



## OPERATIONS REPORT

Return remains our top priority. Our capacity to grow and build together derives its source and inspiration from the action and will of men and women from here and from elsewhere who are building Québec every day. Together we have the capacity to do more and do it better.

# 1995



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1996

## FINANCIAL SUMMARY SINCE 1966

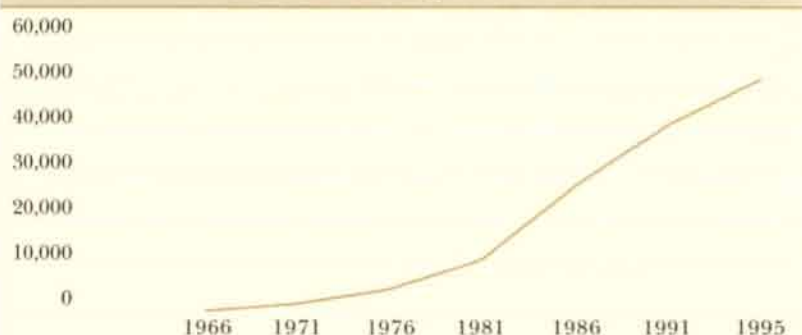
	1995	1991	1986	1981	1976	1971	1966
	(in millions of dollars)						
<b>NET ASSETS</b>							
Investments at cost							
Bonds	22,660	18,502	14,724	9,670	3,732	1,303	153
Shares and convertible securities	16,126	13,480	6,542	2,317	824	296	-
Mortgages	1,642	2,020	1,506	1,104	371	84	-
Real estate holdings - net <sup>1</sup>	2,673	1,799	348	55	25	32	-
Short-term investments	3,067	1,811	1,401	493	272	29	28
<b>Total investments - net</b>	<b>46,168</b>	<b>37,612</b>	<b>24,521</b>	<b>13,639</b>	<b>5,224</b>	<b>1,744</b>	<b>181</b>
Other assets and liabilities	158	415	420	(68)	14	10	2
<b>Total net assets at cost</b>	<b>46,326</b>	<b>38,027</b>	<b>24,941</b>	<b>13,571</b>	<b>5,238</b>	<b>1,754</b>	<b>183</b>
Excess market value over cost of investments	4,859	3,026	3,007	(2,171)	(111)	16	(4)
<b>DEPOSITORS' HOLDINGS</b>	<b>51,185</b>	<b>41,053</b>	<b>27,948</b>	<b>11,400</b>	<b>5,127</b>	<b>1,770</b>	<b>179</b>

<sup>1</sup> reduced by bank and mortgage loans as well as by non-controlling interests

1996

## GROWTH IN NET ASSETS SINCE 1966

market value - in millions of dollars



## FINANCIAL REVIEW AND RETURNS

	1995	1994	1993 (in millions of dollars)	1992	1991
<b>NET ASSETS</b>					
Investments at cost					
Bonds	22,660	21,948	20,689	19,200	18,502
Shares and convertible securities	16,126	15,504	14,179	14,286	13,480
Mortgages	1,642	1,874	1,847	1,966	2,020
Real estate holdings - net <sup>1</sup>	2,673	2,412	2,094	1,823	1,799
Short-term investments	3,067	1,796	2,778	1,984	1,811
<b>Total investments - net</b>	<b>46,168</b>	<b>43,534</b>	<b>41,587</b>	<b>39,259</b>	<b>37,612</b>
Other assets and liabilities	158	333	560	286	415
<b>Total net assets at cost</b>	<b>46,326</b>	<b>43,867</b>	<b>42,147</b>	<b>39,545</b>	<b>38,027</b>
Excess market value over cost of investments	4,859	993	4,970	1,762	3,026
<b>Total net assets at market value</b>	<b>51,185</b>	<b>44,860</b>	<b>47,117</b>	<b>41,307</b>	<b>41,053</b>
<b>DEPOSITORS' HOLDINGS</b>					
Commission administrative des régimes de retraite et d'assurances - RREGOP					
	19,502	16,046	15,917	12,895	11,973
Régie des rentes du Québec					
	15,361	14,409	16,401	15,201	15,887
Société de l'assurance automobile du Québec					
	4,974	4,692	5,710	5,328	5,393
Commission de la santé et de la sécurité du travail					
	4,962	4,219	4,315	3,835	3,986
Commission de la construction du Québec					
	4,943	4,264	4,360	3,753	3,564
Fonds d'amortissement des régimes de retraite gouvernementaux					
	939	803	-	-	-
Other depositors					
	504	427	414	295	250
<b>Total depositors' holdings</b>	<b>51,185</b>	<b>44,860</b>	<b>47,117</b>	<b>41,307</b>	<b>41,053</b>
<b>NET DEPOSITORS' INCOME</b>					
Net investment income	2,867	2,717	2,631	2,693	2,839
Accumulated gains and losses on the sale of investments	1,212	166	1,358	576	834
Accumulated net income	4,079	2,883	3,989	3,269	3,673
Accumulated unrealized increase(decrease) in value	3,863	(3,975)	3,661	(1,603)	2,435
<b>Total net depositors' income</b>	<b>7,942</b>	<b>(1,092)</b>	<b>7,650</b>	<b>1,666</b>	<b>6,108</b>
Net depositors' withdrawals	1,617	1,165	1,840	1,412	1,308

<sup>1</sup> reduced by bank and mortgage loans as well as by non-controlling interests

	1995	1991-1995 (5 years)	1986-1995 (10 years)
Total return	18.2	11.1	10.0
Current return	9.0	8.6	9.5

market value - in percentage

Total return is calculated using the time-weighted method.

Current return is calculated at cost.



The Caisse de dépôt et placement du Québec was created in July 1965 by an Act of the Québec National Assembly. The institution, which invests the funds entrusted to it by Québec public pension and insurance plans and various public bodies, was given the full autonomy needed to accomplish its mission.

Today, its mission remains, as always, to achieve an optimal financial return and contribute by its activities to the vitality of the Québec economy, while at the same time ensuring the safety and security of the capital under management.

To achieve these objectives, the institution uses the best financial instruments available: bonds, shares and convertible securities, mortgages, real estate, short-term securities and derivative products. Added to this mix of vehicles is active management, astute selection of investments and geographical diversification, particularly in the North American, European and Asian markets.

Active on the major stock markets in the world, the Caisse is also the leading investor in the Canadian stock market. Over time, it has increased its real estate investments in the commercial, residential and office buildings sectors to rank its portfolio first in Canada. This portfolio is actively managed by companies in the Caisse Real Estate Group. In terms of private investments, the diversified portfolio of the Caisse comprises over 200 companies, and is managed by the Caisse Private Investments Group and its affiliates.

The Caisse has its principal place of business in Montréal, a major financial centre. Thirty years after making its first investment, in February 1966, it has become an important portfolio manager in North America and Canada's leading public fund manager. A remarkable performance indeed!

1966 Capital at Work

In 1995, the Caisse de dépôt et placement du Québec achieved a return of 18.2%, or an exceptionally high rate of over 16% after inflation. Drawing on the expertise of its personnel, the Caisse was able to take full advantage of an economic context marked by low inflation and added interest rates, contributing to high returns in a number of financial markets. Income and added value totalled \$7.9 billion for the year. The institution's five- and 10-year returns were 11.1% and 10.0% respectively, 11.7% over 20 years and 9.5% over 30 years.

The Caisse has much to celebrate during its 30th anniversary. Assets now stand at \$51.2 billion. Since its creation, it has distributed over \$47 billion in investment income to its depositors. The Caisse has earned for itself a place among major North American portfolio managers because of the size of its asset base, its expertise, international business network and its partners. With operations not only in the Americas but also in Europe and Asia, the Caisse has become an investment multinational at a time when investment activity has a global perspective and world-wide potential, and is executed instantaneously.

And yet, despite the rapidly changing face of global finance, the Caisse remains more than ever focused on its original mission. Obtaining an optimal financial return is part of its fundamental purpose. The second important aspect of its mission, making a sustained and durable contribution to the economy, or in other words, securing *collateral economic benefits*



as the Americans say, calls for a particularly close and intelligent partnership with the milieu, with Québec businesses of all sizes and in all sectors, and with all participants in Québec's financial and economic life.

In its never-ending pursuit of excellence, the Caisse has set itself the ambitious but achievable goal of becoming one of North America's leading fund managers by the turn of the century. To reach this objective, good investment reflexes, flexibility and rapid execution are key assets. But above all, the Caisse must know it can count on having one of the best teams in the business, made up of creative, innovative specialists who are well aware of the stakes involved not only in their own sector of activity, but also in the world around them. Having high-calibre personnel will remain vital to the institution in rising to the many challenges which face it. Reaching these objectives requires additional tools, namely the establishment of specialized, accountable business units assigned clear missions, appropriate expertise, effective procedures

and a flexible structure, as well as the drive to succeed and to take decisive and strategic action aimed at doing more, and doing it better.

The economy has become increasingly global in scope and is driven by knowledge and know-how. Now more than ever, access to quality information is critical in order to identify the most profitable opportunities and the best time to seize them. Furthermore, we must continue to be guided in our decisions and our actions by an optimal combination of prudence and boldness. While prudence is dictated by the nature of the funds managed, boldness is nonetheless indispensable in order to achieve success and attain superior financial and economic results. Acting boldly means making different choices, not always following the crowd, and taking action that will bear positive fruit. It also means wanting to reinvent the profession, or at least to question some of its practices; it means turning off the automatic pilot and embarking on a different road that has more to offer, while keeping in touch with market reality and acting with the



due prudence of an astute manager. Our reading of the current domestic and international situation suggests a number of promising avenues of endeavour for the Caisse and its subsidiaries. And so without neglecting our significant contribution to the financing and capitalization of Québec businesses, we will be increasing our equity investments in high-potential markets. We also anticipate expanding our involvement in private and long-term investments, which offer returns that are frequently higher in the long run than stock market investments. With the aim of capitalizing on the best available opportunities for optimizing return, we will hone our skills in making tactical and strategic changes in portfolio mix when necessary by shifting from one asset category to another, one country to another, or one sector of activity to another, based on medium-term outlook.

As well, the Caisse intends to promote the expansion of high-potential sectors such as technological innovation, communications, telecommunications and biotechnology, without abandoning performing businesses in more traditional sectors which nonetheless play an important role both in the economy and in its portfolios. Small, mid-sized and large businesses interested in foreign markets will be the object of special attention: the private investment subsidiaries will consolidate their expertise in the area of exports, create financing instruments to help such businesses implement their export strategies, and take part in the financing of infrastructure projects. The Caisse will also

offer financing for foreign companies seeking a presence in Québec, and will support Québec companies in their efforts to expand into foreign markets. Finally, it will work harder than ever at fostering entrepreneurship and stimulating the creation of new businesses to strengthen the commercial and industrial fabric of the milieu.

During 1995, the Caisse further sharpened its focus on two areas that are key priorities for Québec society: the employment situation, especially among young people, and Montréal's growth as a financial centre. In the matter of employment, the Caisse continued to implement programmes it introduced some years ago, providing internships for finance students and helping to place graduates with brokerage firms. In addition, it joined forces with other organizations by playing an active role in the work of the sponsors' committee of the Québec *Forum pour l'emploi*. Achieving a balanced sharing of wealth between the generations, notably through the transfer and equitable distribution of the source of wealth, work and employment, is an important social and economic challenge facing the industrialized societies in the years to come. Aware of this, the Caisse remains faithful to its commitment to promote employment.

Secondly, Montréal, the engine of economic activity in Québec, must be able to rely on a dynamic and vigorous financial industry, a prerequisite for economic vitality and conditions favourable to business. The reverse of the coin is that Montréal's strength, effectiveness

and success as a financial centre depends on the commitment, determination and involvement of all participants. The presence of strong and efficient local institutions is central to any real strategy of increasing financial activity and creating quality employment. The Caisse is resolved to support local institutions by continuing, for instance, to do most of its trading on The Montréal Exchange and by actively participating in the derivatives market. Furthermore, it will foster business partnerships which target the same objectives.

The changes currently taking place in our economies affect each and every link in the chain: consumers and workers, business and governments must constantly reevaluate their daily and strategic choices. Behind this movement, a new definition of power, knowledge, wealth and the quality of life is taking shape.

Québec society possesses all the necessary qualities for its citizens to have an enviable place in this new universe. But to secure this position, we must pursue it with a clear vision, with determination, and in cooperation with others. Solidarity is essential: it must be a creative force, a living reality that is intimately shared. The Caisse, for its part, will support those who work in this direction with every means consistent with its mission.

The year just ended was a demanding one for our personnel as well as for our Board of Directors. The economic context and developments on domestic and international financial markets presented their fair share of challenges. The



referendum period in Québec called for increased vigilance, even though it became apparent that market participants were acting with discipline, pragmatism and professionalism. As well, with the change in its top management, while the Caisse maintained its usual activities and continued with its prime orientations, there were inevitable adjustments and new preoccupations, or at least different preoccupations came to the fore.

On behalf of the Board of Directors, I wish to express my thanks to all members of the Caisse team and its subsidiaries for their efforts and their drive to innovate, build and succeed, and of course, for the remarkable overall results they achieved in 1995. It is to them that we owe our success first and foremost.

The Board of Directors, for its part, carried out a review of each investment sector, its orientations and its type of management. It also approved a significant modification in the management structure for private investments which enabled the Caisse to form five specialized subsidiaries, each with its own board of directors. Furthermore, the Board adopted the Caisse's overall business plan and reviewed the business plan of the Real Estate Group, which integrated mortgage financing activities during the year, and adopted the business plan of the Private Investments Group.

The Committees of the Board – the Resources Committee, the Audit Committee, the Board of the Caisse Real Estate Group, as well as the new Ethics Committee

formed in 1995 – were particularly active, and made a significant contribution to the institution and its operations.

I would like to make special mention of the invaluable assistance which the members of the Board provide to the institution, and to extend my thanks. I am also grateful for their support during my first year of a demanding mandate.

Ms. Francine C. Boivin and Mr. Pierre Michaud left the Board during the year. Both made an important contribution to the Caisse, for which the Board expresses its most sincere thanks. We were pleased to welcome Messrs. Pierre Shedleur and Gérald Larose, who joined the Board in 1995.

Mr. Jean-Claude Delorme, named Chairman of the Board and Chief Executive Officer in 1990, became Advisor to the Chairman April 1, 1995. Throughout his mandate, Mr. Delorme brought to the Caisse his experience in large corporations and international networks, contributing significantly to the progress of the institution toward modernity. The Board extends warmest wishes and thanks him.



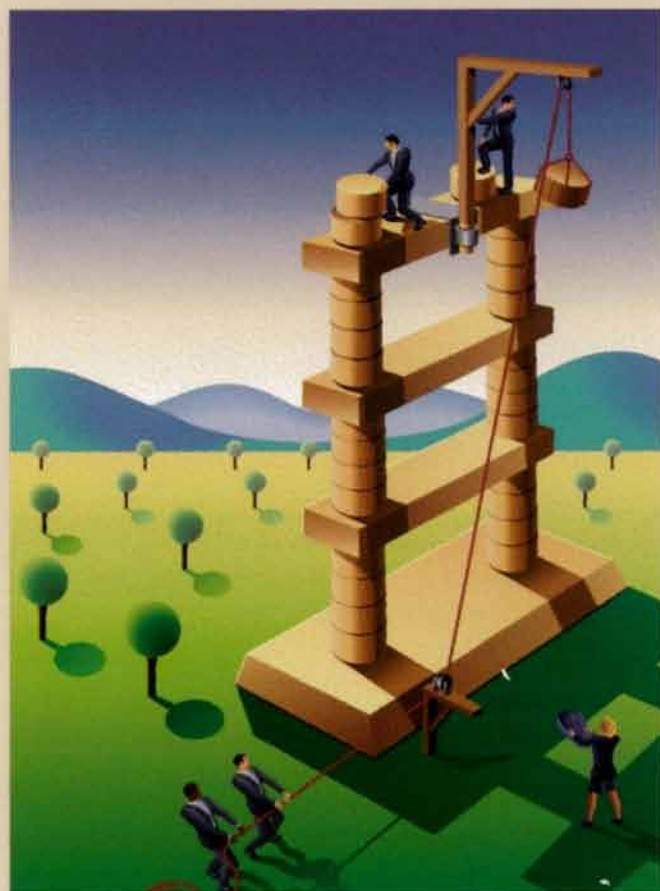
Jean-Claude Scraire  
Chairman of the Board and Chief Executive Officer

*The first Board meeting was held in December 1965, under the chairmanship of Claude Prieur, who came from the private sector to take on the major challenge of overseeing the start-up of the Caisse and management of the funds entrusted by Régie des rentes du Québec, its very first depositor. After Mr. Prieur died in office, he was succeeded in 1973 by Marcel Cazavan, previously Québec Deputy Minister of Finance, who served seven years. Under Mr. Cazavan's stewardship, a substantial capital contribution by three new depositors pushed Caisse assets past the ten billion dollar mark.*

*With its next Chairman, Jean Campeau, at the helm, the Caisse diversified its portfolio, increasing its proportion of equities through investments in several large Québec companies. Benefiting from his experience in the private and public sectors, including positions with the Ministère des Finances, Mr. Campeau was the first Chairman to complete his ten-year term.*

*He was succeeded in 1990 by Jean-Claude Delorme and Guy Savard, respectively appointed Chief Executive Officer and Chief Operating Officer. Under their leadership, with market globalization becoming a reality, the Caisse invested substantially in world-class specialized funds and holdings, especially in the health and communications sectors.*

*In 1995, for the first time in Caisse history, the Chairman of the Board and Chief Executive Officer was chosen from within the management team. Jean-Claude Scraire was appointed for ten years. Upon taking office, Mr. Scraire implemented a major initiative, creating subsidiaries in the corporate financing area, and resolutely heading the Caisse for the next century.*



**ECONOMIC**  
*review*

The Caisse was launched during Québec's Quiet Revolution. Enriched by the experience acquired successfully navigating the economic cycles of the last 30 years, today it is a tested financial craft of international scope, delivering benefits daily to all Québécois.

In most major industrialized countries, economic growth continued in 1995 at a slower pace than during the previous year. However, it was accompanied by low inflation, and several financial markets posted high returns, although the year had begun badly with the Mexican financial crisis affecting interest rates in several countries.

### Québec

Rising interest rates at the beginning of the year and the North American economic slowdown put pressure on the Québec economy. As a result, most domestic demand components grew more slowly than in 1994. The residential construction sector was affected by cyclical and structural problems, illustrated by the low increase in household formation. In addition, public spending on goods and services declined, due to constraints resulting from federal and provincial budget deficits. Strong international exports continued to support the Québec economy, although growth was clearly lower than in 1994. Rapid increases in exports derived from the competitive advantage of Québec manufacturers, who particularly benefited from a weaker Canadian dollar and lower production costs.

On the whole, 1995 was somewhat disappointing in Québec. Job growth nevertheless outpaced that in the rest of Canada during a period of high unemployment.

### Canada

In Canada, 1995 was also more difficult than expected. Towards the end of 1994, the Mexican crisis led investors to shun securities from heavily indebted countries and Canadian interest rates were subject to strong upward pressure. Furthermore, in its last annual budget, the federal government announced an unprecedented restructuring programme, in the footsteps of several provincial administrations. The psychological and financial impact of federal cuts contributed to the sharp economic slowdown across Canada, but revived investor confidence and allowed a gradual return to financial conditions more conducive to growth in domestic demand.

1

## JOB CREATION IN QUÉBEC

*in percentage*  
source: Statistics Canada

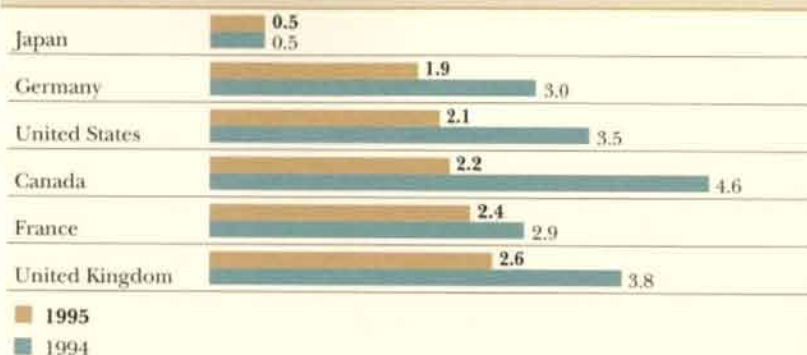




## 2

## GROWTH IN REAL GDP

in percentage  
preliminary data  
sources: Statistics Canada, WFA and the Caisse



While the economy reeled, inflation rose. The lagged impact on prices after the dollar's considerable depreciation in the previous two years pushed inflation close to the upper limit of the target rate set by the Bank of Canada with the government's consent. Subsequently, the Bank spoke of the dangers of a sustained decrease in the dollar for the Canadian economy. This stand pleased investors and allowed the dollar to recover, as did the favourable response to the budget and the gradual improvement in inflation results.

The increased competitiveness of the industrial sector allowed a substantial reduction of the current account deficit for the second consecutive year, and led to a sharp rise in business investment and strong growth in corporate profits.

#### International

The U.S. economy misfired a few times at the beginning of 1995. The Mexican crisis, a restrictive fiscal policy, the lagged impact of 1994 interest rate increases and slow inventory accumulation all contributed to slow growth in the spring. However, these factors had only a temporary impact. Not only did business investment continue to grow rapidly, but housing regained some strength.

More than the recent changes in demand, inflation had a considerable impact on financial markets. While all traditional indicators gave evidence of an excess demand in the United States, the inflation rate fell in the summer. Investors began to accumulate long-term securities, thereby reversing the trend of long-term interest rates. The Federal Reserve used the drop in inflation to justify lower short-term rates at the beginning of July and again in mid-December. Moderate growth, low inflation and falling interest rates fostered

rapid corporate earnings growth, thus making U.S. company stocks attractive in 1995.

The other major world economies generally experienced slow growth in 1995. In Japan, growth was close to zero for the fourth consecutive year, due to structural problems following a period of over-investment and significant appreciation of the yen. At year end, the first signs of Japanese recovery were detectable, as a result of expansionary economic policies and of the depreciation of the yen.

European economic growth was weak, mainly in the second half, because of restrictive fiscal policies, and this despite gradual easing of the Bundesbank's monetary policy. This slow growth was accompanied by rather low inflation. Long-term interest rates followed the same downward trend as in North America, aside from occasional volatility caused by the uncertainty as to the European Union's monetary project.

In short, although economic growth was not uniform, good inflation results in most industrialized countries allowed a general decline of interest rates in 1995.

## FINANCIAL MARKETS REVIEW

The bond markets benefited greatly from the economic climate prevailing in the industrialized countries in 1995. The generalized drop in interest rates favoured high yields, all exceeding 13%. Bond market yields also outperformed the stock market in several countries.

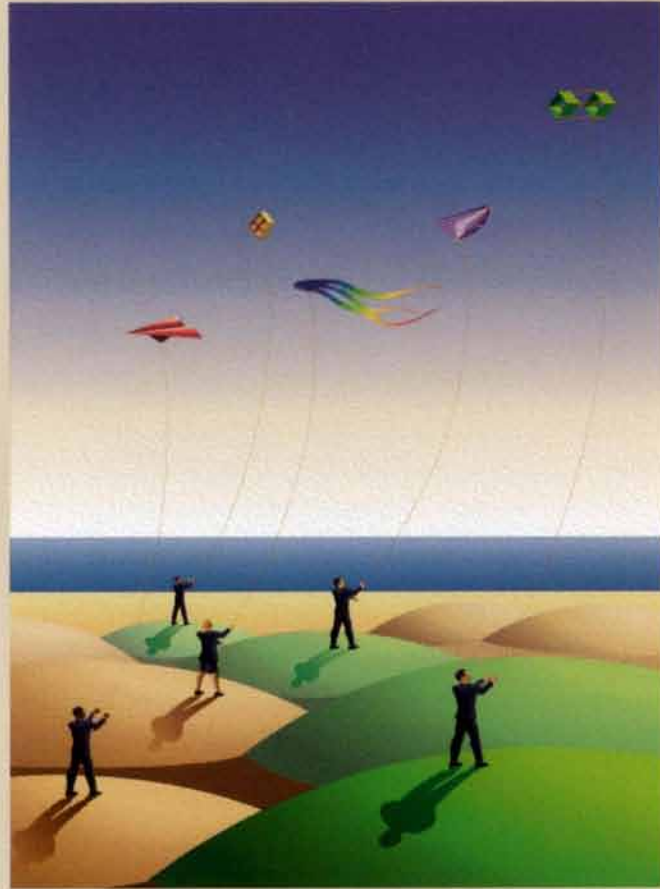
Canada followed the falling interest rate trend, and the ScotiaMcLeod Universe bond index posted a 20.7% return for the year. The best results were obtained by Québec bondholders, whose securities performed at 21.5%. After accounting for an inflation rate of about 2% in Canada, these investors saw their asset value increase by over 19%. The same scenario played out on all other major bond markets, though to a lesser degree. 1995 was therefore a very profitable year for bond market investors in Canada.

Unlike previous years, the Canadian dollar was strong in 1995, growing in value approximately 3% against the US dollar, 6% against the yen and 4% against the pound sterling. For Canadian investors, the strong dollar made investments abroad less profitable, while supporting investments in Québec and Canada in 1995. Consequently, hedged investments, for which the currency fluctuation risk is cancelled out, posted better results than investments exposed to these fluctuations.

The Canadian stock market also benefited from improved monetary conditions. On the whole, stock market indices showed returns over 14%. The TSE 300 index stood at 14.5%, while the Montréal Exchange index, the XXM, reached 16.6%. However, the American stock market benefited most from the economic climate. In the United States, where confidence in the economy and the inflation outlook is positive, hedged S&P 500 index performance was spectacular at 38.9%, far exceeding the results obtained on all stock and bond markets.

The French stock market ended the year with a meagre 4.6% return, reflecting France's problems throughout the year. A gloomy economic outlook was created by labour-government confrontations over budget restrictions, and consumption and industrial production were weak.

Finally, the Japanese stock market, the second biggest in the world, had a highly volatile year in 1995 and posted a mere 4.1% return, while the Nikkei posted 0.7%. In the first half, the rise of the yen seriously eroded the competitiveness of Japanese companies, while the heavy losses associated with irrevocable real estate debts contributed to a 22% market drop. In the second half, however, government intervention stimulated a stock market rebound of over 33%. Nevertheless, for 1995 as a whole, the Japanese market performed far below the 12.2% return of the hedged MSCI-EAFE index, a world index for Europe, Australia and the Far East.



**ASSET MANAGEMENT**  
*and Returns*

Sound risk management and astute asset allocation require a measured balance between traditional and innovative investment vehicles. It is in striking such a balance that the Caisse can meet the challenge of generating returns which result in financial and economic growth.



**Asset mix**

Financial markets reported substantial differences in performance in 1995. For instance, each dollar invested on the U.S. stock market averaged a 30% higher return than an equity investment in Japan. This disparity points out how important it is for managers to make the right choices when actively managing their asset mix.

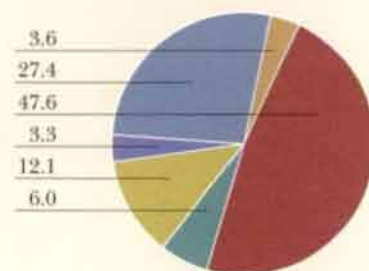
To some extent, the trends observed in 1995 ran contrary to those of 1994. The sharp drop in interest rates and a strong increase in corporate earnings allowed almost all financial markets to post positive returns. Thus, while the world stock exchange benchmark, the unhedged MSCI, gained 19.4%, the Salomon Brothers bond market index rose 16.9%. However, deeper analysis of these results reveals major trends linked to market globalization.

In fact, the major international bond markets are significantly more convergent than the stock markets. In 1995, for instance, the maximum yield spread for bonds, which occurred between the Swedish and Japanese markets, was only 6.9%. Moreover, the U.S. stock market posted a spectacular return, outperforming the bottom-ranking Austrian exchange by 49.1%. Given this bond market convergence, which stems from investors' difficulty in benefiting from substantial stock market spreads and from the fact that, over the long term, the money market is less profitable than stocks and bonds, a number of investors have sought out financial products such as hedge funds and high-yield bonds.

International diversification, especially in the United States and Europe, continues to be a winning strategy. Several stock

**4 ASSET MIX**

as at December 31, 1995  
market value - in percentage

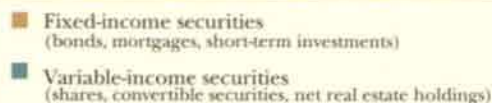
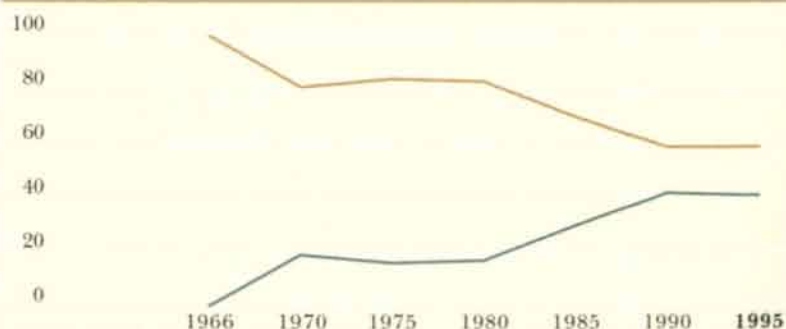


markets outside Canada have generated better results than domestic stock market indices.

Real estate, which posted very attractive returns in the early 80s, has dropped sharply ever since. However, appraisal values were steadier in the 1995 results. It is important to keep in mind that this asset class, which is naturally exposed to cyclical fluctuations, is included in a large portfolio for prudent diversification and high long-term returns.

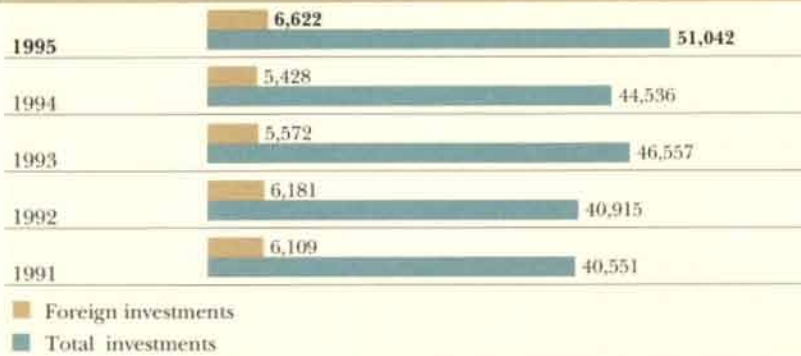
**3****CHANGES IN INVESTMENTS AS PART OF NET ASSETS SINCE 1966**

as at December 31  
cost - in percentage



## CHANGES IN FOREIGN INVESTMENTS

as at December 31  
market value - in millions of dollars



The asset mix remained quite similar to that in 1994. The proportion of Canadian stock market securities went down 2% while foreign equities increased by 2%. Real estate holdings and mortgages also dropped almost 1%. Short-term investments represented 6.0% of the portfolio at December 31, 1995, compared to 4.5% a year earlier.

### *Tactical and strategic investments*

For the past few years, the Caisse has carried out its tactical allocation activities within a derivatives portfolio that includes futures, options and swaps. Managers must forecast short-term trends in major financial markets and take different positions to capture upward or downward fluctuations in the main stock and bond markets worldwide. They must be able to take advantage of a market's optimum yield spread, wherever this may be. In 1995, for instance, the spread was greatest in France, at 16%, compared to only 6% in

Canada. Over the last five years, tactical allocation has generated \$80.8 million in revenue.

There are three main benefits to tactical investment in derivatives: these vehicles offer great flexibility, trading costs are low, and direct trades in equity and bond portfolios are unnecessary. Use of derivatives allows managers to overweight or underweight financial assets quickly and inexpensively, with minimal use of capital.

Tactical choices are geared towards imperfections which generally occur in the short term due to basic market conditions, positioning of different asset classes throughout the economic and financial cycle and, to some extent, investor enthusiasm. Caisse managers have created stringent models incorporating all of these factors.

The Caisse makes its tactical investment choices in the

Montréal, Tokyo, London, Singapore, Osaka, Frankfurt, Paris, Toronto, Zurich, Sydney and Chicago markets. In 1995, the financial market comprised of stocks and bonds posted a 14% positive spread in relation to the average world money market yield. The models developed by the Caisse allowed it to benefit from a substantial portion of this spread's potential.

Worldwide market performance was very uneven in 1995. In the United States, the pause in economic activity and the favourable inflation outlook pushed long-term interest rates down by 2% and renewed monetary stimulation. These conditions, combined with unprecedented corporate earnings in the U.S., boosted the New York Stock Exchange by over 35%.

International bond markets operated in an environment of moderate economic growth with no inflationary pressure, which resulted in outstanding performance. Unlike the United States, where equities posted the best results, bond markets outperformed stock markets in the major European countries, except for the United Kingdom. Overvaluation of the yen and the deutschmark in the first half of the year clearly moderated economic growth and corporate earnings in Japan and Germany.

Equity markets with a high percentage of natural resource companies, as in Canada and Australia, generated returns of 16 to 20%, similar to the bond markets. The lower level of international activity drove down the price of certain raw materials, but these markets benefited from falling long-term interest rates.

In 1995, the basic tactical investment strategy was tied to a rise in the main North American and European markets, a decline in the Japanese market and defensive positions in most bond markets. Subsequent market changes allowed the Caisse to achieve sizeable profits on most stock exchanges, including a large part in Japan and the United Kingdom.

The Caisse believes in the value and efficiency of the management models used by its managers over the past three years and of the management of risks associated with derivatives. It has however set higher targets for the coming years, and will continue to optimize its funds' return through more diversified management of tactical and strategic investments.

A new team has been put in charge of strategic asset mix management, responsible for transactions that will generate capital gains from yield spreads between various world markets over a 12 to 18-month horizon. This team manages a portfolio of strategic investments, and its approach focuses on benefiting from yield spreads between indices without tying up capital. It is also responsible for monitoring overall management of the different positions taken by Caisse managers that deviate from long-term target portfolios. Depositors are guaranteed that the flow of funds to the most promising asset classes will be kept within reasonable limits.



The Caisse achieved a total return of 18.2% this year, an outstanding performance. Average returns for the last five and ten years were 11.1% and 10.0% respectively. The best measure of a portfolio's performance is over the medium and long term.

The yield of the Caisse bond portfolio was 21.2%, due to the decrease in long-term interest rates. The interest rate drop on Québec bonds was greater than that on Canadian government bonds, thus explaining the higher Québec bond yield. Since the portfolio is largely made up of Québec securities, its performance benefited from their high return. For the last five and ten years, the bond portfolio yielded 13.1% and 11.5% respectively.

The Canadian equities portfolio recorded a 17.2% return, far beyond Canadian market indices. The Caisse performance is primarily due to excellent stock picking. In 1995, high returns on private investments in major Québec companies such as Provigo, Quebecor and BioChem Pharma made a major contribution to Caisse results. For the last five and ten years, the Canadian equities portfolio, which comprises stock market as well as private portfolio investments, yielded returns of 10.7% and 8.8% respectively. Private investments in Québec companies generated returns of 12.3% and 9.4% for these periods.

6

CAISSE RETURNS

*in percentage*

	1995	1991-1995 (5 years)	1986-1995 (10 years)
Bonds	21.2	13.1	11.5
Canadian shares	17.2	10.7	8.8
U.S. shares	38.4	-	-
Other foreign shares <sup>1</sup>	11.3	9.8	8.9
Mortgages	14.2	10.9	11.1
Specific real estate investments portfolio	2.2	(5.9)	2.7
Short-term investments	7.8	7.2	-
<b>TOTAL RETURN<sup>2</sup></b>	<b>18.2</b>	<b>11.1</b>	<b>10.0</b>
Current return <sup>3</sup>	9.0	8.6	9.5

<sup>1</sup> Data prior to April 1994 includes U.S. shares.

<sup>2</sup> The total return in 1995 includes results of tactical currency transactions, tactical and strategic investments, as well as cash management operations.

<sup>3</sup> The current rate of return is calculated at cost while the other rates of return are calculated at market value using the time-weighted method.

Once again, the U.S. market grew in 1995. Falling interest rates, confidence in the economy and a good outlook for inflation stimulated stock market activity. The Caisse U.S. equities portfolio outperformed all other asset classes in 1995 by a wide margin, with an outstanding 38.4% return.

The Caisse's other foreign equities yielded an 11.3% return, conditioned by the Japanese and French markets which had many problems during the year. These markets accounted for 45.2% of the foreign equities portfolio. For the past five and ten years, the portfolio achieved returns of 9.8% and 8.9% respectively, including U.S. equities until the second quarter of 1994.

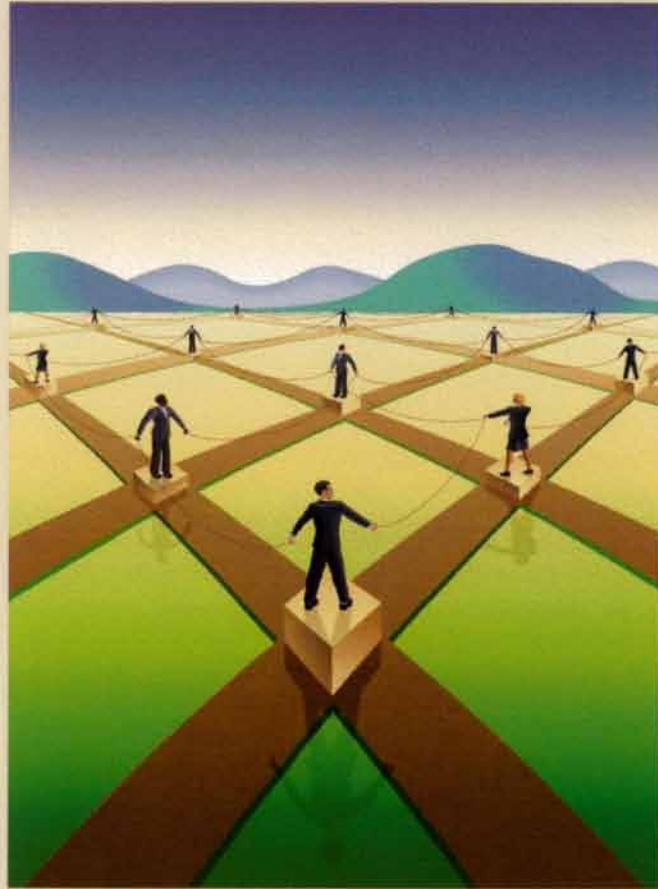
The mortgage portfolio's 14.2% return also benefited from the drop in interest rates. Bonds outperformed mortgages because the average mortgage term is much shorter. The mortgage portfolio therefore did not benefit from falling interest rates as much as the bond portfolio. Furthermore, the weak economy forced the Caisse, like most Canadian financial institutions, to build provisions for non-performing loans during the year. Over longer periods, however, the return on the mortgage portfolio compares advantageously to that of other asset classes. For the past five and ten years, the mortgage portfolio has yielded 10.9% and 11.1% respectively.

The current return on real estate was 5.1% but a drop in the market value of certain properties partly reduced the total return on the Caisse real estate portfolio. Nevertheless, at 2.2%, this was this portfolio's first positive return in five years. It is worth noting that diversification of the real estate portfolio has begun to produce results, with a 15.5% return on foreign investments. The real estate market has gone through very difficult times over the last five years. The -5.9% average return for the five-year period pulled the long-term return down to 2.7% over ten years.

Short-term investments generated a 7.8% return in 1995, and an average return of 7.2% over five years. Other investment transactions, including tactical and strategic positions and tactical currency trading, reduced total return by 0.2%.

With an inflation rate about 2% in Canada, real return reached over 16% in 1995, one of the highest levels in the past decade.

7	FINANCIAL INDICES		
	<i>in percentage</i>		
	1995	1991-1995 (5 years)	1986-1995 (10 years)
<b>BONDS</b>			
ScotiaMcLeod Universe	20.7	12.8	11.3
ScotiaMcLeod Medium-Term	21.8	13.1	11.3
Salomon Brothers Canada <sup>1</sup>	20.0	12.2	10.8
<b>CANADIAN EQUITIES</b>			
TSE 35	14.7	10.0	8.6
TSE 100	14.5	10.4	8.4
TSE 200	14.6	13.5	7.5
TSE 300	14.5	10.8	8.3
XXM - Montréal	16.6	9.4	8.7
MSCI - Canada <sup>2</sup>	15.8	9.9	8.2
<b>FOREIGN EQUITIES</b>			
S & P 500 <sup>2,3</sup>	38.9	17.0	15.0
MSCI - US <sup>2,4</sup>	38.2	16.9	14.8
Dow Jones <sup>2,4,5</sup>	33.5	14.2	12.7
NYSE <sup>2,4,5</sup>	31.3	12.8	10.5
Wilshire 5000 <sup>2,4</sup>	36.4	17.3	14.3
MSCI - EAFE <sup>6</sup>	12.2	9.9	11.8
MSCI - EAFE <sup>2,4</sup>	9.8	7.5	8.7
Financial Times World, excluding U.S. <sup>2,4</sup>	10.8	7.7	9.1
CAC 40 - France <sup>2,4,5</sup>	(0.5)	4.3	-
DAX - Germany <sup>2,4,5</sup>	7.0	10.0	5.1
FTSE 100 - United Kingdom <sup>2,4,5</sup>	20.3	11.5	10.1
NIKKEI 225 - Japan <sup>2,4,5</sup>	0.7	(3.6)	4.3
<b>REAL ESTATE SECTOR</b>			
<b>Mortgages</b>			
ScotiaMcLeod - mortgages (3 years) <sup>7</sup>	15.3	10.9	10.6
<b>Specific real estate investments portfolio</b>			
MLH+A	0.6	-	-
<b>SHORT-TERM INVESTMENTS</b>			
ScotiaMcLeod - Canadian			
Treasury bills (91 days)	7.6	7.1	8.8
<sup>1</sup> Remaining maturities of at least one year.			
<sup>2</sup> Without withholding taxes for foreigners not benefiting from any double taxation treaty.			
<sup>3</sup> Data after April 1994 includes hedging against foreign exchange risk. Returns for prior periods are in local currency.			
<sup>4</sup> Local currencies.			
<sup>5</sup> Price index.			
<sup>6</sup> Data after January 1991 includes hedging against foreign exchange risk. The MSCI-World index is used for periods prior to April 1994.			
<sup>7</sup> Does not account for non-performing loans or foreclosures.			



INVESTMENT  
*operations*

Financial professionals attuned to market can develop diversified and sophisticated investment instruments. The Caisse establishes partnerships with companies in the new economy and accompanies enterprises seeking new international markets in their ventures.



### Bonds

Worldwide, interest rates moved downward throughout 1995, after increasing steadily in 1994. Thirty-year U.S. bond rates, the market barometer, dropped 220 basis points, from a peak of 8.17% in November 1994 to 5.97% on December 31, 1995. This downward trend in U.S. rates had an impact on all major domestic bond markets.

In the United States, moderate and satisfactory economic growth led the Federal Reserve to maintain its grip on monetary policy throughout almost the entire year, to avoid creating inflationary pressures. There was a slight 25 basis point easing of the Federal Funds rate in July, bringing it down to 5.75%. Then, since inflation results were better than anticipated, the Federal Reserve lowered the rate another 25 basis points at the end of December.

A low inflation rate ensures an attractive real rate of return for fixed-income securities. Investor optimism was also maintained throughout the year, largely in response to the strong demand for funds from the public and private sectors.

Interest rates also trended downward in Canada. The yield on 30-year Canadian bonds fell 190 basis points, from 9.47% in November 1994 to 7.57% at the end of 1995. Domestically, the stronger Canadian dollar, the federal and provincial governments' firm commitment to improve public finances and the absence of inflationary pressures all contributed to the rise of Canadian fixed-income securities during the year, despite the downgrading of Canada's credit rating. However, the Canadian market went through some brief unsteadiness in the second half as a result of the political climate. The fluctuations in yield spreads between 10-year Canadian and U.S. bonds was indicative of investor uncertainty regarding Canadian

securities. The spread widened from 130 basis points in January to 200 at the end of July, falling back to 150 at year end.

Yields also showed a downward trend on the Québec bond market in 1995. From January to December, for instance, Québec 10-year bond yields fell by 230 basis points, from 10% to 7.7%. Yield spreads between 10-year Québec and Canada bonds shrank by 24 points between the beginning and end of the year, from 87 to 63 basis points. Like the Canadian market, the Québec bond market experienced temporary volatility during the Québec referendum period in early fall. Over the entire year, however, all provincial bonds and Québec securities rose in value, favouring the bond portfolio's total return.

## 8

### ACQUISITIONS OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC AND THE QUÉBEC PUBLIC SECTOR IN 1995

*par valeur - in millions of dollars*

	Gouvernement du Québec			Hydro-Québec			Total		
	Issued (\$)	Acquisitions (\$) (%)		Issued (\$)	Acquisitions (\$) (%)		Issued (\$)	Acquisitions (\$) (%)	
Canadian market	2,996	1,200	40.1	650	300	46.2	3,646	1,500	41.1
World market	-	-	-	-	-	-	-	-	-
Other markets <sup>1</sup>	6,055	-	-	1,577	-	-	7,632	-	-
<b>Total</b>	<b>9,051</b>	<b>1,200</b>	<b>13.3</b>	<b>2,227</b>	<b>300</b>	<b>13.5</b>	<b>11,278</b>	<b>1,500</b>	<b>13.3</b>

<sup>1</sup> issues in various currencies or in Canadian Eurodollars

## 9

## SUMMARY OF BOND PORTFOLIO

as at December 31, 1995  
in millions of dollars

Securities	At market value		Average nominal rate <sup>1</sup> (%)	Average maturity <sup>1</sup> (years)	Modified duration <sup>2</sup> (volatility)
	(\$)	(%)			
<b>Domestic</b>					
Government issued					
Gouvernement du Québec	9,735.3	40.12	8.12	7.49	4.76
Government of Canada	5,778.9	23.82	8.05	8.46	5.41
Other governments	7.2	0.03	8.03	29.63	11.29
Government guaranteed					
Gouvernement du Québec	6,110.9	25.18	7.45	12.57	6.62
Government of Canada	104.8	0.43	10.50	12.81	7.45
Guaranteed by grants, municipalities and school boards	2,197.1	9.05	10.77	7.08	4.69
Corporate and other	246.7	1.02	9.38	7.09	3.35
	<b>24,180.9</b>	<b>99.65</b>	<b>8.16</b>	<b>9.06</b>	<b>5.38</b>
<b>Foreign</b>					
U.S. Government	0.2	-	-	-	-
Other	84.0	0.35	7.98	16.71	11.80
	<b>24,265.1</b>	<b>100.00</b>	<b>8.16</b>	<b>9.09</b>	<b>5.40</b>

<sup>1</sup> weighted as per nominal value

<sup>2</sup> weighted as per market value

Transactions made by Caisse managers within the strategic bond portfolio to take advantage of interest rate fluctuations, movements along the yield curve and the portfolio's sectorial mix proved profitable in 1995. The Caisse portfolio is heavily weighted in Québec public sector bonds, which differentiates it from the bond portfolios of other North American managers, and this characteristic provides special trading opportunities. Thanks to the sustained demand for Québec public sector securities in 1995, several profitable transactions allowed to generate extra liquidity.

Short-term positions also added to the bond portfolio's total performance.

When making its bond investments, the Caisse naturally conducts tactical trading on the major international markets, but the majority of its transactions were carried out on the U.S. bond market and involved Treasury bonds, futures and options.

All these tactical trades are subject to controls as to exposure and portfolio position simulations, so that established operating limits are respected at all times.

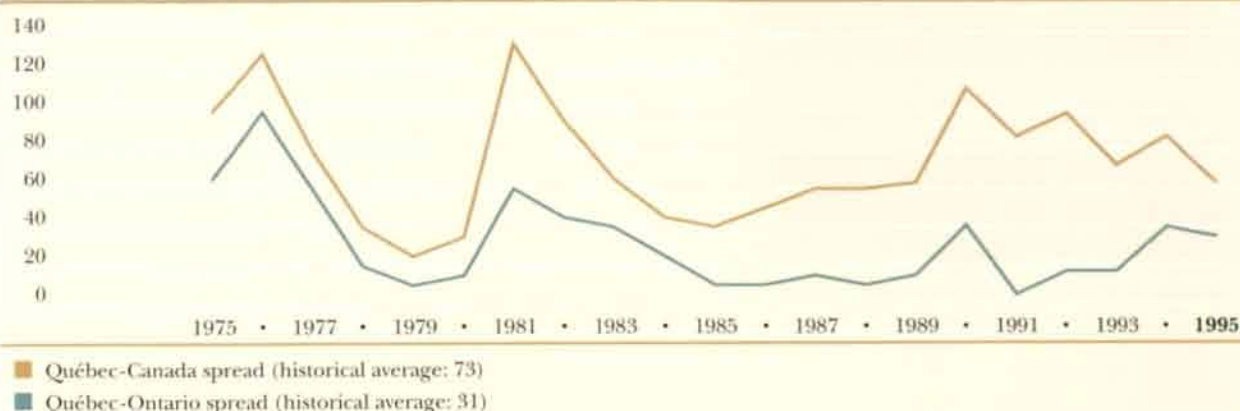
Thanks to its state-of-the-art computer systems, the Caisse can check the status of its portfolio at any time and can compare its results to a benchmark index. More sophisticated software was added in 1995 to the existing control and management systems, allowing managers to monitor all portfolio positions in real time.

The Caisse pursued its commitment to help make Montréal a dynamic financial centre by conducting all of its transactions on the Canadian market, or over the two-thirds of total volume, in Montréal, purchasing securities from Québec issuers and using derivatives traded exclusively on The Montréal Exchange.



## CHANGES IN YIELD SPREADS ON TEN-YEAR BONDS

as at December 31 - in basis points



On December 31, the market value of the portfolio stood at \$24.3 billion and accounted for 47.6% of total investments, compared to \$21.5 billion or 48.3% of investments at the end of 1994. During the year, the Caisse invested \$1.5 billion in the primary market for securities issued by Québec and Hydro-Québec. It also traded \$12.9 billion of Québec and Hydro-Québec bonds on the secondary market, against \$21.8 billion in 1994. The daily trading volume on the primary and secondary markets for the entire portfolio totalled \$306 million in 1995, versus \$315 million in 1994.

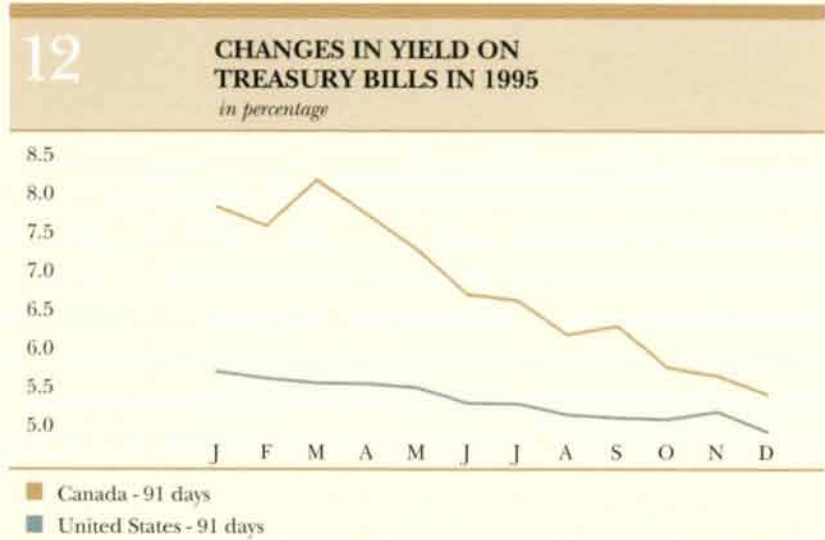
### *Short-term investments*

Although they began the year with a sharp rise of 130 basis points in January and February, short-term interest rates generally fell in Canada in 1995, while comparable rates in the United States only declined slightly. There was a substantial 150 point drop in 91-day Canadian T-bill rates, from 7% in January to 5.5% in December. In the first quarter, the volatility of international financial markets, the political and economic environment resulting from the Québec referendum period and investor concerns about the ability of Canadian public administrations to improve their budget position led the Bank of Canada to increase its target range for overnight rates by a total of 2.5%. The federal government and most provincial governments then took major steps to realign their budget position along a more viable path, which allowed the Bank of Canada to reduce its target range by 2%.



Active management of the short-term investments portfolio is aimed at adding value by applying a variety of investment strategies. The high liquidity of securities held, combined with an efficient money market, allow for quick adjustment of the portfolio's risk level. Investment decisions are based on such factors as analysis and forecasting of economic conditions, monitoring of monetary policy and technical analysis, which consists in forecasting interest rate changes based on historical data.

The Caisse's managers were able to take advantage of interest rate volatility in 1995. For instance, the hesitation of some investors with respect to the outcome of the Québec referendum created arbitrage opportunities on certain Québec securities. The Caisse



thus bought Québec T-bills when it considered that the yield spreads between Québec and Canadian short-term investments were large enough to earn profits on potential sales. The Caisse also used banker's acceptance futures and their OBX option, traded exclusively on The Montréal Exchange, to manage the underlying risks of short-term securities more efficiently in the context of fluctuating markets.

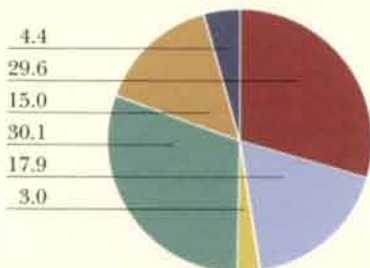
Securities lending activities on the bond and money markets, which help improve portfolio liquidity and performance, reached a cruising speed in 1995. This low-risk approach generated a \$3.8 million profit for the Caisse.

At year end, the market value of the short-term investments portfolio stood at \$3.1 billion, compared to \$1.8 billion in 1994.

The total trading volume was \$241.5 billion, a 32.5% increase over the \$182.2 billion reported in 1994. The average daily trading volume totalled \$1 billion in 1995, versus \$0.8 billion in 1994. On December 31, 1995, Québec-issued securities accounted for 45% of the portfolio and off-balance sheet derivatives had a notional value representing 10% of the short-term investments portfolio. All derivatives and discount securities were traded in Montréal, through the local offices of Canadian chartered banks, member brokers of the Investment Dealers Association of Canada and The Montréal Exchange.

### 11 SHORT-TERM INVESTMENTS

*as at December 31, 1995  
market value - in percentage*



- Treasury bills
- Canada
- Québec
- Other governments
- Financial institution paper
- Government corporation notes
- Commercial paper

### Currency markets

Despite the buffeting it received early in the year, the Canadian dollar rose by nearly 3% against the U.S. dollar between January and December 1995. This small increase resulted from the stabilizing effect of Canadian monetary policy, the federal and provincial governments' improved budget position and the positive balance of trade. By year end, however, extremely narrow spreads between returns on Canadian and U.S. securities and some unfavourable fund transactions led to a new depreciation of the Canadian dollar.

In the United States, the current account deficit significantly weakened the dollar against the yen and the deutschmark over the first six months of the year. Concerted intervention by the central banks of the G7 countries strengthened the dollar's position, even allowing it to regain 3.5% against the yen between January and December 1995. However, these attempts were less successful with regard to the deutschmark, due to Germany's maintenance of a restrictive monetary policy, uncertainty over the European monetary union and the anticipated rate drop in the United States. The U.S. dollar therefore lost 8.1% against the deutschmark over the year.

# 13

## CHANGES IN THE CANADIAN DOLLAR IN 1995

*in US cents per Canadian dollar*



The Caisse continued to systematically apply its policy of hedging foreign investments against foreign exchange risk, a strategy which proved profitable in 1995. This policy seeks to minimize the risk associated with exchange rate fluctuations. Since the Canadian dollar rose against the major currencies in 1995, foreign exchange hedging enabled the Caisse to avoid currency losses on foreign investments. In conducting its hedging operations, the Caisse uses primarily forward exchange contracts and foreign currency swaps.

The team responsible for exchange operations, made up of specialized traders and analysts, must predict currency movements and take positions to take advantage of these. In 1995, the Caisse carried out transactions to benefit from currency fluctuations, particularly in its tactical portfolio. A number of events that occurred during the year thus led to the application of profitable strategies. For instance, at the beginning

of October, the Caisse bought a put option on the Canadian dollar at 71.43 cents for a value of US\$500 million. Subsequently, seeing a dip of the Canadian currency just before the referendum, the Caisse bought slightly more than \$US200 million worth of Canadian dollars. The Caisse could then win either way: through the combination of that option and that forward exchange contract, it could benefit from a rise in the dollar after October 30 since it would have paid less for its dollars in advance, and if the dollar fell, it would be protected by the 71.43 cent put option. The strategy generated a \$7 million gain. These tactical operations are all subject to a control model that measures the portfolio risk level on a daily basis. The positions taken by Caisse foreign exchange traders are always related to portfolio management; the Caisse never engages in speculation to alter the direction of market trends on the Canadian dollar or any other currency.



In 1995, total currency purchase or sale transactions by the Caisse amounted to CAN\$176.6 billion, compared to CAN\$154.2 billion in 1994. At year end, foreign exchange hedging covered a portfolio of nearly CAN\$7 billion, the equivalent of total foreign investments. The Caisse conducted nearly 75% of its exchange transactions, or CAN\$128.8 billion in 1995, in Montréal.

#### *Canadian equities*

In 1995, the Canadian stock market posted stronger returns than in 1994, but was outperformed by the U.S. stock market and the Canadian bond market. The equity market evolved in a context of sharply falling rates, following the downturn in economic growth worldwide. This generalized drop in rates and the continuation, for the fifth consecutive year, of slow, sporadic economic growth highly concentrated in the export, investment and technology sectors, sustained the earnings growth of Canadian companies, which reached 14.5%. This environment was also conducive to corporate restructurings. The many mergers and acquisitions, and particularly the privatization of government corporations, had a significant impact on stock prices.

Results over the past year were also largely affected by reduced foreign investment in the Canadian stock market. Unlike 1994, when foreign investors made \$6.1 billion in net acquisitions, they were net sellers of \$4.2 billion in 1995. Foreign investors' asset mix strategy reflected their concern over moderate worldwide economic growth which had a negative impact on the Canadian market given the many Canadian companies which depend on this growth.

Sectorial returns were strongly affected by price fluctuations for several raw materials, particularly base metals, forest products, chemicals and fertilizers, and natural gas.

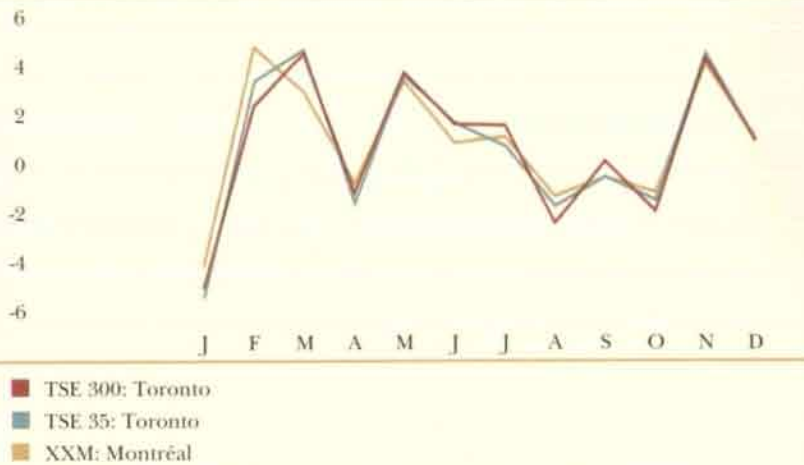
The Caisse strategy is to apply different management styles to its consolidated Canadian equities portfolio, to increase the portfolio's overall long-term performance and reduce its risk or volatility level. This approach yielded good results in 1995 in both quantitative and qualitative terms. A thorough knowledge of companies and the conditions prevailing in their operating environment, the use of different but complementary market valuation methods, combined with efficient use of the communications platform, improved the quality of exchanges and contributed to a greater cohesion and the timely transfer of knowledge within the team.

In the area of sub-index yield spreads, the BARRA-Value posted 15.9% while the BARRA-Growth stood at 13.7%. As for the TSE 100 index, which represents large caps, and the TSE 200, which reflects small businesses and medium caps, their returns were virtually identical, at 14.5% and 14.6% respectively. The strategy adopted favoured large cap stocks; in the second half, emphasis was placed on growth stocks, which enabled the Caisse to enhance the return on its consolidated portfolio.

The sectors showed very noticeable yield differentials during the year. Consumer products, at 29.0%, metals and minerals and financial services, both at 20.3%, were the three TSE 300 sectors with the most impressive results. Two others also made a noteworthy contribution to the TSE 300's return: industrial products and oil and gas, which generated 17.4% and 16.5% respectively. The weakest results came from real estate, at -18.9%, forest products -3.1%, transportation, 3.4%, and communications, 3.7%.



## MONTHLY RETURN OF THREE CANADIAN STOCK MARKET INDICES IN 1995

*in percentage*

The consumer products sector's strong performance resulted from corporate takeovers involving Labatt, Maple Leaf Foods and Canada Malting. There were extremely positive developments in the biotechnology industry, especially for BioChem Pharma, and by Seagram which altered its strategic orientation by selling its 25% equity interest in Dupont to buy 80% of MCA, a company in the entertainment and communications sector.

In the metals and minerals sector, the streamlining of corporate activities over the past two years, combined with a strong increase in aluminium, copper and nickel prices, gave investors a major incentive to turn towards stocks like Alcan, Inco and Falconbridge, among others.

As for the financial services sector, the attractive results are mainly attributable to the generalized drop in interest rates, strong growth in bank profits and anticipated increases in dividends.

Forest products generated very solid results until mid-year but clearly weakened thereafter, just as the price for commercial pulp peaked in autumn before falling as demand dropped and new plants started up in Indonesia. In this context, the Caisse changed its strategy and favoured companies in the newsprint sector, where demand remained high and production capacity only increased slightly. Communications and utilities companies suffered the consequences of gradual deregulation of their activities, rapid growth of new technologies both in terms of hardware and software, and shrinking profit margins.

As part of its sectorial strategy, the Caisse continued to underweight utilities and overweight metals and minerals, which proved to be the most profitable approach. Nevertheless, due to slowed economic growth, its risk management strategy was gradually adjusted over the year: the focus on sectorial choices was substantially reduced and emphasis was put instead on increasing the specific risk associated with stock picking. Since relatively few sectors made a positive contribution to the index's performance, stock picking became crucial. Choices were particularly strong in the energy, forest products, consumer products, transportation equipment, chemicals, telephone, publishing and printing sectors. The Caisse strategy was successful since it built on Québec and Canadian companies which have operations worldwide, are market leaders for their products or technologies, are well-established in a number of markets and capable of producing at the best possible cost.

## 1966 Capital at Work

*The Caisse made its first investment on February 14, 1966, purchasing \$500,000 in bonds of the International Bank for Reconstruction and Development. One year later, the Caisse bought its first stock, 3,000 shares of Alcan Aluminium.*

*In 1968, the institution expanded its range of investment vehicles by adding mortgages, and in 1971 it acquired an equity interest in Groupe Vidéotron, a company that would become a leader in the North American cable broadcasting industry.*

*In the early 1980s, the Caisse significantly modified its asset mix, rapidly raising Canadian equities from 11% to 27% of its aggregate portfolio. It made its first venture into the foreign equities market in 1983, increased its interest slightly the following year and then confirmed this orientation by creating a foreign equities portfolio in 1985.*

*Société immobilière Trans-Québec, founded in 1984, became the first unit of what would become the Caisse Real Estate Group in 1993. Today, the Group comprises several companies and holds Canada's biggest portfolio in this sector. The acquisition in 1993 of the Centre Borschette in Brussels, was the first in a series of international real estate investments.*

*Constantly in search of new ways to improve performance and innovate, the Caisse also integrated derivative and synthetic products, a large volume of currency trading and investments in new markets, particularly in emerging economies, into its asset mix in the past decade.*

*More recently, the Caisse created five subsidiaries for growth capital. Coordinated by the Caisse Private Investments Group, these target specific niche markets, defined by company size or sector.*

Spreads between the financial and stock market ratios of the Caisse Canadian equities portfolio and those of the TSE 300 index narrowed significantly. For instance, the price-earnings ratio for the portfolio, which was 21.5 early in the year compared to 19.5 for the index, fell to 15.8 versus 15.7 at year end.

The market value of the total Canadian equities portfolio, including the Caisse Private Investments Group's investments in this market, amounted to \$14.0 billion at year end and accounted for 27.4% of the institution's total investments.

A detailed analysis by outside consultants of the quality of equity trades in Canada by the Caisse revealed that the institution was able to benefit from its strategic positioning in the Canadian stock market in 1995. By helping to increase this market's liquidity, the Caisse lowered its unit trading costs. It also conducted over 75% of its stock exchange transactions in Canada, which totalled \$5.1 billion, at The Montréal Exchange.

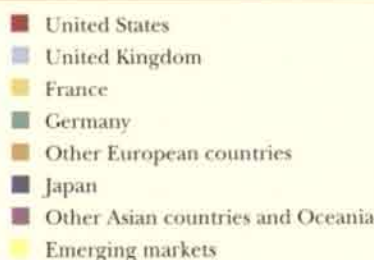
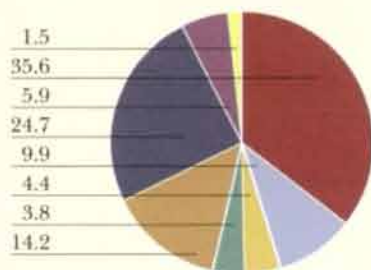
Given the high returns achieved during the current market cycle and particularly in 1995, the Caisse's investment strategy, which focuses on picking stocks instead of sectors, should yield a positive future return. The environment of slow to moderate growth at the beginning of 1996, with no strong inflationary pressures, should also be favourable for several industrial sectors in Canada. Historically, at the end of a bullish cycle, management styles geared to growth stocks and small caps produce better results than styles oriented to "value" investments and large caps.



## 15

FOREIGN  
EQUITIES

as at December 31, 1995  
market value - in percentage

**Foreign equities**

The performance of all stock markets, except for the Japanese market, was influenced by a sharp drop in long-term interest rates in 1995. In the United States, the slow inventory accumulation in the second half improved the outlook for inflation and resulted in the easing of monetary policy. The strong reduction in long-term rates and moderate corporate earnings growth pushed the market smoothly upward, resulting in an exceptional 37.6% return, in local currency. The scenario was almost the same in the United Kingdom where return was lower at 22.2%, since long-term rates did not recede as much

in that country due to fears related to the political climate. Most stock markets in continental Europe, except for Switzerland, showed less attractive performances. Japan's return was 4.1%. In the first half of the year, the Japanese market fell 22% after the yen rose and the economy went into a severe downturn. The market's 33.5% growth in the second half was due to a more flexible monetary policy and expansionist fiscal policy measures.

The Caisse manages its foreign equity investments in separate portfolios, one of which is made up of U.S. securities, while another consists of European and Asian equities. To meet its depositors' needs more effectively, the Caisse created a third portfolio for emerging market securities in early 1995.

In addition to managing investments on a country basis, the Caisse manages the regional allocation of its foreign equities portfolio in-house. This activity, which should increase in 1996, is achieved mainly through equity index futures, rather than by shifting funds.

The foreign equity investment management team includes eleven managers and analysts specialized in the U.S., British, European and Asian markets. By creating a special team of experts responsible for investments in Asia, the proportion of indexed funds in this region was lowered, thus reducing portfolio management costs. Emerging market investments were managed externally in 1995. A part of the Caisse's active portfolio management and its indexed investments are also entrusted to outside managers.

Foreign equities should rise significantly in proportion of total investments in the years ahead, which will allow to increase the positive effect of diversification and anticipate higher returns. Clearly, this increase will depend on the opportunities offered by the market.

At the end of 1995, the Caisse foreign equities portfolio, including the Caisse Private Investments Group's investments in these markets, accounted for 12.1% of its total investments, compared to 10.4% at the end of 1994. The market value of its international equities totalled \$6.2 billion in 1995, compared to \$4.6 billion at the end of 1994.



Many dynamic and innovative Québec companies improved their competitiveness in 1995. Some of them broke into new foreign markets, in particular by increasing their exports. It was in this environment that the Caisse Private Investments Group supported many of its partners in carrying out their investment projects in 1995.

During the year, the Group and the Caisse's private investment subsidiaries used a dynamic portfolio management approach, which proved to be highly profitable. New investments totalled \$344 million, while divestitures reached \$258 million, generating \$128 million in profit, including proceeds from the sale of Métro-Richelieu, Imprimeries Quebecor and Power Financial Corporation securities. Out of 34 investments that were authorized during the year, 20 were under \$5 million, or over 58% of the new additions to the portfolio, demonstrating the Group's interest in backing companies of all sizes.

At year end, the aggregate private investment portfolio held by the Group and the subsidiaries consisted of 206 investments with a market value of \$2.8 billion, against \$2.3 billion and 183 investments in 1994. This portfolio accounted for 5.5% of Caisse total investments, compared to 5.1% a year earlier. For the last five and ten years, the average return on private investments in Québec companies reached 12.3% and 9.4% respectively.

In order to be closer to its various clients, supply the flexibility required to serve them better and to capitalize on equity investment opportunities, the Caisse established five new investment companies during the year to meet the financing needs of specific niche markets. The missions of four of these subsidiaries are defined by size or sector: companies with financing needs under \$1 million, those specialized in communications or leading-edge technology, and companies looking to international markets. The fifth

subsidiary's mission is more general, aimed at medium-sized and large corporations. This new approach is coordinated by the Caisse Private Investments Group, which participates optimally in achieving the Caisse's objectives with respect to total return and contribution to Québec's economic vitality.

By partnering companies with an experienced management team, excellent growth potential and a well-defined development strategy, the Group's investment companies aim to establish long-term relationships with these firms and participate in their expansion. The subsidiaries invest in common and preferred shares, convertible debentures, redeemable or convertible participating debentures and term debt securities for project financing and term financing.

Capital CDPQ targets investments under \$1 million. It can invest directly or through investment companies, in particular through members of the regional investment companies network covering Québec. Capital CDPQ plans to participate in the creation of a second investment fund for regional investment in the Québec City area, the Eastern Townships and Mauricie-Bois-Francs.

## 16

## CHANGES IN PRIVATE INVESTMENTS

*market value - in millions of dollars*

As at December 31, 1994		2,288
Redemptions and sales	(258)	
New investments		344
Increase in value		443
As at December 31, 1995		2,817

## 17

GEOGRAPHICAL BREAKDOWN  
OF PRIVATE INVESTMENTS

as at December 31, 1995  
market value - in millions of dollars

	Investments	
	Number	\$
Québec	167	2,293
Canada outside Québec	12	207
United States	10	81
Europe	14	200
Japan	1	2
Emerging markets	2	34



Capital CDPQ reinvested with other financial partners in Ecoval, an organic fertilizer company, and invested in syndication with Capimont in Covitec, which specializes in audiovisual post

production. Conscious of its role in financing promising new businesses, Capital CDPQ plans to invest \$60 million in this niche over the next few years. At December 31, 1995, assets under

management totalled \$16 million at market value.

In the communications and telecommunications sector, the major operation of Capital Communications CDPQ undoubtedly was the \$50 million investment in Labatt Communications (LCI). This financing was carried out with a consortium directed by members of LCI management, which also includes the Claridge management company, Reitmans Canada and ESPN, one of the world's largest sports television networks. Under the new name of NetStar, operations now include TSN, the Discovery Channel and Réseau des sports RDS, the only French sports television network in Canada.

Capital Communications CDPQ also invested \$1.6 million in Groupe Image Buzz, a young company specializing in video post production, 2D and 3D animation and visual effects for television and film. Finally, Capital Communications CDPQ supported its existing telecommunications partners by reinvesting in

## 18

## BREAKDOWN OF PRIVATE INVESTMENTS BY AMOUNT

as at December 31, 1995

Initial amount invested	Investments		Market value	
	Number	%	\$	%
\$0 - 5 million	159	77	408	14
\$5 - 10 million	13	6	191	7
\$10 million and up	34	17	2,218	79
<b>Total</b>	<b>206</b>	<b>100</b>	<b>2,817</b>	<b>100</b>





Groupe CS, a mobile radio-communications firm. At year end, this subsidiary had assets under management of \$621 million at market value.

Sofinov, Société financière d'innovation, which is focused on leading-edge technology, was particularly active in the health and information technology sectors. It participated in the first public offering of Axcan Pharma, a Canadian manufacturer and distributor of pharmaceuticals for gastrointestinal diseases. This type of investment helps to finance research and development activities, which often lead to major breakthroughs.

Sofinov also participated in the creation of a new Québec company affiliated with Seragen of Hopkinton, Massachusetts. This firm, Seragen Biopharmaceuticals, will engage in research, development and clinical tests to perfect its therapeutic products, based on fusional toxin technology. Sofinov invested \$4.3 million with a select group of investors, including Société Innovatech du Grand Montréal, MDS Health Ventures, Health Care and Biotechnology Fund, Canadian Medical Discoveries Fund and Royal Bank Investment Corporation. This new company shows that putting together Québec's strengths in the scientific and economic area can help make it a logical business choice for biotechnology initiatives. Sofinov also invested \$3 million

in Diagnocure, a young company established in the Québec City region barely one year ago. Diagnocure mainly intends to concentrate on the diagnosis and treatment of certain types of cancer, based on a new technology developed by Laval university researchers. Sofinov had assets under management of \$248 million at market value at the end of 1995.

Capital International CDPQ is an investment company with a portfolio of private equity investments, mainly in international venture capital funds and merchant banks. In 1995, it approved a \$22 million investment in the 3i UK Investment Partners fund, which will be managed by the British company 3i Group plc. This relationship will allow development of close ties with a network of over 3,000 companies. Québec enterprises interested in creating partnerships with European firms therefore have a new ally abroad. At the end of the year, Capital International CDPQ had assets under management of \$245 million, at market value.



## 19

BREAKDOWN OF PRIVATE INVESTMENTS  
UNDER MANAGEMENT BY SUBSIDIARY

as at December 31, 1995  
market value - in millions of dollars

Subsidiaries	Investments			
	Number		\$	
Capital CDPQ	19		16	
Capital International CDPQ	16		245	
Sofinov, Société financière d'innovation	27		248	
Capital Communications CDPQ	21		621	
Capital d'Amérique CDPQ				
Small-capitalization stocks	48		42	
Medium-size businesses	55		282	
Large companies	20	123	1,363	1,687
<b>Total</b>	<b>206</b>		<b>2,817</b>	

The company's personnel must also handle the coordination of the international activities of the Caisse and its subsidiaries, and make the Caisse's worldwide business network available to partner companies so that they can identify new opportunities to export products or carry out other expansion projects.

During the year, various activities were organized around different sectors and themes. Portfolio companies in Québec that are involved in the environmental industry and the technology and communications sectors, in which the Caisse has invested, were invited to meet the Caisse's U.S. partners to enhance their awareness of the U.S. market. In addition, various members of

the public and private sectors interested in business opportunities in Mexico, Vietnam and Poland were given the opportunity to obtain information on the Caisse's strategies for project development in new markets and for accompanying companies expanding internationally. The Caisse seeks a financial return commensurate with the risk involved in these projects and encourages those which involve a substantial contribution of Québec goods, products and services.

The Caisse also took part in setting up the Alliance commerciale Québec-Vietnam, a group of Québec companies in the manufacturing and service industries which have projects in Vietnam or a marked interest for this country. Also, the real estate mandate of Mexico-based Grupo inmobiliario Caisse was broadened to

include private investments in the industrial sector as well as the manufacturing and service industries.

Capital d'Amérique CDPQ, which meets the financing needs of large and medium-size companies, makes investments of over \$1 million in various sectors. In 1995, it invested in R&M Métaltek, a sheet metal processing company, which was just starting to penetrate the U.S. market. It also participated in the growth of Novel Teez Designs, a leading clothing merchandiser licensed to reproduce sports and entertainment images. This partner wants to step up its penetration of the U.S. market.

Capital d'Amérique CDPQ also develops and manages a new portfolio consisting of debt and fixed-income securities to meet the many financing needs of corporations. This portfolio includes term financing, essentially consisting of loans made as private investments or in syndication, bonds traded on the secondary market and project financing. For example, the subsidiary acquired a \$60 million investment in syndication of a \$600 million loan for Stone Consolidated in 1995. With other Québec investors and entrepreneurs, Capital d'Amérique CDPQ also authorized \$4 million in infrastructure project financing for the construction and operation of a 10-megawatt hydroelectric power station in Costa Rica, in partnership with Hydro-Québec International.

Capital d'Amérique CDPQ also manages a stock market portfolio of Québec small-cap securities which totalled \$42 million at year end. Assets under management totalled \$1,687 million at market value at year end.

Supported by a board of directors made up of business community representatives and Caisse officers and board members, each of the Group's five subsidiaries meets the specific needs of its market, manages an investment portfolio and generates new business. By creating these new subsidiaries, the Caisse has demonstrated its intention to be more active than ever in the corporate financing market, independent of a company's size or sector. An experienced team of investment professionals offering a variety of flexible financial products ensures strategic support for the partner companies' enduring success.

The complementary nature of the mortgage and real estate sectors led the Caisse to combine its mortgage activities with those of the Caisse Real Estate Group in the interest of efficiency and optimized returns.

The Group's portfolios are managed by a select team of specialists who establish strategies, monitor performance and coordinate the activities of the companies responsible for operational management.

Two of these companies are wholly-owned subsidiaries of the Caisse. Cadim manages a portfolio of real estate investments held in partnership with developers and builders who assure day-to-day management, while Cadim international coordinates foreign real estate investments for the Group's companies.

Three other companies have minority shareholders: Ivanhoe owns and manages shopping centres, SITQ Immobilier manages office buildings, shopping centres

and industrial buildings held in partnership with other institutional investors, and Pen York Properties, an SITQ group company, owns and manages industrial and office buildings in the Greater Toronto area.

Finally, Cadev manages a portfolio of land with development potential acquired in 1994 from its shareholders Cadim, Ivanhoe and SITQ Immobilier, particularly by developing real estate projects with investor partners. Hypothèques CDPQ manages mortgage loans and securities.

The current return on combined and weighted real estate and mortgage portfolios was 8.4% for 1995, while their market value has dropped 0.8%. Combined net holdings totalled \$4.0 billion at market value, representing 7.8% of total Caisse investments. The sectorial breakdown was 49.5% in buildings, 40.3% in mortgages, 5.8% in shares and debentures, 2.0% in land, and 2.4% in emphyteutic leases and sales and leasebacks.

### Real estate

The market stabilized to some extent in 1995, as did the total value of the real estate portfolio, in spite of capital expenditures and the drop in land values. Throughout Québec, rents and incentives were stable in the shopping centre sector. In the Montréal office building market, rents for prestige and Class A buildings stabilized and vacancy rates fell slightly, mainly due to the lack of new constructions. At the end of 1995, the vacancy rates for commercial and office buildings included in the portfolio were 6.1% and 10.4% respectively.

The current return on the real estate portfolio was therefore 7.2%, while the market value decreased by 5.0%. These results were better than the MLH+A index, due to the office buildings sector, which outperformed the others. Funds from operations increased by 4.5% over 1994, net of the impact of acquisitions and sales over the year. As at December 31, 1995, net holdings totalled \$2.2 billion at market value, compared to \$1.8 billion in

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### BREAKDOWN OF REAL ESTATE HOLDINGS

as at December 31, 1995  
market value - in millions of dollars

Subsidiaries	Commercial buildings	Office	Industrial	Land <sup>1</sup>	Other <sup>2</sup>
Cadim	165	145	9	108	60
Ivanhoe	941	-	19	76	-
SITQ Immobilier	194	545	156	15	47
<b>Total</b>	<b>1,300</b>	<b>690</b>	<b>184</b>	<b>199</b>	<b>107</b>

<sup>1</sup> combines subsidiaries' interests in Cadev

<sup>2</sup> combines hotels and the residential sector





1994, derived from \$2.9 billion in investments, compared to \$2.6 billion a year earlier. This amount is net of the related bank loans and mortgages amounting to \$718 million, third party minority interests and other assets and liabilities amounting to \$24 million, compared to \$695 million and \$96 million reported at the end of 1994.

The assets of the Group's real estate companies are consolidated in the real estate portfolio. In addition to the real estate assets held directly by these companies, which account for 84.8% of the portfolio investments at market value, assets include debentures and shares of other real estate companies, respectively 0.1% and 9.0%, mortgages, 2.4%, and short-term securities, 3.7%. Taking into account the related liabilities, real estate assets accounted for \$1.8 billion at market value, or 3.6% of Caisse total investments as at December 31, 1995, against \$1.6 billion and 3.6% respectively

at the end of 1994. This value is based on a rigorous, prudent and independent appraisal that complies with the uniform standards and rules of practice approved by the competent authorities and organizations, which specifically provide for comparative analyses, market analyses and other appraisal methods including cash flow discounting.

The year was a fertile one for acquisitions. For example, Pen York invested \$50 million in the acquisition of an office building in a Toronto suburb, and Cadim became the sole owner of Place Montréal Trust, a major concourse of 19,700 square metres containing 104 stores, managed by Ivanhoe.

There were \$297 million in investments abroad in addition to local investments of \$68 million. Investments abroad are in line with the products geographical diversification scenarios engaged into in 1993, and are part of

21

## CAISSE REAL ESTATE GROUP PORTFOLIO

*as at December 31, 1995  
market value - in millions of dollars*

Subsidiaries	Value of portfolio <sup>1</sup>	Percentage of the Group portfolio
Cadim	519.4	13.0
Ivanhoe	955.0	23.8
SITQ Immobilier	725.1	18.1
Hypothèques CDPQ and other mortgage subsidiaries	1,806.9	45.1
<b>Total</b>	<b>4,006.4</b>	<b>100.0</b>

<sup>1</sup> represents the value of the Caisse's net holdings in the company

a five-year plan. On the international scene, the Group plans to invest in high-growth countries and in countries with favourable economic and real estate cycles, to benefit from the possibilities of higher returns. Thus, Ivanhoe invested \$180 million in REITs, providing equity interests in three shopping centres in the United States. The first property, 58,800 square metres in Rochester, New York, was acquired in partnership with the Wilmore Group. The other two shopping centres, 31,100 and 29,600 square metres respectively, were purchased from Cigna, and are located in Minnetonka, Minnesota and Taylor, Michigan respectively. SITQ Immobilier joined with the Harris Group for a \$33 million equity investment in two office buildings in North Carolina, and with the Aaron Group to acquire half of Les Docks de Saint-Ouen industrial complex in France. Cadim made seven acquisitions in the residential sector in the United States. With its Québec partners, it took part in the purchase of a complex of 336 housing units in Florida, as well as in four buildings containing over 265 housing units in New York. In addition, following a partnership agreement with a company of the Intrawest Group,

it acquired an equity interest in a 126-unit apartment building in a Seattle, Washington, suburb. The real estate companies also negotiated partnership agreements with various groups, that will lead to other significant investments outside Québec in 1996. Acquisitions abroad, which represented 11% of the real estate portfolio as at December 31, 1995, produced a 15.5% return over the year and contributed significantly to total return of the real estate portfolio, by adding 1.2%.

As at December 31, 1995, the real estate portfolio showed the following geographical distribution: 67.0% in Québec, 17.1% elsewhere in Canada and 15.9% outside Canada, as against 75.7%, 18.7% and 5.6% respectively at the end of 1994.

Capital expenditures related to development, re-development and improvement projects amounted to over \$53 million in 1995, while sales of real estate assets totalled \$89.5 million.

#### **Mortgages**

For administrative purposes, all mortgage securities from depositors' exclusive portfolios have been consolidated in a specific mortgages portfolio, a pooled fund in which depositors may acquire participating units.

In 1995, the demand for mortgages remained weak in all mortgage market sectors for the third consecutive year, despite the

gradual drop in interest rates during the year.

The market for housing loans continued to be particularly affected by demographic and economic trends, such as the slow increase in new households. In spite of the slight recovery that began four years ago, Québec housing starts reached a record low. The residential market is dominated by financial institutions with a consumer access network, and the volume of mortgage transactions in new loans in this sector dropped from approximately 30% at the beginning of the 90s to approximately 6% in 1995.

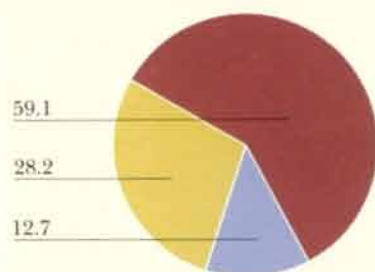
The commercial mortgage market, however, offers growth potential. As a member of the Caisse Real Estate Group, Hypothèques CDPQ will benefit from its affiliated companies' know-how to diversify products and sites. The expertise acquired outside Québec and the Group's network of contacts are also an advantage on which Hypothèques CDPQ will rely to diversify its operations geographically.

In the context of falling interest rates, the mortgage portfolio generated a current return of 10.0%, and the increase in market value was 4.2%.



## 22 BREAKDOWN OF MORTGAGES

as at December 31, 1995  
market value - in percentage



- Commercial and office buildings
- Residential
- Industrial

New loans amounted to \$32.8 million, and Hypothèques CDPQ renewed a total of \$169 million during the year, based on an average maturity of 2.9 years and an average rate of 9.4%, which compare favourably to the market. Foreclosures and non-performing loans totalled \$40.6 million and represent 2.3% of the portfolio.

At the end of 1995, the market value of this portfolio, which is concentrated in Québec, reached \$1.7 billion and represented 3.3% of total Caisse investments, against \$1.8 billion and 4.1% respectively at the end of 1994. The average nominal rate was 9.7%, the average maturity was 2.5 years and the modified duration was 2.04 years. Mortgages broke down as follows: commercial, 59.1%, residential, 28.2%, and industrial, 12.7%.

The year 1995 was paradoxical for investors. While most major financial markets achieved returns around 20%, industrial economies grew approximately 2%. Prudent fund managers pursued their diversification programme, turning to countries offering higher growth than more mature economies. In the past five years, emerging countries have grown twice as fast as industrialized nations.

Emerging markets include some twenty countries in Southeast Asia and Latin America, the Mediterranean basin, the Indian Ocean as well as South Africa. Their annual gross national product ranges between US\$400 and US\$10,000 per capita. While they account for 85% of the planet's population, emerging markets only represent 14% of market capitalization worldwide.

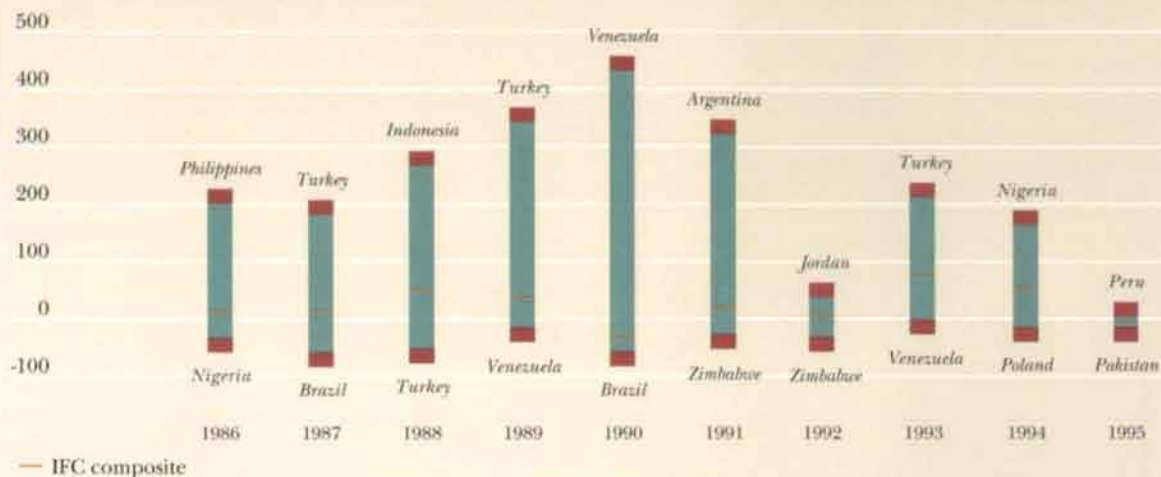
These markets have huge potential, but their stock markets offer limited liquidity, since the quality of financial market supervision varies considerably between countries, and, in some cases, the transaction settlement procedure has major flaws.



## EMERGING MARKETS

### MARKET RETURN SPREADS

*in percentage*  
*source: Morgan Stanley Capital International*



Indeed there has been very great volatility in these markets. During the past decade, stock markets in Venezuela, Turkey, Argentina and Indonesia soared over 300% in a single year. On the other hand, the market fell 60% in one year in Brazil and Zimbabwe. Stocks listed on the Mexico City exchange lost half their value within a few months in autumn 1994. Nervous portfolio managers should stay away. A handful of stocks are prominent on these markets, which are dominated by new utility companies, major banks and the leading manufacturing conglomerates. In some countries, the top 10 stocks account for 50% of trading. Bad news concerning any one of these companies can send the market plunging. For example, the Argentine market may fluctuate 70% in one year because of this factor.

In these markets, shaky currencies also reflect unstable inflation rates. Without appropriate financial products, investors cannot hedge adequately against currency fluctuations.

Despite the sudden movements characteristic of their markets, major North American pension funds invest in these countries. In the past 10 years, average annual yield was 15.6%, despite sharp variations. For example, in 1993, the overall return on emerging markets was 73%. Some investors see the negative performance of the past two years as an opportunity to build a long-term position. Why aren't investors more nervous about economies and countries where the political climate could be rocked by crisis at any time? Once again, the logic of diversification provides some protection. While these countries may

present a high risk individually, they offer some stability overall. In all probability, everything can't go wrong everywhere at the same time. The essential strategy is to spread investments among different countries, particularly those most heavily weighted in various indices, such as Brazil, Malaysia and South Africa.

These countries are rapidly abandoning their agricultural economies, building on the shift to global markets and the advantages of a highly competitive work force. The old saying remains true, however: no matter how enthusiastic you may be about a project, don't put all your eggs in one basket.



**DEPOSITORS'**  
*accounts management*

Meeting the needs and rejoining the interests of its depositors requires flexibility and innovation in fund management. The Caisse manages its portfolio in a manner which draws on new financial products, while allowing Québécois to profit from new markets.

The Caisse has a total of eighteen depositors, with total holdings of \$51.2 billion at market value as at December 31, 1995. The assets entrusted to it are managed under an investment policy establishing return and risk parameters to best meet the needs of each fund and its contributors.

The Caisse manages a General Fund comprising deposits of ten depositors, as well as Individual Funds for the remaining eight depositors. Each Individual Fund has only one depositor. Each of these funds includes a portfolio of bonds and short-term securities, as well as participating units in specific portfolios. These specific portfolios are pooled funds offering the same product, and therefore the same return, to all funds invested in a given specific portfolio. The overall return of these funds thus depends on the asset allocation of each fund in the various specific portfolios under management. As at December 31, 1995, the average weighted distribution of assets provided for in the investment policies was: 48.9% bonds and 26.8% Canadian equities, while U.S. equities accounted for 4.0%. Other foreign equities represented 7.8%, mortgages 4.2%, real estate 4.9%, and short-term securities 3.4%.

The Caisse's largest depositor, the Gouvernement and Public Employees Retirement Plan (RREGOP), managed by the Commission administrative des régimes de retraite et d'assurances (CARRA), covers unionized and non-unionized employees. The unionized employees' plan reported \$16.7 billion in holdings at year end, while the non-unionized employees' plan held \$2.8 billion. Together, these plans represent \$19.5 billion or 38.1% of depositors' holdings. In addition to reinvesting investment income, these plans deposited \$534.7 million to the Caisse during the year. The CARRA also manages the General Retirement Plan for Mayors and Councillors of Municipalities, as well as Individual Plans with holdings of \$126.1 million, and the Pension Plan for Elected Municipal Officers, with \$116.5 million. CARRA-managed plans totalled \$19.7 billion in 1995, or 38.6% of depositors' holdings.

The Caisse's first depositor 30 years ago, the Régie des rentes du Québec (R.R.Q.), with \$178.7 million in holdings in 1966, reported \$15.4 billion in 1995, or 30% of total depositors' holdings. During the year, the Régie withdrew \$1.6 billion dollars. Withdrawals made over the years have slowed this fund's growth. The Régie ranks first among depositors in the General Fund.



## DEPOSITORS

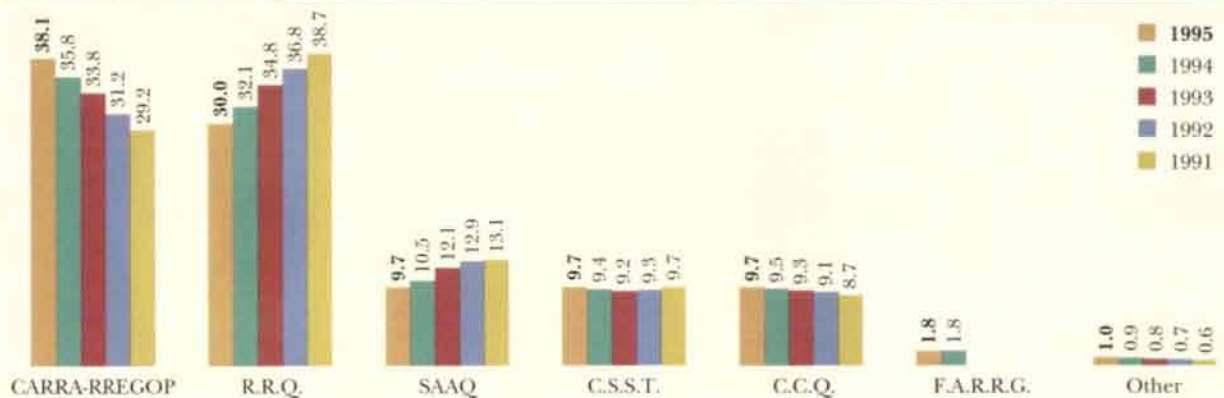
as at December 31, 1995

	Abbreviation	First deposit	Number of contributors <sup>1</sup>	Depositors' holdings <sup>2</sup>
Régie des rentes du Québec	R.R.Q.	1966	3,277,200	15,361.2
Régie des marchés agricoles et alimentaires du Québec	R.M.A.A.Q.	1967	72	2.4
Régie des assurances agricoles du Québec		1968	48,010	-
Régie de l'assurance-dépôts du Québec		1969	1,369	171.3
<i>Commission de la construction du Québec</i>	C.C.Q.			
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	98,224	4,942.5
<i>Commission administrative des régimes de retraite et d'assurances</i>	CARRA			
Government and Public Employees Retirement Plan	RREGOP	1973	490,000	19,501.6
General Retirement Plan for Mayors and Councillors of Municipalities		1975	-	-
Individual Plans		1977	400	126.1
Pension Plan for Elected Municipal Officers		1989	2,400	116.5
Commission de la santé et de la sécurité du travail	C.S.S.T.	1973	181,220	4,961.3
Société de l'assurance automobile du Québec	SAAQ	1978	4,296,497	4,974.3
Fonds d'assurance prêts agricoles et forestiers	FAPAF	1978	1	29.4
La Fédération des producteurs de bovins du Québec		1989	26,468	1.6
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	R.R.T.A.Q.	1990	3,106	47.9
Office de la protection du consommateur	O.P.C.	1992	-	9.2
Fonds d'amortissement des régimes de retraite gouvernementaux	F.A.R.R.G.	1994	1	939.2
Centre de recherche industrielle du Québec	CRIQ	1994	-	-
Société des alcools du Québec	SAQ	1994	-	-

<sup>1</sup> estimate<sup>2</sup> market value - in millions of dollars

## BREAKDOWN OF DEPOSITORS' HOLDINGS

as at December 31  
market value - in percentage

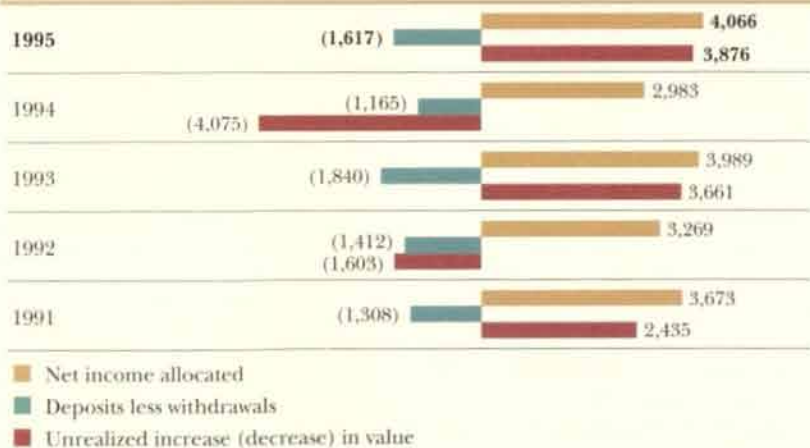


The holdings of the Société de l'assurance automobile du Québec (SAAQ), the second largest depositor in the General Fund, accounted for \$5.0 billion, or 9.7% of the total holdings managed by the Caisse.

Other depositors to the General Fund had these holdings at the end of 1995: Régie des marchés agricoles et alimentaires du Québec, \$2.4 million, Régie de l'assurance-dépôts du Québec, \$171.3 million, Fonds d'assurance-prêts agricoles et forestiers, \$29.4 million, Fédération des producteurs de bovins du Québec, \$1.6 million, and Office de la protection du consommateur, \$9.2 million. The Régie des assurances agricoles du Québec, Centre de recherche industrielle du Québec, and Société des

## CHANGES IN DEPOSITORS' HOLDINGS

in millions of dollars



alcools du Québec benefit from the cash management services offered by the Caisse. Depositors' holdings in the General Fund totalled \$20.5 billion, or 40.1% of Caisse depositors' holdings.

The Supplemental Pension Plan for Employees of the Québec Construction Industry is made up of three funds and is managed by the Commission de la

construction du Québec (C.C.Q.). Its holdings stood at \$4.9 billion as at December 31, or 9.7% of depositors' holdings. C.C.Q. net withdrawals amounted to \$45 million in 1995.

The Commission de la santé et de la sécurité du travail (C.S.S.T.) reported \$5.0 billion in holdings at the end of 1995, or 9.7% of depositors' holdings.

*The Régie des rentes du Québec and the Caisse de dépôt et placement du Québec were born thirty years ago, in the midst of Québec's Quiet Revolution. The policy goal motivating these twin agencies was to equip Québec with modern tools to ensure its social and economic progress. The Régie des rentes was therefore the first public pension fund in Québec to entrust the Caisse with funds, and until recently was its main depositor.*

*Since its first investment in 1966 and until 1982, the Régie made net annual deposits of \$3.6 billion, and subsequently it made net withdrawals of \$8.5 billion. Its assets now total \$15.4 billion at market value.*

*Over the last thirty years, the Caisse has produced over \$47 billion in investment income for its depositors who were 18 at the beginning of 1996. Today, the Caisse ranks first among public fund managers in Canada and with assets of over \$50 billion, is an important portfolio manager in North America.*

The Fonds d'amortissement des régimes de retraite gouvernementaux, with \$939.2 million, represented 1.8% of total depositors' holdings.

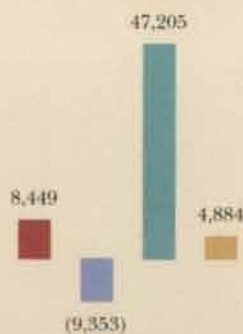
The Individual Fund for the Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec reported holdings totalling \$47.9 million at year end, or 0.1% of depositors' holdings.

In addition, two new specific portfolios were created for mortgages and Canadian equities. This new structure will allow more flexible management of these portfolios and fair treatment between depositors.

In the past twelve months, the investment policies of five individual funds were revised in cooperation with the depositors concerned. As a consequence of this review, changes in the asset mix tend to reduce the weighting in bonds, mortgages and Canadian equities while increasing that of U.S. and other foreign equities.

## 1996 VALUE ADDED TO DEPOSITORS' FUNDS SINCE 1966

as at December 31, 1995  
cost - in millions of dollars



- Net deposits (1966-1983)
- Net withdrawals (1984-1995)
- Net investment income allocated
- Excess market value over cost



Meetings were held with several depositors during the year to discuss investment policies and return on funds, while setting out the economic prospects and explaining the general operations of the Caisse in terms of overall fund management and cash management services. Information seminars were also offered on specific topics in response to a growing need among depositors.

In the latter half of the year, the Caisse team in charge of depositors' affairs and members of the asset mix team, which formerly advised depositors, were consolidated under Depositors' Accounts Management. This reflects the commitment of the Caisse to a more proactive approach to its depositors, to better meet their needs. The principal activities of this group are the study and analysis of the needs of various depositors funds, definition and implementation of the investment policies, and presentation of results to the depositors' representatives.

## 26

### CASH FLOWS OF DEPOSITORS IN 1995

*in millions of dollars*





**ADMINISTRATIVE**  
*and institutional activities*

As an institution whose financial know-how is established, the Caisse relies not only on the diversity of its portfolio and its vast business network, but also on the spirit of innovation and expertise of its management and investment teams.

### **Administration**

The implementation of work teams for the five new subsidiaries created during the year necessitated activities to support staff movements and the consolidation of various personnel management programmes.

Also, re-evaluation of technical and support group positions under new pay equity measures resulted in adjustment of certain salary scales.

At year end, the Caisse had 275 regular employees, including 38 managers, 146 professionals and 91 technical and support employees. Women make up half the staff and the average age of employees is 39. To complement the regular staff, various units also retained the services of 40 casual employees. In addition, 10 trainees with master's degrees in finance or economics carried out analysis and research projects in various investment sectors.

Resources were redeployed among several investment and service teams during the year, fostering teamwork and allowing optimum fulfilment of sectorial and institutional objectives and business plans. This approach particularly affected the Caisse's private investments sector. Five specialized subsidiaries were created on July 1, with the transfer of \$1.8 billion of portfolio investments and the 41 positions directly associated with their management.

Caisse investment management and administrative expenses totalled \$47.1 million in 1995, including \$2.9 million in expenses related to the private investment subsidiaries for a period of six months, compared to \$46.4 million in 1994. This 1.5% increase is within the limits set by the Caisse in this regard. Expenses broke down as follows: salaries and employee benefits 58%, professional fees and data processing 12%, premises and material 11%, depreciation of fixed assets 8%, and other expenses 11%. In accordance with provisions governing the allocation of administrative expenses; they were allocated on a pro rata basis among the depositors' different funds, according to the market value of each fund's assets.

The Caisse also paid \$7.9 million, compared to \$7.8 million in 1994, to financial institutions for active and indexed investment management, securities administration and safekeeping, and settlement of transactions carried out in Canada and abroad. The \$0.4 million increase in management and administrative expenses related to investment in U.S. and other foreign equities reflects major investment programmes of \$730 million. However, this increase was partially offset by a decrease in mortgage portfolios under external management and the reduction in administrative expenses for safekeeping of securities and settlement of transactions.

It is worth noting that for the purpose of the combined financial statements presented in this report, investment management expenses and administrative expenses are disclosed separately, but they now include those of the Caisse and of all its subsidiaries, including those of the real estate group.

The Caisse continued to invest in information systems and technology and pursued efforts to adopt the most efficient information systems appropriate to achieving its mission. Over a quarter of the administration budget was allocated to information systems during the year.

Projects were implemented following the creation of two new specific portfolios in March and June. The first phase of a validation project designed to ensure compliance with internal investment standards and rules was also completed at the end of the year. Implementation of the Caisse-wide service architecture project continued, as did projects related to the trading room, information access on variable-income securities and overall risk management. Several other projects were implemented in investment sectors.

The Caisse entrusts data processing, central unit management and operating reports to a specialized firm. It also undertook an evaluation of its computer resources, which will allow it to introduce measures to optimize information services.



At the institutional level, the Caisse continued to apply its information security and access policy, and pursued its review and testing programme of the information systems backup plan.

Finally, the policy on air quality and the use of tobacco in the workplace, adopted in 1994, came into force at the beginning of 1995, reflecting the commitment of the Caisse to creating a work environment which promotes employees health.

#### *Institutional affairs*

The Caisse engaged in many public and business development activities during the year, launching several projects with finance students and business people.

For the second consecutive year, finance students at Québec universities held a one-day seminar on their area of interest and the work environment, organized by the Relève financière des universités québécoises (R.F.U.Q.) in cooperation with the Caisse. Over 150 students responded to the invitation and participated in workshops and conferences given by fifteen professionals from the Québec financial community. The Caisse also supported many other student initiatives, in particular by sponsoring the Commerce Games finance competition, an annual event with participants from all Québec universities.

Following the nomination last spring of a new Chairman and Chief Executive Officer, several meetings were organized with representatives of the Québec and Canadian business community to explain the institution's general orientations. The Caisse aims for optimal return on its investments and long-term relationships with its partners, while maximizing economic spinoffs in the community. To make the institution and its values better known, Caisse management representatives appeared on many public platforms, including those of the Cercle finance et placement du Québec, the International Finance Club of Montréal and the Chambre de commerce française du Canada, the Chambre de commerce et d'industrie de Laval and the prestigious Board of Trade of Metropolitan Montréal.

The Chairman also had the opportunity to reiterate the importance of pragmatism and professionalism for business leaders, at all times including the referendum period, to ensure steady economic growth for both businesses and the community.

To reach those interested in benefiting from its expertise in market analysis and interpretation, the Caisse launched a new publication, the *Financial Review*, intended for the media, business people, the financial community and the general public. This semi-annual publication complements *Cycles et Tendances*, an economic

outlook review published in June and December which has enjoyed an excellent reputation in business and financial circles since 1983.

Affirming its commitment to sound corporate governance, the Caisse exercised its voting rights as a shareholder in nearly 400 Canadian and U.S. companies. In so doing, the Caisse was able to express its disagreement with measures contrary to its corporate governance policy published in 1994. These rules cover a wide variety of governance issues, such as takeover protection, the independence of directors and the size of boards, as well as measures resulting in inappropriate dilution of share capital, for example through stock purchase plans affecting more than 5% of outstanding shares.

In 1995, a new code of conduct and ethics was adopted to ensure that all, employees, representatives and partners of the Caisse, are aware of and respect the high standards of behaviour and practice in force for a number of years. In addition to continuing to favour the fundamental principles of honesty, integrity and loyalty, this new code sets forth and provides a more detailed context for determining real or potential conflicts of interest, sets out guidelines for gifts, donations, services or benefits, contracts and activities outside the Caisse. It also includes additional measures requiring a declaration of personal investments and directorship activities. Another issue dealt with is the handling and protection of confidential information supplied by partners of the Caisse, to underline its preoccupation with this important matter. The code covers all Caisse subsidiaries.

### **Training**

Training is a priority at the Caisse. Many courses have been provided to staff members under its in-house training programme and external professional improvement courses. In addition, support is given to investment experts in their professional development initiatives.

A significant part of the training budget is allocated to the Chartered Financial Analyst (CFA) programme. CFA accreditation is awarded upon completion of a three-year course and three years of relevant experience in the investment field. At the end of 1995, the Caisse had 34 investment specialists enrolled in this programme and 36 chartered financial analysts. Concerned about its contribution to promoting Montréal as a financial centre, the Caisse also supported the creation of *Devenir CFA*, a French seminar which will be offered in Québec for the first time in 1996 to help students prepare for their examination.

The Caisse also supported the Montréal Exchange annual seminar on options and futures. The quality of this event's guest speakers attracts many investment specialists every year, allowing them to discuss recent developments in new financial instruments.

Finally, the Caisse firmly believes in the need to enhance youth employment in Québec's financial sector, and has for many years successfully renewed its support to the *Embauche* programme. In the first component of this programme, the Caisse hires applicants with a master's degree in finance or economics, who can fine-tune their skills and gain relevant experience during a training period of up to two years. The second component of the programme is reflected in the

Caisse's brokerage policy, under which some fifteen brokerage firms have hired the services of 131 young university graduates as analysts. To date, the majority of participants were given the opportunity to work in the Montréal financial community, and some of them have become well-known financial analysts or portfolio managers.



### Research

The Caisse research team continued to integrate risk management techniques to investment portfolios in major markets. Knowledge of risk is essential to adequately perform asset allocation and efficiently control investment operations. The overall risk measurement model for Canadian and foreign equities, bonds, and tactical and strategic investments is now fully operational.

New risk measurement tools for derivatives were also developed. Essentially, these consist of assessment models and simulation programmes which allow measurement of risks related to most derivatives traded on the stock exchange or over the counter. Managers can now evaluate their portfolios' exposure to risks associated with derivatives on a regular basis.

This approach to risk management, inspired by the recommendations of the Group of 30, made up of thirty major financial institutions worldwide, is the first step toward a fully integrated process of risk analysis associated with the activities of institutions such as the Caisse.

The Caisse has also pursued its efforts to establish closer ties with its financial partners and Québec universities to foster extensive exchanges of research on financial products.

1996

### CAISSE RETURNS 1966-1995

market value - in percentage

	Total return	Consumer price index	Real return
1995	18.2	1.7	16.5
1994	(2.1)	0.2	(2.3)
1993	19.7	1.7	18.0
1992	4.5	2.1	2.4
1991	17.2	3.8	13.4
1990	0.5	5.0	(4.5)
1989	16.9	5.2	11.7
1988	10.5	4.0	6.5
1987	4.7	4.1	0.6
1986	13.5	4.2	9.3
1985	24.0	4.4	19.6
1984	10.1	3.8	6.3
1983	17.0	4.5	12.5
1982	32.8	9.2	23.6
1981	(1.9)	12.2	(14.1)
1980	9.9	11.2	(1.3)
1979	7.2	9.7	(2.5)
1978	9.9	8.4	1.5
1977	10.9	9.4	1.5
1976	18.3	5.9	12.4
1975	12.5	9.5	3.0
1974	(5.6)	12.3	(17.9)
1973	3.4	9.4	(6.0)
1972	10.8	4.9	5.9
1971	14.1	5.2	8.9
1970	12.8	1.3	11.5
1969	(4.4)	4.8	(9.2)
1968	4.4	3.9	0.5
1967	(1.2)	4.1	(5.3)
1966	6.4	3.5	2.9

Return is calculated using the time-weighted method.



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 and Chief Executive Officer  
 ●▲■◆

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 Deputy Chairman of the Board  
 President  
 Régie des rentes du Québec  
 ▲■

**Jean-Claude Bachand**  
 Counsel  
 Byers Casgrain  
 ●

**Claude Béland**  
 President  
 La Confédération des caisses  
 populaires et d'économie  
 Desjardins du Québec  
 ■

**Rodrigue Biron**  
 Senior Partner  
 Biron, Lapierre et Associés  
 ■

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 Fédération des travailleurs  
 et travailleuses du Québec  
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 Confédération des syndicats  
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 Commission municipale  
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 Ministère des Finances du Québec  
 ■

**Michel Sanschagrin**  
 President  
 Commission administrative  
 des régimes de retraite et  
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 ●▲

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 Chairman of the Board and  
 Chief Executive Officer  
 Commission de la santé et  
 de la sécurité du travail

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 Groupe Maritime Verreault

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- ▲ Member of the Caisse Real Estate Group Board of Directors
- Member of the Resources Committee
- ◆ Member of the Ethics Committee

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### **André Duchesne**

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Money Market

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Corporate Relations and  
Coordinator, Institutional Affairs

### **Hubert Lapierre**

Canadian Stock Markets

### **Mario Lavallée**

Depositors' Accounts  
Management

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### **Pierre Lussier**

Strategic Management  
of Asset Mix

### **Jacques Malenfant**

Human Resources

### **Yves Moquin**

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### **Adel Sarwat**

International Stock Markets

### **Alain Tessier**

Finance and Control

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Foreign Markets

*André Collin*  
Manager, Acquisitions  
Canada and United States

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Jean E. Martineau

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*Pierre Fortier*  
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H3A 3C7  
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Companies in the  
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1981, avenue McGill College  
7<sup>e</sup> étage  
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Fax: (514) 847-2628

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Caisse Private Investments  
Group

*Richard D. Champagne*  
President and Chief  
Executive Officer  
Hydrogen Industry Council

*Advisor*

*Richard D. Champagne*  
President and Chief  
Executive Officer  
Hydrogen Industry Council

**REPORT OF MANAGEMENT**

The financial statements of the Caisse de dépôt et placement du Québec were prepared by management, which is responsible for their preparation and presentation, including estimates and material judgements. This responsibility includes selecting the appropriate accounting policies in accordance with generally accepted accounting principles. Financial information presented elsewhere in this Operations Report is consistent with that shown in the accompanying financial statements.

Management maintains systems of internal accounting controls which are designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded in an appropriate and timely manner, that they are duly authorized and allow for the preparation of reliable financial statements. The internal audit team reviews the internal controls on a regular basis to ensure they are adequate and applied consistently by the Caisse.

The Caisse is aware of its responsibility to manage its operations in accordance with the rules and regulations that govern the institution.

The Board of Directors supervises the manner in which management assumes its responsibility regarding financial information, and it has approved the financial statements. The Board of Directors is assisted by the Audit Committee, of which only one member is also an officer of the Caisse. The Audit Committee meets with management and the auditor, examines the financial statements and recommends their approval by the Board of Directors.

The financial statements of the Caisse are audited by the Auditor General of Québec, who conducts his audit in accordance with generally accepted auditing standards. The auditor's report covers the nature and scope of the audit and expresses the auditor's opinion on the financial statements. The Auditor General has unrestricted access to the Audit Committee to discuss any matter relating to his audit.

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

Serge Rémillard  
Senior Vice-President, Administration and Finance

Montréal, March 8, 1996

**AUDITOR'S REPORT**

To the National Assembly

I have audited the combined statement of net assets of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 1995, the combined statement of income, and the combined statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Caisse's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of these Funds as at December 31, 1995 and the results of their operations and the changes in their net assets for the year then ended in accordance with generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Guy Breton, F.C.A.  
Auditor General of Québec  
Québec City, March 8, 1996

**COMBINED STATEMENT OF NET ASSETS  
AS AT DECEMBER 31, 1995**

	1995	1994
	(in millions of dollars)	
<b>ASSETS</b>		
Investments at market value <i>(Notes 3 and 4)</i>		
Bonds	24,265	21,499
Shares and convertible securities	20,175	17,799
Mortgages	1,688	1,842
Real estate holdings	2,566	2,294
Short-term investments	3,069	1,795
	51,763	45,229
Securities acquired under reverse repurchase agreements <i>(Note 3)</i>	62	-
Investment income, accrued and receivable	607	634
Transactions being settled	20	98
Other assets	95	77
	52,547	46,038
<b>LIABILITIES</b>		
Deposits on loans of securities <i>(Note 3)</i>	62	-
Bank loans and notes payable	40	88
Mortgage loans payable <i>(Note 3)</i>	637	529
Transactions being settled	88	135
Commitments related to short selling of equities <i>(Note 3)</i>	366	320
Other liabilities	90	25
Non-controlling interests <i>(Note 3)</i>	79	81
	1,362	1,178
<b>DEPOSITORS' HOLDINGS</b> <i>(Note 5)</i>	51,185	44,860
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b> <i>(Note 7)</i>		
<b>COMMITMENTS</b> <i>(Note 8)</i>		

On behalf of the Board of Directors,  
Jean-Claude Scraire  
Jean-Claude Bachand



**COMBINED STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 1995**

	1995	1994
	(in millions of dollars)	
<b>INCOME</b>		
Investment income		
Interest on bonds	2,002	1,876
Dividends and interest on convertible securities	447	431
Interest on mortgages	168	176
Net income from real estate holdings	139	138
Interest on short-term investments	175	156
	2,931	2,777
Other income	8	9
	2,939	2,786
Investment management expenses (Note 6)	46	44
	2,893	2,742
<b>EXPENDITURES</b>		
Administrative expenses (Note 6)	19	19
<b>INCOME BEFORE THE FOLLOWING ITEM</b>		
Non-controlling interests	2,874	2,723
	7	6
<b>NET INVESTMENT INCOME</b>	<b>2,867</b>	<b>2,717</b>

**COMBINED STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 1995**

	1995	1994
	(in millions of dollars)	
<b>INVESTMENT OPERATIONS</b>		
Net investment income	2,867	2,717
Gains (losses) on sale of investments		
Bonds	417	(709)
Shares and convertible securities	873	883
Mortgages	2	(1)
Real estate holdings	(79)	(6)
Short-term investments	(3)	(2)
	1,210	165
Non-controlling interests	(2)	(1)
	1,212	166
Unrealized increase (decrease) in value		
Investments		
Bonds	2,054	(2,266)
Shares and convertible securities	1,754	(1,308)
Mortgages	78	(143)
Real estate holdings	(8)	(301)
Short-term investments	3	(17)
	3,881	(4,035)
Mortgage loans payable	13	(39)
Commitments related to short selling of equities	6	9
Non-controlling interests	(1)	(30)
	3,863	(3,975)
Total investment operations	7,942	(1,092)
Excess depositors' withdrawals over deposits	1,617	1,165
<b>INCREASE (DECREASE) IN COMBINED NET ASSETS</b>	<b>6,325</b>	<b>(2,257)</b>
<b>COMBINED NET ASSETS, BEGINNING OF YEAR</b>	<b>44,860</b>	<b>47,117</b>
<b>COMBINED NET ASSETS, END OF YEAR</b>	<b>51,185</b>	<b>44,860</b>

**1 CONSTITUTION AND OPERATIONS**

The Caisse de dépôt et placement du Québec is a legal person within the meaning of the Civil Code, created by a special act (R.S.Q., chapter C-2). It receives funds, the deposit of which is provided for under a particular act.

**GENERAL FUND**

The General Fund is comprised of diversified investments and is a pooled fund for demand, term and participation deposits. The General Fund's net equity and net income as at December 31 were shared among participation deposit holders as follows:

	1995		1994	
	Number of units	%	Number of units	%
Régie des rentes du Québec	17,656,968	75.7	17,987,723	74.6
Société de l'assurance automobile du Québec	5,635,479	24.2	6,090,279	25.2
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	-	-	21,923	0.1
Fonds d'assurance-prêts agricoles et forestiers	12,871	0.1	12,871	0.1
Office de la protection du consommateur				
Fonds des cautionnements collectifs des agents de voyages	7,167	-	6,752	-
Magazine Protégez-Vous	1,559	-	1,559	-
Régie des marchés agricoles et alimentaires du Québec	2,621	-	2,983	-
Fédération des producteurs de bovins du Québec	1,041	-	1,041	-
	<b>23,317,706</b>	<b>100.0</b>	<b>24,125,131</b>	<b>100.0</b>

**INDIVIDUAL FUNDS**

The Individual Funds are comprised of diversified investments and each have only one depositor who exclusively makes participation deposits therein. The various Individual Funds are:

**Fund 301**

For the Government and Public Employees Retirement Plan - contributions from unionized employees and transfer from supplemental pension plans - administered by the Commission administrative des régimes de retraite et d'assurances.

**Fund 302**

For the Government and Public Employees Retirement Plan - contributions from non-unionized employees - administered by the Commission administrative des régimes de retraite et d'assurances.

**Fund 303**

For the Individual Plans administered by the Commission administrative des régimes de retraite et d'assurances.

**Fund 305**

For the Pension Plan for Elected Municipal Officers and the General Retirement Plan for Mayors and Councillors of Municipalities, administered by the Commission administrative des régimes de retraite et d'assurances.

**Fund 306**

For the Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec. This fund was created April 1, 1995. Prior to this date, the depositor held participation deposits to the General Fund.

**Fund 308**

For the Fonds d'amortissement des régimes de retraite gouvernementaux, administered by the Minister of Finance.

**Fund 311**

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - active participants - administered by the Commission de la construction du Québec.

**Fund 312**

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - retired participants - administered by the Commission de la construction du Québec.

**Fund 313**

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - additional contributions - administered by the Commission de la construction du Québec.

**Fund 330**

For the Commission de la santé et de la sécurité du travail.

**SPECIFIC PORTFOLIOS**

The specific portfolios are comprised of one category of investments only. The portfolios are pooled funds for participation deposits of the various Funds. As at December 31, 1995, the six following specific portfolios were in operation: the Canadian equities portfolio (created July 1, 1995), the U.S. equities portfolio, the emerging market equities portfolio (created January 1, 1995), the foreign equities portfolio, the mortgage portfolio (created April 1, 1995) and the real estate investments portfolio.

**2 ACCOUNTING POLICIES**

The combined financial statements of the Caisse have been prepared by management in accordance with generally accepted accounting principles. These statements include amounts based on best judgement and estimates.

**a) COMBINED FINANCIAL STATEMENTS**

The combined financial statements comprise the accounts of the Caisse's subsidiaries, those of the General Fund and the Individual Funds, as well as those of the specific portfolios. The accounts of each of these Funds and of each of these portfolios are reflected in separate financial statements audited by the Auditor General of Québec.

**b) INVESTMENTS**

Purchases and sales of investments are recorded as at the commitment date, except transactions involving bonds, mortgages and real estate holdings, which are recorded as at the settlement date.

Investments and any other related assets and liabilities are recorded at the year-end market value. These values are determined using the closing prices of the major stock exchanges as well as those provided by recognized brokerage firms and independent valuations. In addition, valuations are made in-house based on commonly used valuation methods.

**c) INCOME**

Dividend income is recognized on the ex-dividend date. Income from loans of shares and convertible securities is presented under the item Dividends and interest on convertible securities.

Interest on short-term investments is reduced by interest expenses on notes payable.

Income from real estate holdings is reduced by interest on bank and mortgage loans.

Income from derivative financial instruments is included in the income from the underlying investments.

**d) GAINS AND LOSSES ON SALE OF INVESTMENTS**

The gains and losses on the sale of investments are calculated using the average unamortized cost in the case of bonds, mortgages and short-term investments, the average cost in the case of shares and convertible securities, and the specific cost in the case of real estate holdings. The average unamortized cost is the acquisition cost restated to take into account the amortization of the premium and the discount that allows the investment to maintain a constant real return until maturity.



e) FOREIGN CURRENCY TRANSLATION

The market value of investments and any other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

The cost of investments in shares and that of real estate holdings are translated at the rate prevailing on the acquisition date while the unamortized cost of hedged investments in bonds, mortgages and short-term investments is translated at the average rate of the financial foreign exchange risk hedging instruments held at year-end, and that of unhedged investments is translated at the rate prevailing at year-end.

Income is translated at the average rate prevailing in each of the fiscal periods of the various Funds, except dividend income, which is translated at the rates prevailing on the ex-dividend date. Foreign exchange gains and losses are included in net investment income, except those gains and losses relating to financial foreign exchange risk hedging instruments used for shares and real estate holdings, which are deferred and accounted for in gains and losses on the sale of investments, upon the realization of the hedged shares and real estate holdings.

f) FIXED ASSETS

Costs related to the acquisition of telephone, computer and office automation equipment are capitalized and amortized over the useful life of each asset. Set-up costs for the premises and other leasehold improvement costs are amortized over the term of the lease. These fixed assets are presented under the item Other assets.

g) INVESTMENT MANAGEMENT EXPENSES AND ADMINISTRATIVE EXPENSES

Investment management expenses cover all expenses related directly to investment operations, including expenses paid to external financial institutions. These expenses are presented under a specific item, and are deducted from investment income. General administrative expenses are presented under the item Administrative expenses.

**3 INVESTMENTS AND OTHER ASSETS AND LIABILITIES AT COST**

The cost of investments and other assets and liabilities accounted for at market value is as follows:

	1995	1994
	(in millions of dollars)	
Investments		
Bonds	22,660	21,948
Shares and convertible securities	16,126	15,504
Mortgages	1,642	1,874
Real estate holdings	3,424	3,146
Short-term investments	3,067	1,796
	46,919	44,268
Securities acquired under reverse repurchase agreements	62	-
Deposits on loans of securities	62	-
Mortgage loans payable	621	526
Commitments related to short selling of equities	351	311
Non-controlling interests	125	125

The cost of shares and convertible securities as well as of real estate holdings was increased by the amount of the losses carried over to financial foreign exchange risk hedging instruments which totalled \$232 million as at December 31, 1995 (\$510 million in 1994). The unamortized cost of bonds and short-term investments was increased by the amount of \$10 million as at December 31, 1995 (decreased by \$28 million in 1994) to reflect the difference between the exchange rate on the date of acquisition and the average rate of the financial foreign exchange risk hedging instruments held at the end of the year.

**4 INVESTMENTS - FOREIGN SECURITIES**

	1995	1994
	(in millions of dollars)	
Bonds	84	391
Shares and convertible securities	6,184	4,639
Mortgages	29	-
Real estate holdings	377	117
Short-term investments	114	324
	<b>6,788</b>	<b>5,471</b>

The foreign exchange position for investments in foreign securities, with the exception of emerging market securities, is hedged by financial instruments as shown in Note 7.

**5 DEPOSITORS' HOLDINGS**

Demand and term deposits bear interest and constitute the Caisse's indebtedness toward the depositors.

Participation deposits are expressed in units and each unit gives its holder a proportionate share in the net equity and net income of a particular Fund. At the end of each fiscal period of a Fund, which is one month for the General Fund and three months for the Individual Funds, the net investment income and gains and losses on the sale of investments are distributed to participation deposit holders. At the beginning of the following period, the amounts distributed are paid out to (recovered from) the depositors' demand deposit accounts.

	1995	1994
	(in millions of dollars)	
Indebtedness toward depositors		
Advances to depositors	(95)	(406)
Term deposits	140	147
Interest on demand and term deposits	3	-
Net income to be paid out to participation deposit holders	765	520
	<b>813</b>	<b>261</b>
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	43,592	40,978
Units issued	3,147	3,326
Units cancelled	(1,251)	(712)
Balance, end of year	45,488	43,592
Amount not allocated with respect to real estate holdings *	111	114
Unrealized increase in value allocated following interfund transactions	(86)	(100)
Unrealized increase (decrease) in value of investments and other related assets and liabilities	4,859	993
	<b>50,372</b>	<b>44,599</b>
<b>DEPOSITORS' HOLDINGS</b>	<b>51,185</b>	<b>44,860</b>

\* Represents the restated amount of accumulated amortization of real estate properties resulting from the recording of investments at market value. This amount will be allocated upon the sale of the properties.

**6 INVESTMENT MANAGEMENT EXPENSES AND ADMINISTRATIVE EXPENSES**

a) Investment management expenses and administrative expenses detail as follows:

	1995		1994	
	(in millions of dollars)			
	Management expenses	Administrative expenses	Management expenses	Administrative expenses
Salaries and employee benefits	22	11	21	10
Professional fees	13	2	12	3
Premises and material	4	3	5	3
Depreciation of fixed assets	3	1	2	1
Other	4	2	4	2
	46	19	44	19

b) Management expenses are attributable to investment categories as follows:

	1995	1994
	(in millions of dollars)	
Bonds	9	10
Shares and convertible securities	25	23
Mortgages	4	4
Real estate holdings	7	6
Short-term investments	1	1
	46	44

**7 DERIVATIVE FINANCIAL INSTRUMENTS**

Pursuant to its investment operations management, the Caisse conducts transactions involving various derivative financial instruments either to hedge against the risks associated with fluctuations in exchange rates or to manage risks associated with interest rate and market fluctuations. As at December 31, these instruments, whose market value is grouped with that of the underlying investments, were as follows:

	1995		1994	
	Market value	Nominal principal	Market value	Nominal principal
(in millions of dollars)				
Foreign exchange risk hedging - net				
Forward exchange contracts	45	6,527	(60)	4,819
Foreign currency swaps	(19)	460	(56)	487
Interest rate and market risk management - net				
Forward exchange contracts	(1)	(592)	-	(1)

	1995		1994	
	Market value	Notional principal	Market value	Notional principal
(in millions of dollars)				
Interest rate and market risk management				
Bond futures				
Purchases	-	11	-	130
Sales	-	76	-	1,122
Equity index futures				
Purchases	-	54	-	152
Sales	-	344	-	326
Interest rate futures				
Purchases	-	70	-	6
Sales	-	-	-	107
Interest rate swaps	(29)	836	(16)	767



(cont'd)	1995		1994	
	Market value	Notional principal	Market value	Notional principal
	(in millions of dollars)			
Interest rate and market risk management				
Forward rate agreements				
Purchases	-	50	-	25
Sales	-	50	-	-
Bond forward contracts				
Purchases	-	-	-	27
Options on bond futures				
Purchases	-	389	-	-
Sales	-	413	-	-
Options on interest rate futures				
Purchases	-	-	-	6
Options on bonds				
Purchases	-	-	1	24
Equity options				
Sales	-	4	-	8
Options on equity indices				
Purchases	-	47	-	-
Sales	(5)	52	-	-
Foreign currency options				
Purchases	10	439	1	70
Sales	(8)	365	(2)	70

Financial foreign exchange rate risk hedging instruments are negotiated with banks. Terms generally range from one to three months in the case of forward exchange contracts and from one to two years in the case of foreign currency swaps. Upon maturity, new hedging instruments are negotiated to maintain an effective long-term hedge against the exchange risks associated with foreign investments.

Moreover, futures traded on stock exchanges, interest rate swaps, forward rate agreements, bond forward contracts and options, negotiated with banks and brokerage firms, are used to manage the interest rate and market risks of the total investment portfolio in addition to generating income from negotiation activities.

In addition, interest rate swaps on bonds for a nominal value of \$252 million (\$200 million in 1994) have allowed to convert the income of certain fixed interest-rate bonds into variable income.

#### 8 COMMITMENTS

The Caisse has committed to purchase shares and limited partnership units, which will be settled over the next few years in accordance with the terms and conditions agreed to. As at December 31, 1995, these commitments totalled \$366 million (\$419 million in 1994).

#### 9 COMPARATIVE FIGURES

Certain figures from the 1994 financial statements have been reclassified in order to conform with the presentation adopted in 1995.

**SUPPLEMENTARY INFORMATION**  
**SUMMARY FINANCIAL STATEMENTS FOR THE SPECIFIC PORTFOLIOS (in millions of dollars)**

		CANADIAN EQUITIES <i>(Credit 1995.07.01)</i>		U.S. EQUITIES <sup>1</sup>
CONSOLIDATED NET ASSETS AS AT DECEMBER 31, 1995	1995	1994	1995	1994
<b>ASSETS</b>				
Investments at market value				
Bonds	230.7	-	26.1	-
Shares and convertible securities	13,828.3	-	2,105.4	1,592.1
Mortgages	-	-	-	-
Real estate holdings	-	-	-	-
Short-term investments	-	-	-	-
Demand deposits in the General Fund	167.1	-	-	-
	14,226.1	-	2,131.5	1,592.1
Other assets	52.8	-	11.6	23.1
	14,278.9	-	2,143.1	1,615.2
<b>LIABILITIES</b>				
Advances from the General Fund	-	-	18.2	10.8
Commitments related to short selling of equities	366.1	-	-	-
Mortgage loans payable	-	-	-	-
Other liabilities	163.9	-	0.4	30.4
Non-controlling interests	-	-	-	-
	530.0	-	18.6	41.2
<b>NET HOLDINGS OF FUNDS</b>	<b>13,748.9</b>	<b>-</b>	<b>2,124.5</b>	<b>1,574.0</b>
<b>CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1995</b>				
<b>INCOME</b>				
Investment income				
Interest on bonds	7.5	-	3.6	-
Dividends and interest on convertible securities	157.0	-	45.8	32.0
Interest on mortgages	-	-	-	-
Net income from real estate holdings	-	-	-	-
Interest on short-term investments	-	-	-	-
Interest on deposits in the General Fund	0.3	-	0.4	(0.1)
	164.8	-	49.8	31.9
Other income	1.7	-	-	-
Total income	166.5	-	49.8	31.9
Investment management expenses	2.0	-	0.8	0.3
	164.5	-	49.0	31.6
<b>EXPENDITURES</b>				
Administrative expenses	0.4	-	-	-
<b>INCOME BEFORE THE FOLLOWING ITEM</b>	<b>164.1</b>	<b>-</b>	<b>49.0</b>	<b>31.6</b>
Non-controlling interests	-	-	-	-
<b>NET INCOME FROM INVESTMENTS</b>	<b>164.1</b>	<b>-</b>	<b>49.0</b>	<b>31.6</b>
<b>CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 1995</b>				
<b>INVESTMENT OPERATIONS</b>				
Net income from investments	164.1	-	49.0	31.6
Gains (losses) on sale of investments	459.8	-	(86.4)	64.6
Unrealized increase (decrease) in value of investments and other assets and liabilities	162.4	-	466.0	(8.5)
Total investment operations	786.3	-	428.6	87.7
Participation units	29.7	-	58.1	(89.5)
Transfer from funds and portfolio	13,556.8	-	26.4	1,672.0
Net income allocated to participation unit holders	(623.9)	-	37.4	(96.2)
<b>INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS</b>	<b>13,748.9</b>	<b>-</b>	<b>550.5</b>	<b>1,574.0</b>
<b>CONSOLIDATED NET ASSETS, BEGINNING OF YEAR</b>	<b>-</b>	<b>-</b>	<b>1,574.0</b>	<b>-</b>
<b>CONSOLIDATED NET ASSETS, END OF YEAR</b>	<b>13,748.9</b>	<b>-</b>	<b>2,124.5</b>	<b>1,574.0</b>
<b>INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31, 1995</b>				
Investments				
Bonds	218.7	-	26.0	-
Shares and convertible securities	10,604.9	-	1,661.8	1,614.4
Mortgages	-	-	-	-
Real estate holdings	-	-	-	-
Short-term investments	-	-	-	-
Demand deposits in the General Fund	167.1	-	-	-
	10,990.7	-	1,687.8	1,614.4
Commitments related to short selling of equities	351.2	-	-	-
Mortgage loans payable	-	-	-	-
Non-controlling interests	-	-	-	-
<b>SHARE OF FUNDS (in percentage)</b>				
General Fund	37.9	-	36.5	43.5
Individual Fund 301	36.4	-	31.4	33.5
Individual Fund 302	6.3	-	5.3	5.7
Individual Fund 303	0.2	-	0.2	0.3
Individual Fund 305	0.3	-	0.2	0.2
Individual Fund 306	0.1	-	-	-
Individual Fund 308	2.1	-	1.8	2.0
Individual Fund 311	6.5	-	8.9	2.9
Individual Fund 312	2.6	-	5.8	1.7
Individual Fund 313	0.6	-	1.5	0.6
Individual Fund 330	7.0	-	8.4	9.6
	100.0	-	100.0	100.0

<sup>1</sup> April 1, 1994, U.S. equities and the related asset, held in the specific foreign equity investments portfolio, were transferred to the specific U.S. equity investments portfolio.

EMERGING MARKET EQUITIES <i>(Consolidated 1995-01-01)</i>		FOREIGN EQUITIES <sup>1</sup>		MORTGAGES <i>(Consolidated 1995-01-01)</i>		REAL ESTATE	
1995	1994	1995	1994	1995	1994	1995	1994
-	-	-	-	-	-	2.7	-
58.9	-	3,922.7	2,731.4	-	-	263.9	245.0
-	-	-	-	1,689.3	-	68.7	82.4
-	-	-	-	86.3	-	2,480.0	2,232.8
-	-	-	-	-	-	107.7	29.0
-	-	1.4	-	14.2	-	34.6	-
58.9	-	3,924.1	2,731.4	1,789.8	-	2,957.6	2,589.2
-	-	25.5	12.8	21.7	-	106.8	92.5
58.9	-	3,949.6	2,744.2	1,811.5	-	3,064.4	2,681.7
0.8	-	-	11.8	-	-	-	63.0
-	-	-	-	-	-	-	-
-	-	-	-	-	-	713.1	611.9
0.6	-	28.7	11.9	17.9	-	43.1	127.2
-	-	-	-	-	-	79.6	81.0
1.4	-	28.7	23.7	17.9	-	835.8	883.1
57.5	-	3,920.9	2,720.5	1,793.6	-	2,228.6	1,798.6
-	-	-	-	-	-	-	-
1.4	-	71.6	72.0	-	-	12.9	5.4
-	-	-	-	126.0	-	5.4	2.7
-	-	-	-	-	-	130.9	122.1
-	-	-	-	-	-	7.4	1.0
-	-	0.9	(4.0)	0.4	-	4.0	0.4
1.4	-	72.5	68.0	126.4	-	160.6	131.6
-	-	-	-	0.2	-	5.0	6.6
1.4	-	72.5	68.0	126.6	-	165.6	138.2
1.1	-	4.8	4.4	0.7	-	5.6	4.8
0.3	-	67.7	63.6	125.9	-	160.0	133.4
-	-	0.1	-	-	-	4.2	3.8
0.3	-	67.6	63.6	125.9	-	155.8	129.6
-	-	-	-	-	-	6.9	6.0
0.3	-	67.6	63.6	125.9	-	148.9	123.6
0.3	-	67.6	63.6	125.9	-	148.9	123.6
8.1	-	5.0	110.9	1.0	-	(78.3)	(115.8)
(13.6)	-	421.7	(335.2)	53.3	-	(22.6)	(214.2)
(5.2)	-	494.3	(160.7)	180.2	-	48.0	(206.4)
5.4	-	543.6	318.7	(159.2)	-	452.6	377.3
65.7	-	235.1	(1,672.0)	1,899.5	-	-	-
(8.4)	-	(72.6)	(174.5)	(126.9)	-	(70.6)	(7.8)
57.5	-	1,200.4	(1,688.5)	1,793.6	-	430.0	163.1
-	-	2,720.5	4,409.0	-	-	1,798.6	1,635.5
57.5	-	3,920.9	2,720.5	1,793.6	-	2,228.6	1,798.6
-	-	-	-	-	-	-	-
61.3	-	3,461.5	2,700.8	-	-	2.6	-
-	-	-	-	-	-	382.3	364.7
-	-	-	-	1,622.4	-	89.0	98.9
-	-	-	-	112.0	-	3,283.8	3,034.1
-	-	-	-	-	-	107.7	29.0
-	-	1.4	-	14.2	-	34.6	-
61.3	-	3,462.9	2,700.8	1,748.6	-	3,900.0	3,526.7
-	-	-	-	-	-	-	-
-	-	-	-	-	-	689.8	605.0
-	-	-	-	-	-	124.6	124.8
90.6	-	35.5	39.4	26.8	-	38.0	43.4
-	-	29.8	33.7	21.6	-	38.2	32.8
-	-	5.8	6.6	3.6	-	6.5	5.8
-	-	0.2	0.2	1.0	-	0.2	0.2
-	-	0.2	0.3	0.2	-	0.3	0.2
0.3	-	0.1	-	-	-	-	-
-	-	1.7	2.1	1.2	-	2.2	2.2
5.4	-	6.7	5.0	20.7	-	4.0	3.5
3.0	-	4.3	3.0	13.5	-	1.3	2.3
0.7	-	1.0	0.5	7.9	-	0.9	0.9
-	-	14.7	9.2	3.5	-	8.4	8.7
100.0	-	100.0	100.0	100.0	-	100.0	100.0



**SUPPLEMENTARY INFORMATION**  
**SUMMARY FINANCIAL STATEMENTS FOR THE FUNDS (in millions of dollars)**

GENERAL FUND							
NET ASSETS AS AT DECEMBER 31, 1995			301		302		
	1995	1994	1995	1994	1995	1994	1994
<b>ASSETS</b>							
Investments at market value							
Bonds	10,607.0	10,294.8	7,589.1	6,304.6	1,227.5	1,041.5	
Shares and convertible securities	7,424.9	7,237.3	6,842.8	5,695.0	1,208.6	1,059.5	
Mortgages	480.8	416.2	387.2	292.9	65.3	43.6	
Real estate investments	849.6	796.3	854.2	607.9	144.8	104.6	
Short-term investments	2,961.1	1,406.9	-	-	-	-	
Demand deposits in the General Fund	-	-	801.3	725.9	124.2	72.7	
	22,323.4	20,151.5	16,474.6	13,626.3	2,770.4	2,321.9	
Other assets	536.4	889.5	229.6	209.1	37.9	34.9	
	22,859.8	21,041.0	16,704.2	13,835.4	2,808.3	2,356.8	
<b>LIABILITIES</b>							
Demand and term deposits	2,153.7	1,247.8	-	-	-	-	
Other liabilities	314.7	299.6	347.5	370.6	56.8	61.4	
	2,468.4	1,547.4	347.5	370.6	56.8	61.4	
PARTICIPATION DEPOSIT HOLDERS' NET HOLDINGS	20,391.4	19,493.6	16,356.7	13,464.8	2,751.5	2,295.4	
<b>STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1995</b>							
<b>INCOME</b>							
Investment income							
Interest on bonds	940.6	949.0	594.3	519.6	97.5	87.7	
Income from shares and convertible securities	169.6	172.5	150.9	136.1	26.5	25.1	
Income from mortgages	46.0	49.3	34.5	27.1	5.4	4.0	
Income from real estate investments	57.3	55.3	55.8	42.6	9.6	7.2	
Interest on short-term investments	157.7	132.1	0.6	-	0.1	-	
Interest on deposits in the General Fund	-	-	48.9	39.1	8.0	6.6	
	1,371.2	1,358.2	885.0	764.5	147.1	130.6	
Other income	0.5	1.2	0.2	0.6	-	0.1	
Total income	1,371.7	1,359.4	885.2	765.1	147.1	130.7	
Investment management expenses	12.5	15.0	9.6	10.0	1.6	1.7	
	1,359.2	1,344.4	875.6	755.1	145.5	129.0	
<b>EXPENDITURES</b>							
Administrative expenses	5.9	6.4	4.7	4.4	0.8	0.8	
Interest on demand and term deposits	127.4	70.4	-	-	-	-	
<b>NET INCOME FROM INVESTMENTS</b>	<b>1,225.9</b>	<b>1,267.6</b>	<b>870.9</b>	<b>750.7</b>	<b>144.7</b>	<b>128.2</b>	
<b>CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 1995</b>							
<b>INVESTMENT OPERATIONS</b>							
Net income from investments	1,225.9	1,267.6	870.9	750.7	144.7	128.2	
Gains (losses) on sale of investments	598.3	116.4	309.1	122.6	52.9	21.0	
Unrealized increase (decrease) in value of investments and other assets and liabilities	1,513.0	(1,963.4)	1,322.1	(1,170.3)	220.0	(198.6)	
Total investment operations	3,337.2	(579.4)	2,502.1	(297.0)	417.6	(49.4)	
Participation deposits	(615.2)	(488.0)	1,569.8	1,465.4	236.1	188.5	
Net income allocated to participation deposit holders	(1,824.2)	(1,384.0)	(1,180.0)	(873.3)	(197.6)	(149.2)	
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>897.8</b>	<b>(2,451.4)</b>	<b>2,891.9</b>	<b>295.1</b>	<b>456.1</b>	<b>(10.1)</b>	
NET ASSETS, BEGINNING OF YEAR	19,493.6	21,945.0	13,464.8	13,169.7	2,295.4	2,305.5	
NET ASSETS, END OF YEAR	20,391.4	19,493.6	16,356.7	13,464.8	2,751.5	2,295.4	
<b>INVESTMENTS AND OTHER ASSETS AND LIABILITIES AT COST AS AT DECEMBER 31, 1995</b>							
Investments							
Bonds	9,876.9	10,482.9	7,115.0	6,468.9	1,143.0	1,057.8	
Shares and convertible securities	5,725.5	6,120.2	5,460.5	4,987.1	964.1	933.1	
Mortgages	468.1	415.4	376.3	297.9	63.6	44.1	
Real estate investments	1,201.2	1,145.3	1,141.9	886.1	193.3	151.4	
Short-term investments	2,959.0	1,406.7	-	-	-	-	
Demand deposits in the General Fund	-	-	801.3	725.9	124.2	72.7	
	20,230.7	19,570.5	14,895.0	13,365.9	2,488.2	2,259.1	
Securities acquired under reverse repurchase agreements	27.9	-	19.3	-	3.1	-	
Term deposits	140.0	146.7	-	-	-	-	
Deposits on loans of securities	28.0	-	19.4	-	3.1	-	
Commitments related to short selling of equities	-	127.3	-	101.9	-	18.4	

<sup>1</sup> This fund was created April 1, 1995.



311		312		313		330	
1995	1994	1995	1994	1995	1994	1995	1994
684.3	601.0	620.9	347.8	232.9	186.4	2,492.3	2,246.9
1,346.5	959.4	654.3	552.8	157.9	69.4	1,721.8	1,564.3
371.9	525.9	240.3	311.5	142.3	129.8	63.4	78.6
88.7	81.1	28.3	44.7	19.8	16.2	189.0	158.0
-	191.6	-	123.7	-	43.8	-	-
107.0	28.0	145.3	35.9	44.8	2.9	397.0	144.4
2,598.4	2,387.0	1,689.1	1,416.4	597.7	448.5	4,863.5	4,192.2
30.5	27.9	23.3	18.3	7.6	6.4	64.9	62.7
2,628.9	2,414.9	1,712.4	1,434.7	605.3	454.9	4,928.4	4,254.9
-	-	-	-	-	-	-	-
42.5	63.3	37.1	37.6	11.3	9.5	120.4	103.1
42.5	63.3	37.1	37.6	11.3	9.5	120.4	103.1
2,586.4	2,351.6	1,675.3	1,397.1	594.0	445.4	4,808.0	4,151.8
56.0	52.1	40.8	30.0	18.2	15.1	202.6	190.7
27.9	23.2	14.6	13.5	2.8	1.6	36.9	36.1
37.2	53.5	23.0	29.8	11.5	10.6	8.9	8.2
5.5	4.7	1.8	2.9	1.2	1.1	13.3	10.8
4.2	12.8	3.4	7.9	1.0	2.5	0.3	-
9.1	0.8	10.7	0.4	2.7	0.2	12.3	12.8
139.9	147.1	94.3	84.5	37.4	31.1	274.3	258.6
0.1	0.2	-	0.1	-	0.1	-	0.2
140.0	147.3	94.3	84.6	37.4	31.2	274.3	258.8
1.8	2.3	1.1	1.3	0.4	0.4	2.7	3.1
138.2	145.0	93.2	83.3	37.0	30.8	271.6	255.7
0.9	0.9	0.5	0.5	0.2	0.1	1.3	1.3
-	-	-	-	-	-	-	-
137.3	144.1	92.7	82.8	36.8	30.7	270.3	254.4
137.3	144.1	92.7	82.8	36.8	30.7	270.3	254.4
43.7	25.3	41.2	8.5	4.0	(2.3)	129.2	23.5
207.6	(187.4)	117.6	(101.4)	42.7	(31.0)	356.7	(374.2)
388.6	(18.0)	251.5	(10.1)	83.5	(2.6)	756.2	(96.3)
27.2	70.4	160.6	147.6	105.9	51.4	299.5	327.9
(181.0)	(169.4)	(133.9)	(91.3)	(40.8)	(28.4)	(399.5)	(277.9)
234.8	(117.0)	278.2	46.2	148.6	20.4	656.2	(46.3)
2,351.6	2,468.6	1,397.1	1,350.9	445.4	425.0	4,151.8	4,198.1
2,586.4	2,351.6	1,675.3	1,397.1	594.0	445.4	4,808.0	4,151.8
636.9	614.2	583.1	353.7	217.3	102.0	2,313.7	2,289.2
1,087.0	827.4	539.3	493.1	135.9	64.0	1,408.8	1,385.6
367.3	527.5	235.2	314.9	138.6	131.0	61.7	79.5
124.1	129.2	38.9	65.1	27.4	23.8	270.2	237.3
-	191.6	-	123.7	-	43.8	-	-
107.0	28.0	145.3	35.9	44.8	2.9	397.0	144.4
2,322.3	2,317.9	1,541.8	1,386.4	564.0	457.5	4,451.4	4,136.0
1.8	-	1.7	-	0.6	-	6.3	-
-	-	-	-	-	-	-	-
1.8	-	1.7	-	0.6	-	6.3	-
-	18.1	-	10.5	-	1.1	-	26.4



## INDIVIDUAL FUNDS

303		305		306 <sup>1</sup>		308	
1995	1994	1995	1994	1995	1994	1995	1994
45.3	39.2	51.1	43.1	30.3	-	425.2	377.5
38.6	25.8	50.4	44.0	15.5	-	386.1	344.0
17.9	11.3	2.7	3.5	-	-	21.8	28.5
5.6	4.0	6.1	4.3	-	-	49.1	38.5
-	-	-	-	-	-	-	-
17.1	30.5	4.1	2.1	1.6	-	46.2	12.1
124.5	110.8	114.4	97.0	47.4	-	928.4	800.6
1.7	1.2	1.5	1.5	0.6	-	11.8	10.4
126.2	112.0	115.9	98.5	48.0	-	940.2	811.0
-	-	-	-	-	-	-	-
2.2	2.5	2.1	2.4	1.1	-	19.4	16.9
2.2	2.5	2.1	2.4	1.1	-	19.4	16.9
124.0	109.5	113.8	96.1	46.9	-	920.8	794.1
3.6	2.9	4.1	3.6	1.6	-	31.7	24.3
0.9	0.8	1.1	1.1	0.2	-	8.5	7.5
1.3	0.5	0.3	0.2	-	-	2.4	1.0
0.4	0.3	0.4	0.3	-	-	3.3	1.7
-	-	-	-	-	-	-	-
1.4	1.3	0.2	0.2	0.2	-	2.4	2.4
7.6	5.8	6.1	5.4	2.0	-	48.3	36.9
-	-	-	-	-	-	-	0.1
7.6	5.8	6.1	5.4	2.0	-	48.3	37.0
0.1	0.1	0.1	0.1	-	-	0.5	0.6
7.5	5.7	6.0	5.3	2.0	-	47.8	36.4
-	-	-	-	-	-	0.3	0.2
-	-	-	-	-	-	-	-
7.5	5.7	6.0	5.3	2.0	-	47.5	36.2
7.5	5.7	6.0	5.3	2.0	-	47.5	36.2
1.0	1.3	2.0	0.2	1.0	-	16.1	(49.3)
9.2	(7.5)	9.3	(6.5)	2.7	-	72.7	(34.0)
17.7	(0.5)	17.3	(1.0)	5.7	-	136.3	(47.1)
5.3	13.2	8.4	8.9	44.2	-	54.0	828.1
(8.5)	(7.0)	(8.0)	(5.5)	(3.0)	-	(63.6)	13.1
14.5	5.7	17.7	2.4	46.9	-	126.7	794.1
109.5	103.8	96.1	93.7	-	-	794.1	-
124.0	109.5	113.8	96.1	46.9	-	920.8	794.1
42.7	40.9	47.3	43.8	28.4	-	408.2	389.1
33.3	24.9	41.0	39.3	14.6	-	360.6	362.2
17.4	11.4	2.6	3.5	-	-	20.5	28.2
6.9	5.2	8.2	6.4	-	-	54.2	43.0
-	-	-	-	-	-	-	-
17.1	30.5	4.1	2.1	1.6	-	46.2	12.1
117.4	112.9	103.2	95.1	44.6	-	889.7	834.6
0.1	-	0.1	-	0.1	-	1.1	-
-	-	-	-	-	-	-	-
0.1	-	0.1	-	0.1	-	1.1	-
-	0.6	-	0.7	-	-	-	6.1

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