

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

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PROFILE

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 consists in making profitable investments and supporting Québec's economic development. To achieve these objectives, it uses the best investment vehicles available: bonds, shares and convertible securities, mortgages, real estate and short-term securities, money market derivative and synthetic products. The Caisse, whose principal place of business is located in the heart of Montréal, a first-class financial centre, is one of North America's major financial institutions.

H I G H L I G H T S

	1990	1989	1988
	(in millions of dollars)		
ASSETS UNDER MANAGEMENT			
Investments			
Bonds	17,732	17,076	153
Shares and convertible securities	12,300	10,455	-
Mortgages	2,012	1,968	-
Real estate investments	1,806	1,618	-
Short-term investments	1,819	2,500	28
Total investments at book value	35,669	33,617	181
Excess market value over book value of investments	591	3,321	(5)
Total market value of investments	36,260	36,938	176
Other assets and liabilities - net	(1)	(276)	(2)
Total market value of assets under management	36,259	36,662	174
DEPOSITORS' HOLDINGS			
Régie des rentes du Québec	14,649	15,411	174
Commission administrative des régimes de retraite et d'assurances	9,970	9,656	-
Société de l'assurance automobile du Québec	4,886	5,136	-
Commission de la santé et de la sécurité du travail	3,594	3,571	-
Commission de la construction du Québec	3,013	2,832	-
Other depositors	147	56	-
Total depositors' holdings	36,259	36,662	174
NET DEPOSITORS' INCOME	2,777	3,577	5
NET DEPOSITORS' WITHDRAWALS (DEPOSITS)	450	121	(179)
INTERNAL RATE OF RETURN	0.5%	16.9%	6.4%

When the Caisse de dépôt et placement du Québec was founded, it was given a dual mandate: optimize financial return and contribute to Québec's economic development. Many people were skeptical at the time about how successful this mission would be. Managing large financial institutions was not a long-standing tradition among Québécois, and even less so among French-speaking ones.

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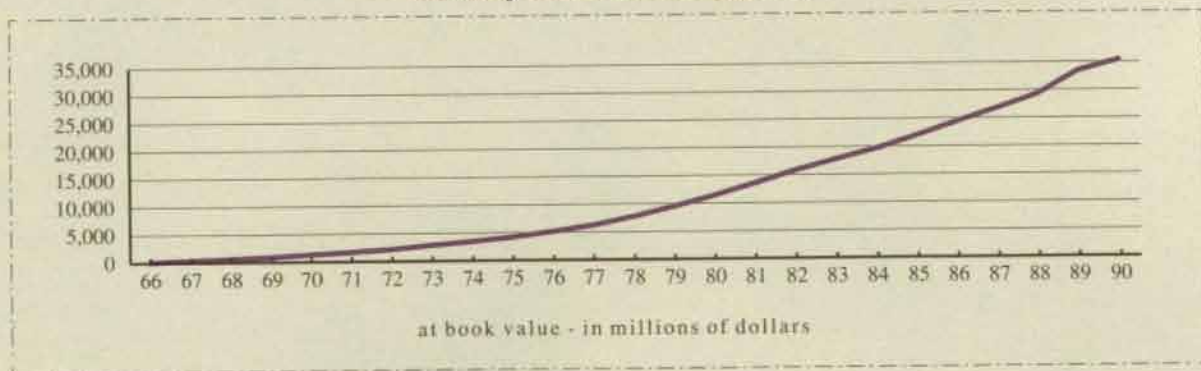
went-fifty years of growth attest to truly profitable investments and sustained contribution to the development of Québec.

Over the past quarter-century, the Caisse has more than fulfilled its mandate: since 1966, its investment income has increased to over \$28 billion. Private corporations and the Québec economy as a whole have greatly benefitted from the Caisse's many initiatives in all sectors. These results are even more outstanding in that they were achieved through a diversification strategy combining both caution and dynamism. Efficient risk management requires a strategic asset mix; it is by adhering to this guideline that the Caisse has become, in less than 25 years, an investor in both shares and bonds in the world's major financial centres, a mortgage lender throughout Québec, a partner sharing in the growth of a number of dynamic Québec companies as well as a manager of a real estate portfolio of enviable size in North America.

As a result of its involvement in all areas of financial activity, the Caisse's growth has surpassed even the most optimistic forecasts. When the Institution was created, the Québec Premier at the time, Jean Lesage, forecasted assets of \$4 billion by 1985. This level was in fact reached as early as 1975. In the 1970s, the most daring scenarios predicted an \$8 billion portfolio at the end of 1984. That year, excellent returns, inflation and the addition of new depositors brought total assets up to the \$20 billion mark. Today, they stand at over \$35 billion.

In 1965, no one imagined that 25 years later, the Caisse's annual income would exceed the province's entire budget for that year. In the past few years, despite highly unstable markets, the gains made by the Caisse's management team have fluctuated between \$2 and \$3 billion annually. That translates into over \$1,000 profit per Québec family each year!

Growth of assets under management



Above-Average Return

Banking on the financial know-how of its dynamic, competent team of managers and on the latest in technological innovation, the Caisse's financial results compare favourably with those of other major North American fund managers.

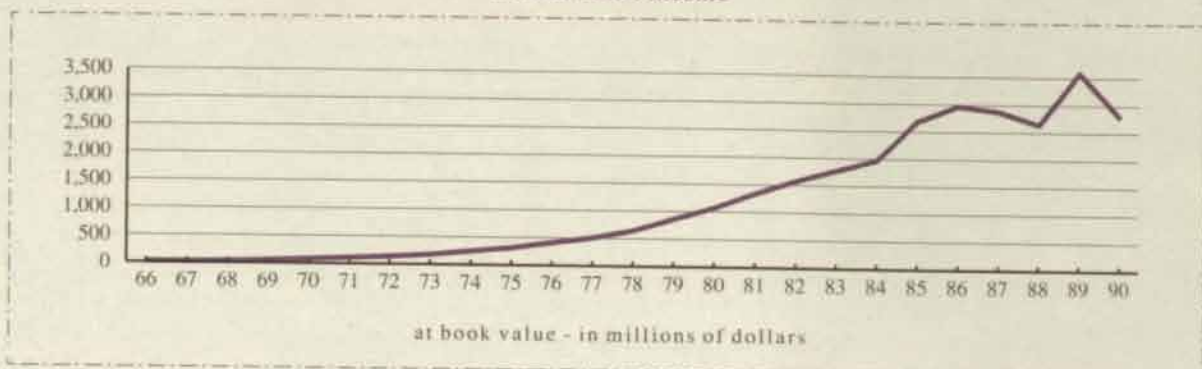
As proof of the Caisse's efficiency, the growth achieved has risen far more rapidly than the rate of inflation. Since the economic cycle began in 1982,

Fundamental Objectives

On June 9, 1965, when Premier Jean Lesage tabled the bill that created the Caisse de dépôt et placement du Québec, he predicted that the Institution would become the largest and most powerful financial agent ever seen in Québec.

The Caisse, however, was to be an investment fund unlike any other since it was also to promote Québec's economic development. Consequently, for

Growth in net income



the average annual yield has been 14% while the consumer price index has increased by roughly 5%. This represents an actual annual gain of 9% after taking inflation into account!

Fund managers use very precise indicators, namely market indices, to measure the quality of performance. The Caisse's results in all its Canadian investment activities have surpassed industry standards. Since 1982, for instance, the returns achieved by the Caisse's managers on investments in bonds and equities have, on average, exceeded the references indices by 1.8% and 1.3% respectively. For the \$17 billion bond portfolio, this currently represents an added annual value of \$300 million. And in the case of the equity investments portfolio, it means \$170 million more per year for Québec depositors.

the past 25 years, profitability and economic development have been the two underlying objectives of the Institution, which is funded by contributions from the entire population.

The key objectives were set and the Caisse has since stood by them at all times. Its mandate today continues to focus on optimizing financial return, with a reasonable level of risk based on strategically allocating investments, and contributing to Québec's economic development.

Like a seed,

the project is fertile and



the undertaking wants only to take root.

Supertrustee for Québécois

Although the Caisse was originally created to administer the funds of the new Régie des rentes du Québec, it was not restricted to this depositor alone. Today, it manages the funds of 15 public pension and insurance plans, making it a kind of "supertrustee" for Québécois. And, at the Caisse, a trustee means someone with great vigilance.

With approximately 40% of total assets, or \$14.6 billion at market value, the Régie des rentes is still the Caisse's main depositor. However, the assets of the Government and Public Employees Retirement Plan, which currently amount to \$9.9 billion, have posted the firmest growth. Moreover, other depositors have substantially increased their assets at the Caisse: the Commission de la santé et de la sécurité du travail, \$3.6 billion; the Société de l'assurance automobile du Québec, \$4.9 billion; and the Supplemental Pension Plan for Employees of the Québec Construction Industry, \$3 billion. Regardless of the size of deposits, each depositor is ensured that its assets are managed by the same team so as to optimize returns.

Diversified and Often Innovative Investments

In order to achieve maximum profitability, the Caisse makes some \$2 billion in new investments each year in Québec, Canada and abroad. To attain its objectives, it uses five major investment vehicles: bonds, shares, mortgages, real estate and short-term securities.

While the option to do so was available since its inception, the Caisse preferred to diversify its portfolio gradually over the years. The leaders of the Caisse wanted to be sure of having mastered the technical knowledge required to effectively take part in the various markets. For some ten years now, the Caisse has emphasized diversified investments based on a highly sophisticated asset-mix model.

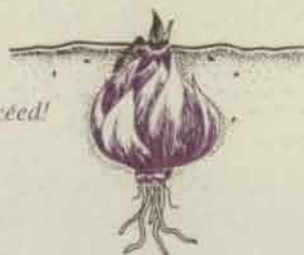
A well-balanced portfolio enables the Caisse to achieve increased returns. Over the years, stronger results in growth markets have offset unstable interest rates or downturns in specific sectors. A team of specialists constantly sees to it that substantial amounts are invested in the most profitable asset categories.

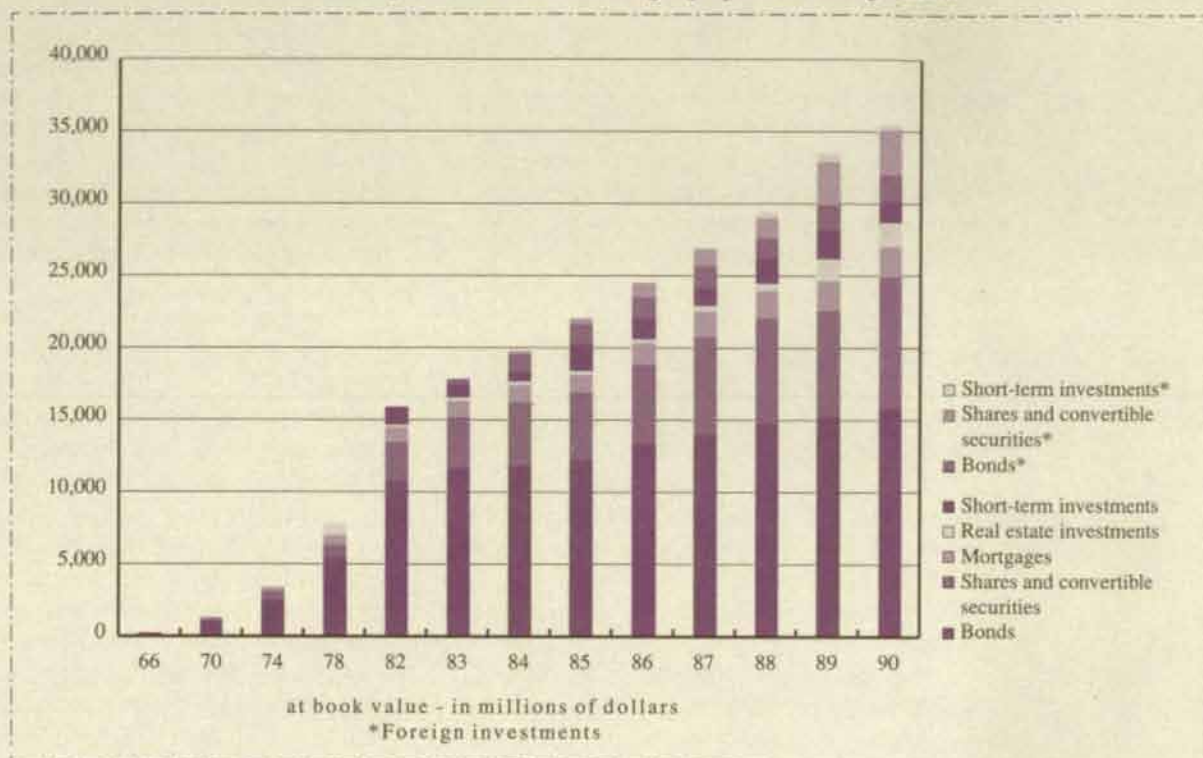
During the last decade, the Caisse's strategy has been structured around equity. On a long-term basis, the return on these seemingly more volatile investments such as shares and real estate is slightly above that of the more stable fixed-income debt securities such as bonds and mortgages.

Its roots are strong;

its future is laid out;

it is sure to succeed!



Evolution of total investments and geographical diversification

Bonds continue to account for approximately half of the Caisse's portfolio. Whether the issuers are from Québec, Canada, the U.S., Europe, or Asia which is to be added in a few months, the Institution buys and sells tens of billions of dollars of short- and long-term securities each year at the best conditions in these highly competitive world markets. In addition, the Caisse's managers are often recognized leaders in terms of innovation. They never hesitate to use derivative or synthetic products so as to improve the quality or liquidity of the market and increase returns.

The Caisse is particularly interested in bonds issued by the Québec government and its public sector and helps to ensure maximum liquidity of Québec securities for domestic and international

investors. The Québec government can thus count on a precious ally to broaden the range of financing sources available. However, support is never provided if it is to jeopardize return and the Caisse maintains a firm position in this regard. This policy also applies to its private partners in the mortgage sector.

Over the years, the Caisse has constructed a mortgage investment portfolio valued at over \$2 billion. By way of its direct investments and its representatives, the Institution is present throughout Québec. Moreover, the Caisse's managers constantly seek innovative ways to meet companies' specific needs, including non-profit organizations, while remaining ever faithful to the objective of making profitable investments for its depositors.

No two leaves are the same.

In fact, the diversity of its activities

contributes to its success.



Business Partner

In keeping with its mandate to contribute to Québec's economic development, the Caisse has been investing in Québec companies since its inception by granting conventional loans and acquiring minority interests in the share capital of companies. Today, it has the largest portfolio of interests in medium-sized businesses in Québec. In addition to providing financing of \$500,000 and over, the Caisse offers its partners an extensive network of business contacts in Canada and abroad. At the end of the 1980s, it also began to provide financing for small businesses, with requirements below \$500,000, by setting up regional investment firms in cooperation with financial partners.

Since its early years, the Caisse has enabled several companies to combine and expand their operations, and thus become major Québec corporations. In 1967, for example, the Institution began investing in three supermarkets that would merge three years later under the Provigo banner. Moreover, from the outset, the Caisse was a major shareholder of the new company, with a 25% interest. At present, its interest in the group, which has assets of more than \$1 billion, is about 12%. The Caisse's corporate investments in Québec have often been among its most profitable.

While the Caisse favours investments in successful Québec companies, it is also active on Canadian and foreign stock markets.

With a portfolio of close to \$10 billion in the securities of the largest Canadian corporations, the Caisse closely monitors the development of hundreds of businesses in order to identify those that offer the best growth potential. The Caisse is particularly active on the Montréal Exchange where it alone accounts for 8% of transactions.

Defending Business Democracy

The Caisse's status as a major investor in a number of large Canadian corporations has led it to take a stand on a variety of issues dealing with the management of these companies. It has asserted, for example, the rights of shareholders, i.e. owners, relative to those of senior management. For the Caisse, when common shares bear the same level of risk, they must provide shareholders with the same benefits and rights.

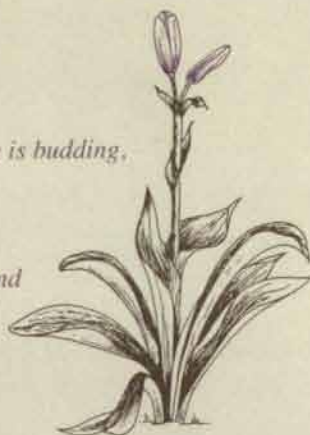
This policy has resulted in various confrontations with corporate management looking to protect their privileges through discriminatory shares or poison pill plans. By opposing this kind of abuse, the Caisse helps to defend democracy within companies as well as shareholders' right to vote.

To benefit from the vigorous U.S., European and Japanese economies, the Caisse was among the first North American institutions to set up a foreign equity investments portfolio as early as 1985. It can thus share in the profits of the world's most efficient companies. The Caisse's managers use these investments to form and develop mutually profitable alliances. With their sound knowledge of foreign markets, the Caisse's specialists are able to interpret the evolution of Québec companies more accurately, thereby acquiring a global view of markets.

The undertaking is budding,

it is in full bloom and

can take up the challenges ahead.



This necessary geographic diversification is becoming apparent in the real estate sector. The Caisse, which invests in commercial and industrial properties, hotels as well as residential buildings, located primarily in Québec, is now involved in real estate investments in Ontario and the U.S. Its majority interest in Société immobilière Trans-Québec and the acquisition of the real estate company Ivanhoe in 1989, have brought the value of the Caisse's portfolio of real estate properties to over \$2 billion, or approximately 5% of total assets.

A Highly-Qualified Team

With over a hundred investment management specialists, the Caisse has one of the largest groups of fund management experts in North America. The investment tools at their disposal are the same as those used in New York and San Francisco. The Caisse's specialists, who keep a sharp focus on research and innovation, have on hand the resources that are necessary to analyze new and often very complex financial products.

The Caisse's staff also includes the greatest number of Chartered Financial Analysts in Canada.

This pool of expertise has been profiting the Québec economy since 1966.

After only ten years of existence, the Caisse had already trained some one hundred investment specialists. With over three or four times that number today, the Institution has made, over the past 25 years, a significant contribution in training an

elite group of managers, traders, negotiators and financial experts. In this respect, it is a real breeding-ground for talent and knowledge. At the same time, the Caisse played a decisive role during the 1970s in the francization of Montréal's financial sector.

Investments in staff training have resulted in superior returns and remarkably efficient management.

Given the commitment of the some 300 employees that now make up the Caisse, the management of funds is one of the most efficient in North America and can be compared favourably to that of private firms in the same sector. Operating expenses account for only 7 cents out of every \$100 of assets compared to an average of 29 cents for the industry. All depositors thus benefit from this efficiency and from economies of scale.

The fruit of many years of effort



has taken on an impressive stature!

It was sure to succeed.

A Large Public Institution

The Caisse's first builders made sure that the necessary mechanisms were at its disposal to ensure its neutral position relative to the government. Consequently, the Caisse has always made its own decisions regarding its day-to-day operations and investment policy.

As part of a mandate that ensures its autonomy, the Management of the Caisse relies on a team of directors who decide what the Institution's broad orientations will be, in harmony with the original objectives which have always been respected by Québec's political leaders.

The Board of Directors comprises 14 members who are representative of Québec's socioeconomic structure. It includes representatives of the business community, unions and cooperatives, as well as public-sector employees. While it works in conjunction with these sectors, the Caisse is truly independent with regard to public and private authorities, and this has been a vital aspect of its development.

For the first 25 years, the Board of Directors played a crucial role in keeping the Caisse in line with its initial objectives and establishing a profitable investment policy.

The Next Quarter-Century

In 25 years, the Caisse has become a financial giant. It is already one of the largest financial institutions in Canada and ranks as the 37th largest fund manager in North America. After playing a decisive role in developing the food, pulp and paper, cable-distribution, and natural gas distribution sectors, to name only a few, the Caisse is now in a position to provide support to dynamic Québec companies looking to gain international renown. Its competent team has access to the best investment tools. Its diversified investments enable it to obtain accurate information and develop profitable synergies for depositors and Québec businesses.

During the coming years, the Caisse de dépôt et placement du Québec can therefore continue to excel in the ever-changing domestic and international markets. Its ongoing belief in economic globalization should enable it to position itself to take up the challenges of the 21st century, by remaining true to its original objectives which are still valid today and by joining with its partners in contemplating new horizons which will profit all Québécois!

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Having taken office on July 1, 1990, I have the honour of presenting the Annual Report on the activities of the Caisse de dépôt et placement du Québec for the first time. Given that 1991 marks the 25th anniversary of its first investment, it is only natural that I should look back at the history of an Institution that has played a leading role in Québec's economy since its inception. In so doing, I should point out that during the periods of economic growth and

T

he members of the Caisse's Board of Directors are representative of the various facets of the Québec economy, namely the public and private sectors, as well as cooperatives and unions.

contraction which have occurred in its quarter-century of existence, not only has its original mandate never been questioned but it is still as relevant as ever. Profitable investments and support for Québec's economic development are and will

continue to be the constants which characterize the Caisse's activities.

It is befitting to recall the objectives on which the Caisse's mission was founded at a time when Québec's economy, like the other Western economies, is going through a difficult period, after over eight years during which industry and commerce demonstrated remarkable vigour, and the stock, bond and real estate markets recorded unusual and sustained growth, if one excepts the 1987 stock market correction. As painful as these cyclical slowdowns may be, they are part and parcel of market economies, like the upturns which, thankfully, inevitably follow them.

In light of the less favourable environment in 1990, it is important that the Caisse maintain the rigour and prudence which have always characterized its management of the public pension and insurance plans entrusted to it.

Over the years, this discipline has generated enviable returns. Since the economic cycle began in 1982, the average overall return has been 14.1% a year, and the average current annual return, which excludes market fluctuations, is 10.7%. The spread between these two figures is due to the portfolio's 3.4% average unrealized annual appreciation. In 1990, current return was 8%, but the theoretical drop in the portfolio's value as at December 31 reduced this return to 0.5%.

In this context, we should bear in mind the comment made by the Board of Directors in the 1982 report, when returns rose substantially after the economic slowdown of 1981. They emphasized that the performance of the depositors' funds must be measured over a complete economic and financial cycle. As effective as day-to-day management may be, long-term timely allocation of assets is the determining performance factor.

Canadian interest rates, which were already high in 1989, reached a new peak in the second quarter of 1990 and then fell slowly and gradually in the last few months of the year. On the bond markets, the Bank of Canada's monetary policy helped maintain the inverted yield curve, setting a record spread of more than 5% between Canadian and U.S. short-term rates. Moreover, uncertainty over the negotiation of the Meech Lake Accord disrupted the long-term bond market, while the strong Canadian dollar discouraged foreign investors from buying Canadian bonds.

Nor were the stock markets immune to the economic volatility. The profits of companies listed on Canadian stock exchanges dropped by 24.6% in 1990 after posting a gain of 2.8% in 1989. Dividends fell by 3.3% compared to the previous year, when they had risen by 13.3%. The total return on the Canadian stock market dropped to -14.8%, whereas in 1989 it was 21.4%.

All the world's major stock markets fluctuated significantly. The Tokyo stock market experienced substantial corrections, with the index losing 45% of its value before recovering slightly at year-end. The London stock market dropped by 7.7% in pounds sterling, while the German markets fell by 24.8% in marks during the second half of the year. The Dow Jones index posted a loss of about 20% after climbing to a historic high of 3,000 in July. The Montréal Exchange's XXM Canadian index dropped to -11.4% while the TSE declined to -14.8%.

But the markets' erratic behaviour was also due to concerns that were not economic. The most significant was undoubtedly the Middle East crisis, which has been a source of great uncertainty since August and which caused the average price of oil to surge from \$19.59 U.S. a barrel in 1989 to \$24.48 U.S. in 1990, an increase of 25%.

Despite this unsettled context, the Caisse's managers succeeded in achieving most satisfactory relative returns. In good years as in bad, the Institution thus maintains its solid reputation for positive financial results.

The Caisse's 25th anniversary is the ideal opportunity to consider the ground covered and appreciate the Caisse's ability to take up the challenges that the future no doubt holds. In all likelihood, the future will, like the past, especially the recent past, be uncertain and difficult to predict. That at least is certain. Still, we must be aware that of all the realms of activity in which contemporary society is involved, finance, industry and commerce are undergoing the most profound changes as a result of globalization, accelerated capital flows and the growing interdependence of national economies, which stem from deregulation, freer trade and are reinforced by swift advances in communications and information systems.

Anyone interested in Québec's economic development must take this phenomenon into account. The Caisse will continue to show an interest in foreign financial markets to the extent that they offer ways of optimizing the return on its investments and diversifying its portfolio. In that way, it can consolidate and extend its network of contacts with foreign investors and industrial companies. At the same time, it can enhance its ability to make Québec securities known abroad and thus benefit Québec's economy considerably. This network may also provide Québec companies with opportunities to collaborate or form partnerships with foreign firms in areas of common interest likely to promote the growth of both their respective companies and penetration of foreign markets.

In conclusion, I would like to express my thanks, as well as those of the Board of Directors and Management, to the Caisse's employees and to acknowledge the degree to which we appreciate their support and loyalty to the Institution. In this 25th anniversary year, it is also appropriate to thank all the people – employees and others – who have helped the Caisse fulfill its mandate. I would also like to underscore the contribution made by Jean-Charles Lafond, President of the Commission municipale du Québec, who left the Board of Directors during the year, and to wish him a long and enjoyable retirement.

I cannot conclude my remarks without a special tribute to my immediate predecessor, Jean Campeau, whose mandate ended in June. The accolades he has received from the public and private sectors as well as from the Institution's staff are as numerous as justified, and testify to the considerable influence he exerted and the respect he richly deserved. To these words of thanks I add my personal gratitude and that of the Board of Directors and Management, for we more than anyone are indebted to him for the determination and vigour he demonstrated as he guided the Institution, confirmed its mission and harmonized its activities with Québec's dynamic economy.



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

Montréal, February 28, 1991



From the outset the Caisse de dépôt et placement du Québec was meant to play a strategic role in Québec's economy. Twenty-five years later, the Caisse has reached the stage where its results dovetail with the original expectations. The Institution's success is due to the vision of those who created it and the hundreds of men and women who have worked to fulfill its mission.

O

ver the past 25 years,

four Chairmen of the Board have guided the Caisse in pursuing its fundamental objectives of profitability and support for Québec's economic development.

Moreover, of special importance is the determining role that the first three Chairmen and General Managers played in its growth. Under different circumstances and in different ways, each left his stamp on the Caisse as he guided it throughout the years.

Claude Prieur shouldered the immense responsibility of setting up the Institution and establishing the guidelines and objectives underlying its mission. He performed the arduous work of a pioneer, breaking ground, surmounting obstacles, and overcoming the skepticism of those who were perplexed by the innovative nature of the Institution or disheartened by the enormity of the task. He was appointed in 1966 and proved a skilled leader from the start. Regrettably, he died prematurely in 1973. But his foresight and determination gave the Institution a solid foundation for growth and assured its success.

He was succeeded by Marcel Cazavan. With solid training in finance and public administration, Mr. Cazavan brought to the Caisse invaluable experience that contributed to its growth. A man whose competence was matched only by his discretion, he focused on consolidating the Institution's assets and enhancing its management efficiency. During his

tenure, the Caisse de dépôt et placement earned exceptional returns. He resigned prematurely in 1980.

The 1980s got under way with the appointment of Jean Campeau, who directed the Caisse until his mandate expired in 1990. He was courageous, tenacious and concerned just as much about Québécois' interests as he was about the depositors'. During a critical period of the Institution's development, he gave it stature and influence commensurate with the original expectations. His leadership and dedication took the Caisse to new heights, so that during his mandate it earned a place among the foremost financial institutions in North America, as well as their utmost respect. Mr. Campeau spent most of his career in public administration, to which he was completely dedicated. As General Manager of the Caisse, he embodied its mission and gave it its true character.

Speaking for all Québécois, I would like to acknowledge the contributions of my predecessors, as well as our debt of gratitude to them. It would be difficult indeed to imagine a more illustrious record on which to found Québécois' hopes for the Caisse and their confidence in its ability to meet the challenges awaiting it on the eve of the 21st century.

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

Montréal, February 28, 1991



Diversification, both geographic and in terms of financial vehicles, helps to effectively manage the risk associated with our activities.

In the past year, the Caisse operated in a particularly difficult economic environment that had an adverse impact on the growth of the value of investments under management. Despite this difficult context, the Caisse's team of managers obtained satisfactory relative results in 1990. These results are due to a global strategy suited to the economic environment and for the most part they compare favourably with the various reference indices not only for the year, but also for the longer term.

The bond portfolio, which amounts to \$17.4 billion at market value, is the Caisse's main investment vehicle. It represents 48% of total investments and includes Québec, Canadian and U.S. securities, as well as securities issued by the German, British and French governments. It generated a return of 6.7%, compared to 7.6% for the bond market index. Most of this 0.9% difference is due to an external factor: in November and December, the interest rates on bonds issued by Québec and the other provinces dropped more slowly than those on securities issued by the Government of Canada. Given its substantial weighting of Québec securities, the Caisse's portfolio did not generate as high a return as the reference index. This type of situation, which the Institution has already encountered, usually tends to correct itself over time. In 1990, the economic climate called for non-traditional portfolio-positioning strategies. During the year, the Caisse decided to reduce its Canadian-dollar securities, and increase

the weighting of foreign bonds, which offered a higher return, thereby partially mitigating the adverse impact of the widening spreads between the rates on Québec and Canadian bonds and those of foreign bonds.

With respect to equities, the second-largest component of the Caisse's portfolio, a combination of Québec, Canadian and foreign securities in the form of stock market investments and interests in the share capital of companies yielded remarkable returns in relative terms.

In 1990, all the major stock market indices in Canada and elsewhere in the world posted severe losses. In this context, the portfolio of Québec and Canadian securities, which totals \$10 billion at market value and represents 27.6% of total investments, generated a return of -11.3%. An astute choice of securities and strategies enabled the Caisse to outperform the TSE 300 by a wide margin of 350 basis points. This is one of the best relative returns for this vehicle in the Caisse's history.

On the international scene, the specific foreign equity investments portfolio, which totals \$2.4 billion at market value, rose to 6.6% of total investments in 1990 in line with the Caisse's diversification objective. It posted a return of -13.7%, surpassing the -16.4% return posted by the CIWI world index. The reasons for this positive difference are an exceptional return by the internal U.S. fund, a significant contribution by external managers and a better regional distribution of the portfolio than that of the world index. It should be noted, however, that when the contribution of the partial automatic foreign exchange hedging, set up gradually since June 1989, is taken into account, the return of the specific foreign equity investments portfolio was -16.8%. The indexed block of U.S. equities that the

Caisse holds for tactical management purposes totalled \$682 million at market value, or 1.9% of total investments, and posted a return of -2.7%, which compares favourably with the -3% return generated by the index.

In corporate investments, the highlights of the year were the Caisse's assistance with various corporate restructuring and consolidation efforts, its contribution to the development of national and international partnerships, and its increased involvement in financing a network of venture capital enterprises in order to provide more funds for small businesses. As at December 31, the Caisse's portfolio of corporate investments amounted to \$1.89 billion at market value.

Mortgages generated a very good return of 12.1%, surpassing the index, which yielded 11.2%. This portfolio amounts to 5.5% of total investments and totals \$2 billion at market value.

Short-term securities, preferred for a portion of the year because of their high returns, generated a return of 13.8%, compared to 13.5% for the index based on 91-day Treasury bills. Dynamic management of these securities during the year made it possible to take advantage of market moves and generated approximately \$6 million. At year-end, the short-term investments portfolio amounted to \$1.8 billion, or 5% of total investments.

In the real estate sector, various acquisitions brought the Caisse's level of investments to approximately \$2 billion at market value, or 5.4% of total investments. This level is in keeping with the long-term objectives the Institution set in 1988. The return on the specific real estate investments portfolio was 1% for 1990, and for the past four years the annualized return is 11.4%. Net rental income and gains on the sale of assets were almost cancelled out by the drop in real estate values, according to the portfolio evaluation done by an independent firm.

An institution such as the Caisse pursues, first and foremost, medium- and long-term objectives.

An analysis of the results since the start of the economic cycle in 1982 shows that the returns for the three principal types of assets surpassed those of the reference indices by broad margins. These returns were 16% compared to 14.2% for bonds, 11.1% compared to 9.8% for Canadian equities and 14.3% compared to 13.7% for mortgages.

In recent years, several new derivative products traded on the stock exchanges or over-the-counter have become available to financial institutions that want to manage the various risks effectively, especially by diversifying their investments. Thus currency options were used for the first time in 1990 and helped the Institution reach its objective of diversifying its investment vehicles. As well, bonds issued by the British government were added to the Caisse's portfolio to improve its international diversification.

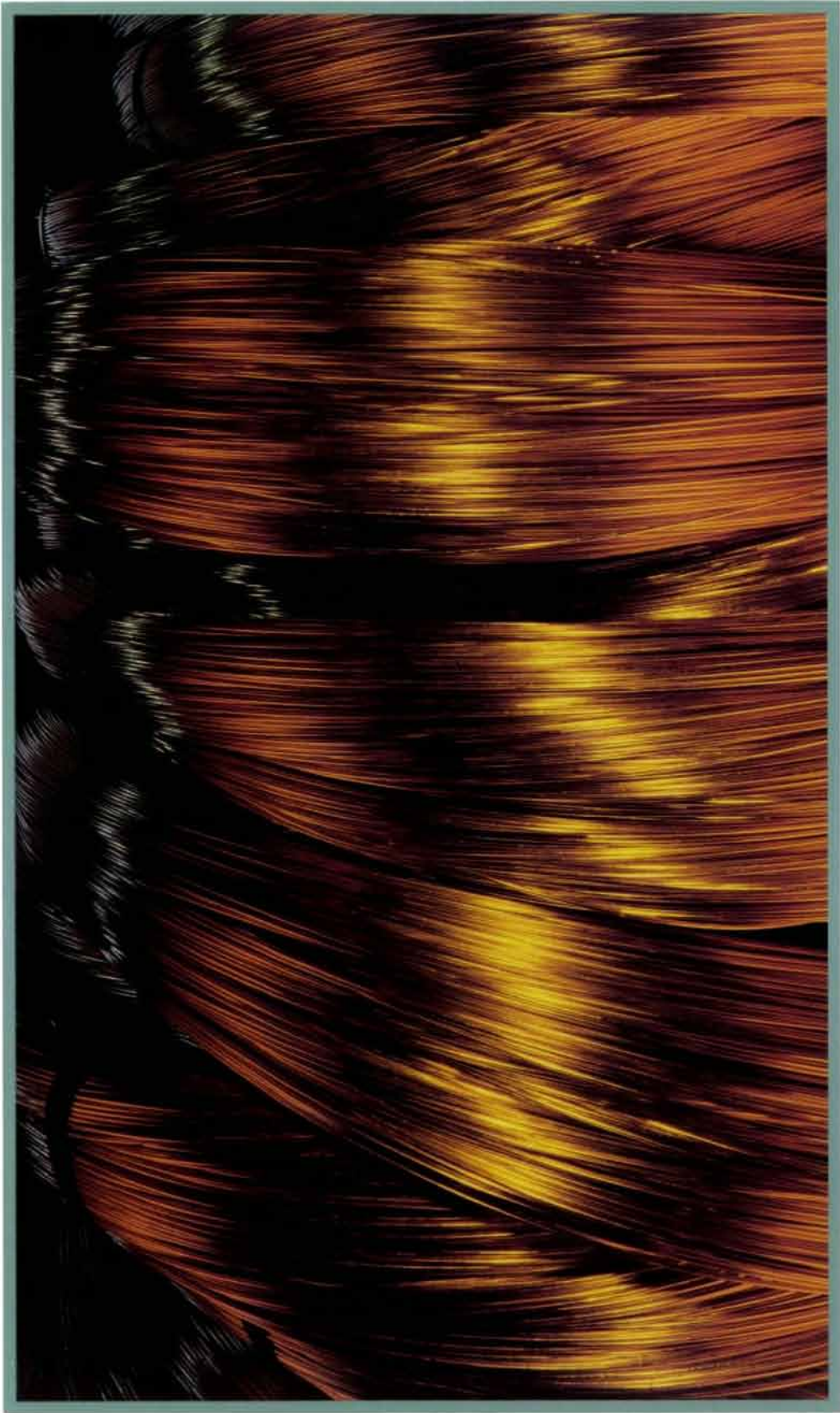
In conclusion, I would like to stress the effective and sustained contribution of the Caisse's employees, who enabled the Institution to achieve remarkable results yet again in an environment where the emphasis was often on preserving capital. The beginning of 1991, however, shows encouraging signs of a recovery.

I am convinced that, with its dynamic, skilled team, the Caisse can continue to meet future challenges with success while fully playing its role of generating profitable returns and contributing to Québec's economic growth and development.



Guy Savard
President and
Chief of Operations

Montréal, February 28, 1991



For the second consecutive year, economic activity in the main industrial countries was far from synchronized. The major economies reacted differently to the effects that German reunification and the oil shock had on the international financial markets. While these events accentuated the weakness in North America, the risk of inflation

was the concern in Germany and Japan.

In the United States, the economy was already quite weak in the first half, but the oil shock dealt it a blow that undermined consumer and business confidence and plunged the country into a

recession late in the summer. This recession is decidedly different from previous postwar recessions because it began despite the fact that short-term interest rates had been dropping for a year. Thus it stemmed less from macroeconomic policies and more from the precarious situations of many financial institutions, as well as the Persian Gulf crisis and its impact on consumer and business confidence.

The consumer price index, excluding food and energy, shows that the rate of inflation rose significantly in 1990. From about 4.5% in the second half of 1989, it increased to 5.5% last fall despite the sluggish economy.

Still, the Federal Reserve Board agreed to reduce interest rates, at first to offset the financial institutions' restrictive lending policies, then to compensate for the tight budgetary policy and toward year-end to contain the recession. Short-term interest rates had begun falling in the second half of 1989 and thus continued to drop, but long-term rates were bolstered by the impact of German reunification on worldwide demand for credit, the failure to curb inflation in the United States and the sharp increase in the price of oil. At year-end, however, the recession finally brought some interest-rate relief. In brief, long-term rates changed very little from December to December, but were far higher on average in 1990 than in the second half of 1989.

In Canada, the long-expected recession began in the spring. More conventional than the U.S. recession, it is due partially to the highly restrictive monetary policy of recent years and a substantial drop in the growth of personal disposable income caused by a rapid increase in income tax in 1990.

The unexpected jump in interest rates early in the year, combined with a crisis of confidence on the foreign exchange market, seems to have dealt the economy the final blow. As consumer confidence crumbled, spending fell sharply, restricting purchases that would otherwise have been made to avoid the goods and services tax, and weakening housing demand. Faced with sluggish demand, higher financial charges and a strong dollar, companies slashed capital spending and reduced production.

Inflationary pressures have gradually eased since last spring, in contrast to the previous trend. Excluding food and energy, consumer prices had risen to only 4% at year-end, compared to almost 6% at the midpoint of the previous year. Still, these statistics exaggerate the degree to which inflationary pressures moderated. Certain taxes boosted price indices temporarily in 1989, and the strong dollar lowered the price of imports in 1990. Moreover, the trend toward higher wages continued unabated.

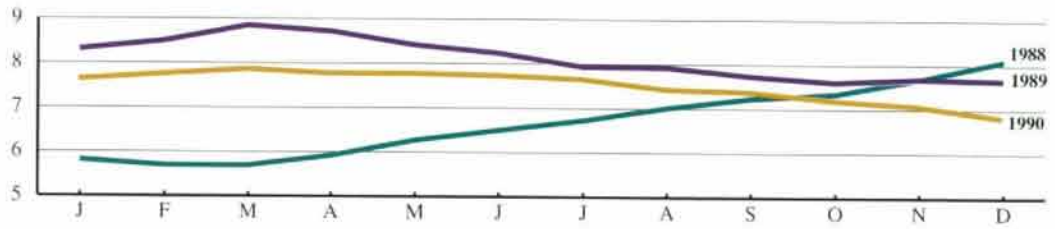
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conomic forecasts are a first step in the development of investment strategies and are now more essential than ever given the complex, global market conditions.

The behaviour of Canadian interest rates reflects the recession, moderating inflationary pressures and the drop in U.S. rates. The discount rate dropped from a peak of more than 14% in May to less than 12% at year-end, and the decline continued into early 1991. The situation represents a significant

Evolution of short-term interest rates in the U.S. - three-month Treasury bills

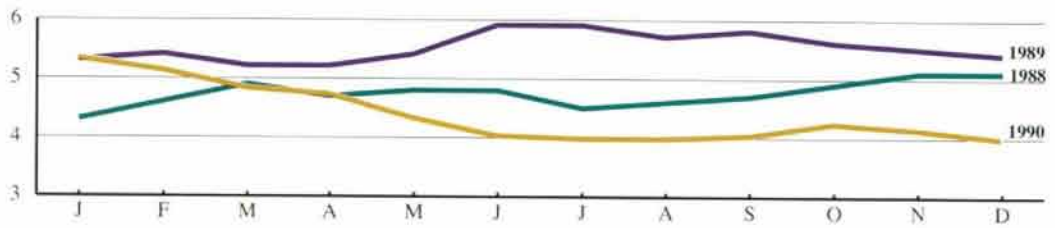
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Source: Wharton Econometric Forecasting Associates

Consumer price index growth in Canada - excluding food and energy

2



year over year percentage change
Source: Statistics Canada

reversal. Short-term rates climbed almost as much in the first half of the year as they dropped in the second. Their rise was fuelled by increases on the international markets when the East Bloc countries opened up and German reunification was announced, as well as the foreign exchange crisis that occurred when investors temporarily shunned the Canadian dollar.

The dollar rebounded quickly and remained relatively high throughout 1990, slowing economic activity further and detracting from the profitability of Canadian companies.

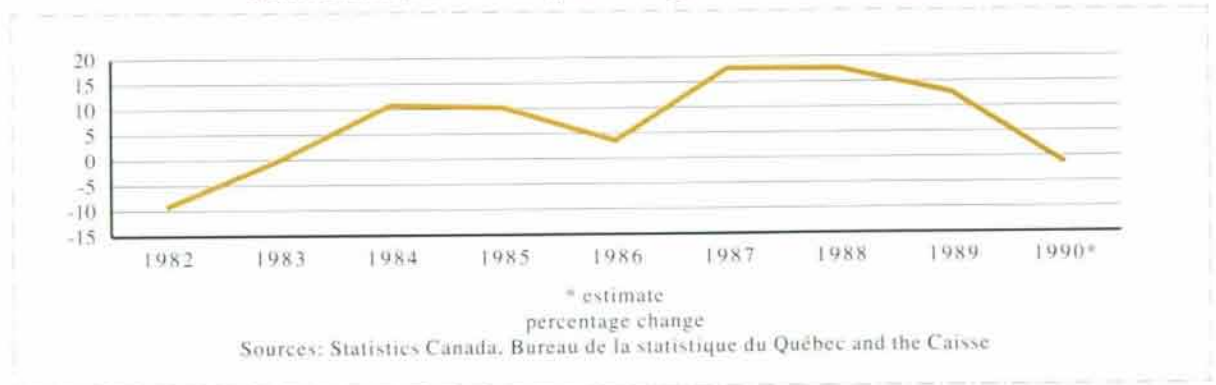
On long-term markets, interest rates fluctuated, although more often for political than economic reasons. Long-term rates and the spread between them and foreign rates remained unusually high all year, although the recession brought some relief toward year-end.

In Québec, the economic downturn became apparent a little earlier than in the rest of Canada, but the recession took hold at the same time, during the spring. Nationally, the sector hit hardest was manufacturing, particularly in Ontario and Québec.

The weakness spread to all components of domestic demand. Even productive investment, recently an engine of Québec's economic growth, declined slightly despite strong expenditures by aluminum smelters and Hydro-Québec. However, the drop was far less pronounced than in Canada overall. In 1990, Québec's housing starts fell for the third consecutive year, although the decline was a little less significant than in the other provinces.

Consumer trends were quite different from those in the rest of the country. The growth of less than 1% recorded in 1990 is the weakest since the last recession and is due partly to the Québec economy's greater sensitivity to fluctuating interest rates.

Non-residential investment growth in Québec - in constant dollars



Lastly, inflation increased less rapidly in Québec than elsewhere in Canada. But the difference disappeared toward year-end, as the price of houses fell more quickly in the other provinces, especially Ontario, and certain prices began increasing more rapidly in Québec, particularly tuition fees, property taxes and electricity rates.



The returns generated by funds under Caisse management depend on elements such as long-term asset-mix strategy by investment vehicle and tactical management of the various asset categories.

The investment policy and target asset mix are different for each Fund and correspond to a specific risk-return profile.

In 1990, the Caisse met with certain depositors

to jointly review their investment policies and adjust their long-term target asset mixes, among other things. The exercise is part of a five-year review process and in most cases was designed to achieve a more international investment approach.

The Caisse's investment operations are built around a sophisticated asset-mix model which enables it to make astute choices in its allocation of funds under management.

Another aspect of asset-mix management is the tactical asset mix. This feature of the investment policy consists of an active-management method designed to generate value added on a shorter-term investment horizon. It involves departing from the target asset mix by picking certain financial assets over others, on the basis of the economic environment and a relative

evaluation of financial markets. The success of this type of investment operation depends on two things: discipline, which is needed to identify attractive yield spreads that develop between the various asset categories; and speed of execution, which is needed to capitalize on opportunities by negotiating highly liquid instruments, such as baskets of equities and bonds that are representative of the Canadian and U.S. markets.

The returns obtained on the various markets in 1990 show the importance of the tactical asset mix. While the Canadian equities market return dropped to almost -15%, short-term vehicles yielded returns of more than 13%. Skilled managers could remain faithful to their long-term objectives, yet take advantage of the 28% spread between the two vehicles by using the margin of manoeuvre to increase investments in the most profitable market.

The managers responsible for the Caisse's tactical strategies performed various manoeuvres that added value of nearly a quarter of a billion dollars. These tactical strategies can be summarized as follows: early in the year, the essential strategy was to overweight equities by about 2%, using highly liquid U.S. securities. Not only was liquidity the prime factor at the end of the cycle, but the opportunity for gains in the United States was good. Thus, given the leeway afforded by the very high

Evolution of investments for total assets under management



as at December 31
at book value - in percentage

■ Variable-income securities
(shares, convertible securities,
real estate investments)

as at December 31
at market value - in percentage

■ Fixed-income securities
(bonds, mortgages,
short-term investments)

interest rates on the Canadian money market, bonds were underweighted by an equivalent percentage. In brief, overweighting of equities combined with underweighting of bonds was used to take advantage of the excellent return offered by short-term securities.

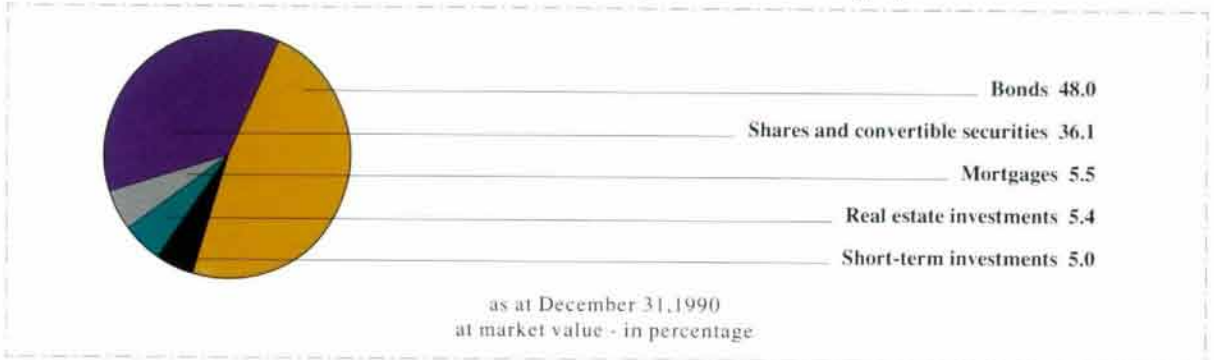
In the spring, the emphasis shifted from long-term markets to the money market. The indexed equity portfolios were reduced substantially, especially the highly liquid U.S. equities portfolio,

the spread between Québec and Canadian bond rates, which occurred in December. In the past, the Caisse has always coped with this type of movement, which tends to correct itself after a few months.

The short-term securities portfolio generated a return of 13.8%, compared to 13.5% for the index based on 91-day Canada Treasury bills.

As for equities, the Canadian portfolio generated a return of -11.3%, compared to -14.8%, after dividends, for the TSE 300 index. The strategies

Breakdown of assets according to investment category



5

In late summer, long-term rates, which had risen to more than 9% in the United States and close to 11.5% in Canada, were extremely attractive, so the Caisse overweighted bonds toward year-end.

With the equities market return falling to about -15%, most Canadian portfolio managers posted negative returns in 1990. The Caisse, however, was able to preserve its capital during this period.

The internal rate of return measures the results obtained on total depositors' holdings. In 1990, it was 0.5%, the lowest return obtained since the economic cycle began in 1982. It marks the end of the economic growth that characterized the past decade. The results for the past four and nine years are 8% and 14.1%, respectively. Without taking inflation into account, the return that the Caisse's managers achieved for the economic cycle is 9.2% in real terms. This rate is higher than those historically recorded for such a period.

These satisfactory results are due to selection of the most profitable asset categories and returns on each vehicle that were generally higher than the reference indices.

The time-weighted return helps to evaluate the fund managers' contribution to the growth of funds. It does not take into account the timing variable for the receipt of deposits, over which the managers have no influence.

The bond portfolio achieved a return of 6.7%, or 90 basis points less than the reference index. This return is essentially due to the temporary increase in

adopted during the year enabled the Caisse to outperform the stock market indices by a wide margin. In fact the difference of 350 points between the Canadian equities portfolio and stock market is the highest in the Caisse's history. The specific foreign equity investments portfolio had a return of -13.7%, compared to -16.4% for the world index. The reasons for this positive difference are an excellent internal U.S. fund return, a significant

The specific real estate and foreign equity investments portfolios were created more recently and so warrant special comment.

The weak return on foreign equities in 1990 brought the annualized return down from 13.7% for the period from 1986 to 1989 to 2.1% for the period from 1987 to 1990. The specific real estate investments portfolio added value to the Caisse's return with an annualized return of 11.4% for the four-year period.

Comparison of return on investments and financial indices

	1990		Compound average annual rate for the period					
			1987-1990		1982-1990			
Current rate of return ¹	8.0		9.9		10.7			
Internal rate of return								
Total depositors' holdings	0.5		8.0		14.1			
Time-weighted rate of return								
<i>Investment categories</i>								
Bonds	Scotia McLeod Bond - Medium Term		6.7	7.6	8.9	8.3	16.0	14.2
Canadian shares	TSE 300		(11.3)	(14.8)	5.9	5.0	11.1	9.8
Specific foreign equity investments portfolio	Capital International World Index (CIWI)		(13.7)	(16.4)	2.1	4.4	-	-
Mortgages	Scotia McLeod Mortgage		12.1	11.2	11.0	10.2	14.3	13.7
Specific real estate investments portfolio			1.0	-	11.4	-	-	-
Short-term investments	Scotia McLeod - Canada Treasury bills (91 days)		13.8	13.5	-	-	-	-

at market value - in percentage

¹ at book value

6

contribution by external managers, and good regional distribution of the portfolio in relation to that of the world index.

The return on the specific real estate investments portfolio was 1%, including 7% in terms of current return, which offset decreases in real estate values. Lastly, the mortgage portfolio's return of 12.1% was greater than the 11.2% generated by the corresponding index.

An analysis of the results obtained over the past nine years shows that the returns for the three principal types of assets surpassed those of the reference indices. These returns were 16% compared to 14.2% for bonds, 11.1% compared to 9.8% for Canadian equities, and 14.3% compared to 13.7% for mortgages.



Two new depositors joined the Caisse in 1990. In addition to a Fund for the Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec, the Caisse opened a special account for certain employees covered by various Québec public-sector pension plans.

In addition to the Caisse's original depositor, the Régie des rentes du Québec, other public pension and insurance plans have joined the Institution. The Caisse manages the funds of 15 depositors.

Under legislation adopted by the National Assembly, the Caisse is entrusted with the funds contributed to various public pension and insurance plans by almost four million Québécois. Although the organizations concerned administer these plans, the Caisse has the legal responsibility and the mandate to oversee the investment, protection and growth of their assets.

The Caisse receives funds in the form of demand, term or participation deposits, at the depositor's option. Demand and term deposits constitute indebtedness toward depositors and bear interest. Participation deposits give the holder a share in the net equity and net income of a particular Fund. Their value depends on the value of the Fund to which they are allocated.

The Caisse has ten Funds: the General Fund and nine Individual Funds. The General Fund is a pooled

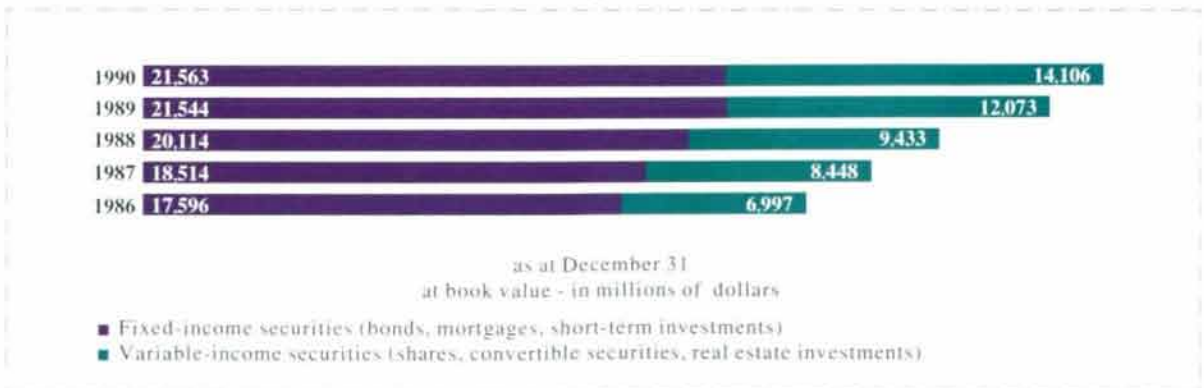
Net deposits of \$679 million made by some depositors did not entirely offset the net withdrawals totalling \$1,129 million made by others, including \$820 million by the Régie des rentes du Québec and \$275 million by the Société de l'assurance automobile du Québec (SAAQ).

The principal depositor to the General Fund, the Régie des rentes du Québec (R.R.Q.), manages the universal pension plan for Québécois. Despite a \$337-million increase in its holdings at book value during the year, the Régie had to withdraw \$820 million from its \$1,157 million in income to meet current requirements.

In 1989, \$903 million was withdrawn, representing a 58% utilization of investment income, versus 71% in 1990. At year-end, its holdings deposited with the Caisse amounted to \$14.4 billion at book value and accounted for 40.4% of total depositors' holdings. The 0.2% annual increase in the contribution rate, implemented in 1987, will bring the 1991 rate of 4.6% to 5.6% in 1996. Surplus investment income will thus slow the Régie's rate of projected withdrawals and increase its holdings, although modestly, in future years.

The SAAQ is the General Fund's second-largest depositor. It administers the general plan that provides insurance against injuries caused by traffic accidents. Its principal mandate is to reduce the risk of traffic accidents by improving control of access to the road system, to promote road safety and to compensate victims of traffic accidents. In 1990,

Evolution of investments



7

fund that includes several depositors, whereas each Individual Fund has only one. Of the 15 depositors, nine accumulate reserves to meet future commitments and the other six entrust the Caisse with liquid assets.

As at December 31, 1990, the book value of depositors' holdings with the Caisse was \$35.7 billion, an increase of \$2.3 billion during the year. The market value of these holdings was \$36.3 billion, which reflects a surplus of \$591 million over book value.

the Société had to withdraw \$275 million of its \$389 million in investment income, compared to \$35 million withdrawn in 1989. The withdrawal stems partially from the SAAQ's five-year capital-expenditure program to improve road safety. As at December 31, 1990, the book value of the SAAQ's holdings was \$4.7 billion, or \$4.9 billion at market value. The plan represents 13.5% of total depositors' holdings with the Caisse and 25% of the General Fund at market value.

The Fonds d'assurance-prêts agricoles et forestiers (FAPAF), the Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec (R.R.T.A.Q.), and the Régie des marchés agricoles et alimentaires du Québec (R.M.A.A.Q.) maintain a reserve of \$18.7 million in the form of units in the General Fund.

the Régie de l'assurance-dépôts du Québec, and La Fédération des producteurs de bovins du Québec. They are not included among the unitholders in the General Fund. However, they entrust the Caisse with liquid assets in the form of demand or term deposits now totalling \$116 million.

Depositors

8

	Abbreviation	First deposit	Number of contributors ¹	Depositors' holdings ²
Régie des rentes du Québec	R.R.Q.	1966	3,196,000	14,649.5
Commission administrative des régimes de retraite et d'assurances	CARRA			
Government and Public Employees Retirement Plan	RREGOP	1973	465,000	9,879.8
General Retirement Plan for Mayors and Councillors of Municipalities		1975	-	24.1
Individual Plans		1977	105	36.5
Pension Plan for Elected Municipal Officers		1989	2,410	29.2
Société de l'assurance automobile du Québec	SAAQ	1978	4,006,000	4,886.0
Commission de la santé et de la sécurité du travail	C.S.S.T.	1973	175,400	3,593.7
Commission de la construction du Québec	C.C.Q.			
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	114,000	3,013.4
Fonds d'assurance-prêts agricoles et forestiers	FAPAF	1978	3,300	21.7
Régie des assurances agricoles du Québec		1968	49,110	48.2
Régie des marchés agricoles et alimentaires du Québec	R.M.A.A.Q.	1967	60	2.3
Régie de l'assurance-dépôts du Québec		1969	1,391	67.7
La Fédération des producteurs de bovins du Québec		1989	27,000	0.4
Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec	R.R.T.A.Q.	1990	2,727	6.3

as at December 31, 1990

¹ estimate

² at market value - in millions of dollars

Distribution of total depositors' net income and contributions

9



in millions of dollars

- Net income (investment income less administrative expenses)
- Net contributions (deposits less withdrawals)

In 1990, a special account was opened for certain employees covered by various Québec public-sector pension plans. It consists of employer contributions to be paid to employees of the gouvernement du Québec, to which federal-provincial cost sharing applies. These take the form of demand deposits paid into the General Fund for short periods of time only.

The other depositors to the General Fund are the Régie des assurances agricoles du Québec,

Nine Individual Funds are held by the Caisse's various depositors. The Government and Public Employees Retirement Plan (RREGOP) covers public-sector employees, including government employees as well as those of the education and social affairs sectors. The plan is managed by the Commission administrative des régimes de retraite et d'assurances (CARRA). Since its creation, the plan has grown to \$9.7 billion, representing 27% of total

depositors' holdings and making the RREGOP the Caisse's second-largest depositor. At market value, this amounts to \$9.9 billion. During 1990, the plan's holdings increased by \$1,125 million at book value, of which \$425 million in new contributions was added to reinvested income. The RREGOP features

The Commission de la santé et de la sécurité du travail (C.S.S.T.) entrusts to the Caisse the funds it accumulates to cover industrial-accident and occupational-disease benefits it is committed to pay.

The C.S.S.T. receives contributions from all employers for insurance against hazards in their

Breakdown of total depositors' holdings

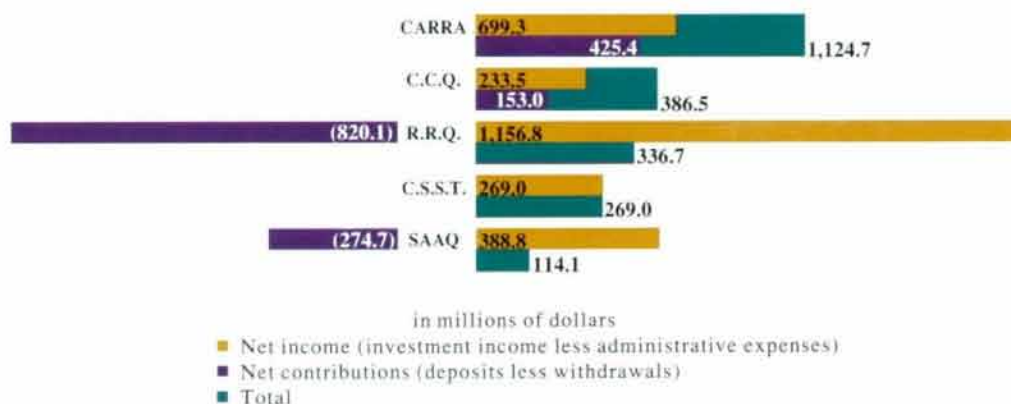
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	1990	1989	1988	1987	1986
Régie des rentes du Québec	40.4	42.0	44.6	46.9	48.5
Commission administrative des régimes de retraite et d'assurances	27.5	26.4	25.0	23.9	22.7
Société de l'assurance automobile du Québec	13.5	14.0	14.1	14.1	13.7
Commission de la santé et de la sécurité du travail	9.9	9.7	8.6	7.8	8.2
Commission de la construction du Québec and other depositors	8.7	7.9	7.7	7.3	6.9

as at December 31
at market value - in percentage

Distribution of major depositors' net income and contributions in 1990

11



two accounts: one for unionized employees, and another for non-unionized employees which also includes employers' contributions and transfers from supplemental pension plans.

CARRA also administers other plans, including the Individual Plans, the General Retirement Plan for Mayors and Councillors of Municipalities and the Pension Plan for Elected Municipal Officers. Their assets total \$36 million, \$24 million and \$29 million, respectively, at book value.

The Caisse also manages the funds of certain other supplemental pension plans, including that of the Commission de la construction du Québec (C.C.Q.). As at December 31, this plan's assets totalled \$3 billion at book value and had recorded an increase of \$387 million, based on contributions of \$153 million and income of \$234 million. The plan is allocated among three accounts: the active participants' account, \$2.1 billion; the retired participants' account, \$0.7 billion; and the additional contributions account of certain workers, \$0.2 billion.

sectors of activity. At December 31, 1990, it had assets of \$3.6 billion at book value, representing close to 10% of total depositors' holdings. The Commission's holdings at market value increased by \$36 million, including net investment income of \$269 million.

Human Resources

It goes without saying that the Caisse considers its employees one of its main assets. Their high calibre and skill, their maturity and their professional integrity, not only contribute to the Institution's success but enable it to take up major challenges in all its sectors of activity. With 275 employees, an increase of 37 over the previous year, the Caisse

Its team of specialists and the increasingly sophisticated tools the Caisse has been operating with over the years enable it to achieve both dynamic and efficient management.

carried out not only the usual professional activities in 1990 but also new activities relating to investment vehicles such as futures contracts, the lending of securities and the hedging of exchange risks, as well as the development of information systems.

Throughout the year, the Caisse consolidated its human resources management through employee consultation and accountability. The most notable human resources projects included organizational diagnostics and a bonus program based on the Institution's internal return, as well as start-up of a review of working conditions and the restructuring of certain administrative units.

The Caisse is proud of its human resources. It is well aware of their valuable contribution and does its utmost to provide working conditions and professional-development programs that enable employees and the Institution to reach organizational objectives.

Information Systems

1990 marked the first year of the application of the three-year information-systems master plan. During the year, the focus was on setting up a team of highly-experienced professionals and technicians capable of developing solutions for the needs expressed.

Achievements in information-systems implementation include systems for Canadian and U.S. bond futures, British bonds and short-term securities, as well as a performance-measurement system and a new accounting system. The Caisse also studied and selected data-access and -analysis tools to enable its managers, professionals and technicians to access information more easily and use it more effectively.

Technological improvements include setting-up an Institution-wide network and acquiring a more powerful central processing unit.

Efforts continued during the year to ensure uninterrupted and high-quality service for all internal users of information systems.

Administrative Expenses

Active management of the substantial Canadian and foreign securities portfolios requires considerable financial and human resources but generates several hundred million dollars of extra revenues and more than offsets the additional administrative expenses it entails.

Administrative expenses for 1990 were \$25.3 million, compared to \$19.8 million the previous year. This considerable increase is due to the hiring of personnel and the development of information systems adapted to the financial instruments of the 1990s.

Expenses for the year break down as follows: salaries, 59.8%; rent and insurance, 12.4%; professional fees, 9.9%; and other expenses, 17.9%. In accordance with the rules governing the Caisse, the expenses are allocated among the various Funds on a pro rata basis according to the market value of each Fund's assets.

In addition, expenses of \$8.2 million relating directly to investment-management services performed by other financial institutions were charged against the investment income of the Funds. These totalled \$2.5 million for Canadian institutions and \$5.7 million for foreign institutions.

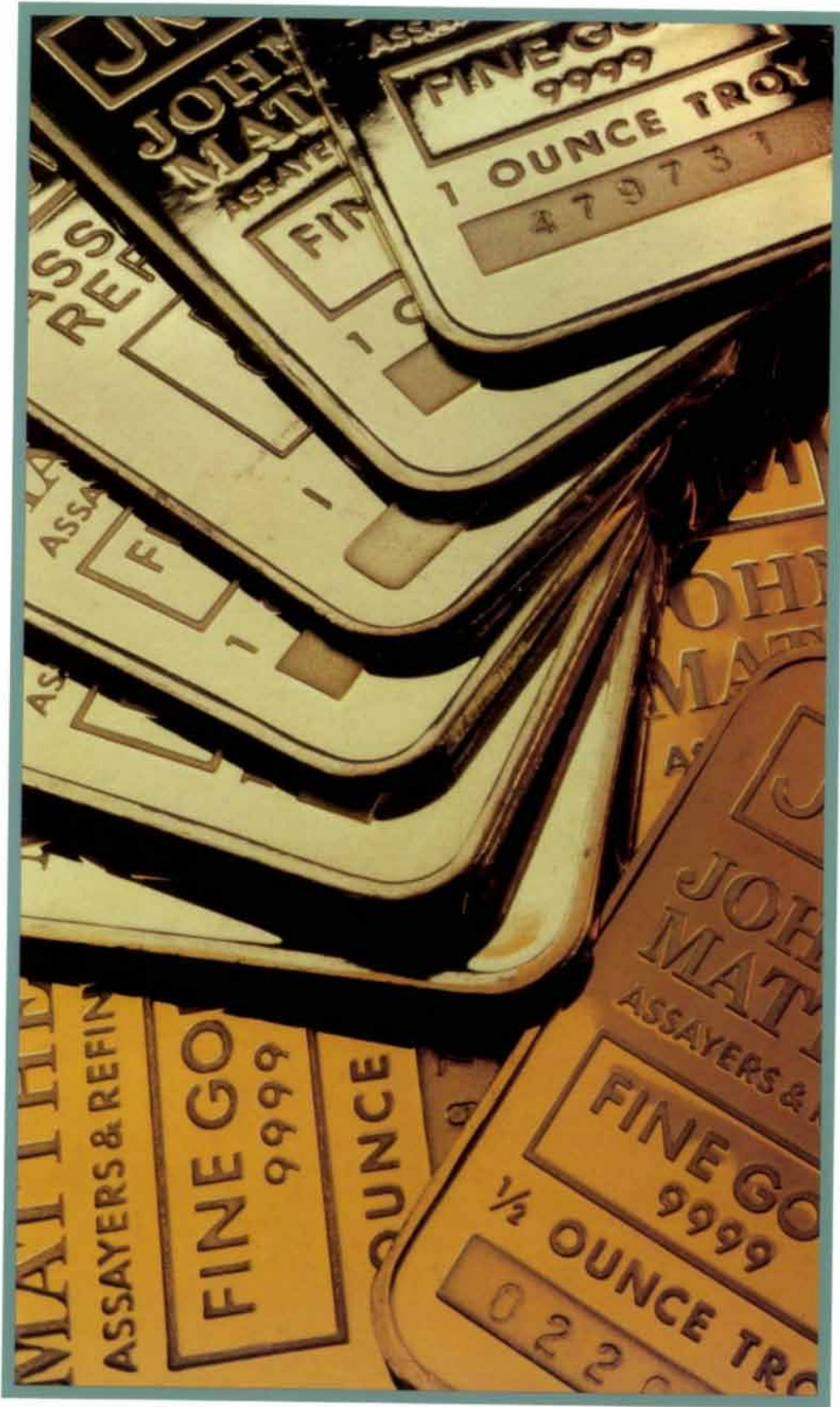
Public Affairs

In the realm of public affairs, the Caisse continued to publish various documents designed to provide support for its managers and enhance its investment activities, including *Cycles et tendances*, a half-yearly publication of economic and financial forecasts, *Collection Recherche*, a specialized investment-sector document, and *Savoir-faire*, a quarterly bulletin for managers of medium-sized businesses.

Regarding public relations and sponsorships, the Caisse took part in various events to disseminate financial and economic information and support the financial sector, including the Salon de l'épargne-placements held in Montréal and Québec City, and the Canadian International Futures and Options Conference.

Under the cooperative agreement with Caisse des dépôts et consignations de France, representatives of both institutions met to discuss real estate, bonds and the economy in general, and exchanged a great deal of information on the European and North American markets.

During the year, the Caisse also continued to monitor application of the *Act respecting the protection of non-smokers in certain public places* by following up on requests relating to compliance with the Act.



Bonds

Securities issued by the Government of Canada, like securities issued or guaranteed by the gouvernement du Québec, were not immune to the strong market pressures caused by the behaviour of short- and long-term interest rates. Moreover, the recession and uncertainty over Canada's constitutional future depressed the return on securities issued by the

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he Caisse's first investment in 1966 was a \$500,000 bond purchase; today, the Institution buys and sells several tens of billions of dollars of short- and long-term securities on the various markets each year.

provincial governments, relative to those issued by the Government of Canada. Still, the Caisse helped to maintain an orderly market for Québec public-sector securities. It traded or sold Québec public-sector bonds on the secondary market amounting to \$6.9 billion during the

year, thereby helping to maintain a high-quality and liquid secondary market for securities of this type.

International diversification of the portfolio continued in 1990. Bonds issued by the British government were added to those issued by the U.S., French and German governments. In addition to the attractive return that these investments yield, the Caisse took advantage of the imperfect correlation of market movements between the various countries in which it invests to improve the stability of its results.

The Caisse also continued its operations on the Canada bond futures market created by the Montréal Exchange in September 1989. The purchase or sale of these securities often presents quite good arbitrage opportunities in addition to increasing portfolio-management flexibility.

The bond and mortgage portfolios comprise securities purchased on a permanent-investment basis, but actively managed, and securities acquired on a temporary basis. The latter, which are very liquid, are used mainly for controlling the duration factor, as well as for facilitating operations in the Québec public-sector securities market and allowing a more vigorous asset mix for the Caisse overall. As at December 31, 1990, securities held on a temporary basis represented 14.1% of the total bond and mortgage portfolios.

Summary of bond and mortgage portfolios according to type of issuer

Securities	At market value		Average nominal rate ¹ (%)	Average maturity ¹ (years)	Modified duration ² (volatility)
	(in millions of dollars)	(%)			
Permanent investment basis					
Issued by the gouvernement du Québec	8,773.8	45.4	10.53	8.50	4.82
Government guaranteed	3,399.6	17.6	10.42	11.40	5.50
Guaranteed by grants, municipalities and school boards	2,388.3	12.4	10.96	8.19	4.41
Corporate and other	45.2	0.2	11.25	3.86	2.29
Mortgages	1,991.9	10.3	11.65	3.32	2.35
Temporary investment basis					
Government issued or guaranteed					
Canada	847.5	4.4	10.53	5.44	3.23
United States	857.1	4.4	2.94	22.48	9.69
Germany	363.9	1.9	8.83	6.22	4.49
England	91.9	0.5	13.50	1.73	1.51
France	484.3	2.5	8.64	11.11	5.86
Other governments	36.0	0.2	11.40	4.65	3.55
Others	34.7	0.2	11.85	5.41	2.21
	19,314.2	100.0	9.91	9.59	4.77

as at December 31, 1990

¹ weighted as per nominal value

² weighted as per market value

Summary of acquisitions of new bonds issued by the gouvernement du Québec and Québec public sector in 1990

	Amount of issues			Acquisitions by the Caisse on the Canadian market	
	Canadian market	Other markets	Total	(\$)	(%)
Gouvernement du Québec					
Regular issue	249	686	935		
Refunding	1,083	334	1,417		
	1,332	1,020	2,352	525	39.4
Hydro-Québec and other provincial crown corporations					
Regular issue	1,120	1,955	3,075		
Refunding	501	705	1,206		
	1,621	2,660	4,281	650	40.1
Municipalities and guaranteed by grants					
Regular issue and refunding	2,463	208	2,671		
	2,463	208	2,671	313	12.7
	5,416	3,888	9,304	1,488	27.5

at par value - in millions of dollars

New investments in the primary market in the form of Québec public-sector bonds totalled \$1,488 million during the year. Of this amount, \$525 million was allocated to securities issued by the gouvernement du Québec, \$500 million to securities issued by Hydro-Québec and \$463 million to other public-sector issuers,

including the Société de développement industriel and the Société québécoise d'assainissement des eaux. At year-end, the bond portfolio had a market value of \$17.4 billion, an average maturity of 10.25 years, an average coupon rate of 9.73% and a modified duration of 5.04 years. At book value, it totalled \$17.7 billion.

Short-Term Investments

Given the interest rate levels resulting from developments on the foreign exchange market, the Caisse's management strategy for the short-term investments portfolio was to maintain a very high degree of liquidity for a good portion of the year, so that until August the average maturity of investments was 50 days. The inverted yield curve made 30-day

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he Caisse does not hesitate to use money market synthetic or derivative products to improve the quality and liquidity of the market and increase returns.

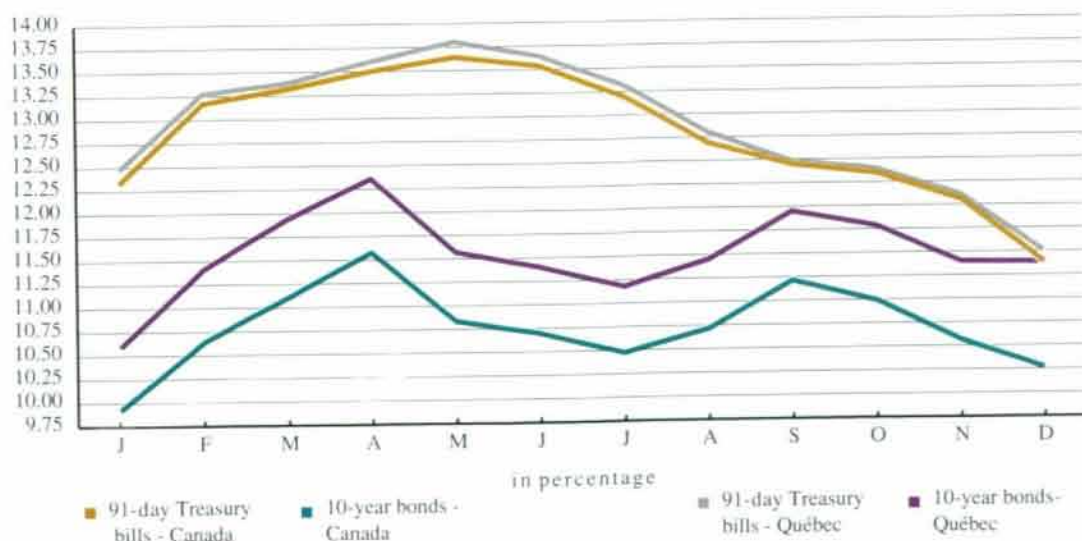
commercial paper very attractive. Moreover, during the summer, the average maturity of the portfolios was extended to take advantage of the fact that interest rates had begun to drop. Thus, as at December 31, profit-taking had reduced the average maturity of

securities to 45 days. At that point, the short-term investments portfolio amounted to \$1.9 billion at par value, or \$1.8 billion at book value.

The management objective for short-term investments is to stimulate the growth of funds under management, regardless of the investment horizon. In this context, the primary function of short-term securities managers is to properly identify the sources and uses of funds in order to harmonize cash fluctuations. Investment income and deposits boost short-term assets before being allocated to other investment vehicles. These amounts are reduced, however, as investment commitments are settled.

Evolution of yield in 1990

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Thus each day the managers strive to increase the value of each dollar they manage, during periods that vary greatly in length.

Although the term of this type of investment is relatively short, ranging from one to 365 days, the value of each transaction – an average of \$27 million – and the enormous annual volume – \$108 billion in 1990 – call for dynamic management.

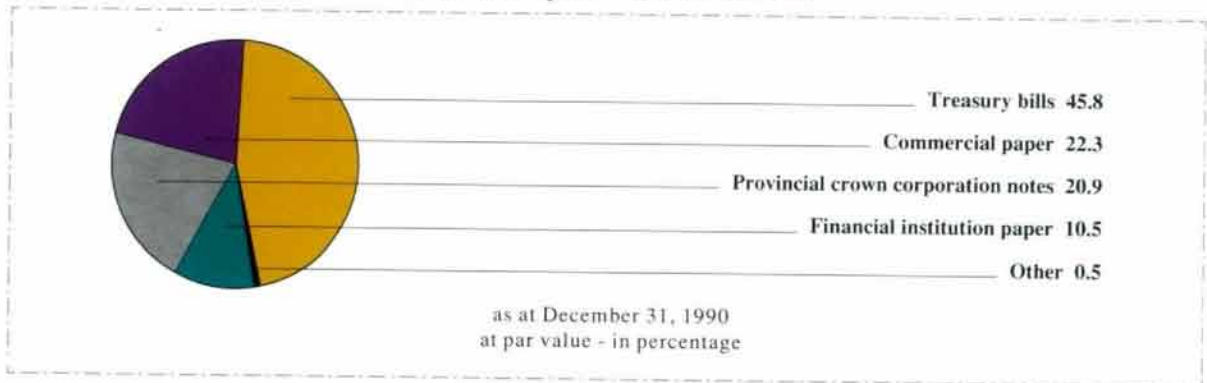
Moreover, like other types of investment, management of short-term securities is built around the concept of risk, or avoidance of loss. The managers take four aspects of risk into account: liquidity, interest rates, credit and the exchange rate.

Management of liquidity-related risk involves ensuring that the Caisse always has the necessary funds to respect its investment commitments. To this end, managers closely monitor all cash fluctuations. An adequate level of liquidity enables them to take

The purpose of a credit-risk analysis is to determine whether a borrower can repay its debt on maturity. It goes without saying that this risk is related to the company's balance sheet and the economic context. An analysis is done to evaluate the company's credit rating, which may vary from high to low. In 1990, the economic downturn prompted the Caisse to pay special attention to the limitations established as a function of this scale.

Lastly, the foreign exchange risk is associated with foreign securities portfolios. The Caisse's management approach is to separate market-value variations due to fluctuations in prices from those related to changes in exchange rates. Thus compensation positions using hedging instruments, such as spot-exchange contracts and currency options, eliminate currency-related fluctuations. Counterparts convert a foreign-currency risk into a

Breakdown of short-term investments



15

advantage of market opportunities. Still, excessive liquidity must be avoided because, as a rule, securities that can be converted into cash rapidly do not offer the best returns. The managers must constantly try to strike a balance between the two. Information systems enable them to distinguish between cash flow activities and short-term investment activities, which are more permanent in nature.

In the case of interest-rate risk, the managers try to take advantage of variations in the market value of a security attributable to fluctuating interest rates. Thus a portfolio positioned from a long-term perspective usually yields a better return when the cost of money is dropping, whereas short maturities are preferable when rates are rising. The market values are calculated at the end of the period to evaluate management decisions and determine their validity. An actively-managed portfolio therefore generates added value, unlike a passive portfolio, which requires no intervention. In 1990, active management of short-term securities gave the Caisse an efficiency premium of more than 25 basis points.

Canadian-dollar risk. For arbitrage reasons between the various countries, the value of hedging instruments is closely related to short-term vehicles. Centralized management as a function of short-term investments contributes to operational efficiency.

In recent years, a number of new derivative products traded on stock exchanges or over-the-counter have been offered to major financial institutions that want to manage these risks effectively. Consequently, currency options were used for the first time in 1990 to refine strategy.

Canadian Stock Markets

As a result of economic conditions and a downward trend on all markets, the overall return generated by the Canadian stock market dropped to -14.8% in 1990, after reaching 21.4% in 1989. The return on Canadian equities was divided unequally among the various sectors, which recorded different rates of growth and profitability linked to Canada's

economic and financial environment.

Of the sectors that outperformed the index, pipelines recorded the best performance with an 8.5% increase that reflected a 75.8% jump in earnings.

Public utilities, a defensive and regulated sector, declined to -4.8%. Oils placed third with -9.6%, followed by distribution with -13%. Forest products, which were affected by the sluggish construction industry and weak demand for newsprint as well as increased environmental expenditures, had a return of -14.2%, while consumer products recorded -14.3%. With weak industrial demand depressing the price of metals, the mines and metals sector recorded -14.5%.

The sectors that performed less well were industrial products at -12.7%, financial services at -15.3% and golds, closing at -19.3% as the disinflationary period got under way. Communications were affected by a drop in advertising and posted -20.8%, and the always cyclical transportation industry recorded -21.3%. Management companies placed second-last with -22.2% and the real estate sector, whose income dropped by 430%, recorded a disappointing -45.6%.

In 1990, selection of securities was more important than selection of sectors, and the Canadian equities portfolio, which had a market value of \$10 billion and a book value of \$9 billion at year-end, was especially well positioned with securities of efficiently-managed companies that have a sound balance sheet and are geared for international markets. Moreover, in the wake of all the leveraged buyouts and mergers spawned by the diversification mania of the 1980s, companies that streamlined their operations and finances to concentrate on their distinctive skills emerged as winners. As well, the Caisse carefully evaluated the impacts of environmental and recycling pressures when selecting companies in the forest-products, packaging and chemicals sectors.

A

shareholder in over

350 Québec and Canadian companies, the Caisse is the largest investor in the Canadian stock market.

Stock market indices in 1990

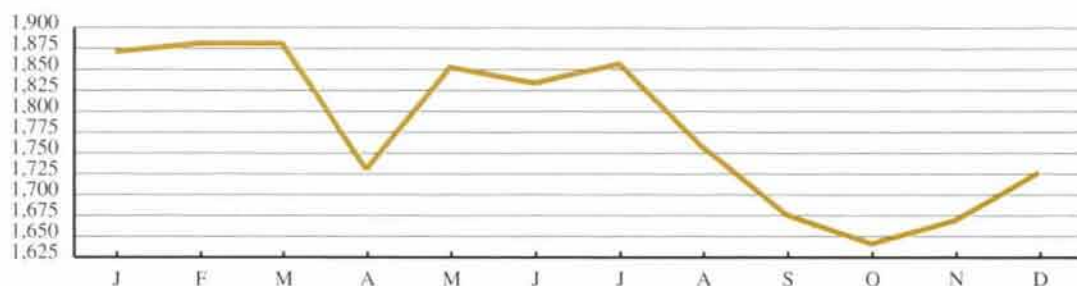
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Indices	Location	In local currency	In Canadian dollars
XXM	Montréal	(11.4)	(11.4)
TSE 300	Toronto	(14.8)	(14.8)
Standard & Poor's 500	United States	(3.1)	(3.0)
CIWI	United Kingdom	(7.7)	11.1
CIWI	West Germany	(19.3)	(8.9)
CIWI	Japan	(39.5)	(35.9)

total return in percentage

XXM index in 1990

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XXM: Montréal

The Institution thus adopted a defensive position during the year, overweighting sectors that are sensitive to interest rates and related to energy and consumption, and underweighting cyclical sectors that are related to industrial production and natural resources.

Net purchases per sector break down as follows: \$231 million was allocated to the communications sector, \$178 million to oil and gas, \$161 million to financial services, \$117 million to public utilities and \$92 million to distribution and services.

With respect to the portfolio's financial and stock-market coefficients, the price-earnings multiple was 17.3, the price-book value ratio was 1.6, the dividend yield was 3.8% and the debt ratio (debt-common shareholders' equity) was 0.49.

Investments in Canadian stock markets also include a block of equities indexed to the TSE 35, which comprises the securities of 35 highly-capitalized Canadian companies. These blue-chip equities, which are traded in blocks for liquidity and strategic reasons and are passively managed, amounted to \$1 billion at year-end and generated a return of -11.1%, which compares favourably to the -11.7% return for the reference index.

International Stock Markets

Despite the downward trend on the world's major stock markets during the past year, the Caisse invested \$677.7 million on international markets, bringing the specific foreign equity investments portfolio to \$2.4 billion as at December 31, or 6.6% of the Caisse's total investments at market value, compared to 6% the previous year. At book

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lthough the Caisse only diversified its portfolio gradually over the years, it is fully aware of the trend toward globalization and the need to invest in foreign markets.

value, it amounted to \$2.6 billion, compared to \$2 billion in 1989. The geographical breakdown of the portfolio was as follows: 38.3% in the United States, 31.2% in Asia, 17.5% in continental Europe and 13% in the United Kingdom.

The specific foreign equity investments portfolio is managed according to three different methods. A global mandate is handled by external managers who, subject to special restrictions, may invest anywhere except in Canada. A fund of U.S. equities is

managed by an internal team. There are also funds, indexed to the U.S., U.K., continental Europe and Asia sub-indices of the world index, whose proportions are controlled by the internal team. At year-end, the market value of these funds was \$470 million, \$514 million and \$1,408 million, respectively.

The specific foreign equity investments portfolio does not include an indexed block of U.S. equities held by the Caisse for tactical management purposes and which had a market value of \$682 million at year-end. This management method was introduced in September 1989 and generated a return of -2.7% in 1990, which compares favourably to the index at -3%.

The currency forward contracts portfolio, also created in 1989, was used in conjunction with the geographical allocation to improve the efficiency and return of the asset-mix process. This currency forward contracts portfolio, also called the tactical hedging portfolio, is managed by the internal team, and its performance is included in that of the specific foreign equity investments portfolio.

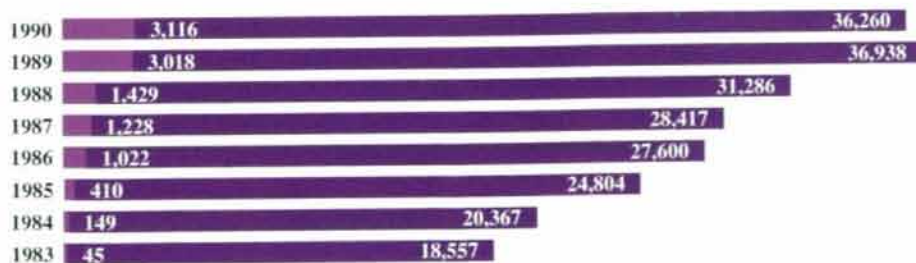
As a result of studies on diversification into foreign equities for a Canadian investor, the Caisse concluded that a foreign equities portfolio hedged against foreign exchange risk should have a better

Geographical breakdown of the specific foreign equity investments portfolio



as at December 31, 1990
at market value - in percentage

Evolution of foreign equity investments as part of total investments



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

■ Foreign equity
■ Total investments

risk-return profile than an unhedged portfolio. It therefore decided to hedge its specific foreign equity investments portfolio against foreign exchange risk. This strategic hedging is performed automatically and protects the entire portfolio against currency fluctuations. It is independent from the tactical hedging, which enables managers to take advantage of currency variations while assuming a reasonable risk. It was put in place in mid-1989 and completed in late 1990.

Corporate Investments

The economic conditions prevailing in 1990 prompted most of the companies in which the Caisse has an interest to undertake major consolidation and financial-restructuring programs. The Caisse therefore emphasized careful management of its portfolio and reorganized the employees working in this area.

It also took advantage of the best investment opportunities that arose. Mindful of the quality of the support provided to its partners, the Caisse devoted a great deal of its efforts to working closely with owner-entrepreneurs to ensure a better return during the downturn.

The effort to collaborate with its partners prompted the Caisse to conclude a number of transactions to better position itself and to negotiate arrangements or new investments to achieve its targeted profitability.

Contributing to economic development is an essential element of the Caisse's corporate investments, so the Institution did not hesitate to join forces with private and public partners to conclude certain transactions. At the same time, it continued to broaden its involvement in financing a network of venture capital enterprises.

The specific transactions that took place during the year fall into four categories: restructuring, consolidation, international development and networking.

In the energy sector, the Caisse was involved in the restructuring of its partner Noverco. It took an active part in the bid for the company's common shares in cooperation with other partners working in the sector, namely Le Groupe Canam Manac and the Société québécoise d'initiatives pétrolières (SOQUIP). Its contribution was \$130.8 million. In the same sector, the Institution purchased additional common shares of Sceptre Resources amounting to \$22 million.

In the food sector, along with its partner Socanav, the Caisse restructured all the financial instruments that it had put in place for the bid to acquire Steinberg in 1989. After completing all stages of the leveraged buyout, the partners agreed on a new formula better adapted to their particular situations. The Caisse thereby increased the security of its investment while maximizing its return.

The Caisse invests in the share capital of profitable Québec companies with attractive growth potential, emphasizing its contribution to Québec's economic development.

Evolution of corporate investments portfolio

20



as at December 31

- At market value - in millions of dollars
- Number of investments

To consolidate its activities in certain industrial sectors, the Caisse joined forces with a number of industry leaders. Along with other financial institutions, including Société d'investissement Desjardins and the Fonds de solidarité des travailleurs du Québec, the Institution facilitated the acquisition of the Équipements Denis division by Groupe Harricana, making Harricana a world leader in the manufacture of tree-harvesting equipment.

With respect to international development, the third type of transaction, the Caisse joined international and national partners to invest in Groupe Coscient, a major Québec audio-visual equipment manufacturer, and in CML Technologies, an Outaouais-region company specializing in the manufacture of switches for the telecommunications sector.

The Caisse also extended the network of regional investment companies that fund small businesses, which are still poorly served in this respect. It invested \$2 million in the capital of Soccrent, a company that provides financing for small businesses in the Saguenay-Lac-Saint-Jean region.

Moreover, with financial and institutional partners in Québec and abroad, the Caisse created Capitecq, a limited partnership that invests in the high-technology sector. The Institution's investment was \$5 million.

These and other transactions concluded during the year brought the Caisse's portfolio of corporate investments to a market value of \$1.89 billion.

In addition, the team assigned to corporate investment activities underwent a major restructuring. The objective was to better meet partners' needs as well as improve operational efficiency to cope with market globalization and achieve greater knowledge of industrial sectors. Investment activities relating to small, medium-sized and large companies were combined as national corporate investments, which represent assets of \$1.15 billion at market value.

For their part, international corporate investments constitute a portfolio amounting to \$0.04 billion at market value, and consist of companies selected for their profitability potential and access to a strategic network for the Caisse and its partners on foreign markets.

Lastly, a group was created to manage specific investments requiring special intervention. This portfolio totals \$0.70 billion at market value.

With this new organizational structure, the Caisse can optimize the synergy between its national and international partners.

Mortgages

Despite high interest rates and low demand for financing, especially in the residential sector, the Caisse granted mortgage loans totalling \$209.1 million. It made a sustained effort to make loans available in all regions of Québec, providing \$103.8 million for real estate properties outside Montréal and Québec City. Moreover, loans for

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he Caisse has built a residential, commercial and industrial mortgage portfolio amounting to over \$2 billion. Through its direct investments or by way of its representatives, the Caisse is thus present throughout Québec.

industrial buildings continued to increase, reflecting the Institution's support for the development of Québec companies. At year-end, this sector of activity represented 13.3% of the portfolio, compared to 12% the previous year.

The main achievements in 1990 include financing of \$20 million for the renovation of an office building in Québec City, financing of \$7.5 million related to Place du Commerce in Brossard, \$4.5 million for a 121-unit apartment building in Québec City, occupied mainly by senior citizens, financing of \$5.6 million for an office building in the town of Mont-Royal, financing of \$5.8 million for the Galeries Montmagny shopping centre in Montmagny, financing of \$2.3 million for a distribution centre in Saint-Hyacinthe and

financing of \$3.3 million for the construction of two housing cooperatives in Montréal.

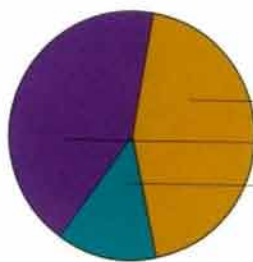
Most of the Caisse's residential mortgage investments are made by representatives, such as Fiducie Desjardins, Trust Général du Canada and Trust Prêt et Revenu. With their expertise and branches in the various regions of Québec, they enable the Caisse to increase the credit available for the purchase of property in the following sectors: single-family housing, condominiums and multi-unit housing with four units or fewer.

During the year, the Caisse stepped up its involvement in social housing, especially by taking an active part in the program sponsored by the Cooperative Housing Federation of Canada and the Canada Mortgage and Housing Corporation. A number of housing cooperatives, all in Québec and often outside of urban areas, were financed with indexed mortgage loans.

As at December 31, the Caisse's mortgage investments totalled \$2 billion at market and book value and represented 5.5% of total assets. They were allocated among the following sectors: residential, 44%; commercial, 42.7%; and industrial, 13.3%. The average coupon rate was 11.6%, the average maturity was 3.3 years and the modified duration was 2.3 years.

Breakdown of mortgages

21



as at December 31, 1990
at market value - in percentage

Real Estate Investments

High interest rates and the economic downturn during the second half created an unfavourable climate for real estate values in 1990. In this context, the Caisse concentrated on managing, restructuring and consolidating its assets, including those of Ivanhoe and its real estate portfolio, which amounts to roughly \$1 billion.

Conclusion of the Ivanhoe real estate transaction, completed in March 1990, was the main event of the year. The former Steinberg subsidiary was transferred to the Caisse and some of its partners in Société

immobilière Trans-Québec (S.I.T.Q.), namely the employees' pension funds of Alcan, the National Bank, the Mouvement Desjardins, the Université Laval, the Ville de Montréal, the Société de transport, and the policemen of the Communauté urbaine de Montréal. The Caisse has a 93.82% interest in the value of the company in various forms, whereas its partners and S.I.T.Q. hold options enabling them to increase their current 6.18% interest to a maximum of 15% of the company's value. With this transaction, the Caisse brought its level of real estate investments into line with the long-term objective adopted a few years ago, or about 5% of its total portfolio.

The acquisition strategy for 1990 was to improve the Caisse's position in the industrial sector and increase the proportion of first-class office buildings in downtown Montréal. Thus, in addition to acquiring industrial land from Petro-Canada in Anjou, the Caisse acquired a 40% interest in a group of mainly industrial properties in Saint-Laurent and Pointe-Claire, as well as a 50% interest in the prestigious Le Windsor office building on rue Peel in Montréal.

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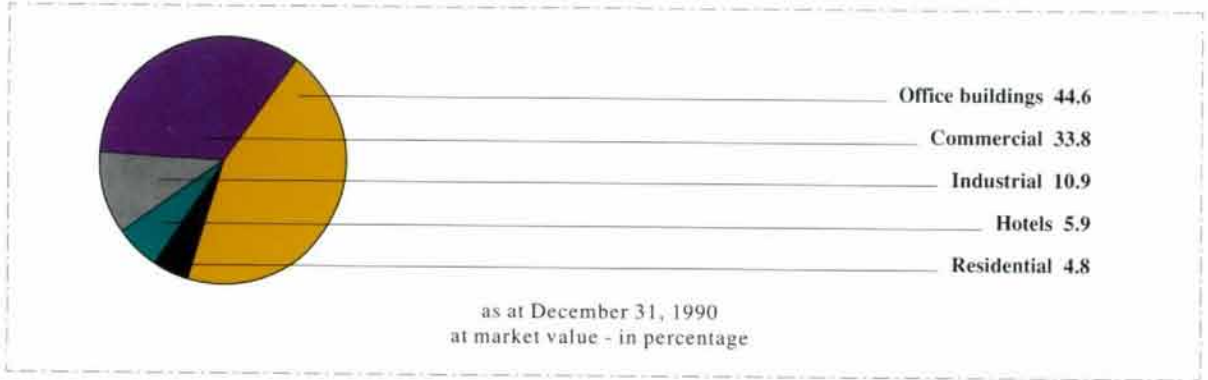
Real estate investments, a necessary asset for a diversified, well-balanced portfolio, today account for roughly 5% of the Caisse's total assets.

In the retail sector, investments were made with a view to strengthening positions. The Caisse acquired a 45% interest in a Rivière-du-Loup shopping centre and an additional 10.6% interest in Centre Rockland.

In light of the market, real estate development activity during the year was limited to renovations and expansions to consolidate or protect assets, and no new development projects were undertaken. Still, many studies were considered, such as development of the Quartier Latin on rue Berri and various office and shopping-centre projects, so that the Caisse will be poised for the economic recovery.

As at December 31, 1990, the specific real estate investments portfolio amounted to \$1.9 billion at book value, an increase of 9.8% over 1989.

Breakdown of real estate properties



Market value was \$2.1 billion, in comparison with \$2 billion at the end of the previous year. Current revenues were 7%.

The total real estate portfolio breaks down as follows: buildings, 49%; land, 4.6%; stocks and bonds of real estate companies, 44.5%; and mortgages, 1.9%.

As at December 31, 1990, the breakdown of real estate properties at market value was as follows: office buildings, 44.6%; commercial, 33.8%; industrial, 10.9%; residential, 4.8%; and hotels, 5.9%.

Members of the Board of Directors

***Jean-Claude Delorme**

Chairman of the Board and
Chief Executive Officer

Guy Savard

President and Chief of Operations

***Claude Legault**

Deputy Chairman of the Board and
President
Régie des rentes du Québec

***Claude Béland**

President
La Confédération des caisses populaires
et d'économie Desjardins du Québec

Gisele Desrochers

Deputy Minister
Ministère du Loisir, de la Chasse et de la Pêche

Louis Laberge

President
Fédération des travailleurs du Québec

***Pierre Michaud**

Chairman and Chief Executive Officer
Groupe Val Royal Inc.

Gaston Pelletier

Vice-President
Corporation financière du St-Laurent

Claude Séguin

Deputy Minister, Ministère des Finances

André Trudeau

Deputy Minister, Ministère de l'Environnement

**also a member of the audit committee*

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**Chairman of the Board
and Chief Executive Officer**

Jean-Claude Delorme

President and Chief of Operations

Guy Savard

Corporate Secretary

Carmen Crépin

Senior Vice-Presidents

Claude Ferland
Fixed-Income Investments

Michel Nadeau
Stock Markets and Investment Planning

Daniel Paillé
Corporate Investments

Serge Rémillard
Administration and Control

Jean-Claude Scraire
Legal and Corporate Affairs
and Real Estate Investments

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Pierre Bouvier	Bond Investments	Jacques Malenfant	Human Resources
Serge Desjardins	Internal Audit	Germain Mathieu	Real Estate Investments
Réal Desrochers	International Corporate Investments	Yves Moquin	Asset Mix
André Duchesne	Money Market Investments	Walter Murkens	Depositors' Affairs
Philippe Gabelier	Public Affairs	Normand Provost	National Corporate Investments
Ghislaine Laberge	Mortgage Investments	Adel Sarwat	International Stock Markets
Hubert Lapierre	Canadian Stock Markets	Alain Tessier	Finance

Balance Sheet

as at December 31, 1990

	1990	1989
	(in millions of dollars)	
ASSETS		
Investments		
Bonds	17,732	17,076
Shares and convertible securities	12,300	10,455
Mortgages	2,012	1,968
Real estate investments	1,806	1,618
Short-term investments	1,819	2,500
	35,669	33,617
Other assets	576	555
	36,245	34,172
LIABILITIES		
	577	831
DEPOSITORS' HOLDINGS		
General Fund	19,345	18,823
Individual Funds	16,323	14,518
	35,668	33,341
	36,245	34,172

Statement of Income

for the year ended December 31, 1990

	1990	1989
	(in millions of dollars)	
INCOME		
Investment income	2,981	2,798
Gains (losses) on sale of investments - net	(180)	798
Other income	1	1
	2,802	3,597
EXPENDITURE		
Administrative expenses	25	20
NET DEPOSITORS' INCOME	2,777	3,577
ALLOCATION OF INCOME		
Interest on demand and term deposits	51	40
Net income allocated to participation deposit holders	2,726	3,537

Note: Combined financial statements are provided in the FINANCIAL STATEMENTS AND FINANCIAL STATISTICS booklet of the 1990 Annual Report.

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

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