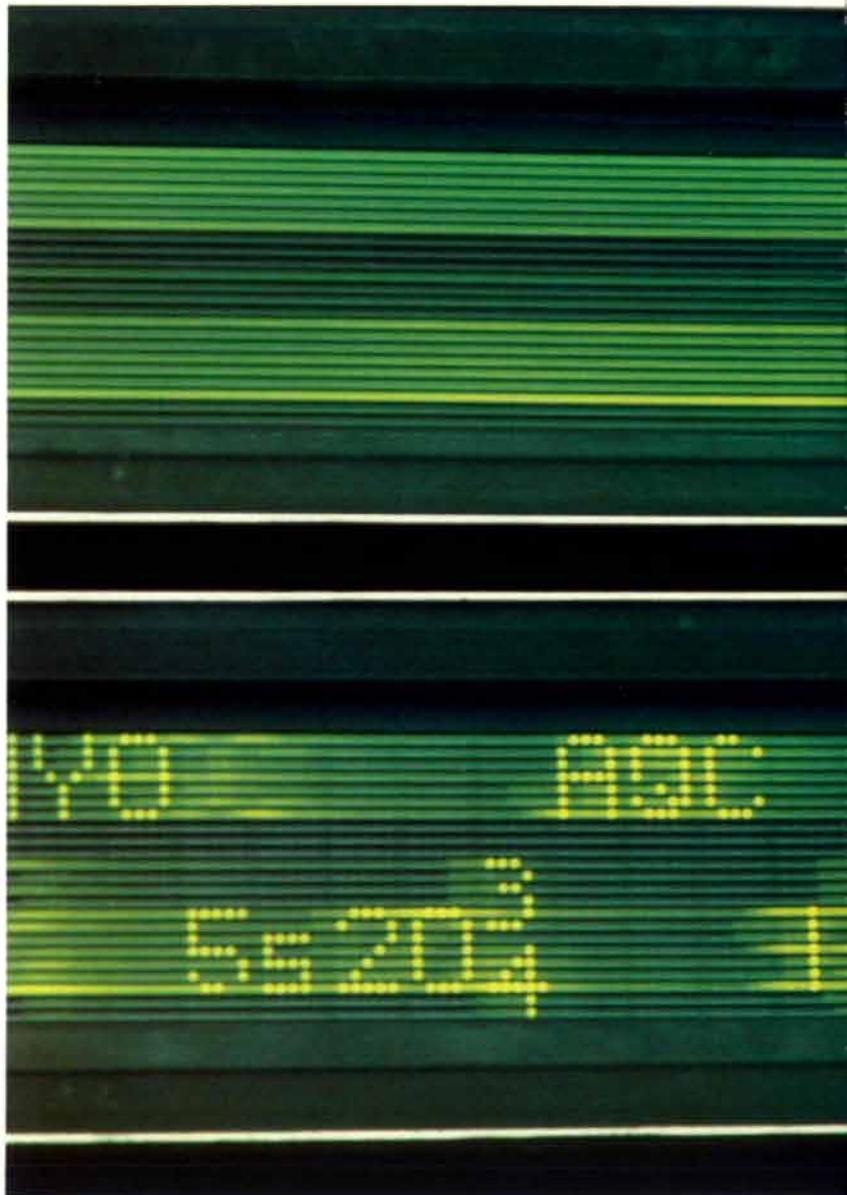
This trend also had an impact on Canadian markets. The Montréal Exchange's XXM index, comprising 25 of the largest companies, recorded a 22.4% return for 1985 (20.8% for the TSE 300 composite index).

The various market segments, however, did not all react in the same manner. Continuing low prices for raw materials combined with the massive influx of European and Asian products on North American markets squeezed the sales and profit margins of mining enterprises and heavy industries. Moreover, Canadian oil company shares suf-

fered the adverse effects of continued pressures exerted on world oil prices. Consumption-related sectors as well as utilities and financial services, however, were favoured by investors, encouraged by the economy's vigour and falling interest rates.

14

XXM AND
TSE 300 INDICES
IN 1985



In 1967, the Caisse made its first transaction on the stock market, buying 3,000 shares of Alcan Aluminium Limited aggregating \$108,000. Almost twenty years later, it is the largest equity investor in Canada. It owns shares of over 350 enterprises and its portfolio is valued at over \$6 billion.

RETURN

The Caisse's Canadian equities portfolio yielded a 27.1% return in 1985, as opposed to 25.1% for the TSE 300 index. Owing to the dynamic application of the new strategy adopted in the earlier part of the year, the Caisse achieved a higher return than market indices for the second half of the year, while the risk associated with its investments was reduced. The foreign equities portfolio performed better than the Canadian equities portfolio, reaching 56.1%.

For the last eight years, Canadian stock investments have yielded an 18.1% annual weighted return, compared with 18.3% for the TSE 300.

For the period from 1968 to 1985, the portfolio's total annualized return stood at 12.6%, compared with 11.1% in the case of the TSE 300 index.

CANADIAN STOCK MARKETS

The market value of the Caisse's Canadian stock market investments totalled \$5.2 billion at the 1985 year-end, for an increase of \$1 billion over the previous year.

In the early part of 1985, the potential slowdown in economic growth and possibility of a sharp drop in interest rates led the Caisse to redirect certain investments towards less cyclical sectors of the economy. Financial services and utilities made up a substantial part of net investments, thereby reducing the relative importance of the oil and the mining sectors.

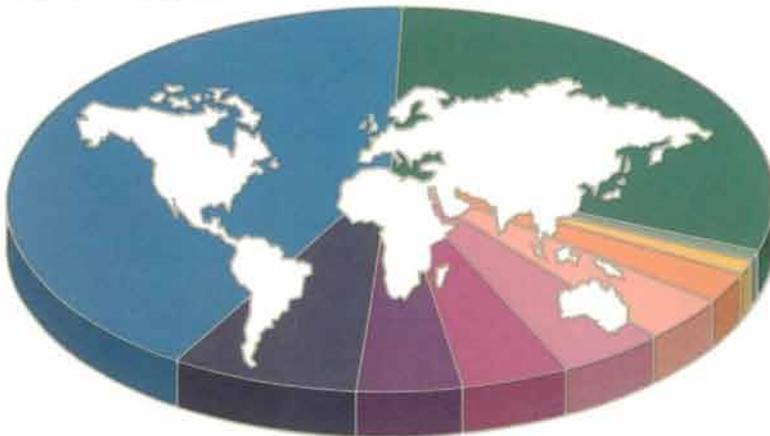
FOREIGN STOCK MARKETS

At the end of 1985, the Caisse's investments in foreign equities reached a market value of \$410 million, as opposed to \$148 million at the 1984 year-end. The geographic distribution of these investments was as follows, excluding cash: \$150 million for the United States, \$138 million for Europe and \$122 million for Japan.



Experience has proven that, on the long term as well as the very long term, variable income securities, such as shares, provide the best returns.

BREAKDOWN OF INVESTMENTS WITHIN THE INTERNATIONAL PORTFOLIO
as at December 31, 1985
(at market value - in percentage)



■	Japan (29.4)
■	United States (37.8)
■	Germany (9.6)
■	Switzerland (5.8)
■	England (5.6)
■	Holland (5.0)
■	France (3.7)
■	Italy (2.4)
■	Norway (0.4)
■	Sweden (0.2)

The increasingly complex nature of European and Asian stock markets, together with the internationalization of commercial exchanges, requires portfolio managers to consider these aspects when developing their investment strategy. The Caisse's foreign investments therefore not only allow for a certain diversification of risk and increased liquidity, but they also substantially upgrade the profitability of its total variable income securities portfolio.

As during the previous year, growth on foreign markets was higher than on the Canadian market. In terms of local currencies, European stock market indices, as measured by Capital International, climbed by 44.5% in France, 22% in England, 84% in Germany, 24.8% in Holland and 14.4% in Japan. The devaluation of the Canadian dollar in relation to the European and Japanese currencies significantly increased the performance of foreign investments. As for the American market, a return of 31.6% was recorded according to the Standard and Poor's 500 index.

CORPORATE INVESTMENTS

During the year, the Caisse was able to develop and further increase its corporate investments program.

Corporate investments are investments through which the Caisse acquires an important ownership interest in a large or medium-sized enterprise, without however exceeding 30%. Among such enterprises are Power Financial Corporation, Provigo, Domtar, Gaz Métropolitain, Trust Général, Groupe Vidéotron, Groupe Canam Manac, Artopex and National Telesystem. All of them made considerable progress last year.

Through this type of investment, the Caisse strives to establish a long-term association with quality enterprises and develop mutually beneficial cooperation for all parties concerned on the short, medium and long terms. The Caisse's corporate investments are valued at a total of \$1.4 billion.

The investments included in the portfolio are a particularly good example of the application of one of the Caisse's policies in 1985: to conclude associations

with efficient, dynamic and competent partners and with developers and entrepreneurs who can profitably manage their enterprises. Our Institution's role is not on the level of the day-to-day management of enterprises but that of a prudent and active investor with a view to protecting its interests.

The year was highlighted by certain sales that permitted the Caisse to record substantial gains, such as the sale of certain volumes of shares or subscription

rights of Power Financial Corporation, Trust Général, Provigo, Dofor and Power Corporation. Additionally, the public offering and listing of certain stocks were contributing factors to the strong increase in value recorded for these shares since their acquisition by the Caisse. Such was particularly the case for Groupe Vidéotron.

MEDIUM-SIZED ENTERPRISES

The Caisse's financial participation program promoting partnership in medium-sized businesses was further emphasized and allocated additional resources, in accordance with its investment objectives. The Caisse is especially interested in dynamic Québec medium-sized enterprises that are well established in their field, offer a promising growth potential and are not listed on the stock exchange.

These enterprises are generally in need of capital in the range of \$500,000 or more to carry out an expansion, modernization, acquisition or merger project, or to consolidate their capital structure.

The Caisse easily adjusts to the real needs of enterprises by offering several financing methods, among which the most common include voting common stock (up to 30%), participating, convertible or subordinate debentures (unsecured) which occasionally offer redemption possibilities, and guaranteed long-term financing.

During the last eighteen months, many enterprises were able to make their first public offering under the Québec Stock Savings Plan as a result of very favourable market conditions. The Caisse contributed financially to the development of several of these enterprises, and more particularly to six of them.

The Caisse offers an original investment program whereby it associates with medium-sized enterprises that are not listed on the stock exchange, thereby meeting their needs for capital.

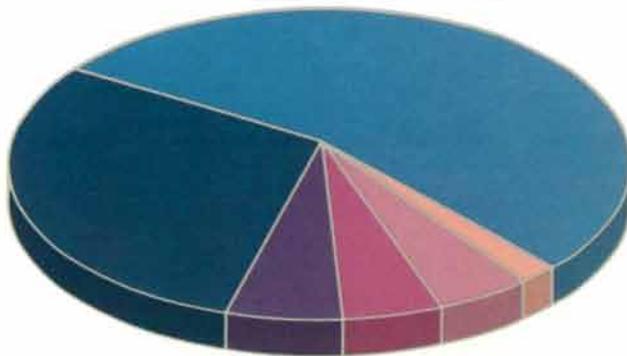




The Caisse's real estate investments include quality buildings, such as Place Hauteville in Québec City where the Auberge des Gouverneurs hotel is located.

16

BREAKDOWN OF REAL ESTATE INVESTMENTS
as at December 31, 1985
(at market value - in percentage)



- Office buildings (51.7)
- Commercial (26.9)
- Residential (7.6)
- Industrial (6.6)
- Hotels (5.7)
- Land (1.5)

In 1985, the Caisse authorized twelve transactions totalling \$38 million, excluding mortgage loans. Of that amount, \$20,750,000 was spent on term financing and \$17,250,000 on common shares or convertible debentures.

As at December 31, 1985, the portfolio included investments of \$115.2 million in 63 Québec enterprises, of which \$78.7 million was allocated to term financing and \$36.5 million to capital stock or convertible debentures.

Owing to the particularly favourable economic climate for medium-sized enterprises, the Caisse was able to obtain a yield of approximately 30% on total investments included in this portfolio.

REAL ESTATE INVESTMENTS

The Caisse constituted a specialized real estate investments portfolio on October 1, 1985. The portfolio includes almost all real estate holdings and shares of enterprises specifically devoted to acquiring, holding, renting or managing real estate held by the Caisse. All depositors can have their funds invested in participation deposit units of this new portfolio.

During 1985, the Caisse was particularly active in concluding investments with several partners, such as real estate developers and managers. These operations included projects such as phase III

of Condominiums Mérici (in Québec City), phase IV of Place Laval (in Laval) and the signing of firm agreements to acquire interests, first with the Cadillac Fairview-Shafter Corporation for the commercial mall section of the Place Montréal Trust complex and also with Groupe immobilier St-Jacques Inc., for a major residential project.

As at December 31, 1985, real estate investments included in the portfolio totalled \$311 million and had a market value of \$398 million. Moreover, a 13.3% return was recorded for the year.

Through its real estate investments, the Caisse seeks not only a certain geographic diversification, but also a distribution among the various sectors. At year-end, their breakdown was as follows: undeveloped land 1.5%, office buildings 51.7%, hotels 5.7%, commercial 26.9%, industrial 6.6% and residential 7.6%.

In addition to the assets included in the specialized real estate investments portfolio, the Caisse has other real estate holdings aggregating \$47 million including, among others, the Auberge des Gouverneurs.

From its inception, bonds have been the Caisse's major investment vehicle, and they still are today representing approximately 60% of its assets. The Caisse plays a dynamic role on the Québec bond market, obtaining excellent results. It is also very active on the mortgage and short-term investments markets.

FIXED INCOME SECURITIES

and when the Canadian dollar had reached a new low. But the correction did not last long. The market picked up rapidly afterwards, recovering the ground it had lost and establishing new gains. The pace slackened however during the third quarter and interest rates marked time. Only in the fourth quarter did they start falling again.

GENERAL POLICY

In 1985, the Caisse maintained the structure of its fixed income securities portfolio, in compliance with the management principles set out in its report for 1983. The portfolio includes 15% securities acquired for purposes of liquidity and 85% on a more permanent investment basis.

The securities belonging to the first category can be traded in large volumes without any great impact on market prices. As applied to the Caisse's portfolio, this strategy concerns mostly U.S. government securities and also a portion of those issued by the Canadian government. Thus, the total portfolio can be efficiently positioned within an interest rate cycle. This improves the overall performance, either because the market value of port-

folios increases when interest rates drop, or because it is only marginally reduced when rates go up. Experience has proven that these characteristics permit an efficient management of the Caisse's portfolio, which has a large volume of transactions.

This portfolio structure also allows for the possibility of adapting the management of fixed income security investments to the specific needs of each fund. With the division of assets between temporary and permanent investments, the management of strong-and slow-growth portfolios can be harmonized without departing from the common overall strategy.

Finally, these management principles have enabled the Caisse to play a dynamic role on the Québec issuers' bond market, while maintaining the overall balance of its portfolios.

Throughout 1985, the Caisse strived to position its portfolios in such a way as to benefit from interest rate fluctuations. The strategy was defensive at first, in order to reduce the negative impact of rising rates. Along the way, it was adjusted by increasing the terms of the investments to extend the effect of lower rates on their market value.

As at December 31, 1985, total investments in fixed income securities were valued at \$15.8 billion. The average maturity was 9.35 years.

SITUATION

Economic conditions were favourable for the bond market. Growth in North America slackened and apprehensions concerning inflation were dissipated to such an extent that, on the whole, interest rates dropped significantly. As a result, Québec long-term bonds, which yielded 12.5% in the earlier part of the year, were down to 10.5% at year-end.

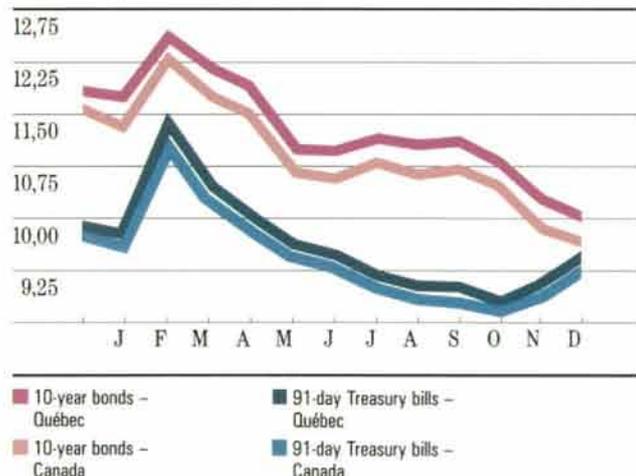
During 1985, the downward trend of interest rates was interrupted twice. First, in February-March substantial increases were recorded when economic activity did not seem to be slowing down

17

**SUMMARY OF FIXED INCOME SECURITIES PORTFOLIOS
ACCORDING TO ISSUERS
as at December 31, 1985**

SECURITIES	At market value		Average nominal rate (%)	Average maturity (years)	Modified duration (volatility)
	(in millions of dollars)	(%)			
On a permanent investment basis					
Issued by the Gouvernement du Québec	7,698.5	48.8	11.61	10.54	5.80
Government guaranteed	2,457.0	15.6	10.78	11.70	6.13
Guaranteed by grants	942.5	6.0	12.36	7.06	4.46
Municipalities and school boards	743.7	4.7	11.11	5.76	3.77
Corporate and other	362.1	2.3	11.67	6.61	3.96
Mortgages	1,266.7	8.0	11.51	4.77	3.02
On a temporary investment basis					
Government issued or guaranteed					
Canada	893.7	5.7	10.90	7.68	4.69
United States	1,342.9	8.5	9.27	8.39	5.10
Others	70.7	0.4	11.99	5.18	3.55
Total	15,777.8	100.0	11.25	9.35	5.27

EVOLUTION OF YIELD IN 1985 (in percentage)



Sources: Bank of Canada and C.O.P.O.

SUMMARY OF ACQUISITIONS OF NEW BONDS ISSUED BY THE QUÉBEC PUBLIC SECTOR IN 1985 (at par value - in millions of dollars)

	Amounts of issues			Acquisitions by the Caisse	
	Canadian market	Other markets	Total	Amount	Percentage of total
Gouvernement du Québec	1,155.0	564.0	1,719.0	966.0	56.20
Hydro-Québec	1,098.0	502.6	1,600.6	150.0	9.37
Municipalities and guaranteed by grants	1,914.0	445.3	2,359.3	310.8	13.17
1985	4,167.0	1,511.9	5,678.9	1,426.8	25.12
1984	4,095.1	1,457.3	5,552.4	1,280.2	23.06

RETURN

For 1985, fixed income securities generated a better return than the average for the last eight-year period. The MYW medium-and long-term bond indices yielded 21.9% and 26.7%, respectively. Moreover, the MYW mortgage index increased to 14.4%.

Total bond investments gave a 25.3% rate of return, with securities held on a permanent investment basis reaching 24.1% and those invested on a temporary basis jumping to 28%. The very active management of this category of investment resulted in a better return, without any impact on the flexibility of the portfolio. Moreover, the good performance recorded for the Caisse's permanent investments better highlights the results of the medium-term bond market indices. Indeed, the management of bond investments, although very active, is directed at maintaining a moderate sensitivity to interest rates at all times.

BOND INVESTMENTS

The Caisse traded bonds valued at \$37.5 billion on the primary and secondary markets in 1985. On the latter market, transactions were carried out according to the strategies established during the year and to take advantage of the trading opportunities offered, particularly with respect to the Canadian and the American markets and, to a lesser degree, the Eurobond market.

On the primary market, purchases of new Gouvernement du Québec bonds reached \$966 million. The Caisse also acquired bonds issued by other Québec public sector bodies, investing \$461 million in Hydro-Québec and municipal bonds as well as in securities guaranteed by grants.

The net change in the book value of public sector bonds only slightly exceeded \$350 million, as a result of the new sales that were made.

The Caisse's performance for the last twenty years of its operation has mostly been dependent upon the large proportion of bonds it holds, but it also ensues from the Caisse's dynamic investment and trading operations in this area. Being wrongly perceived as passive and cumbersome, bonds have in fact been an important element of the Caisse's adjustment ability throughout the years, whether to finance the Québec public sector or diversify investments, to invest massive or unpredicted fund receipts or to ensure the Caisse's presence on the secondary market, awaiting the slightest market change or development.

MORTGAGE INVESTMENTS

Mortgage operations were very intense during 1985. Despite the end of the Corvée-Habitation program, which had made a large contribution to residential construction during the previous years, multiple-dwelling construction continued its pace in 1985, favoured by low interest rates.

The financing of existing properties, especially of commercial and multiple-dwelling buildings, was very active. This vigour ensued from low interest rates which increased property values, thereby making it easier to sell or refinance those properties for higher amounts.

Furthermore, the term or maturity of loans selected by borrowers has been decreasing since the beginning of the '80s and loan renewal operations have become an increasingly greater preoccupation for lenders.

All of the above factors contributed to the intense activity for mortgage lenders and the

fierce competition regarding interest rates and loan amounts. This phenomenon was accentuated by the large availability of funds for this market throughout the year.

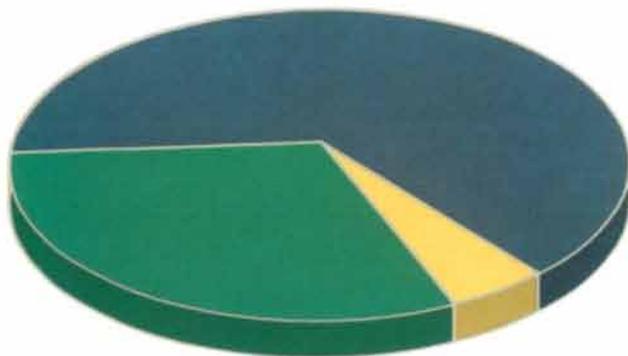
The Caisse therefore recorded a good year, having granted mortgage loans for a total amount of \$271 million, divided among the residential, commercial and industrial sectors.

The Caisse has been active in this field since 1968. In the early years, it was already servicing its

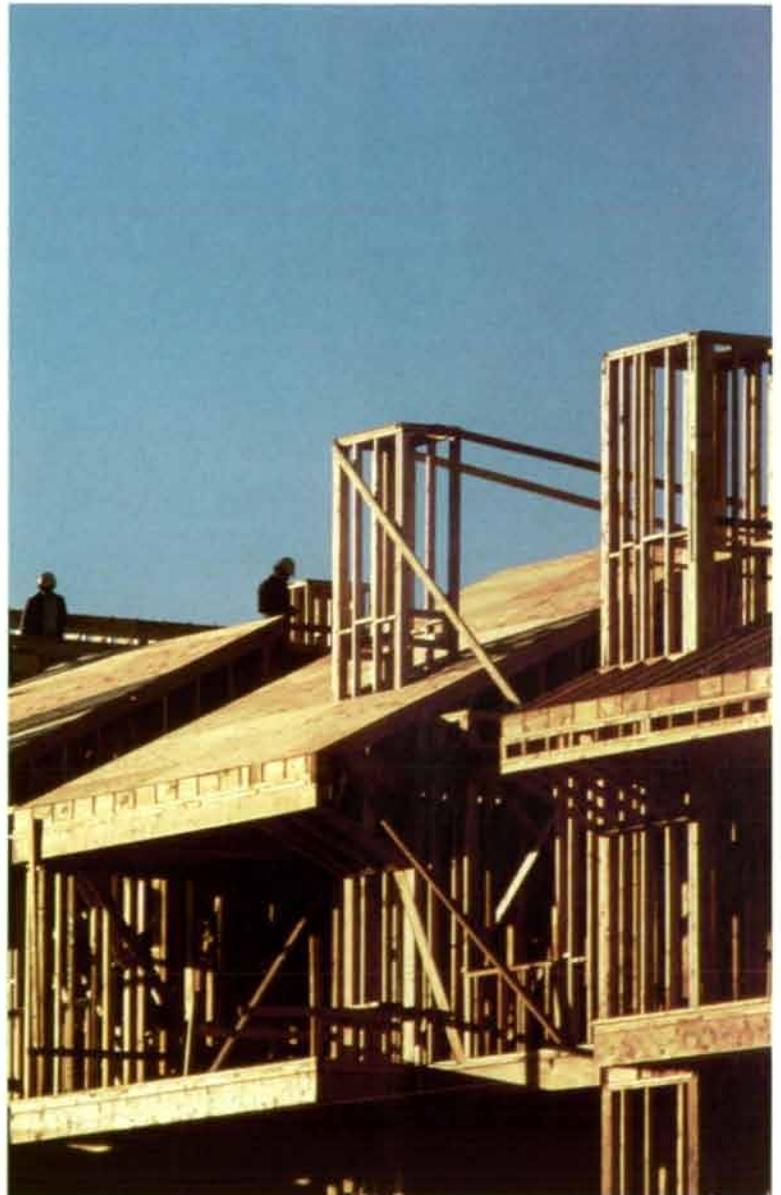
The Caisse's mortgage investments amount to \$1.26 billion, with 59.2% of loans concentrated in the residential sector.

20

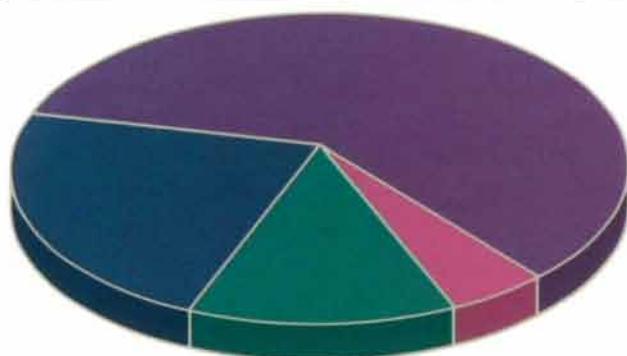
BREAKDOWN OF MORTGAGE INVESTMENTS
as at December 31, 1985
(at market value - in percentage)



■ Residential (59.6)
■ Commercial (34.5)
■ Industrial (5.9)



BREAKDOWN OF SHORT-TERM INVESTMENTS
as at December 31, 1985
(at par value - in percentage)



- Treasury bills (56)
- Commercial papers (20)
- Bank papers (18)
- Other (6)

customers through its Montréal and Québec City offices. Then, to better cover the residential market, the Caisse associated with trust companies, Trust Général du Canada, Fiducie Prêt et Revenu and Fiducie du Québec currently act as representatives for the Caisse, making loans in its name and administering these loans according to specific policies and objectives. The value of the mortgage investments portfolio now amounts to \$1.26 billion. This type of investment has yielded an interesting and steady return over the years: an average of 9% since 1969, 12% for the last eight years and 16% for 1985. It has also generated considerable funds, while stimulating the construction industry.

Loans included in this portfolio are divided among the residential sector, 59.2%, the commercial sector, 35.1%, and the industrial sector, 5.7%. Also, they are secured by properties located in the Province of Québec and their regional breakdown compares with the regional distribution of the working population of Québec.

The principal parameters which characterize the portfolio have not varied much over the years despite the drop in interest rates. Average interest rates for mortgage loans in 1985 were 10.5% for the General Fund and 12.9% for Individual Funds. Average maturities were 6.4 years and 3.8 years, respectively.

SHORT-TERM INVESTMENTS

The liquidity problems faced by certain financial institutions in 1985 undermined the confidence of a large number of Canadian investors. This situation had repercussions on the market for short-term investments in particular. Moreover, speculation on exchange markets regarding the Canadian dollar as well as cyclical pressures both led to several reorientations of the monetary policy, increasing the risk of a rise in short-term rates.

The Caisse devotes the same attention to managing each of its funds. The eight Individual Funds under its administration were allocated with portfolios comprising short-term investments. The average maturity and overall risk associated with each one take into account considerations with regard to interest rates and specific liquidity requirements.

The structure of these portfolios was modified during the third quarter by substantially increasing the proportion of government or low-risk securities. Securities that are easily convertible into cash, such as bank and commercial papers (17.9% and 19.7%, respectively), were maintained.

As at December 31, 1985, total short-term investments reached \$1.8 billion, representing 8% of the Caisse's overall assets. This figure corresponds to a \$1.2 billion increase over December 31, 1984. The average yield of the portfolios stood at 9.1% while the average maturity was 60 days.

“Today, I would like to pay tribute to the men and women who, during the Caisse’s twenty years of existence, have contributed to reaching its objectives. Their competence has been accompanied by great enthusiasm for their work, from the most discreet employee to the various members of the Board.”

*Jean Campeau,
Chairman of the Board and General Manager
Palais des Congrès, October 30, 1985*

ADMINISTRATION

HUMAN RESOURCES

The increasing complexity of investment vehicles and the larger volume of transactions made by the Caisse over the past few years have substantially modified its needs in terms of human resources.

Also, financial institutions are expanding and more dynamic than ever. Their need for experts in the investment management field, such as portfolio managers, financial analysts or technicians, has given rise to fierce competition in the recruiting of investment specialists. This environment and the evolution of the Caisse’s internal needs therefore represent a major challenge for the management of human resources, particularly in terms of management recruiting, keeping this personnel and training future portfolio managers.

In 1985, the Caisse proceeded with a reorganization of its Human Resources Department to better meet its management requirements in this regard.

Also, new programs were set up to provide better working conditions and an organizational environment that corresponds to the needs and specific requirements of all employees. These programs also ensure the Caisse of a competitive position on financial markets.

ADMINISTRATIVE EXPENSES

The Caisse's administrative expenses reached \$16.2 million for 1985, of which \$9.6 million was charged to the General Fund and \$6.6 million to the various Individual Funds. Salaries and employee benefits were again the greatest item of expenditure, representing 45% of total administrative expenses.

On the whole, expenses increased by 22.9% over the previous year: salaries and employee benefits rose by 7.9%, while other items were up by 38.7%, including 20.9% for professional fees as well as service and safe-keeping charges related to international transactions. However, despite the increase recorded for 1985, administrative expenses remain well below the expenses usually incurred for the management of sizeable portfolios, amounting to approximately 0.1% of the portfolio value.

Every year, the Caisse pays substantial commissions to brokerage firms in proportion to the volume of transactions made, as well as the quantity and quality of services rendered. In 1985, the Caisse submitted a project to improve the qualitative and quantitative aspects of financial research. Montréal brokerage firms that hire new security analysts will receive a larger volume of transactions, thereby increasing the amount of commissions payable.

DATA PROCESSING

The efficient management of the Caisse's investments requires a wide variety of quality state-of-the-art tools. The upgrading of these tools, which are essential to the productivity of portfolio managers, ranges from improving the equipment itself to continuously developing its applications.

In an effort to provide its analysts and managers with the best equipment, the Caisse acquired several micro-computers to help analyze various enterprises in depth either from the data on file or from data supplied by others who are active on the financial markets. This network of information complements that obtained from the powerful central computer.

The central computer not only keeps the Caisse's overall investment portfolio up to date but that of each depositor also. Moreover, it provides simulation facilities to the various portfolio managers, enabling them to anticipate the impact of market fluctuations on the value of the portfolios under the Caisse's administration. Simulations help forecast the repercussions of these fluctuations not only on the performance of the Caisse's investments but on the liquidity of its portfolios as well.

CYCLES ET TENDANCES

A portfolio of investments of the size held by the Caisse requires a rigorous monitoring of economic trends on the short and the long term. The Caisse therefore counts on the expertise of a team of economists who has developed a method of forecasting Canadian economic conditions, focusing on the evolution of prices, profits and interest rates. This team of experts also works with an advanced method of forecasting the American economy. Taking into account the structure of the Québec economy, it attempts to predict its fluctuations according to the changes in the American and Canadian economies. The results of this research and the conclusions derived from it provide Management and the various investment departments with information which is essential for achieving objectives and pursuing investment strategies. For the past few years, these forecasts have been included in a publication, *Cycles et tendances*, which is available to the public.



COMBINED SUMMARY FINANCIAL STATEMENTS

BALANCE SHEET

as at December 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Investments		
Bonds	\$13,703,463	\$13,084,435
Shares and convertible securities	5,025,444	4,570,443
Mortgages	1,257,922	1,175,885
Real estate investments	317,825	273,178
Short-term investments	1,799,223	641,284
	22,103,877	19,745,225
Other assets	439,502	403,123
	\$22,543,379	\$20,148,348
LIABILITIES	\$ 153,492	\$ 79,934
DEPOSITORS' HOLDINGS		
General Fund	14,213,375	12,860,736
Individual Funds	8,176,512	7,207,678
	22,389,887	20,068,414
	\$22,543,379	\$20,148,348

STATEMENT OF INCOME AND EXPENDITURE

for the year ended December 31, 1985
(in thousands of dollars)

INCOME	1985	1984
Investment income	\$ 2,069,539	\$ 1,930,848
Gains and losses on sales of investments	626,731	147,694
Other income	269	265
	2,696,539	2,078,807
EXPENDITURE		
Administrative expenses	16,158	13,104
Transfer of gains and losses on sales of investments to general reserve	380,885	106,291
BALANCE OF INCOME	2,299,496	1,959,412
ALLOCATION OF INCOME		
Interest on demand and term deposits	20,559	32,583
Income allocated to participation deposit holders	\$ 2,278,937	\$ 1,926,829

Note: Combined financial statements are provided in the FINANCIAL STATEMENTS AND FINANCIAL STATISTICS section of the 1985 Report.

**MEMBERS OF THE
BOARD OF DIRECTORS**

Mr. Jean Campeau
Chairman of the Board
and General Manager

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President
Régie des rentes du Québec

Judge Richard Beaulieu
President
Commission municipale du Québec

Mr. Raymond Blais
President
La Confédération des caisses populaires
et d'économie Desjardins du Québec

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Finance and Resources
Hydro-Québec

Mr. Louis Laberge
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Fédération des travailleurs du Québec

Mr. André Marier
President
Société québécoise d'initiatives
agro-alimentaires

Mr. Robert Normand
Deputy Minister of Finance

Mr. Fernand Paré
President and General Manager
La Solidarité,
Compagnie d'assurance sur la vie

Mr. Pierre Péladeau
President
Quebecor Inc.

Mr. Gaston Pelletier
Chairman of the Board
Arméx Fibres Inc.

PRINCIPAL OFFICERS

Chairman of the Board and General Manager

Mr. Jean Campeau

Senior Vice-Presidents

Mr. Michel Nadeau

Mr. Jean-Claude Scraire

Mr. Jean Trudel

Secretary

Mr. Marcel Camu

MANAGEMENT PERSONNEL

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Human Resources

Mr. Robert Beausoleil
Mortgage Investments

Mr. Yves Benoit
Administration and
Data Processing Services

Mr. Normand Bernier
Inter-Corporate Relations
International Sector

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Bond Investments

Mr. Jean-Claude Cyr
Real Estate Investments

Mr. Serge Desjardins
Internal Audit

Mr. André Duchesne
Bond Investments

Mr. Pierre Dufresne
Stock Market Investments

Mr. Denis Giroux
Corporate Investments

Mr. Louis Journault
Asset Mix

Mr. Claude L. Langevin
Stock Market Investments

Mr. Serge Leclerc
Corporate Investments
International Sector

Mr. Frédéric Lecoq
Stock Market Investments

Mr. Gody Lienhard
Resources and Supplies

Mr. Pierre Lussier
Economic Research Services

Mr. Jean Michaud
Stock Market Investments

Mr. Walter Murkens
Depositors' Affairs

Mr. Denis Ouellet
Stock Market Investments

Mr. Normand Provost
Corporate Investments
Medium-Sized Firms

Mrs. Marie-Hélène Sarrazin
Inter-Corporate Relations
Québec/Canada

Mr. Alain Tessier
Accounting Services

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Walter Murkens

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Legal Deposit - 1986
Bibliothèque nationale du Québec

ISBN 2-550-12894-X
ISSN 0481-309X

Design and production:
Ove Design Communication Marketing Inc.

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

1981 MCGILL COLLEGE AVENUE
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