Annual Report 2002

CDP
Caisse de dépôt et placement
du Québec

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TABLES AND FIGURES (continued)

All figures in this document are expressed in Canadian dollars, unless otherwise indicated. Symbols M and B represent millions and billions respectively.

Profile

The Caisse de dépôt et placement du Québec
The Caisse de dépôt et placement du Québec (the Caisse), created in 1965 by an Act of the National Assembly of Québec, is a financial institution that manages assets for its depositors, namely pension funds, insurance plans and others. It manages its operations from its main business office in Montréal and its head office in Québec City.

CDP Capital
CDP Capital, the asset manager of the Caisse de dépôt et placement du Québec, is active in the three main investment sectors, namely the core markets (for example, stock markets), private equity and real estate. In addition to serving the Caisse's depositors, it manages assets for institutional clients in Canada and in other countries.

Figure 1.1
Breakdown of total assets under management: $129.6 B

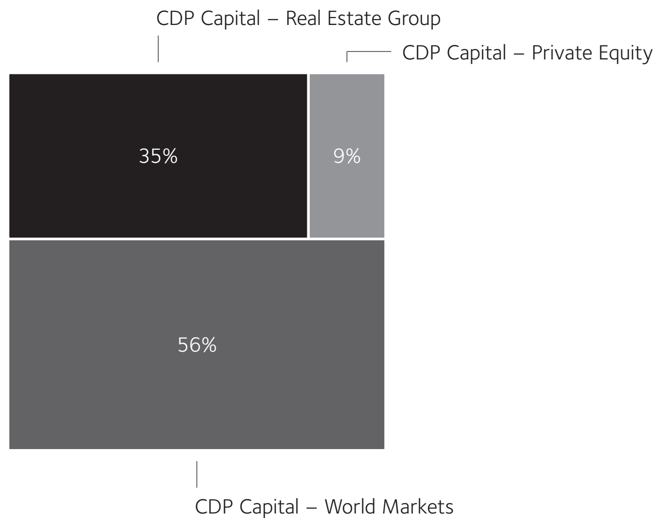


Table 1.2
Highlights
in millions of dollars

	2002	2001
Investments		
Net income	3,496	3,543
Accumulated losses on the sale of investments	-6,068	-1,310
Total realized income	**-2,572**	**2,233**
Unrealized decrease in value	**-5,981**	**-6,897**
Total losses on investments	**-8,553**	**-4,664**
Net depositor deposits	**962**	**1,674**
Decrease in net assets	**-7,591**	**-2,990**
Depositors' holdings	**77,682**	**85,273**

NOTES:

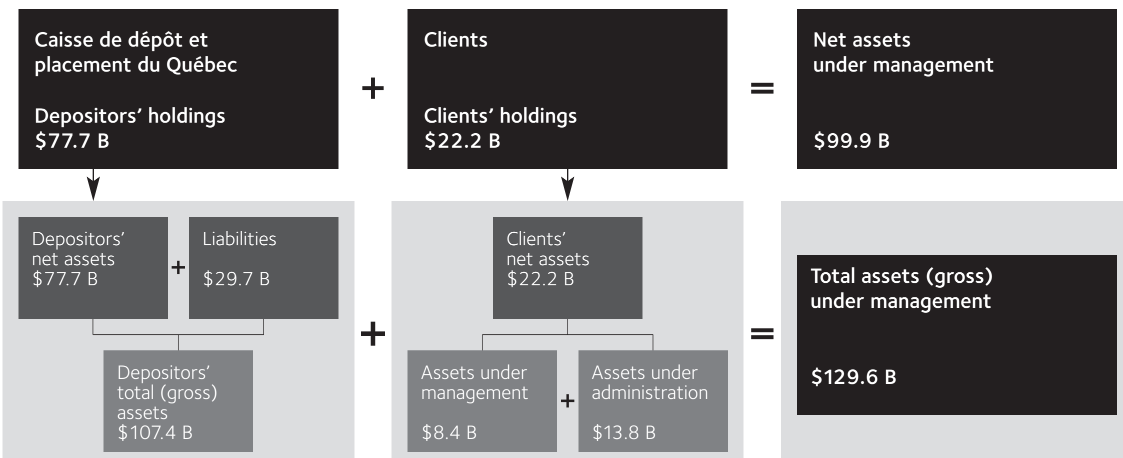
1. *Unless otherwise indicated, the returns are presented before management and administration fees. They include the return on cash and cash equivalents and take into account the foreign exchange hedging policy.*
2. *Totals may vary due to the rounding of figures.*
3. *In order to facilitate the comprehension of certain financial terms, please consult the Glossary at page 85.*

Breakdown of total assets under management by CDP Capital
The net assets under management by CDP Capital ($99.9 B) consist of depositors' holdings ($77.7 B) entrusted to it by the Caisse de dépôt et placement du Québec and clients' holdings ($22.2 B).

In its management of depositors' net assets ($77.7 B), CDP Capital contracts liabilities ($29.7 B). These liabilities enable it to increase depositors' assets by the same amount to constitute total (gross) assets ($107.4 B). As for clients' net assets ($22.2 B), they consist of assets under management ($8.4 B) and assets under administration ($13.8 B).

The total (gross) assets under management by CDP Capital consist of depositors' total assets and clients' net assets.

Figure 1.3
Total assets under management



Assets under management:	Assets that belong to partners or clients of CDP Capital and is managed by CDP Capital or by a subsidiary or an affiliate of the Caisse. The management teams receive fees in consideration for services rendered. Also referred to herein as "property under management".
Assets under administration:	Assets which the subsidiaries of the Caisse provide administrative services on behalf of the clients that own such assets. The subsidiaries that administer such assets receive compensation in the form of fees. Also referred to herein as "property administered".
Liabilities:	Liabilities related mainly to investments such as mortgage loans, security buyback agreements and short selling of stocks.

The Caisse's depositors
The Régie des rentes du Québec was the first depositor of the Caisse de dépôt et placement du Québec. Over the years, close to 20 institutions have joined the institution, which now accounts for 21% of the depositors' holdings.

As at December 31, 2002, the list of the Caisse's depositors included mainly pension funds and insurance plans, but also public bodies such as the Office de protection du consommateur and the Commission des valeurs mobilières du Québec.

Table 1.4
The Caisse's depositors
fair value as at December 31 – in millions of dollars

	Symbol	First deposit	Number of participants[1]	2002 $	2002 %	Depositors' holdings 2001 $	Depositors' holdings 2001 %
PUBLIC PENSION PLANS							
Régie des rentes du Québec	RRQ						
Fonds du Régime de rentes du Québec		1966	3,852,100	16,329	21.0	17,850	20.9
Commission de la construction du Québec	CCQ						
Supplemental Pension Plan for Employees of the Quebec Construction Industry		1970	100,982	6,729	8.7	7,492	8.8
Commission administrative des régimes de retraite et d'assurances	CARRA						
Government and Public Employees Retirement Plan	RREGOP	1973	470,000	27,168	35.0	29,978	35.2
Pension Plan for Management	RRPE	1973	23,500	4,214	5.4	4,564	5.3
Individual Plans		1977	300	164	0.2	185	0.2
Pension Plan for Elected Municipal Officers		1989	1,800	100	0.1	196	0.2
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	RRTAQ	1990	3,759	127	0.2	126	0.2
Fonds d'amortissement des régimes de retraite	FARR	1994	1	9,510	12.2	9,002	10.6
INSURANCE PLANS							
Régie des marchés agricoles et alimentaires du Québec	RMAAQ						
Fonds d'assurance-garantie		1967	76	4	–	4	–
La Financière agricole du Québec[2]		1968	20,752	112	0.2	190	0.2
Régie de l'assurance-dépôts du Québec		1969	715	268	0.4	239	0.3
Commission de la santé et de la sécurité du travail	CSST	1973	182,028	6,709	8.6	8,080	9.5
Société de l'assurance automobile du Québec	SAAQ	1978	4,741,042	5,916	7.6	6,968	8.2
La Fédération des producteurs de bovins du Québec		1989	22,784	2	–	2	–
Régime de rentes de survivants		1997	1	301	0.4	351	0.4
Office des producteurs de tabac jaune du Québec							
Fonds de garantie des producteurs de tabac jaune du Québec		2001	56	–	–	–	–
OTHER DEPOSITORS							
Office de la protection du consommateur	OPC	1992	1,032	3	–	6	–
Magazine *Protégez-Vous*		1994	1	2	–	2	–
Société des alcools du Québec[3]	SAQ	1994	–	–	–	–	–
Commission des valeurs mobilières du Québec[3]	CVMQ	1998	–	24	–	38	–
TOTAL				**77,682**	**100.0**	**85,273**	**100.0**

[1] Estimation

[2] Formerly la Régie des assurances agricoles du Québec; includes Fonds d'assurance-prêts agricoles et forestiers du Québec.

[3] These depositors solely use the Caisse's cash management services.

Message from the Chairman and Chief Executive Officer

This is the first Annual Report of the Caisse de dépôt et placement du Québec that I have the honour of presenting as Chairman and Chief Executive Officer. I accepted this position during a difficult period for the global economy. The Caisse's results are clearly a reflection of this situation, although the economic climate is not the sole contributor.

I would like to present our overall results and sketch a broad outline of the action plan approved by the Board of Directors, which senior management has begun to implement to ensure that our future fully benefits from our past experience and that the exceptional talent of our people is used at full capacity.

The Caisse de dépôt et placement du Québec has reached a turning point in its history. Created 37 years ago to manage the funds of the Québec Pension Plan, which at the time was its only depositor, the Caisse has since enjoyed phenomenal growth, with net assets rising from $178 million in 1966 to $77.7 billion at the end of 2002. It has diversified to become one of Canada's largest asset managers, and now has 20 depositors, including eight public or private pension funds and eight insurance plans.

Until 1999, this extraordinary growth was also accompanied by acceptable absolute and relative returns. Moreover, the Caisse had recorded only five negative returns in 35 years of operation. The Caisse became not only one of the largest pools of capital in North America but also one of the financial sector's major concentrations of professional talent. However, the financial performance of the Caisse in 2001 (-4.99%) and in 2002 (-9.57%) was well below benchmark indexes and far below depositors' expectations. What happened?

In hindsight, we can identify the causes of the especially disappointing results recorded in 2002. An analysis of the results of the past five years shows that the outperformance and underperformance recorded during this period are due mainly to one phenomenon: overweighting and concentrating the Caisse's portfolio in a certain number of technology, media and telecommunications (TMT) stocks, including Quebecor Media. The remarkable performance of the Caisse in 1998 and 1999, as well as the underperformance of the past two years, are due to the fact that the Caisse, like many other financial institutions, was involved in the speculative bubble that inflated TMT valuations in the last years of the twentieth century. The Caisse however stands out because of the timing, volume and nature of its investments in this sector. This combination of factors accentuated the negative impact of the "bubble burst" on the Caisse's returns in 2001 and 2002.

In addition, during the 1990s, the Caisse was not able to take full advantage of constantly rising stock markets because a provision in its incorporating act limited the equity portfolio to 40% of its assets. Then, in December 1997, a legislative amendment permitted the Caisse to invest up to 70% of its portfolio in equities. From that point on, the Caisse increased its equity investments, placing special emphasis on private equity in the TMT sector. The Caisse gradually acquired a substantial position in this asset class, including several illiquid investments.

Without this phenomenon, the Caisse's overall return would have been lower by 0.3% in 1998 and 1999, but it would have been higher by 0.9% in 2000, 1.1% in 2001 and 3.3% in 2002. In other words, in the last three years, the Caisse paid the price of a strategy that had generated excellent results in previous years.

The negative return recorded by the Caisse in 2002 is also due to a second phenomenon: the negative results from centralized asset management, which during the last few years, superceded independent asset management by specialized teams. These activities alone subtracted 0.64% from the overall return of the global portfolio.

Overweighting TMT and centralized asset management have most definitely overshadowed good performance by the Caisse's teams of managers, several of which outperformed their benchmark indexes in 2002. Without the cumulative impact of these two phenomena, the Caisse's overall return would have been -5.65% in 2002, which is comparable to the return on its benchmark portfolio. Over five years, the managers' average added value would have risen to 0.8%.

Performance and accountability

Like all institutions that were hit when the technology bubble burst, the Caisse has learned several lessons from these events. In connection with a corporate appraisal which began in the fall of 2002, the Board of Directors and senior management have made a number of decisions relating to risk management, the proportion of private equity investments in the portfolio as well as the importance of TMT sector investments.

First, we have given responsibility for all asset management activities to the specialized asset management teams, including those that are centralized. Since that decision, transactions are now initiated by investment professionals who are accountable for their results and for respecting the levels of risk attributed to them. With the appointment of an Executive Vice-President, Risk Management and Depositors' Accounts Management, integrated risk management is now monitored by a new management committee, which is itself overseen by a new committee of the Board of Directors. Finally, the enhancement of the value of investments in the telecommunications sector is now the priority for CDP Capital – Communications.

In addition, the restructuring and refocusing announced in December 2002 also involved personnel cutbacks and the closing of several of the Caisse's foreign offices. It should be noted that, since 1998, major investments were deployed to develop new business at a sustained rate, such as the opening of several international business offices to promote investment and to solicit an institutional investor clientele searching for third-party asset management services. There was every hope of success in this area until the technology bubble burst in 2000. It gœs without saying that business development will continue but at a more gradual pace, in line with a business model adapted to the realities of the economy and the markets.

Beyond these measures, a great deal remains to be done. The main priority in 2003 will be to harmonize the fund management process with each of the depositors' specific needs; the Caisse will enter into a service agreement with each of them, that will set out the institution's roles and responsibilities as well as those of the depositor's investment committees; moreover, new performance parameters will be established. And, finally, private equity will become a separate asset class, with its own return objectives and risk limits.

Transparency and reporting

An organization's degree of transparency depends on its reporting policy. In the year to come, the Caisse will complete the development of a reporting policy covering its business processes, management rules and results that will be based on the world's best practices. For example, the Caisse has for several years based itself on the standards published by AIMR® (Association for Investment Management and Research) when reporting results to depositors. In 2002, the Caisse took another step forward by complying with the Canadian and U.S. version of the Global Investment Performance Standards (GIPS®) in its annual report. This version is based on the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®).

This being said, the new transparency and reporting objectives will not be achieved fully until the revision of the *Act respecting the Caisse de dépôt et placement du Québec* is completed. A first step in this direction was taken when the Québec government announced on December 16, 2002, that a parliamentary committee would examine this matter.

In September 2002, the Caisse's Board of Directors had already given the Human Resources, Ethics and Corporate Governance Committee a mandate to examine current corporate governance trends, in order to recommend changes, including modifications to the institution's incorporating act. The Committee's report was submitted to the Board and adopted in February 2003. It forms the cornerstone of the Caisse's recommendations on amendments to be made to the Act. At the same time, the Board gave the Committee a mandate to review the Caisse's internal corporate governance guidelines, especially such matters as socially responsible investment and the exercise of voting rights. The Caisse already abides by the main principles of socially responsible investment. Recent developments in this area have, however, necessitated further reflection. The Board's Committee will make recommendations based on the work of the investment committees of each depositor, which should be completed in 2003.

The Caisse of the future

In 1965, the government of Jean Lesage took an extraordinary initiative when it decided to create a partially capitalized universal pension plan with the Caisse de dépôt et placement du Québec as manager of its assets. In doing so, it provided Québec with a large pool of capital that many depositors have joined over the years. While rigorously pursuing its objective of obtaining a superior performance for depositors, the Caisse has undeniably contributed to the economic development of modern Québec.

Today, the founders' vision is still relevant, and in these difficult times it is imperative that we continue to draw inspiration from it. But because Québec and the markets have changed considerably since the 1960s, the Caisse must also change. In this spirit, over the last few months the Caisse's Board of Directors, senior management, employees and partners have begun to review the mission of the Caisse de dépôt et placement du Québec, which is to manage depositors' collective holdings while seeking to preserve their capital and earn a return that reflects their risk tolerance. With this objective in mind, the Caisse continues to contribute to Québec's economic development.

In conclusion, as Chairman and Chief Executive Officer, I would like to express my sincere thanks to all employees of the Caisse. Not only have they demonstrated exemplary skills and dedication during this pivotal year, but they have also shown unwavering loyalty and willingness to do what it takes to further their organization. I would like to express my gratitude for the contribution made by those employees who left the Caisse as a result of the restructuring announced in December 2002. Thanks are also due to the members of the boards of directors of the subsidiaries that were merged at that time.

Finally, I would like to emphasize the work of the members of the Board of Directors. Since my appointment to the helm of the Caisse, their commitment and support have been central to undertaking the changes that will lay the groundwork for success in the years ahead.

Henri-Paul Rousseau
Chairman and Chief Executive Officer

Economic Context – 2002 in Review

Investors had another trying year in 2002. The global economy barely improved after the recession in 2001, while the most severe stock market correction since the Great Depression continued for the third straight year. This unusually widespread phenomenon decimated the savings of millions of people around the world, lowered pension fund returns and severely disrupted the asset management industry. Accounting scandals, major bankruptcies and geopolitical tensions added to an environment already hostile to investment.

A hesitant global recovery

At the beginning of 2002, investors were hoping that a strong global economic recovery and an earnings rebound would invigorate the stock market. Although the first half saw an upturn, especially in the United States and the Euro Zone, the fundamentals again deteriorated and the forecasts for 2002 and 2003 were revised downward. Excess global supply in the wake of the overinvestment bubble of the late 1990s and weak profits hindered the recovery. Only household spending sustained global growth. High levels of consumer debt, however, raised fears that consumer spending would slow down and the economy would slide once again. Moreover, the spectre of deflation caused serious concern among monetary authorities and certain governments.

Table 3.1

Principal economic indicators in major industrialized countries

in percentage

	GDP		Consumer expenses		Corporate investments		Inflation		Unemployment	
	2001	2002e	2001	2002e	2001	2002e	2001	2002	2001	2002
Canada	1.5	3.3	2.6	2.6	–2.2	–1.7	2.5	2.2	7.2	7.6
Québec	1.1	3.6	2.3	2.7	–7.5	–3.3	2.4	2.2	8.7	8.6
United States	0.3	2.4	2.5	3.1	–5.2	–5.8	2.8	1.6	4.8	5.8
Euro Zone	1.4	0.8	1.8	0.6	–0.7	–2.8	2.5	2.2	8.0	8.4
Germany	0.6	0.2	1.5	–0.5	–5.8	–8.7	2.5	1.3	9.4	9.8
France	1.8	1.0	2.7	1.8	3.3	–0.8	1.6	2.0	8.7	9.0
Japan	0.3	–0.3	1.8	1.3	0.2	–6.5	–0.7	–0.9	5.0	5.4
United Kingdom	2.0	1.7	3.8	3.6	0.8	–4.7	2.1	2.2	3.2	3.1

Sources: Economic and competitive analysis, Consensus Economics, Datastream, Institut de la Statistique du Québec
e: estimate by Consensus Economics, CDP Capital for Québec indicators

North America

United States

The U.S. economy has been sorely tested over the past two years. Despite terrorist attacks, collapsing equity markets and financial scandals, the recession of 2001 was mild, and the U.S. economy rapidly resumed growing in 2002. U.S. households played a key role. Taking advantage of substantial income tax cuts and very low interest rates, consumers made massive use of credit to fund their spending. But the demand they generated was not enough to revive corporate earnings and capital spending.

Concerned about the lacklustre economic recovery and flagging consumer spending toward year-end, the Federal Reserve cut its prime rate 0.5% to 1.25%. This first move in 12 months brought to 5.25% the total reduction in the prime rate since January 2001. Pressure was also strong on the U.S. government to stimulate growth over the short term with new measures. The results of the mid-term elections, which gave the Republicans a majority in Congress, opened the door to adopting tax incentives for 2003.

Canada

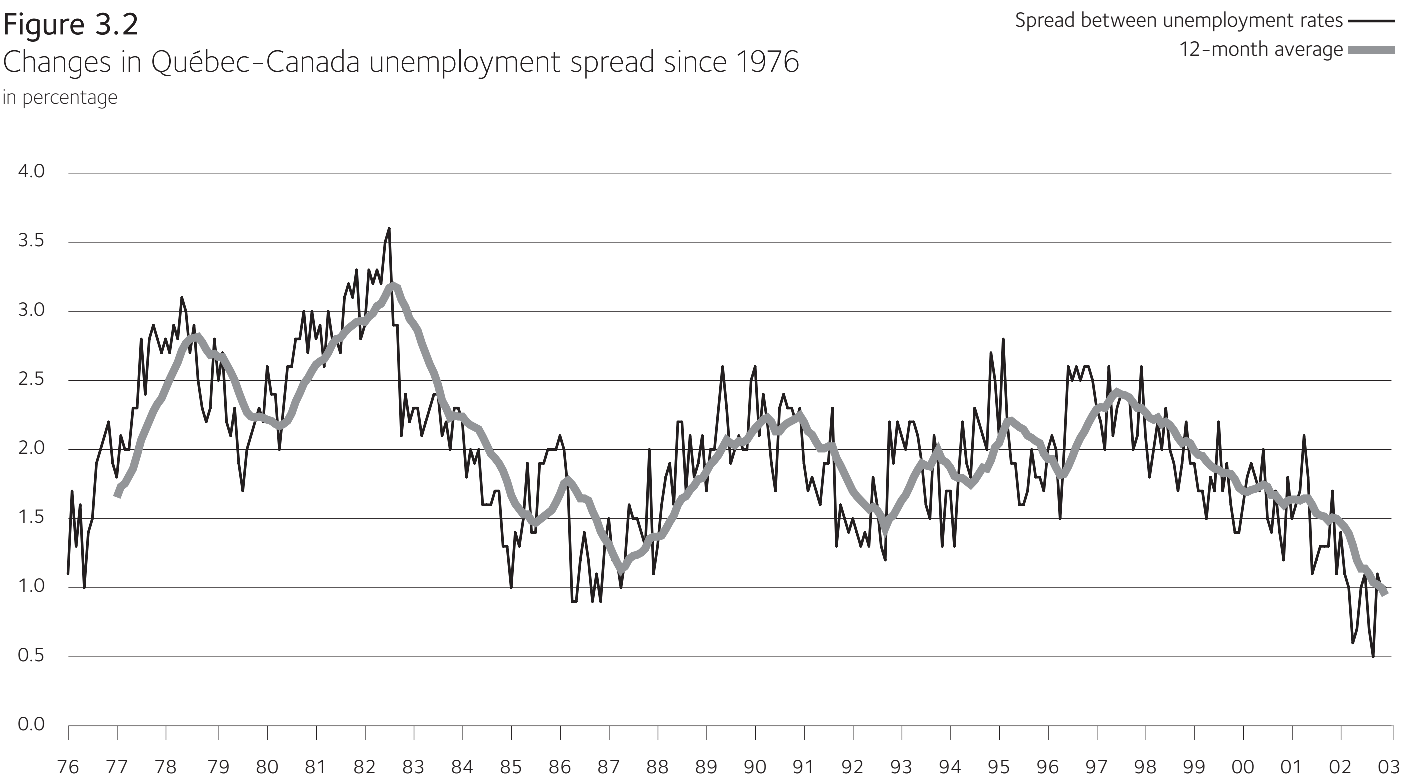
In Canada, growth was strong despite weak U.S. demand, falling commodity prices, the softwood lumber tax, the depressed TMT (technology, media and telecommunications) sector and the recession in the aeronautics sector. The manufacturing sector recovered rapidly from the 2001 recession, job creation reached record levels and revenue growth was strong. A lighter tax burden for households, a solid employment rate and low interest rates sustained consumer demand. The Bank of Canada was initially concerned with inflation, but later in the year the deteriorating global economy and geopolitical tensions took precedence. After raising its prime rate by 0.5% in the spring and by 0.25% in the summer, the Bank of Canada opted for a cautious approach and suspended its rate increases. Weaker consumer spending in the second half proved the Bank was right.

Québec

Québec had a strong year in 2002, especially in terms of job creation. Its economy generated more than 166,000 jobs during the year, or almost 30% of Canada's employment gains. This outstanding performance narrowed the unemployment gap between Québec and Canada to a historical minimum of less than 1%.

Québec's estimated GDP growth for 2002 is 3.5%, versus 3.3% for Canada. This strength is due mainly to strong consumer spending, especially on housing, while the export sector suffered from weak U.S. demand and the difficult situation in the aeronautics, TMT and lumber sectors.

Figure 3.2
Changes in Québec-Canada unemployment spread since 1976
in percentage



Sources: Economic and competitive analysis, Datastream

Europe
In the Euro Zone, the recovery that began in the first half quickly ran out of steam. Germany's economic performance slowed down due to structural difficulties and rising unemployment. France almost single-handedly sustained growth in the zone but faltered in the second half.

Despite the economy's obvious weakness and criticism from various governments, the European Central Bank was slow to ease monetary policy. Moreover, the Stability and Growth Pact signed by the European countries has become a heavy burden. The Pact's rigid criteria limit the ability of governments to stimulate short-term demand, for instance with tax measures. In that vein, at the risk of incurring sanctions, France, Germany and Italy will in all likelihood exceed the 3% ceiling on public deficits stipulated in the Pact.

Asia
Japan's economy remained weak in 2002. Its growth was almost entirely export-driven, as domestic demand remained lethargic. The Japanese banking system's persistent difficulties are preventing the stimulative measures taken by the monetary authorities from having an impact on the real economy. Once again, the wait for major structural reforms from Japan's government was in vain.

The rest of Asia fared much better. Exports and domestic demand performed well, especially in South Korea and China, but deflation persisted in certain countries (China, Hong Kong, Taiwan and Singapore). China's admission to the World Trade Organization (WTO) has increased these concerns.

Financial markets

Bonds

A hostile environment increased investors' risk aversion in 2002. This situation was very beneficial to the long-term government bond market. Total returns on government bonds maturing in 10 years or more far exceeded returns on equities for the third straight year, at 17.2% in the United States, 15.1% in the Euro Zone and 11.1% in Canada. In the United States, return on these bonds outperformed stocks by 30% in 2000, 16% in 2001 and close to 40% in 2002. For the five-year period ended in 2002, the cumulative total return on these bonds exceeded the *S&P 500* index by 56% in local currency. Still, the cumulative total return on U.S. equities over 10 years (1993-2002) is superior to that of government bonds maturing in more than one year, with an excess yield of about 25%. In Canada, over the same 10-year period, government bonds maturing in 10 years or more offered a better cumulated return than the stock market by 26.2%.

Sharply lower interest rates were beneficial to the global economy in 2002. Between the peak in April and the bottom in October, interest rates on U.S. 10-year bonds fell almost 2% to their lowest level since the 1960s. Elsewhere in the world, the interest rate cuts were smaller, but significant and stimulative nevertheless.

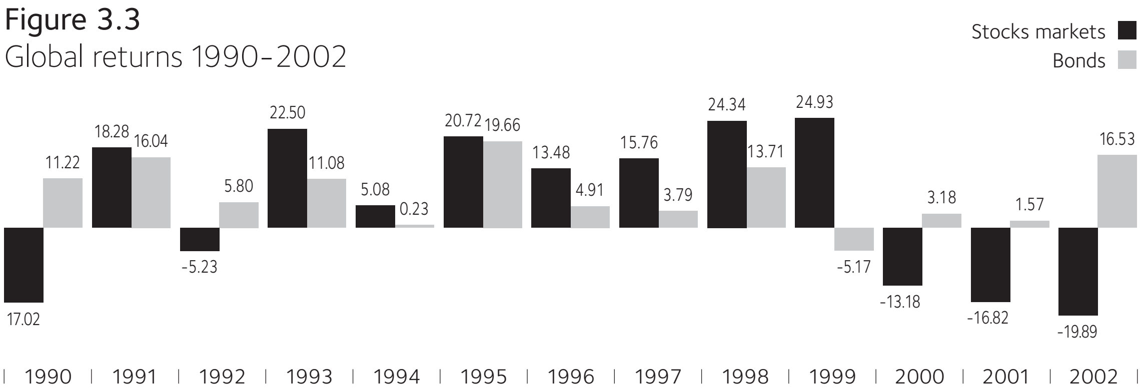
Equities

The correction of one of the biggest financial bubbles in history continued in 2002, as the world's stock markets fell for the third straight year, not seen since the Great Depression. As in 2000 and 2001, poor returns in the technology and telecommunications sectors, where most of the speculative bubble was concentrated, dragged the markets down. These sectors are responsible for 31% of the decline of the *MSCI World Index (Morgan Stanley Capital International)* in 2002 and almost 70% of the stock market correction from the peak in 2000 until the end of 2002.

In addition to the stock market correction, these sectors also continued to suffer from substantial excess production capacity in the wake of overinvestment in the late 1990s, especially in telecommunications. The sector was also battered by major bankruptcies in 2002, including WorldCom, Global Crossing, Williams and Canada's 360networks.

Even without technology and telecommunications, the stock market return was decidedly negative at -16.7%, versus -20.7% for the broader *MSCI World Index*. The relative returns in the energy, materials and automobile sectors were less depressed. The highlight of 2002 was undoubtedly the excellent relative return provided by the banks, despite bad debt arising from economic difficulties. Strong demand for consumer credit offset weaker activity in industry and trade. Unlike the 1920s, it was the stock market, and not the banks, that directly financed the speculative bubble. Finally, the dividends generally paid by banks made them attractive income generating securities in the turmoil of 2002.

Figure 3.3
Global returns 1990-2002



Sources: Economic and competitive analysis, MSCI World, Lehman Brothers

Outlook

Governments and central banks face many challenges in 2003. Political, economic and monetary policies must be coordinated in order to stimulate global demand and prevent deflation. For investors, 2003 could be another extremely turbulent year. The climate will remain difficult for companies trying to cope with slim profit margins, high levels of debt, substantial excess in production capacity and severely under-capitalized pension funds. One of the main risks continues to be a possible drop in consumer spending owing to high debt levels and increased savings rates. Moreover, geopolitical tensions, in addition to putting pressure on the price of oil, will no doubt continue to undermine investor confidence and business spending. Finally, certain valuation measures suggest that stocks are still overvalued and that the correction of the excesses of the speculative bubble is not over.

It is widely recognized, however, that sustained productivity growth is an important positive structural component, especially for a revival of corporate earnings. Strong productivity performance, especially in the United States, will no doubt help boost earnings as soon as global demand firms up. But, it is also possible that this eventual increase in earnings has been anticipated by investors and is already priced into stock market valuations.

Figure 3.4
S&P 500 Index – 1996-2002

Sources: Economic and competitive analysis, Datastream

The technology bubble of 1995-2000

The stock market bubble of the late 1990s was the result of an industrial revolution sparked by a wave of major technological advances, such as the Internet and digital communication. This revolution generated tremendous demand from businesses and consumers for computers, cellular phones and other communication equipment. Industry and investors believed this demand was insatiable. Equipment rapidly became outdated as innovations proliferated. The Y2K transition further stimulated demand.

Investors rushed to finance massive corporate technology spending. A flurry of technology manufacturing and services companies were created during this TMT (technology, media and telecommunications) gold rush. The phenomenon rapidly inflated the value of companies and technologies, despite non-existent profits. Encouraged by windfall returns and the longest postwar period of prosperity, professional investors and the general public believed in a new era, ignoring all warning signs and notions of risk.

The stock market went crazy over TMT issues and spiralled upward. The speculative frenzy peaked early in 2000: the *S&P 500* index was three times higher than in 1995 and the NASDAQ, where technology stocks are concentrated, had more than quintupled. Capital was pouring into these companies.

The exuberance prompted massive overinvestment by businesses and led to plummeting profits, a recession and the worst stock market correction since the Great Depression. Technology and telecommunications stocks, whose relative weight in the indexes became excessive, lost an average of 80% of their value while the broader stock market indexes plummeted by almost 50%.

Management of Depositors' Holdings

A customized investment policy

The primary mission of the Caisse de dépôt et placement du Québec is to manage the assets entrusted to it by its depositors. The depositors are public and private pension funds, insurance plans and various funds that must invest the monies paid by their contributors to meet future needs, such as payment of pensions or workers' compensation.

With the expertise of investment professionals at the Caisse, an investment policy is established for each depositor. Usually for a three year period, the policy determines the depositor's plan and its characteristics, a benchmark portfolio, benchmark indexes for each asset class in the portfolio and the added value expected as a result of the management of CDP Capital, the Caisse's asset manager.

Asset classes and benchmark portfolio

To be able to meet their obligations to contributors, most depositors establish long-term return hypotheses. Using actuarial data provided by the depositor, the Caisse evaluates the risks and returns of various asset mix scenarios.

Each scenario reflects not only an expected return but also an "absolute" risk that is directly dependent on the relative importance of each asset class selected. For example, a depositor with a higher proportion of equities in its portfolio can expect a higher return over the long term, even if certain stocks drop in value at times, whereas a greater proportion of fixed-income securities guarantees income at all times, but with the expectation of a lower return.

The depositor and the Caisse agree on the most appropriate asset allocation strategy in terms of risk and return. A benchmark index recognized by the market is associated with each class (for instance, the *Scotia Capital Universe* Index for bonds). The asset mix combined with the benchmark indexes form the depositor's "benchmark portfolio."

The return on a depositor's benchmark portfolio corresponds to the return on the benchmark indexes for the asset classes in the portfolio, in proportion to their weighting in the portfolio.

Table 4.1
Theoretical benchmark portfolio

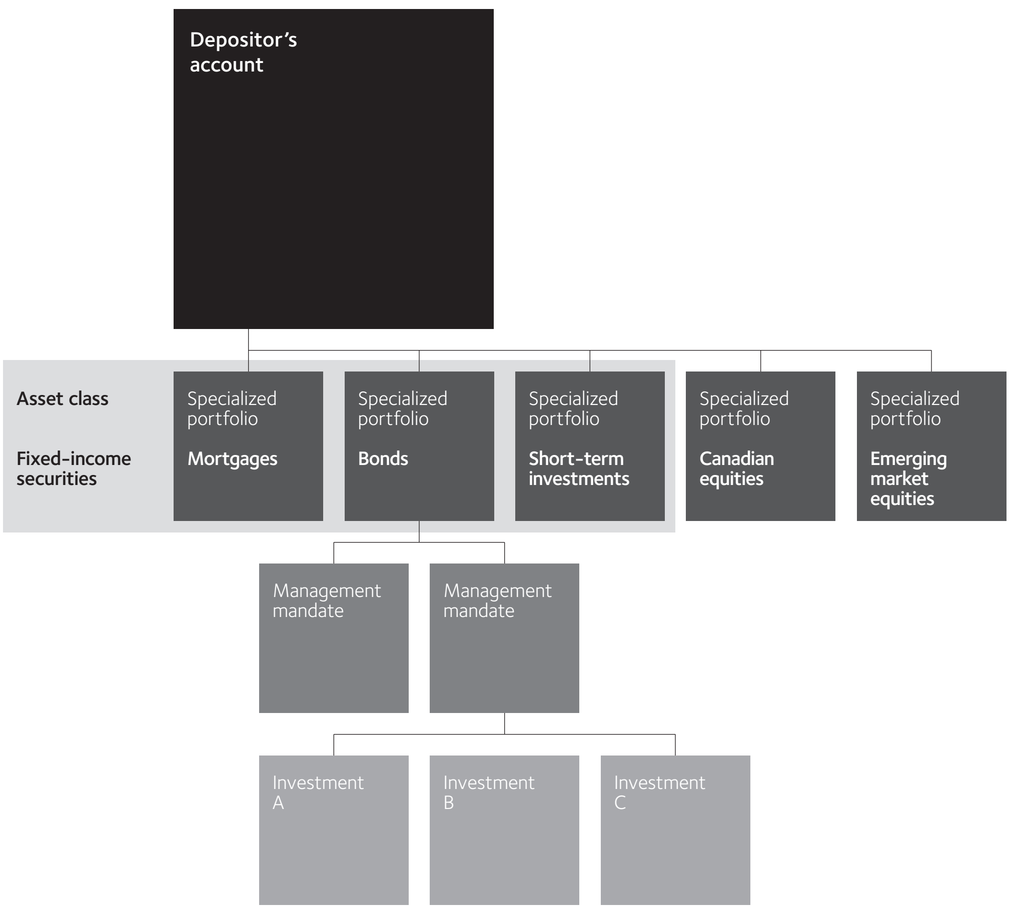
	Benchmark portfolio			
Asset class	Lower limit %	Benchmark portfolio %	Upper limit %	Benchmark index
Fixed-income securities				
Short-term investments	0	5	15	*SC T-Bills 91 days*
Bonds and mortgages	25	35	50	*SC Universe*
Total fixed-income securities	**25**	**40**	**65**	
Variable-income securities				
Canadian equities	15	25	35	*S&P/TSX capped*
U.S. equities	10	15	25	*S&P 500*
Foreign equities	5	10	20	*MSCI EAFE+EMF*
Québec International	0	5	10	*Caisse Québec International*
Sub-total equities	–	55	–	
Real estate	5	5	10	*AON Real estate*
Total variable-income securities	**35**	**60**	**75**	

Specialized portfolios
Each asset class consists of one or more “specialized portfolios.”

A specialized portfolio is comparable to a mutual fund. It consists of investments with common characteristics: nature of product, currency, market tendencies, etc. Each specialized portfolio is assigned to a team of managers and analysts who normally divide it into smaller portfolios called “management mandates”. These management mandates are in turn given to specific in-house or external managers.

Each specialized portfolio and management mandate corresponds to a benchmark index as well as an “active risk” limit, defined in the following pages.

Figure 4.2
Sample of a breakdown of a depositor’s holdings by specialized portfolio



Active management and associated risks

CDP Capital, the Caisse's fund manager, strives to out-perform the return on the depositors' benchmark portfolios in three principal ways.

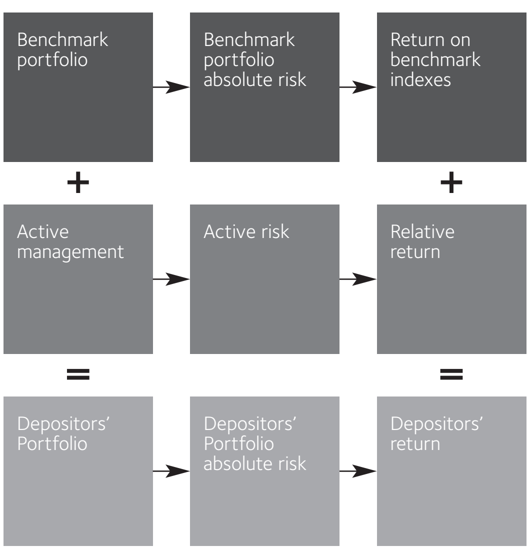
First, CDP Capital may decide to modify the allocation among the various asset classes (stocks, bonds, etc.), while staying within the minimum and maximum limits determined when the benchmark portfolio was created.

Second, the portfolio managers may invest in securities and currencies in proportions that differ from those of the specialized portfolios' benchmark indexes.

Third, the manager may use financial leverage to increase the return on an investment by financing a portion of it with debt. These three ways to beat the index are referred to as "active management".

Unlike index management, which involves reproducing the exact breakdown of a given index, active portfolio management involves what is called active risk.[1] While risk is taken to generate a higher return than the benchmarks', the return may also be lower.

Figure 4.3
Active management and active risk



[1] *Forecast volatility of the manager's value added, generally measured on the basis of the manager's current positions, and the volatility and correlations of the return associated with these positions.*

The combination of "benchmark portfolio absolute risk" and "active risk" taken by CDP Capital and its managers is called the "Depositors' Portfolio Absolute Risk." Each of the three risks is measured periodically.

Performance evaluation

CDP Capital gives its managers two types of mandates: a relative return mandate, which applies in the majority of cases, and an absolute return mandate.

A relative return mandate requires the manager to beat a given index by a certain percentage (for example, outperform the *S&P 500* index by 1%), whereas an absolute return mandate requires a predetermined return (for example, 10%).

Evaluation of portfolio managers

A manager's success can be measured based on three methods: relative return, information ratio and comparison with other managers. The first involves comparing the manager's return with that of the index to determine the relative return.

The second method involves the information ratio. A manager's performance can be measured on the basis of risk assumed. It is preferable to have stable, rather than volatile, added value. The information ratio corresponds to the spread between the manager's return and the benchmark index return over the active risk assumed. It is an effective way to measure the stability of a manager's performance.

Example:

$$\frac{\text{Manager's return } 11\% - \text{Benchmark index return } 10\%}{\text{Active risk assumed } 2\%} = \frac{\text{Spread } 1\%}{\text{Active risk assumed } 2\%} = \textbf{Information ratio 0.5}$$

According to industry standards, a ratio greater than 0.5 over a five-year period is considered excellent. The manager succeeded in delivering a positive relative return in a stable manner during this period.

The third method is to compare the manager's performance to that of other managers with similar mandates. This method is used to classify managers according to returns obtained over the short, medium and long terms (one year, five years and 10 years).

Performance Analysis

Portfolio changes
The benchmark portfolio of the Caisse de dépôt et placement du Québec reflects the investment policies of its depositors. It serves as a point of reference for the Caisse's managers. The benchmark portfolio's parameters have an important impact on returns.

Table 5.1 shows the composition of the Caisse's benchmark portfolio as at December 31, 2002, as well as the effective allocation of the Depositors' Portfolio as at December 31, 2001 and 2002. It should be noted that the proportion of equities and fixed-income securities is stable: despite lower stock prices, periodic rebalancing maintained equities within established limits. However, the proportion of real estate rose slightly above its maximum limit in 2002, essentially because of a declining stock market. The less liquid nature of this type of investment precluded a rapid rebalancing of the portfolios.

To add value in relation to the benchmark indexes, the Caisse's portfolio managers have three means at their disposal: asset allocation, security and currency selection, and financial leverage.

Each spread in the Depositors' Portfolio in relation to the benchmark portfolio and its indexes involves a measurable active risk. The following sections present the changing returns and active risk for the Depositors' Portfolio.

Returns
Over the past five years, the return on depositors' holdings has fluctuated significantly. The setbacks of 2001 and 2002 followed three years of significant gains.

Table 5.1
Benchmark portfolio and changes in Depositors' Portfolio
based on fair value

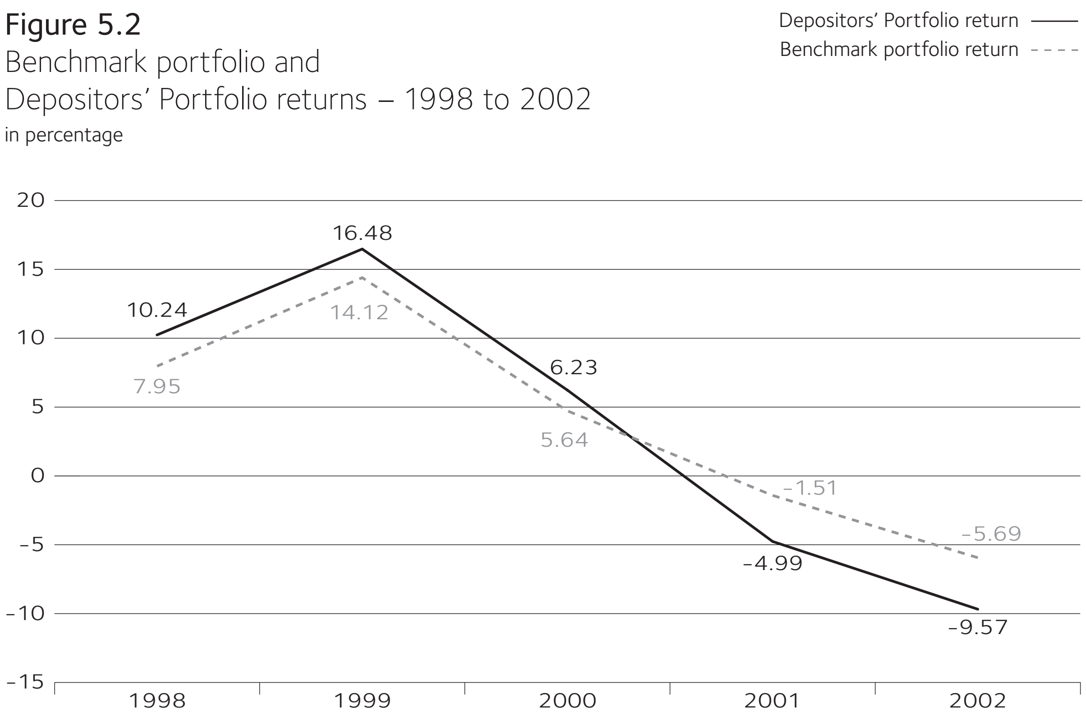
	Benchmark portfolio			Actual breakdown of Depositors' Portfolio	
Asset class	**Lower limit %**	**Benchmark portfolio %**	**Upper limit %**	**2001 %**	**2002 %**
Short-term investments	0.2	3.2	18.2	2.4	2.1
Bonds and mortgages	26.6	35.8	48.3	34.4	34.0
Total fixed-income securities	**–**	**39.0**	**–**	**36.8**	**36.1**
Canadian equities	16.0	25.5	38.1	24.2	25.2
U.S. equities	3.7	9.7	16.5	9.8	9.4
Foreign equities	6.9	12.3	19.6	12.2	12.2
Québec International	1.7	6.5	11.8	6.5	6.6
Subtotal – equities	–	53.9	–	52.6	53.5
Real estate	4.3	7.1	10.1	8.9	10.3
Diversified, strategic and tactical investments	–	–	–	1.7	0.3
Total variable-income securities	**–**	**61.0**	**–**	**63.2**	**64.1**

Note: The benchmark portfolio as well as the upper and lower limits result from the weighted average of the benchmark portfolios for all depositors. The figures include fixed-income investments and the holdings of private equity subsidiaries.

NOTES:

1. *Unless otherwise indicated, returns are presented before management and administration fees. They include the return on cash and cash equivalents and take into account the foreign exchange hedging policy.*
2. *Net assets listed in the tables reflect the net assets in the financial statements, adjusted to take into account financial reporting requirements.*
3. *Totals may vary due to the rounding of figures.*

Figure 5.2
Benchmark portfolio and
Depositors' Portfolio returns – 1998 to 2002
in percentage



The annual return on the benchmark portfolio is the return that the portfolio would have recorded with index management alone. The annual return on the Depositors' Portfolio is the return obtained as a result of active management of investments. The spread between these two returns is the value added or subtracted by Caisse management.

The reversal in the spreads between the two portfolios, in 2001 and 2002, stems mainly from two causes:

1. Impact of overweighting the TMT sector
The bursting of the speculative bubble in the technology, media and telecommunications (TMT) sector highlighted the considerable active risk related to overweighting this sector in the Depositors' Portfolio, especially the decision to concentrate a substantial amount of capital in a limited number of securities. This risk concentration resulted in substantial losses of value in relation to the benchmark index. Investments in a number of large communications companies, including Quebecor Media, resulted in $2.8 B of lost value in 2002, which subtracted 3.28% from the relative return on the Depositors' Portfolio in 2002 and 1.04% over the past five years.

2. Impact of centralized investment operations
Centralized asset management operations, superimposed over independent management by specialized investment teams, yielded negative results, subtracting 0.64% from the relative return on the Depositors' Portfolio in 2002 and 0.40% over the past five years.

Table 5.3

Depositors' Portfolio – Return analysis

as at December 31, 2002[1]

	1 year	5 years
Benchmark portfolio return	**–5.69**	**3.86**
– Impact of concentration in TMT sector[2]	–3.28	–1.04
– Impact of centralized investment operations	–0.64	–0.40
– Management teams' contribution	0.04	0.80
Impact of active management	**–3.88**	**–0.64**
Depositors' Portfolio return	**–9.57**	**3.23**

1 Returns were calculated based on holdings at the beginning of each period.

2 The concentration in TMTs was calculated by substituting a limited number of securities, including Quebecor Media, to the return the Caisse would have recorded if investments had been made according to the reference index of their asset categories.

The figures in table 5.3 demonstrate that, excluding these two factors, which are analyzed in the following pages, all the management teams would have outperformed their benchmark indexes by 0.80% over the past five years, and by 0.04% in 2002.

Active risk

In recent years, the Caisse has developed sophisticated systems to measure and analyze risk. These systems have been used to measure changes in the composition of the active risk that it was willing to assume in 2002 (figure 5.4).

As the following analysis shows, the concentration of capital in the TMT sector had a significant impact on the active risk profile of the Depositors' Portfolio.

The Caisse's total active risk peaked at the beginning of 2002 as a result of the substantial active risk related to the investment in Quebecor Media and Canadian equities.

During the year, the drop in the value of the TMT sector reduced the total active risk, as this risk materialized into a loss of value.

As at December 31, 2002, active risk due to asset allocation was significant and principally reflected the spreads between the proportions of fixed-income securities and real estate in the Depositors' Portfolio in relation to the benchmark portfolio. The use of debt to finance real estate became as great a source of risk as the investment in Canadian equities.

Figure 5.4

Active risk accumulated in Depositors' Portfolio

in percentage

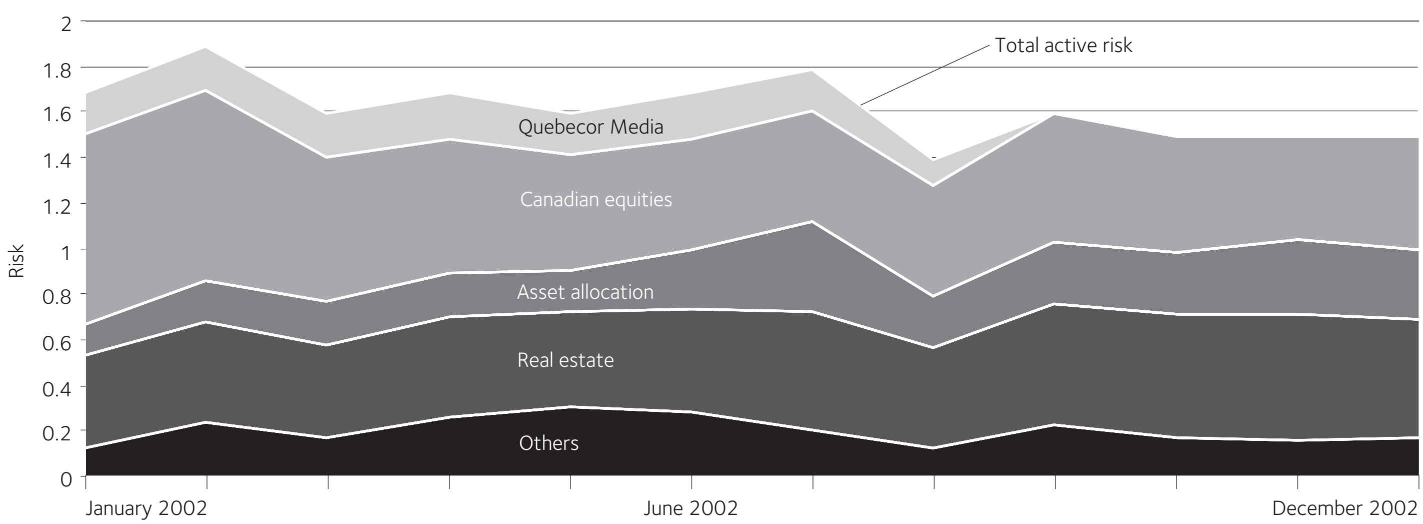
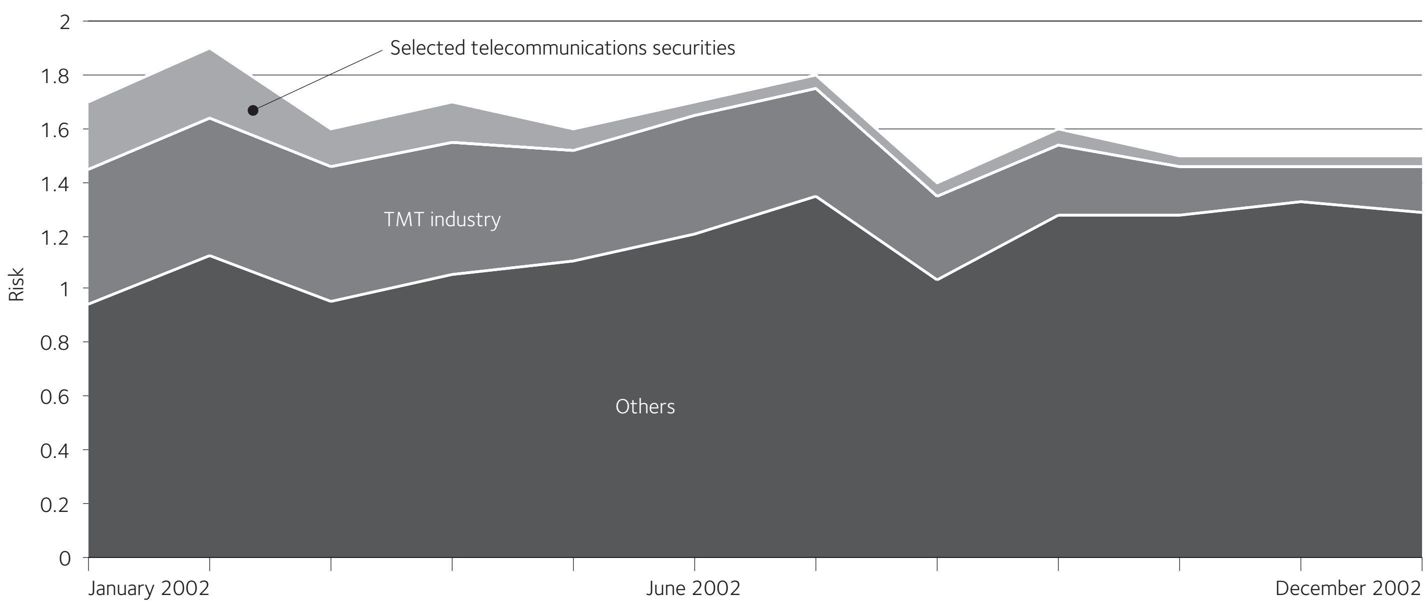


Figure 5.5 demonstrates that, at the beginning of 2002, the over-weighting of the TMT sector and the concentration of investments in a limited number of securities in this sector represented 44% of the total active risk of the Depositors' Portfolio.

Figure 5.5
Active risk accumulated in Depositors' Portfolio – Contribution of TMT sector
in percentage



Negative results of centralized investment operations
The refocusing announced in December 2002 involved a major restructuring of centralized investment operations as well as the termination of several of them. These operations, which were superimposed over the specialized management teams, included strategic management of asset allocation as well as *ad hoc* opportunistic stock market investments outside the usual scope of management mandates.

Table 5.6
Impact of centralized investment operations on the Depositors' Portfolio
as at December 31, 2002

Centralized operations	1 year %	5 years %
Strategic management of asset allocation	-0.08	-0.08
Ad hoc mandates	-0.56	-0.32
Total	**-0.64**	**-0.40**

As table 5.6 shows, the centralized asset allocation operations as well as the *ad hoc* mandates were disappointing, as they removed 0.64% from the return on the Depositors' Portfolio in 2002 and 0.40% over five years.

Except for allocation among the main sectors (real estate, private equity and organized markets), the strategic asset allocation operations have been decentralized and placed under the responsibility of CDP Capital – World Markets. The *ad hoc* mandates were eliminated in the reorganization.

Refocusing and restructuring measures

When the refocusing of investment operations and the restructuring of administrative functions were announced on December 2, 2002, the Caisse's Board of Directors and senior management took a number of measures regarding risk management, the size of private equity in relation to other asset classes and the size of the investments in the TMT sector:

/ In September 2002, Caisse senior management gave the specialized management teams responsibility for all asset management activities, including centralized investment operations. Since then, the investment professionals have taken the initiative in all transactions and are responsible for the management of all investments. They are therefore held accountable for results as well as for compliance with the risk limits assigned to them.

/ The review of risk management processes and operations gave rise to the appointment of an Executive Vice-President, Risk Management and Depositors' Accounts Management. Risk Management is now overseen by a new management committee, the Depositor-Client Accounts Management and Integrated Risk Management Committee. The work of this Committee is overseen by the newly formed Risk Management Committee of the Board of Directors.

/ The private equity operations have been refocused and reorganized within three main subsidiaries, rather than seven. The Caisse has proposed to its depositors that private equity become a separate asset class from publicly traded equities, with its own return objective and risk limits. This change will be made in 2003.

/ Enhancement of the value of the telecommunications investments is now the priority for CDP Capital – Communications, which will focus on North America and Western Europe. To that effect, the entire investment in Quebecor Media has been part of the portfolio managed by CDP Capital – Communications since November 2002. A major part of this investment was previously accounted for in the Caisse's strategic portfolio.

Management mandates

For management of all specialized portfolios, the Caisse gives specific mandates to each of its specialized management teams, as illustrated in table 5.7. The Caisse's detailed return should therefore be analyzed by individual management team.

Table 5.7

Specialized management mandates – CDP Capital

as at December 31, 2002

	World Markets %	Private Equity %	Real Estate Group %
Short-term investments	2.1	–	–
Bonds	27.2	2.3	–
Mortgage financing	–	–	4.6
Canadian equities	16.8	8.5	–
U.S. equities	8.3	1.1	–
Foreign equities – EAFE	9.5	1.3	–
Foreign equities – emerging markets	1.1	0.4	–
Québec International	6.6	–	–
Real estate	–	–	10.3
Total	**71.6**	**13.6**	**14.9**

Note: in percentage of depositors' net assets

CDP Capital – World Markets

CDP Capital – World Markets managed 72% of depositors' net assets, or \$55 B, as at December 31, 2002. More than half of that amount is invested directly or indirectly in stock markets. 2002 was characterized by substantial declines in the indexes, especially in the information technology and telecommunications sectors, as illustrated in table 5.8.

Figure 5.8

World stock markets – Annual returns by sector

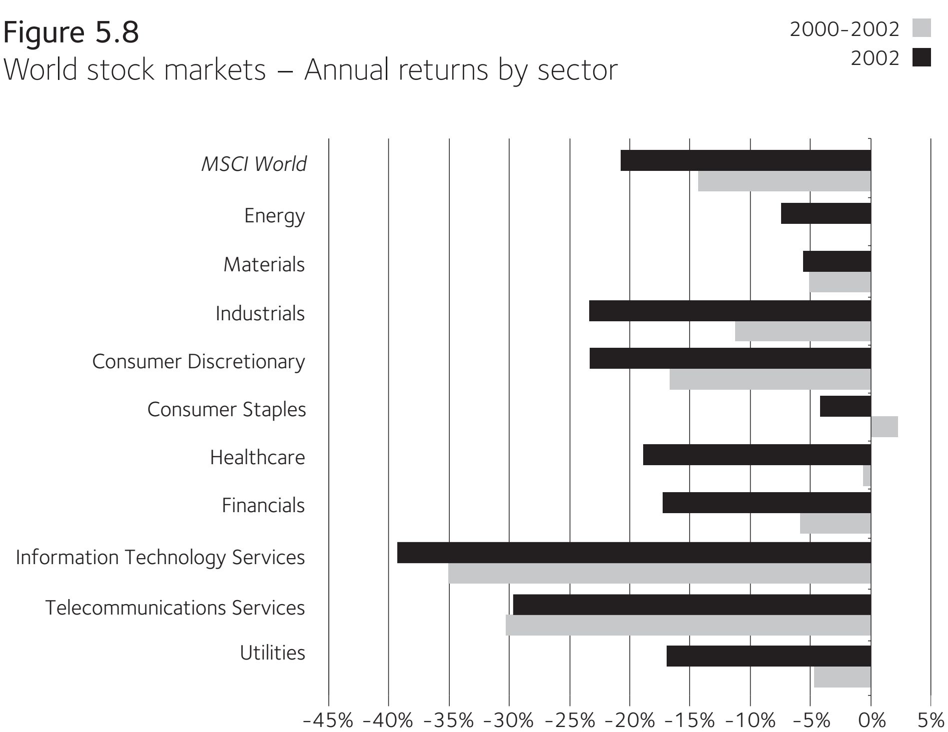


Table 5.9

Returns of CDP Capital – World Markets

as at December 31, 2002

Mandates	Net assets $M	1 year Return %	1 year Index %	1 year Spread %	5 years Return %	5 years Index %	5 years Spread %	5 years Information ratio* %	Benchmark indexes
Short-term investments	1,622	2.68	2.52	0.16	4.86	4.42	0.44	1.0	*SC – Canadian T-Bills (91 days)*
Bonds	21,038	9.80	8.73	1.07	7.55	6.94	0.62	0.7	*SC Universe*
Canadian equities	13,013	-12.17	-12.44	0.27	3.07	1.28	1.78	1.1	*S&P/TSX*
U.S. equities – active management	5,373	-23.97	-22.90	-1.06	3.67	1.40	2.27	0.5	*S&P 500 unhedged*[1]
U.S. equities – index management	1,079	-23.04	-22.90	-0.14	–	–	–	–	*S&P 500 unhedged*[1]
Foreign equities – EAFE	7,374	-17.99	-16.51	-1.48	-0.31	-0.94	0.63	0.3	*MSCI – EAFE unhedged*[2]
Foreign equities – emerging markets	843	-7.35	-6.10	-1.25	-1.71	-2.28	0.57	0.1	*MSCI – EMF*[2.3]
Québec International	5,090	-19.41	-19.46	0.05	–	–	–	–	*Québec International*[4]

[1] *Without withholding taxes for foreigners not benefiting from any double taxation treaty.* [2] *MSCI Provisional index from October 2001 to May 2002.*
[3] *Prior to January 2000, the index was hedged against the US dollar. Hedging was gradually brought down to zero from January 1 to June 30, 2000.*
[4] *Index created by the Caisse. 80% SC provincial Québec, 20% SC – 91-day T-Bills plus forwards index based on a basket of international indexes.*
** See section 4: "Evaluating portfolio managers"*

Table 5.9 demonstrates that in 2002 all asset classes added value over a period of five years in relation to their benchmark indexes, despite the negative returns of U.S. and foreign equities. Moreover, as the information ratio shows, the portfolios of short-term investments, bonds, Canadian equities and U.S. equities generated added substantial value, taking into account the active risk assumed.

Active management of the Québec International portfolio, an asset class unique to the Caisse, began only in 2002. Its assets are invested in Québec government bonds and money market securities. It offers the risk and return characteristics of international equities by means of futures contracts, while benefitting from the of active management of cash assets.

Table 5.10

Comparison with other Canadian asset managers – Returns

as at December 31, 2002

Mandates	1 year CDP Capital – World Markets %	1 year Ranking	1 year Quartile 1st %	1 year Quartile Median %	1 year Quartile 3rd %	5 years CDP Capital – World Markets %	5 years Ranking	5 years Quartile 1st %	5 years Quartile Median %	5 years Quartile 3rd %
Short-term investments	2.68	2	2.69	2.59	2.54	4.86	1	4.70	4.63	4.53
Bonds	9.80	1	9.10	8.70	8.30	7.55	1	7.10	7.00	6.80
Canadian equities	-12.17	3	-6.70	-11.60	-13.30	3.07	3	7.90	4.40	1.90
U.S. equities – active management*	-23.97	3	-20.30	-22.80	-24.10	3.67	1	2.50	1.10	-1.30
Foreign equities – EAFE*	-17.99	3	-13.20	-16.80	-19.50	-0.31	3	3.20	1.50	-0.60

Source: Survey on mutual funds as at December 31, 2002 – Watson Wyatt. ** These mandates are presented unhedged against foreign exchange risk.*

Table 5.10 demonstrates that, by asset class, CDP Capital – World Markets obtained excellent results in relation to other fund managers, with exceptional returns in three asset classes in the first quartile over five years: short-term investments, bonds and U.S. equities.

Management of Canadian and foreign equities generated value over five years, but the return is below the median for the asset managers, despite adequate information ratios. As illustrated in table 5.11, this situation seems to be due to the fact that a majority of the equity management teams of CDP Capital – World Markets generally assumed less risk than other asset managers.

Table 5.11
Comparison with other Canadian asset managers – Active risk realized over five years
as at December 31, 2002

Mandates	CDP Capital – World Markets[1] %	Canadian asset managers[2] %
Canadian equities	1.7	8.4
U.S. equities – active management[3]	4.2	5.6
Foreign equities – EAFE[3]	2.5	7.1

1 Standard deviation in added value.
2 Sample median
3 These mandates are presented unhedged against foreign exchange risk
Source: calculations made by CDP Capital are based on data from Morningstar Canada PALTrak for pooled funds.

Table 5.12
Comparison with other Canadian asset managers – Information ratios realized over five years
as at December 31, 2002

	CDP Capital – World Markets	Canadian asset managers	
		Median	1st quartile
Mandates	%	%	%
Short-term investments	1.04	0.9	1.5
Bonds	0.72	-0.1	0.2
Canadian equities	1.07	0.5	0.7
U.S. equities – active management*	0.54	-0.1	0.3
Foreign equities – EAFE*	0.26	0.3	0.8

** These mandates are presented unhedged against foreign exchange risk*
Source: calculations made by CDP Capital are based on data from Morningstar Canada PALTrak for pooled funds.

The teams of CDP Capital – World Markets demonstrated their ability to convert risks into added value. As table 5.12 demonstrates, these management teams outperformed the median information ratio for asset managers over a period of five years, except in foreign equities.

Table 5.13

Returns on portfolios specializing in real estate and mortgage financing
as at December 31, 2002

		1 year			5 years		
Asset classes	**Net assets $M**	**Return %**	**Index %**	**Spread %**	**Return %**	**Index %**	**Spread %**
Mortgage financing[1]	3,525	11.30	8.73	2.57	8.08	6.79	1.29
Real estate[2]	7,993	8.04	7.01	1.03	12.83	10.86	1.98

[1] Benchmarks: SC Universe; SC Mortgage 3 years before January 1999.
[2] Benchmark: AON
Note: Net assets represent net holdings of specialized portfolio participation deposit holders, plus income payable, or less losses recoverable to account for return reporting requirements.

CDP Capital – Real Estate Group

Investments in real estate and mortgages financing, totalling $8 B and $3.5 B respectively, represent 10% and 5% of depositors' assets. Table 5.13 demonstrates that mortgage financing and real estate have historically provided excellent returns. Mortgages provided 2.57% of added value in 2002 and 1.29% over five years. As for real estate investments, their return also outperformed the benchmark index, for 1.03% of added value in 2002 and 1.98% over five years.

CDP Capital – Private Equity

Management of private equity is a demanding business that differs from management of publicly traded investments. Such management requires more thorough knowledge of issuers and a longer-term vision. The investments have by definition little liquidity and are generally riskier than publicly traded securities. It is therefore preferable to evaluate returns over a period of at least five years.

The most common way to structure private equity is to create funds that have an investment period of three to five years and a lifetime of 10 to 12 years. The return is expressed as the internal rate of return (IRR) over the fund's lifetime. To meet investors' needs, however, an estimate of the fair value of the investments is calculated annually.

The return on private equity investments in start-up companies materializes only over time. These companies do not have stable earnings that make it possible to estimate their fair value. For some time, they are therefore carried at cost, except in the event of new financings or the sale of the investments. That explains why returns are low or negative at the beginning and take off only after several years, creating a "J curve." Although this phenomenon can vary from one investment to another, it partially explains the recent results, given the substantial amounts earmarked for this type of investment since 1998, especially by CDP Capital – Technology Ventures.

In addition, the private equity sector underwent significant restructuring in the last quarter of 2002. The results for this sector are presented so as to emphasize the main effects of this refocusing.

Table 5.14

CDP Capital – Private Equity – Internal rate of return

as at December 31, 2002

Portfolios (net of expenses and hedged)	Net assets $M	Return 1 year %	5 years %	Since inception[1] %
CDP Capital – Americas – prior to restructuring	6,333	4.97	11.31	12.26
CDP Capital – Americas – after restructuring	7,553	-0.68	8.34	9.79
CDP Capital – Communications	1,770	-69.70	-43.21	-41.48
CDP Capital – Technology Ventures	1,025	-41.03	-3.16	2.33
Asia investments portfolio	406	-25.80	s.o.	-7.89
CDP Capital – Private Equity	**10,517**	**-25.45**	**-2.38**	**1.42**

1 Subsidiaries were created on July 1, 1995. The Asia investments portfolio was created on March 1, 2001.
Note: Net assets represent net holdings of specialized portfolio participation deposit holders, plus income payable, or less losses recoverable to account for return presentation requirements.

As table 5.14 illustrates, CDP Capital – Americas, which manages more than 70% of the private equity portfolio as a result of the reorganization, obtained a relatively stable IRR of 11.3% over five years, before the addition of the portfolios repatriated in the reorganization of December 2002. With the addition of these new portfolios, the subsidiary's IRR is 8.3% over five years.

Given the nature of private equity, it is important to consider their IRRs since inception. CDP Capital – Americas (before the reorganization) and CDP Capital – Technology Ventures had IRRs of 12.3% and 2.3% respectively. CDP Capital – Communications has an IRR of -41.5% since inception, a reflection of the difficulties affecting the telecommunications and cable sectors.

Table 5.15

Depositors' Portfolio – Return by specialized portfolio

as at December 31, 2002

		1 year			5 years			
	Net assets	**Return**	**Index**	**Spread**	**Return**	**Index**	**Spread**	
	$M	**%**	**%**	**%**	**%**	**%**	**%**	**Benchmarks**
Short-term investments	1,622	2.68	2.52	0.16	4.86	4.42	0.44	*SC – Canadian T-Bills (91 days)*
Mortgage financing	3,525	11.30	8.73	2.57	8.08	6.79	1.29	*SC Universe*[1]
Bonds	22,842	9.61	8.73	0.89	7.49	6.94	0.55	*SC Universe*
Canadian equities	19,561	-19.88	-12.44	-7.44	1.47	2.95	-1.47	*S&P/TSX capped*[2]
U.S. equities (hedged)	2,385	-24.94	-21.96	-2.98	-1.79	-1.34	-0.45	*S&P 500 hedged*[3]
U.S. equities (unhedged)	4,938	-25.69	-22.90	-2.79	s.o.	s.o.	s.o.	*S&P 500 unhedged*[3]
Foreign equities – EAFE (hedged)	2,656	-28.35	-27.31	-1.05	-1.70	-2.58	0.88	*MSCI – EAFE hedged*
Foreign equities – EAFE (unhedged)	5,687	-18.15	-16.81	-1.34	–	–	–	*MSCI – EAFE unhedged*
Foreign equities – emerging markets	1,120	-18.35	-7.14	-11.21	-6.97	-3.53	-3.44	*MSCI – EMF*[4]
Québec International	5,090	-19.41	-19.46	0.05	s.o.	s.o.	s.o.	*Québec International*[5]
Real estate	7,993	8.04	7.01	1.03	12.83	10.86	1.98	*AON*[6]
Diversified, strategic and tactical investments	249	-52.44	5.60	-58.04	–	–	–	*50% SC – Canadian T-Bills (91 days), 50% SC Universe*
Total	**77,502**	**-9.57**	**-5.69**	**-3.88**	**3.23**	**3.86**	**-0.64**	***Total depositors' index*[7]**

1 Prior to January 1999, the index used was the SC mortgages 3 years.

2 Prior to November 2000, the benchmark was the TSE300 (uncapped). Between November 2000 and January 2001, depositors changed their benchmark for the TSE300 capped index. The index for this period is a combination of both indexes, representative of the situation at that time.

3 Without withholding taxes for foreigners not benefiting from any double taxation treaty.

4 Prior to January 2000, the index was hedged against the US dollar. Hedging was gradually brought down to zero between January 1 and June 30, 2000.

5 Index created by the Caisse. 80% SC provincial Québec, 20% SC – 91-day T-Bills plus a forwards index based on a basket of international indexes.

6 Prior to 1998, the index was called MLH+A and prior to1993, the benchmark used was the Frank Russell Canada.

7 Index created by the Caisse. Weighted average of depositors' benchmarks.

Note: Net assets represent net holdings of specialized portfolio participation deposit holders, plus income payable, or less losses recoverable to account for return reporting requirements.

Total return on the Depositors' Portfolio

The overall return on the Depositors' Portfolio is 3.88% below the return on the reference portfolio, which, as already demonstrated, is due mainly, to an overconcentration of assets in a limited number of technology, media and telecommunications (TMT) companies. The drop in share prices in this sector caused a significant decrease in the assets of the equity portfolios, reducing the return on the overall portfolio by 3.28%.

It should be noted that, as part of its reorganization, the Caisse has taken various measures to ensure that such a concentration of risk dœs not reoccur. By restructuring the risk management process in such a way as to make it more transparent, primarily through oversight by a new committee of the Board of Directors, the Caisse has ensured clearer accountability for risk as it strives for superior returns. Despite the losses recorded in 2002, the investments in TMT companies have to be viewed from a long-term perspective and managed to take advantage of any upturn in the sector. This is the mandate given to CDP Capital – Communications, with emphasis on North America and Western Europe.

Finally, this phenomenon overshadows positive performances by most of the management teams in 2002, which are described in the following sections.

CDP Capital – World Markets

CDP Capital – World Markets manages all capital invested in the major organized financial markets, namely stocks, bonds, short-term investments and derivative financial products. The group's mission is to obtain an optimal financial return in relation to benchmark indexes while effectively controlling active risk. CDP Capital – World Markets manages 72% of depositors' net assets.

CDP Capital – World Markets is also responsible for the active management of asset allocation in liquid markets, the management of currencies and a portfolio of hedge fund investments.

Investment approach and risk management

The group favours a multi-manager approach rather than relying on star managers. The investment professionals of CDP Capital – World Markets are divided into specialized teams that choose the securities, the composition and the management style of the portfolios they manage. Their expertise is complemented by external fund managers who are given specific mandates in order to diversify investment perspectives and management styles.

To optimize returns, taking risk into account, CDP Capital – World Markets ensures investments are adequately diversified by product, region, sector and management style. In actively managing its portfolios, CDP Capital – World Markets strives to generate a predetermined return that surpasses the benchmark indexes.

Market risk, namely the risk of financial loss arising from fluctuations in the price of financial products, is the greatest risk exposure for managers' portfolios. This risk is therefore evaluated periodically. It is measured using the value at risk (VaR) method, which is based on a statistical evaluation of the volatility of each market position, which is compared with all positions. The Caisse uses risk assessment methods associated with cash securities as well as derivative financial products.

A team of integrated risk management specialists, independent of the teams of portfolio managers, works with the managers to establish a risk budget for each portfolio and regularly monitors their respective risk. This monitoring helps assess the risk of each asset class and identify the sources, such as selection of countries, sectors and securities. In addition, these specialists play an advisory role for the fund managers so as to optimize the risk-return profile of their portfolios.

The group manages its other risks – credit, liquidity, and operational risk – according to the standards established by the Caisse and described in the section on *Risk management*.

Highlights and outlook

The tables of results in the section *Analysis of returns* show clearly that the teams at CDP Capital – World Markets succeeded in taking advantage of market conditions that added value to the overall portfolio. Over a five-year period, they outperformed their benchmark indexes.

In organizational terms, the major event of 2002 at CDP Capital – World Markets was the overhaul of its structure and management procedures.

Within the Canadian equities group, the team that manages the small cap portfolio was enhanced with the addition of professionals who previously worked in this area at CDP Capital – Americas. Moreover, the expertise of the team of U.S. equity managers was expanded with the addition of a seasoned fund manager and more effective use of management styles based on value and quantitative analysis. The EAFE (Europe, Australia, Far East) team was also consolidated with the appointment of a team leader and the arrival of new analysts. These additions were required because of the departure of several experienced fund managers over the past two years. These changes have brought about greater analytical depth and better investment diversification.

To maintain past returns, the bond team was reorganized in order to rebalance the portfolio, increase activities that add value and meet the group's new liquidity needs.

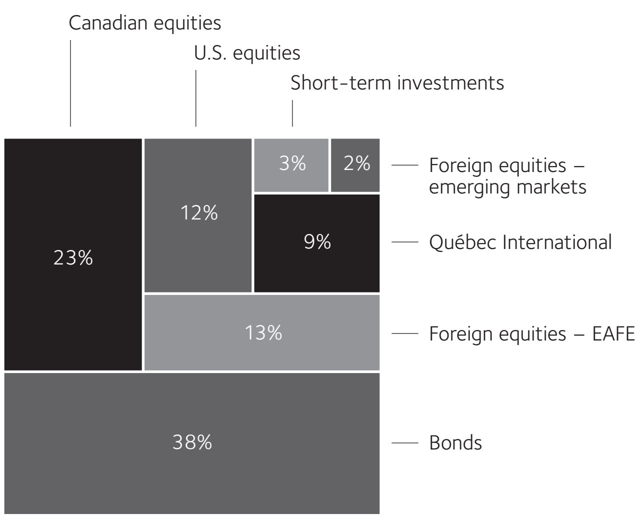
Finally, the Institutional Client Services team of CDP Capital was integrated into CDP Capital – World Markets to bring the client-relations professionals closer to the designers of investment products.

In 2003, CDP Capital – World Markets will continue reorganizing the team responsible for Strategic Management of Liquid Asset Allocation. Within this team, the coming year should see the creation of a new management team, the formation of an internal team supported by a network of external associates and a review of investment procedures.

With the restructuring of the team and simplification of the decision-making structure, in 2003 the emphasis will be on results and accountability.

Review of 2002 results
CDP Capital – World Markets manages different asset types, with specialized teams for each type.

Figure 6.1
Breakdown of CDP Capital – World Markets by asset class
as at December 31, 2002



Equities
The Equities group is divided into two subgroups: Canadian Equities and International Equities.

The Canadian equities professionals are divided into two teams that use two distinct but complementary approaches: one is sectoral, the other specialized.

The sectoral management team selects its investments on the basis of in-depth knowledge of the various industrial sectors (communications, biotechnology, transportation and conglomerates, financial services, energy, etc.). The specialized management team diversifies its investments by using complementary strategies. Its mandate includes portfolios of small, mid and large cap stocks, portfolios of cyclical and non-cyclical securities, a dynamic portfolio based on the market's short-term movements, and a strategic portfolio of securities held for three to five years.

The international equities professionals manage several specialized portfolios organized by country or region: United States, EAFE (Europe, Australia, Far East) and emerging markets, as well as the Québec International portfolio.

Canadian Equities
In 2002, the specialized management team outperformed the benchmark index by 0.98%.

This result is due partially to a strategy of overweighting cyclical securities, such as mines and metals, gold and forest products, and underweighting interest-rate-sensitive securities as well as the real estate, utilities and pipeline sectors. The strategy of overweighting small caps also contributed positively to the portfolio's overall return.

The sectoral management team underperformed the benchmark index by 0.29%.

It outperformed its benchmark indexes by more than 3% in sectors such as materials, financial services and convergence securities. It had difficulties, however, in the industrial products, transportation and conglomerates, energy, and utilities sectors.

Table 6.2
Canadian equities
as at December 31, 2002

	1 year			5 years			
	Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio
Specialized management	-11.46	-12.44	0.98	3.35	1.28	2.07	0.83
Sectoral management	-12.73	-12.44	-0.29	2.86	1.28	1.57	0.67
Total	-12.17	-12.44	0.27	3.07	1.28	1.78	1.07

**TSE 300; since May 1, 2002, the index is the S&P/TSX*

Table 6.3
U.S. equities – active management
as at December 31, 2002

	1 year			5 years			
	Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio
U.S. equities – active management	-23.97	-22.90	-1.06	3.67	1.40	2.27	0.54

**Unhedged S&P 500*

U.S. Equities
The U.S. stock market was affected by financial scandals, uncertainty linked to international political tensions as well as a weak economy. In this context, the fund managers adopted a defensive strategy that emphasized securities of companies recognized as leaders in their respective industries. This strategy resulted in a deficit of 1.06% versus the benchmark index, because the securities selected by the fund managers, which included Home Depot, General Electric, Intel, Tyco, EDS, WorldCom and Bristol-Myers, all dropped substantially, some in the wake of financial scandals. The portfolio has however outperformed the benchmark index by 2.27% over five years.

The complementary management styles of the external fund managers paid off in 2002. They achieved success by emphasizing value securities, especially in the natural resources sector. Their positive results, combined with the returns on small cap equities, helped improve returns.

Foreign Equities – EAFE
As for the portfolios of European and Asian equities, the return for 2002 was 1.48% below the benchmark index. However, the return remains higher than the benchmark index over a period of five years. The mixed results for the year are due mainly to country selection, despite effective stock picking. The returns were affected by an overly defensive positioning of the Japanese portfolio early in the year and underweighting Australia and New Zealand.

Generally speaking, the portfolio of Western European equities made a positive contribution to the EAFE portfolio's return, despite the negative impact of underweighting cyclical British mid caps.

As for the external fund management activities, their performance was also negative in 2002, because the technology, media and telecom sector was overweighted. Moreover, these portfolios underweighted Japan, whose market had the smallest drop of the EAFE countries during the year.

Table 6.4
Foreign equities – EAFE (Europe, Australia, Far East)
as at December 31, 2002

	1 year			5 years			
	Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio
Foreign equities – EAFE	-17.99	-16.51	-1.48	-0.31	-0.94	0.63	0.26

**Unhedged MSCI – EAFE. The provisional index was used from October 2001 to May 2002.*

Table 6.5
Foreign equities – emerging markets
as at December 31, 2002

	1 year			5 years			
	Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio
Foreign equities – emerging markets	-7.35	-6.10	-1.25	-1.71	-2.28	0.57	0.1

**Unhedged MSCI – EMF*

Foreign Equities – emerging markets
The emerging markets portfolio returned 1.25% less than the benchmark index. Country selection in the Asian markets as well as overweighting China Telecom and the Taiwanese technology sector are the reasons behind this weak result. However, this was offset somewhat by an overweighting of South African gold stocks and Israeli pharmaceutical companies. The returns for the external fund management mandates, for their part, outperformed their benchmark indexes.

Québec International
The Québec International portfolio meets the specific needs of certain depositors. The portfolio's return was -19.41%, providing 0.05% of added value in relation to the benchmark index. Active management of Québec bonds added 0.24% to the portfolio's return, while underweighting both Québec bonds and the position in British equities subtracted value.

Global Fixed Income
The professionals on the Global Fixed Income team forecast the direction of interest rates to obtain the best risk-return ratio with various financial vehicles: bonds, derivative financial products and short-term investments.

The group manages its portfolios strategically and tactically on all markets. It also diversifies by management style, specializing in market segments, such as Québec, Canada and U.S. bonds. The allocation by type of bond is managed actively and depends on market and economic climate.

In 2002 the bond portfolio managed by CDP Capital – World Markets returned 9.80%, or 1.07% more than the benchmark index, representing the eighth straight year of added value.

Table 6.6
Québec International
as at December 31, 2002

	1 year			5 years			
	Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio
Québec International	-19.41	-19.46	0.05	-8.16	-8.47	0.31	–

**Index is based on 20% Canadian T-Bills, 80% Québec sub-index of the SC Universe, and a basket of forwards on stock markets.*

Table 6.7
Fixed-income securities
as at December 31, 2002

	1 year			5 years			
	Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio
Short-term investments*	2.68	2.52	0.16	4.86	4.42	0.44	1.04
Bonds**	9.80	8.73	1.07	7.55	6.94	0.62	0.72

**Benchmark is the SC – Canadian T-Bills (91 days)*
***Benchmark is SC Universe*

In a context of low interest rates, a substantial portion of the value added to the bond portfolio is due to financial engineering and management of corporate debt securities. Early in the year, the teams took advantage of signs of a slight upturn, followed by economic weakness in the second half of the year.

On the money market, the portfolio's positioning as a function of widening rate spreads between Canada and the United States was a source of added value. Overweighting real-return bonds and underweighting corporate debt securities of companies in sectors in difficulty, especially telecommunications, also added value. The portfolio's added value has also been excellent over a period of five years.

Table 6.8

Currency Management – Contribution to return
as at December 31, 2002

	1 year	5 years
Mandates	%	%
Currency management	0.08	0.00

Currency Management

The Currency Management group has two separate mandates. The fund managers carry out currency operations, including index hedging operations, according to the portfolios' hedging policies. They also strive to generate absolute returns on the foreign exchange market, which is the world's most liquid and efficient market.

To achieve its return objectives, the team diversifies its investment approaches by using about 10 different investment strategies. It also uses the full range of financial instruments at its disposal with different maturities and in diversified geographical regions. Allocation of value at risk (VaR) is the main tool used to effectively manage the risk inherent in such operations.

The strategic and tactical positions taken on the foreign exchange market generated gains of more than $60 M. The currencies team took advantage of circumstances such as a weak U.S. dollar and the yen against the euro.

Tactical Alternative Investments

Management of hedge fund portfolios is a recent activity at CDP Capital – World Markets. The Tactical Alternative Investments group manages the Multi-Strategy Fund, the Opportunistic Fund and the Global Macro Fund. The objective of these funds is an absolute return, in other words, returns superior to an interest rate without risk, independent of the market environment. The assets are allocated to various external hedge fund managers with varied and complementary styles. The main strategies used are convertible bond arbitrage, long and short positions, mergers and acquisitions arbitrage and global allocators.

Table 6.9

Tactical Alternative Investments – Contribution to return
as at December 31, 2002

	1 year	5 years
Mandates	%	%
Tactical alternative investments	-0.01	-0.02

Strategic management of liquid asset allocation

The main objective of strategic management of liquid asset allocation, which became the exclusive responsibility of CDP Capital – World Markets in December 2002, is to enhance the return on the overall portfolio held by CDP Capital – World Markets by over- or underweighting asset classes. Through management of specialized hedge fund portfolios, it also aims to take advantage of opportunities on the major world markets. To that end, it uses fundamental, quantitative and technical analysis. Most of the investments are carried out with derivative financial instruments.

Table 6.10

Strategic management of liquid asset allocation
Contribution to return
as at December 31, 2002

	1 year	5 years
	%	%
Strategic management	-0.02	-0.05

Over five years, asset allocation operations and the specialized portfolios subtracted 0.02% and 0.05% respectively from the return on the depositors' overall portfolio. This result is due to the direct impact of depressed stock markets on the portfolio, which was slightly overweighted in equities.

CDP Capital – Real Estate Group

CDP Capital – Real Estate Group actively manages the real estate financing and investment portfolios of the Caisse de dépôt et placement du Québec. The Group is responsible for coordinating the operations of its member companies, which specialize in distinct niches and handle operational management. Their main activities are asset management, real estate investment, real estate financing, property management and advisory services.

The Real Estate Group invests on the public and private markets in office buildings and business parks, retail properties, industrial and residential buildings, seniors' residences and hotels. Its investments include buildings, securities of real estate companies, funds, partnerships and investment trusts, mortgage securities, as well as interests in construction companies and projects. The Group offers various real estate financing products, such as mortgage loans, mezzanine loans and construction loans, including bridge financing and standby commitments. Its operations also include loan administration and securitization, namely the conversion of assets or debt into negotiable securities.

The Group's portfolio consists of two types of investments: conventional and opportunistic. The first type of investment, which includes high-quality office buildings in downtown districts and regional and super-regional shopping centres in urban areas, provides stable, long-term income streams. The second type of investment, which usually provides high returns, is acquired to take advantage of market opportunities and is held for the short term.

Investment approach and risk management

To obtain a maximum return on its investments and to manage risk effectively, the Group has adopted a strategy that calls for diversification of investments by country, region, sector and product as well as active risk management based on real estate cycles in the various regions of the world. More specifically, the Group's professionals select their investments first as a function of the market, then the sector, the partner and lastly the quality of the investment itself.

Management of geographic and sector risk is based on rigorous analysis of the markets, an independent annual valuation, exit strategies geared to real estate cycles, and a large volume of purchases and sales. Active portfolio management, investment turnover and planned holding periods are also used to create value.

Figure 7.1

The real estate cycle

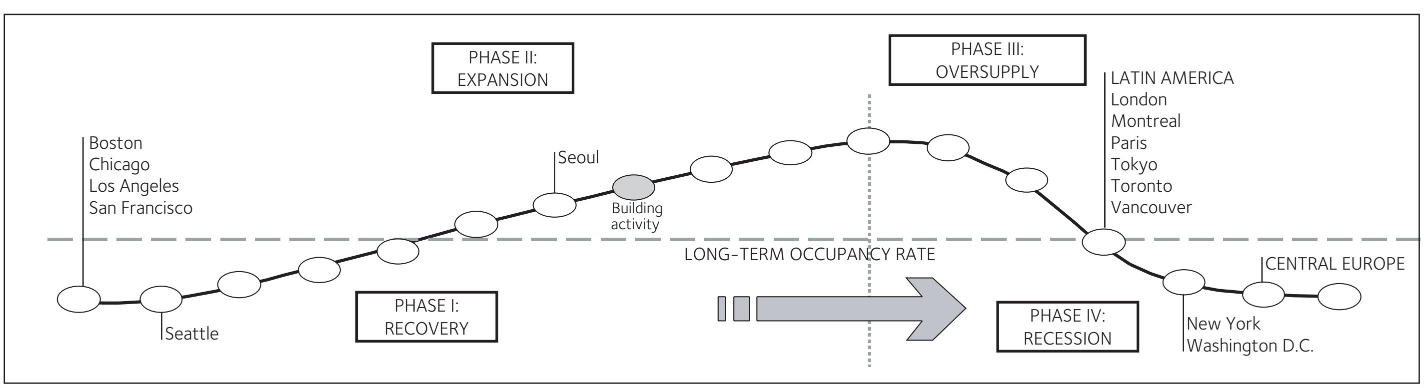
2nd quarter 2002

PHASE I: RECOVERY
Decline in vacancy rates
Negative growth in rental rates, below inflation
No building activity

PHASE II: EXPANSION
Rapid increase in rental rates justifying building activity
High growth in rental rates in tighter markets
Decline in vacancy rates

PHASE III: OVERSUPPLY
Increase in rental rates, although slower
Increase in vacancy rates
Building activity

Phase IV: RECESSION
Decline in rental rates, below inflation
Increase in vacancy rates
Building activity, increased competition



Source: Greg Mueller, Legg Mason, 2002

The Group's strategy is also based on investments in quality buildings offering a high return and – especially outside Canada – on partnerships with managers that have solid knowledge of their markets.

The increase in the portfolio's value is due in large part to real estate construction operations. The Group reduces risks by limiting the number of such projects and by setting preleasing or presale objectives.

The Group also uses debt to maximize its return. It manages the risk related to this strategy by aiming for a maximum debt rate of 50% for the portfolio as a whole, spreading mortgage debt maturities and balancing fixed-rate and variable-rate debt.

It limits the credit and default risks related to building ownership and lending operations by diversifying its tenants and borrowers. A highly rigorous underwriting process and staggered lease expirations are also used.

On average, the Group makes half its real estate investments abroad. To limit the risk of foreign exchange fluctuations, it hedges most of its foreign investments with currency futures contracts.

Highlights and outlook

The professionals in the CDP Capital – Real Estate Group took advantage of the difficult economic context in 2002 to consolidate their positions in markets with growth potential. This opportunistic strategy enabled the Group to obtain a return of 9.0%.

The impact of the economic slowdown on real estate is less pronounced than it was in the early 1990s:

/ Construction operations have been more orderly, limiting oversupply.

/ Cash flows have stayed relatively stable because low interest rates have offset lower vacancy rates and rents.

/ Investor interest in real estate, which has provided more attractive returns than the other asset classes, has had a positive impact on the value of buildings.

/ Generally speaking, the retail sector has performed better than the office building sector while, in the residential sector, the Canadian market has significantly outperformed the U.S. market.

CDP Capital – Real Estate Group took advantage of a context of high prices to sell certain investments in markets where investor interest is high. Overall, the transaction volume – purchases, sales and financings – was lower than in previous years. Several construction projects were completed but very few new projects got underway, which reduced the portfolio's construction risk.

The Group's results were very positive for 2002 and can be summarized as follows:

/ Return on real estate portfolio....................8.0%
/ Return on mortgage portfolio.................... 11.3%
/ **Overall return....................9.0%**

Many investors will continue to consider real estate an alternative to the stock and bond markets in 2003. Prices should therefore remain stable, despite a relatively difficult context, before seeing an upturn toward year-end.

The Group will bring the proportion of real estate assets back within the permissable limits for the Depositors' Portfolio, while continuing to increase its total assets under management.

The Group's strategy will be focused essentially on the integration of the companies which have been acquired over the past two years as part of a broad third-party management approach. The Group will also complete the reorganization of its operations by transferring the shopping centres currently held by SITQ to Ivanhœ Cambridge.

As for investment strategy, priority will be placed on financing activities because they appear to be particularly appropriate in the current context. Using rigorous analysis of the markets, the Group's approach to real estate investment should pay off in the second half of the year.

Review of results

CDP Capital – Real Estate Group is made up of four main companies and partner companies with branches and business offices in North America, South America, Europe and Asia. Investor partners round out the network in 20 major cities in those regions.

The Group carried out $6.7 B in transactions through its member companies in 2002, including $3.5 B in acquisitions and investments in real estate securities, companies and funds, $0.8 B in construction, renovation and leasehold improvement projects and $2.4 B in sales.

By niche and by market, these operations enhanced the quality of the portfolio as the Group limited acquisitions and new construction because of high prices and falling vacancy rates. The Group did, however, carry out sales and financings. The office-building sector saw the largest number of transactions, both in terms of investment and financing.

Figure 7.2
Sectoral breakdown
of real estate holdings
fair value as at December 31, 2002

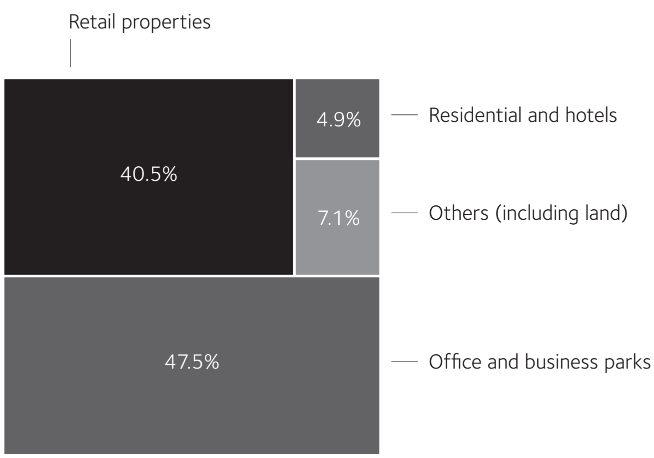
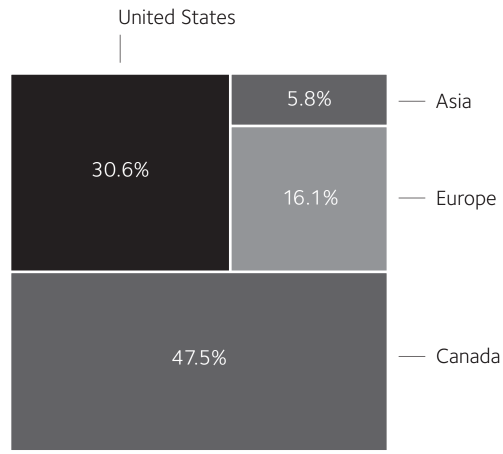


Figure 7.3
Geographical breakdown
of the real estate portfolio
fair value as at December 31, 2002



Ivanhœ Cambridge

A manager, developer and investor, Ivanhœ Cambridge operates quality shopping centres in urban areas of Canada, the United States and Europe. Its portfolio is comprised of more than 50 shopping centres with 3.9 M square metres of leasable area. The Caisse and four Canadian pension funds are the shareholders in the Company, whose total assets under management stood at $8.1 B as at December 31, 2002. Ivanhœ Cambridge owns its buildings outright or in partnership with other investors and provides asset-management services for syndicated properties.

In the retail sector, transactions carried out by Ivanhœ Cambridge totalled $954 M, including $281 M in acquisitions, $253 M in real estate development and capital expenditures and $420 M in sales.

SITQ

SITQ is an investor, developer and manager in the office building and business park sector. The Company manages more than 450 buildings and investments in Canada, the United States, France, the United Kingdom and Belgium, for a total of 6.9 M square metres of leasable area. The Caisse and five other financial institutions and pension funds are the shareholders in the Company, whose total assets under management amounted to $16.2 B as at December 31, 2002. SITQ owns its buildings outright or in partnership with other investors and provides asset-management services for syndicated properties.

In the office and business park sector, SITQ's total transaction volume was $2.2 B, with $1 B in acquisitions, $561 M in real estate development and capital expenditures, and $614 M in sales.

CDP Capital – Real Estate Advisory

CDP Capital – Real Estate Advisory (previously Cadim) is active in investment management and merchant banking around the world. It invests in debt and equity on public and private markets in Canada, the United States, Europe, Latin America and Asia. Its investments include opportunity products, funds, securities of real estate companies, various types of financing such as mezzanine loans, residential buildings and seniors' residences. CDP Capital – Real Estate Advisory has interests in companies with expertise that complements its own, such as the MCAP group of companies and Maestro in Canada, The Praedium Group and CWCapital in the United States as well as Brazilian Capital, Brazilian Securities and Brazilian Mortgages in Latin America. CDP Capital – Real Estate Advisory is also involved in structured financing, securitization and asset management for new clients. Its total assets under management amounted to $16.7 B as at December 31, 2002.

In residential buildings and opportunity products, the transactions carried out by CDP Capital – Real Estate Advisory totalled $1.9 B, with $838 M in investments and acquisitions, $27 M in development projects and capital expenditures and $1 B in sales.

CDP Capital – Mortgages

CDP Capital – Mortgages specializes in real estate financing in the form of mortgage loans, bridge financings and mortgage securities in Canada. The Company offers mainly financing products and services for industrial buildings, office buildings, retail properties and multi-unit residential buildings. It has been involved in five issues of commercial mortgage-backed securities (CMBS) on the Canadian public market since 1999. Total assets under management amounted to $5 B as at December 31, 2002.

CDP Capital – Mortgages provided a large number of mortgage financings, in amounts ranging from $0.3 M to $163 M, to a broad range of clients with various types of property. The volume of transactions in this growth sector totalled $1.3 B.

Assets and returns

The total assets under management in the real estate and mortgage financing portfolios of CDP Capital – Real Estate Group amounted to $46 B as at December 31, 2002. Depositors' assets totalled $20.1 B and property under management and property administered, $20.9 B, bringing the total assets under management in the real estate portfolio to $41 B. In the case of the mortgage financing portfolio, depositors' assets and property under management and property administered stood at $4.7 B and $0.3 B respectively, for $5 B of total assets under management.

Table 7.4

CDP Capital – Real Estate Group portfolios

fair value as at December 31, 2002 – in billions of dollars

	Depositors' assets	Property under management and administered	Assets under management	%
SITQ	10.0	6.2	16.2	35.4
Ivanhœ Cambridge	7.2	0.9	8.1	17.5
CDP Capital – Real Estate Advisory	2.9	13.8	16.7	36.3
Real estate portfolio	**20.1**	**20.9**	**41.0**	**89.2**
CDP Capital – Mortgages	**4.7**	**0.3**	**5.0**	**10.8**
TOTAL	**24.8**	**21.2**	**46.0**	**100.0**

For the year ended December 31, 2002, the real estate portfolio returned 8%, based on a 10% current return and a 2% devaluation of the real estate portfolio. This devaluation is due mainly to construction projects in the western United States and office buildings in Texas. This return outperformed the AON Index by 1% which returned 7%. Over five years, the real estate portfolio returned 12.8%, beating the AON Index's 10.9% return by 1.91%.

The mortgage financing portfolio outperformed the benchmark index by 2.6%. Over five years, its return beat the index by 1.3%. The strong performance of the mortgage financing portfolio also reflects the quality of the loans and borrowers. Arrears stood at only $5.1 M, or 0.1% of the fair value of the portfolio as at December 31, 2002, compared to $10.4 M (0.3%) at the end of 2001. In addition, no buildings were repossessed in 2002. The fair value of total repossessions at the end of 2001 was $31.4 M, or 1%. CDP Capital sold eight repossessed buildings, bringing the fair value of total repossessions in 2002 to $14.6 M, or 0.4% of the portfolio.

Table 7.5

Returns of real estate and mortgage financing portfolios

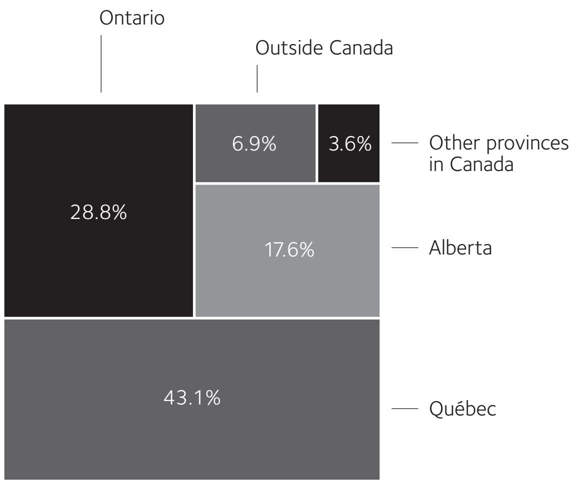
as at December 31, 2002

	1 year			5 years		
	Return %	Index %	Spread %	Return %	Index %	Spread %
Real estate portfolio[1]	8.0	7.0	1.0	12.8	10.9	1.9
Mortgage financing portfolio[2]	11.3	8.7	2.6	8.1	6.8	1.3

[1] *Benchmark: AON*

[2] *Benchmark: SC Universe*

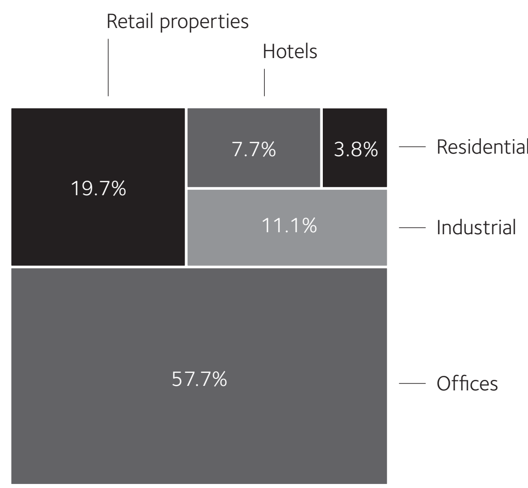
Figure 7.6
Geographical breakdown
of the mortgage financing portfolio – net*
fair value as at December 31, 2002



** Net of CMBS*

The changes in the geographical and sector breakdown of the mortgage financing portfolio are the result of increasing diversification, which also reflects the quality of the portfolio and the diversification strategy. Although in 1997 the portfolio consisted almost exclusively of loans made in Québec, it is now diversified across Canada, with 43.1% of its loans in Québec versus 46.2% in 2001. In sector terms, the share of office buildings increased in 2002 and that of retail properties decreased.

Figure 7.7
Sectoral breakdown
of the mortgage financing portfolio – net*
fair value as at December 31, 2002



** Net of CMBS*

CDP Capital – Private Equity

CDP Capital – Private Equity manages all investments made by the Caisse de dépôt et placement du Québec primarily in partner companies that are not publicly traded, as well as investments made through specialized private equity funds. The portfolio also includes directly negotiated investments in public companies.

The group has three main subsidiaries that invest mainly in North America and Western Europe: CDP Capital – Technology Ventures, specializing in biotechnology, information technologies and industrial technologies; CDP Capital – Communications, specializing in telecommunications and media; and CDP Capital – Americas, which invests in other sectors of the economy.

The three subsidiaries invest in companies at various stages of development: start-up, growth and succession. Financial solutions offered to companies include a range of products such as equity interests, debentures, bonds and mezzanine financing.

The subsidiaries also offer their partner companies a range of strategic support services designed to help them develop and apply business plans.

Investment approach and risk management
All the subsidiaries of CDP Capital – Private Equity invest for the mid-term in developing companies. They strive to meet the needs of such companies while generating returns superior to those of stock markets over a period of five to seven years.

To optimize returns, CDP Capital – Private Equity manages its portfolio risk by spreading investments throughout various industrial sectors, geographical areas, financial products and company development stages. Moreover, special attention is paid to exit strategies.

For the majority of investments, the effects of foreign exchange fluctuations are eliminated with hedging operations. For the debt portfolio, credit risks are managed through limitations per company or per sector, according to the issuers' creditworthiness and product type. As for borrowing, it is limited to 50% of the senior debt portfolio. Finally, the portfolio's duration and allocation of maturities are managed so as to reproduce the benchmark index.

Highlights and outlook
As a result of the reorganization of investment operations, which are now divided among three main subsidiaries, CDP Capital – Private Equity has adopted more rigorous and effective investment processes. It redefined the role of valuation committees, made up exclusively of external members, who now report to the Audit Committee. The group also improved various administrative tools and information systems so that it can monitor its portfolio investments more effectively.

In 2002, stock market declines and uncertainty surrounding economic recovery resulted in the postponement of several investment projects. During the year, the teams at the three subsidiaries focused on protecting investments already in the portfolio. The group recorded few net outflows of funds, since redemptions and sales of investments virtually offset the volume of new investments.

Private equity will become a separate asset class in 2003, with specific return objectives and risk limits.

CDP Capital – Americas will continue to achieve superior returns while optimizing the allocation of its investments between North America and Western Europe. The operations of the former subsidiaries, CDP Capital – Financial Services, CDP Accès Capital and a portion of CDP Capital – International, will continue to be run by specialized teams.

CDP Capital – Communications will place a priority on enhancing the value of its investments in the telecommunications sector, and will consider all opportunities for restructuring. The subsidiary will refocus its operations in North America and Western Europe and will continue to pursue activities in certain media sectors.

Finally, CDP Capital – Technology Ventures will continue to develop its venture capital activities in the technology sectors in Canada, the United States and in Western Europe. The subsidiary will also assume responsibility for the small cap technology portfolio, which was previously managed by CDP Accès Capital.

Review of results

Despite the stock market correction that continued in 2002, the net disbursements pertaining to investment activities totalled almost $600 M. The fair value of the portfolio held by CDP Capital – Private Equity was $11.6 B, distributed among 932 companies and funds, while net assets stood at $10.5 B, or 13.5% of depositors' net assets.

Table 8.1
CDP Capital – Private Equity – Total assets under management
as at December 31, 2002

	Number[1]	Fair value $M
Depositors' Portfolio		
CDP Capital – Americas	597	8,084
CDP Capital – Communications	115	1,805
CDP Capital – Technology ventures	216	1,022
Asia Investments portfolio	23	419
Total consolidated	**932**	**11,330**
CDP Capital – Americas financial leverage		-574
Derivatives and other products[2]		-239
Depositors' net assets		**10,517**
Depositors' Portfolio		11,330
Portfolio of assets under management		247
Total assets under management		**11,577**

1 Certain investments are managed by more than one subsidiary.
2 For all CDP Capital – Private Investments subsidiaries

Figure 8.2
Changes in the private equity of the Depositors' Portfolio
in millions of dollars

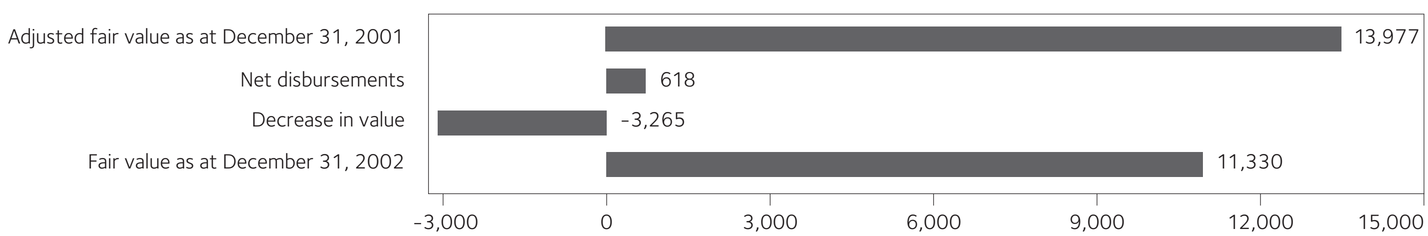
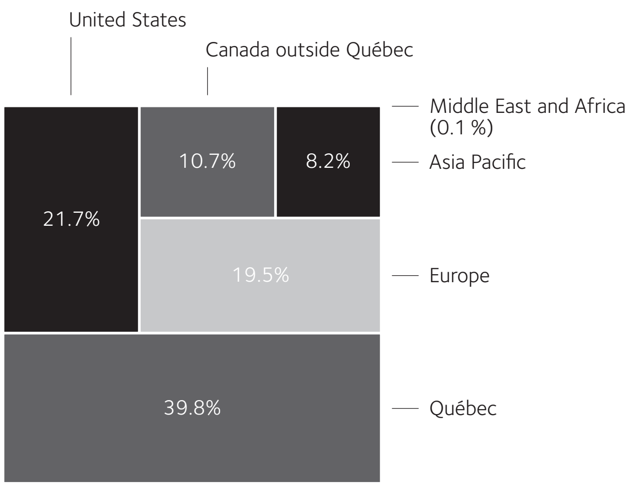


Figure 8.3

Geographical breakdown of private equity in the Depositors' Portfolio

fair value as at December 31, 2002



The fair value of the portfolio in Canada totals close to $5.7 B, or 51% of the overall portfolio, with $4.5 B invested in Québec companies. With the development of operations outside North America, the fair value of the portfolio in Europe, the Middle East and the Asia-Pacific region has reached $3.1 B, or 28% of the portfolio (figure 8.3).

The portfolio companies are involved in all sectors of the economy, as shown in figure 8.4. Investments in private equity funds are presented separately, given the large number of sectors covered.

Figure 8.4

Sectoral breakdown of private equity in the Depositors' Portfolio

fair value as at December 31, 2002

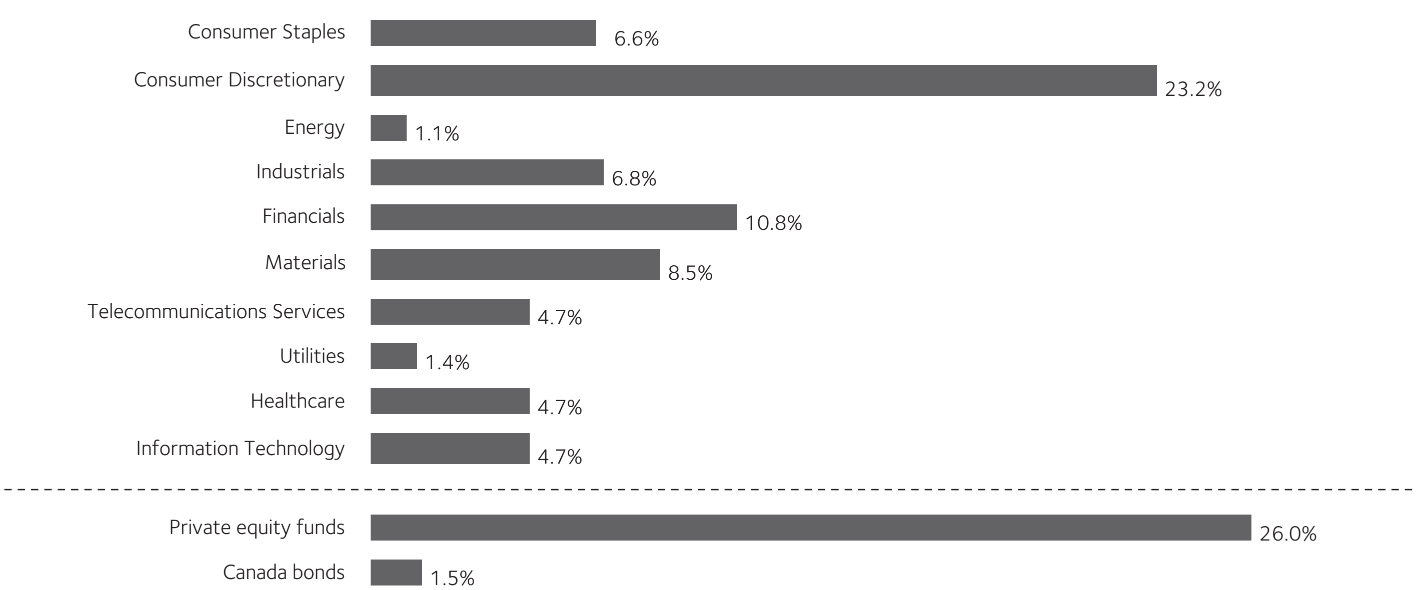


Table 8.5
Breakdown of size of private equity in the Depositors' Portfolio
as at December 31, 2002

	Number	%	Fair value $M
Under $5 million	555	60	589
$5 – $10 million	131	14	995
$10 – $25 million	134	14	2,242
$25 – $100 million	94	10	4,299
$100 million and up	18	2	3,205
TOTAL	**932**	**100**	**11,330**

The breakdown of the portfolio shows a significant volume of investments under $5 M, representing 60% of the total number of investments.

CDP Capital – Americas

CDP Capital – Americas is involved in the development of companies in which it has solid knowledge and that have the potential for strong returns. The historic returns demonstrate a proven investment philosophy adhered to by stable experienced teams.

CDP Capital – Americas meets the needs of SMEs as well as large companies through equity and debt investments.

A first group finances expansion, acquisition and merger projects of large companies with the potential for high returns. The teams in this group have special expertise covering such sectors as manufacturing, distribution and services, energy, infrastructures and natural resources.

A second group consists of the teams specialized in Québec SMEs. In addition to meeting the financing needs of these companies, this group manages Accès Relève, a program designed to facilitate the harmonious transfer of SME ownership to family members or senior managers.

As at December 31, 2002, the fair value of the overall portfolio of CDP Capital – Americas, after restructuring, was $8.1 B, with investments in 597 companies and funds, representing more than 70% of the total private equity assets.

During the year, CDP Capital – Americas invested $2.5 B and authorized $1.9 B of investments in 158 companies and funds. It also sold investments totalling $2.9 B, including $495 M for the sale of its investment in Highway 407, in Ontario – a transaction that represented a total gain of $370 M.

The CDP Capital – Americas portfolio consists of $5.2 B in common equity, a debt portfolio of $2.3 B, and finally a $0.6 B portfolio of small cap equity.

As at December 31, 2002, the SME team managed 173 investments whose fair value totalled $134 M. Six transactions were authorized under the Accès Relève program, for a total of $8.6 M. In 2002, CDP Capital – Americas began the restructuring of Montréal Mode.

Returns of CDP Capital – Americas

The Large Cap and Funds portfolio yielded excellent returns over one year and over five years. The internal rates of return (IRR) hedged against foreign exchange risks were 5.3% and 14.5% respectively, while the returns for the S&P/TSX index over the same periods were -12.4% and 1.3%, respectively.

The return on the Debt portfolio reached 7.8% over one year and over five years, while the SC Universe index returned 8.7% and 6.9% respectively for these periods. Finally, the Small Cap portfolio returned 0.1% over one year and 10.7% over five years versus -16.8% and 5.1% respectively for the benchmark indexes, the Scotia Capital Québec Equity 60 (2000 to 2002) and National Bank Financial Québec Small Cap (previous years).

CDP Capital – Technology Ventures

With activities in North America and Western Europe, CDP Capital – Technology Ventures offers strategic financing to promising, innovative technology companies. This subsidiary also aims to add value to its portfolio companies by supporting them in their strategic planning, management recruitment, financing and initial public offerings, as well as in their search for strategic alliances or acquisitions.

The target companies belong to three sectors: biotechnology and life sciences, information technologies and industrial technologies. In the last sector, CDP Capital – Technology Ventures is especially focused on new energies and new materials.

To create synergies with its direct investment operations, the subsidiary also manages funds within technology venture capital funds. In this way, it can offer depositors diversified venture capital investment strategies. It also offers its fund management services to external institutional investors.

The investments made by CDP Capital – Technology Ventures are held mainly in the Venture I (1995) and Venture II (2001) portfolios. The subsidiary focused its efforts on adding value and preserving the investments in the Venture I portfolio and on deploying the investment strategy of the Venture II portfolio. Monitoring of these portfolios has also been stepped up, since the companies must adapt to the new economic context.

As at December 31, 2002, the fair value of its overall portfolio was $1 B, distributed among 216 investments. The investments in the Venture I and II portfolios totalled $608 M and $244 M respectively. The balance represents mainly securities in the process of being sold.

Reinvestments totalling $90 M and distributed among 24 companies and funds were authorized in the Venture I portfolio in 2002. In the Venture II portfolio, authorized investments totalled $101 M, distributed among 25 companies and funds. For the Venture II portfolio, investments in four new funds were also authorized, for a total of $59 M.

Despite an unfavourable environment, CDP Capital – Technology Ventures completed the first closing of its CDP Capital U.S. Technology Fund 2002 for US$75 M, bringing to US$100 M the amount under management from institutional investors other than depositors. The subsidiary continued to bring its processes into line with the standards of the industry's best fund managers.

Returns of CDP Capital – Technology Ventures

As at December 31, 2002, the IRR (unhedged) for the Venture I portfolio since its inception in July 1995 was 11.4%. Over the same period, the portfolio's direct investments obtained an IRR of 15.7%, and the amounts returned were greater than the amounts invested. The Venture II portfolio, in its second year of investment with less than 15% invested, had an IRR (unhedged) of -26.4% over two years. As these investments are made with a horizon of five to seven years, it would be premature to judge their performance.

CDP Capital – Communications

CDP Capital – Communications invests directly in companies or holds interests in investment funds in the area of telecommunications services (cable distribution, data transmission, wireless communications) and media (publishing and entertainment). It invests in SMEs and large companies, mainly in North America and Western Europe.

As at December 31, 2002, the fair value of the CDP Capital – Communications portfolio was $1.8 B, distributed among 115 investments.

During the year, the subsidiary invested $1.2 B and sold investments for a total of $262 M. It also authorized new investments totalling $140 M, mainly to facilitate the restructuring of certain portfolio companies.

Returns of CDP Capital – Communications

The IRR since inception in July 1995 was -41.5% and reflects the financial difficulties encountered by telecommunications and cable distribution companies.

Asia Investments portfolio

Capital International Asia CDPQ Inc. holds a portfolio of various Asian investments managed by a team in Hong Kong.

As at December 31, 2002, the fair value of the portfolio was $419 M, distributed among 23 companies and funds, including $171 M in direct investments and $248 M in investment funds. The portfolio's IRR since inception in March 2001 was -7.9%.

Table 8.6

CDP Capital – Private Equity – Internal rate of return

as at December 31, 2002

Major portfolios *(net of expenses and hedged)*	**Net assets** **$M**	**1 year** **%**	**5 years** **%**	**Since inception** **%**
CDP Capital – Americas[1]				
Debt	1,731	7.8	7.8	8.4
Large caps and funds	4,028	5.3	14.5	14.9
Small caps	578	0.1	10.7	19.7
Prior to restructuring	**6,333**	**5.0**	**11.3**	**12.3**
International	549	-26.7	0.1	2.6
Financial services[2]	367	-14.3	-13.9	-13.9
Financial services – management mandates[3]	162	-4.9	s.o.	4.8
Small businesses	135	-23.9	-7.7	-6.7
After restructuring	**7,553**	**-0.7**	**8.3**	**9.8**
CDP Capital – Communications[1]	**1,770**	**-69.7**	**-43.2**	**-41.5**
CDP Capital – Technology Ventures[1]	**1,025**	**-41.0**	**-3.2**	**2.3**
CDP Capital – Technology Ventures – Venture Fund I[4]	608	-44.0	4.9	11.4
CDP Capital – Technology Ventures – Venture Fund II[4,5]	244	-28.7	s.o.	-26.4
Asia Investments portfolio[6]	**406**	**-25.8**	**s.o.**	**-7.9**
Total – CDP Capital – Private Equity	**10,517**	**-25.5**	**-2.38**	**1.42**

[1] *Created on July 1, 1995*
[2] *Created on January 1, 1998*
[3] *Created on January 1, 1999*
[4] *Unhedged against foreign exchange risk*
[5] *Created on January 1, 2001*
[6] *Created on March 1, 2001*

Operating Expenses

The Caisse's operating expenses consist of investment management expenses and expenses related to general business administration.

Operating expenses totalled $321 M in 2002. These expenses include $37 M of non-recurring restructuring charges.

Recurring operating expenses
On a recurring basis, the 2002 operating expenses totalled $284 M versus $221 M in 2001, for an increase of $63 M, or 28.5%. This rise is due mainly to the growth of the Caisse operations in the first half of 2002 as well as the impact, of the significant business development carried out in the second half of 2001 which was fully annualized in 2002. This growth resulted in increases of $20 M in salaries and employee benefits, $20 M in professional fees, $11 M for premises, equipment and depreciation of fixed assets, and $12 M in other expenses.

The growth of recurring operating expenses in 2002 is due to a $60 M, or 36.6%, increase in investment management expenses, which rose from $164 M in 2001 to $224 M in 2002 as well as a slight increase in administrative expenses, which totalled $60 M in 2002, up $3 M, or 5.3% in relation to 2001. The increase in recurring investment management expenses is due in particular to development of the foreign offices' operating infrastructure, business development expenses and growth of private equity operations, including those of CDP Capital – Technology Ventures (previously Sofinov).

Expressed in basis points, recurring investment management expenses went from 19 cents per 100 dollars of net assets in 2001 to 27 cents per 100 dollars of net assets in 2002. This significant increase is due to the combined effect of the 36.6% increase in recurring management expenses in 2002 and the 6.1% decrease in average net assets.

For several years, the Caisse has been involved in benchmarking its costs. Generally speaking, the Caisse maintains lower investment management costs per 100 dollars of net assets than most of its peers, even though it is more active than its peers in private equity and real estate investments, two asset classes deemed more costly to manage. The Caisse's superior performance is due essentially to its decision to rely more extensively on internal management than its peers.

Non-recurring operating expenses
In 2002, the Caisse made a provision for $37 M in restructuring expenses, of which $29 M was charged as investment management expenses and $8 M as administrative expenses. This provision stems directly from the reorganization of investment operations, management functions and institutional services in order to refocus the Caisse's activities on its fundamental mission. The provision covers the amounts required to significantly scale back operations abroad, including the closure of offices. These expenses are mainly comprised of compensation for termination of employment in Canada and abroad, cancellation of consulting and professional services contracts, and cancellation of leases and equipment leasing contracts. On a fully annualized basis, the recurring savings from this reorganization are estimated at $30 M.

Table 9.1

Net operating expenses 2001-2002

in millions of dollars

	2002	2001	Change
Investment management expenses			
Salaries and employee benefits	100	77	+23
Professional fees	53	35	+18
Premises, equipment and depreciation of fixed assets	25	17	+8
Others, including external management and safekeeping of securities	46	35	+11
Recurring expenses	**224**	**164**	**+60**
Non-recurring reorganization costs	**29**	**0**	**+29**
Total	**253**	**164**	**+89**
Administrative expenses			
Salaries and employee benefits	28	31	-3
Professional fees	11	9	+2
Premises, equipment and depreciation of fixed assets	10	7	+3
Others	11	10	+1
Recurring expenses	**60**	**57**	**+3**
Non-recurring reorganization costs	**8**	**0**	**+8**
Total	**68**	**57**	**+11**
Operating expenses			
Total recurring costs	284	221	+63
Total non-recurring reorganization costs	37	0	+37
Grand total	**321**	**221**	**+100**
External revenues	64	66	-2
Operating expenses, net of external revenues	**257**	**155**	**+102**

Human resources

Reorganization of management operations

On December 2, 2002, the Chairman and Chief Executive Officer of the Caisse de dépôt et placement du Québec announced a program to refocus the Caisse's operations on its fundamental mission as an asset manager so as to obtain optimal returns for its depositors. This reorganization involved a 14% reduction in personnel.

As at December 31, 2002, the Caisse employed 814 people. The subsidiaries CDP Capital – Real Estate Advisory, Ivanhœ Cambridge and SITQ had a total of 1,697 employees.

The Caisse draws on the diversified expertise of highly qualified personnel to successfully carry out the mandates awarded by its depositors. Its investment professionals are among the country's most talented and are supported by solid multidisciplinary teams.

Sixty-seven per cent of the Caisse's personnel have a university degree, with 27% holding a master's degree and 2% a doctorate. The Caisse also has Canada's largest team of investment professionals, including 100 with the chartered financial analyst (CFA) designation.

Skills development

With a view to continuous training, the Caisse offers its employees programs enabling them to acquire key skills to carry out their various investment-related responsibilities more effectively.

In 2002, these programs included introductory portfolio-management seminars, workshops for newly promoted managers and training sessions for investment professionals working for CDP Capital – Private Equity. Moreover, throughout the year employees were able to take language courses and receive leading-edge training in office technology and computers.

Planning for the future

The Caisse offers various career opportunities, namely, in business valuation, portfolio management, trading and arbitrage, investment accounting, risk and return management, financial analysis and administration. It also contributes in various ways to the creation of a new generation of financial management professionals. In addition to providing internships for 67 new university graduates of finance, economics and applied mathematics programs, the Caisse is involved in an external training program with Montreal brokerage firms. Twenty-two people took advantage of these programs in 2002.

The Caisse also takes part in career days held by various universities and maintains a bank of the résumés of potential candidates, many of whom are recommended by employees.

Working environment and quality of life

The Caisse provides its employees with the best work tools and applies various standards and policies regarding the working environment and on-the-job behaviour. To help its employees successfully manage their professional and family commitments, the Caisse has opened a day care centre at its new Montreal office.

Outlook for 2003

Clarification of roles and responsibilities will continue to be a priority during the year, in line with the transparency component of the action plan adopted in December 2002. Such clarification will permit full application of accountability based on results.

The Caisse will also put in place a system to disseminate performance-measurement information and procedures that will ensure that the compensation policy is clear, well-understood by all and applied rigorously.

As a result of standardization of its management practices, as well as a review of its compensation policy, the Caisse can offer all employees a competitive base salary. A new incentive-based compensation plan, aligned with depositors' interests, and including competitive benefits and working conditions, will enable the Caisse to attract, hire, motivate and retain the talented employees of today and of the future.

Information systems

The investments in information system projects planned at the beginning of the year were scaled back. Forecasts pertaining to asset growth, international expansion and increases in third-party management activities were also revised downward.

Operational efficiency and business continuity were the main development priorities, along with preparations for relocating employees to the CDP Capital Centre. Investments were made primarily in electronic document management, integrated transaction processing and electronic services offered to clients.

In 2003, the slate of projects will be more limited than in 2002 and priority will be placed on the continuity of operations, especially the critical systems back-up plan, the addition of new risk-management systems and integrated processing of stock market transactions.

Lastly, the computer architecture plan drawn up in 2000 will be revised in 2003 in light of recent technological changes and business priorities for the years to come, namely security and business continuity, transaction settlement efficiency, risk management and control of operating costs.

Depositor services

The position of Executive Vice-President, Risk Management and Depositors' Accounts Management, was created in the fall of 2002 to reflect the Caisse's commitment to improve services provided to its depositors. This improvement will upgrade management of their accounts and protection of their interests through risk control.

During the year, many other initiatives were taken with the same objective.

Research
The Caisse's research personnel developed a number of portfolio models and calculated their expected returns as well as the associated risks. Each model was used to formulate asset-mix proposals and to define benchmark indexes that meet the needs expressed by depositors, as a function of their risk tolerance and investment horizon.

During the year, articles by the institution's research professionals appeared in international publications, such as the prestigious *Journal of Portfolio Management,* the *Canadian Investment Review* and *L'Actualité Économique*.

Seminars
The Caisse offered seminars to depositors to give them the opportunity to update their knowledge and become familiar with the financial concepts used by the institution. About 65 people took part in the seminars, which covered such subjects as the financial climate in 2002 and risk and return calculations.

Management mandates
The Caisse developed tools enabling it to better define the relevance of different management mandates for depositors. These analyses prompted it to re-examine its hedge fund operations and make important changes to them.

Risk management
Market risk management and its impact on returns saw significant progress in 2002. A "risk budget" was established for each manager so as to distribute the total risk of the Caisse's accounts among various managers and to maintain an acceptable level of overall risk.

The Caisse is now equipped to conduct a monthly assessment to determine whether the allocated risk is used effectively by each manager. This assessment is also used to check whether the manager's return corresponds to the risk assumed.

Standards and returns
The Caisse already based itself on standards published by AIMR® (Association for Investment Management and Research) for the calculation of results submitted to depositors. It took another step forward in 2002 by complying with the AIMR® Performance Presentation Standards (AIMR-PPS®) and by carrying out an analysis of the source of returns over periods of up to three years. This will be useful in evaluating the effectiveness of certain investment strategies.

Simplification of operations
Since the spring of 2002, the Caisse has made it possible for depositors to effect transactions on the Internet; they can enter their deposits or withdrawals and consult the term deposit rates available to them.

Corporate governance, ethics and compliance

Institutional affairs
In 2002, the Board of Directors of the Caisse de dépôt et placement du Québec adopted a new *Code of Ethics and Professional Conduct* for managers and employees, which concerns, in particular, rules governing personal transactions and conflicts of interest. The Code, which is included in its entirety in the appendices, took effect on November 1, 2002. These new measures were taken to ensure the Caisse has the best business-ethics practices and can play a leadership role in this area in Canada.

The Caisse's senior management considers the application of the Code to be a priority and ensures that personnel are well versed in it. To that end, the Caisse provides its personnel with ethics training, emphasizes various aspects of the Code on a regular basis, and ensures that its subsidiaries devote attention to it.

The Caisse also applies a policy governing the acquisition or leasing of goods and services that require a contract. In particular, the policy requires that contracts be awarded by tender, for which it also stipulates limitations and exceptions.

Finally, the Caisse complies with the Charter of the French Language and its linguistic policy.

Internal governance

The Board of Directors
The Caisse's Board of Directors consists of a Chairman, depositors' representatives, members of the business community and the credit union sector and labour union leaders. The Board ensures that the Caisse takes the necessary measures to achieve the objectives stated in its business plan and mission, in accordance with its incorporating act and by-laws. It reviews and approves the main policies and strategic orientations, such as the investment program for the year. It conducts a review of the sectors of activity and receives reports from various committees and ad hoc working groups when considering specific matters.

The Board is informed of any activity, decision, investment or other matter that requires special attention because of its intrinsic importance or its impact on the portfolio or on the asset allocation or for any other reason. The Board of Directors delegates the review of specific matters to committees made up of Board members. The Board of Directors delegates to the boards of directors of the subsidiaries certain decision-making powers regarding private equity investments.

In 2002, the Board of Directors met 17 times. It dealt with such matters as the replacement of the Chairman and Chief Executive Officer and approved the refocusing of the Caisse's operations. During the year, the Board of Directors welcomed five new members. It also reorganized its permanent committees, which now number three: the Audit Committee, the Human Resources, Ethics and Corporate Governance Committee and the Risk Management Committee.

Lastly, the Board of Directors adopted a series of measures to begin updating its governance rules and, in this regard, gave a special mandate to the Human Resources, Ethics and Corporate Governance Committee. The special mandate involves studying international governance trends, standards and principles so that the Caisse can abide by them, while taking into account the specific role of the Caisse. The mandate includes reviewing the governance of the Caisse and recommending any necessary improvements, including amendments to the *Act respecting the Caisse de dépôt et placement du Québec.*

More specifically, the mandate includes making recommendations regarding the respective roles of the Chairman and Chief Executive Officer, the composition of the Board of Directors, the independence of directors, representation of various stakeholders, the process used to appoint members to the Board of Directors, the size of the Board, the term of Board members' mandates, accountability of Board members, the advisability of maintaining non-voting positions, the current method for appointing the Chairman and Chief Executive Officer and the remuneration of Board members. The Committee's work will continue in 2003.

Another aspect of the special mandate given to the Human Resources, Ethics and Corporate Governance Committee involves reviewing the Corporate Governance Policy and Summary of Principles Governing the Exercise of Corporate Voting Rights, specifically corporate social responsibility and socially responsible investment. The Committee members will conduct a thorough review of this subject. They will examine best industry practices as well as relevant documents of the Committee on Public Finance, which has studied this matter. Depositors will also be consulted in this regard. Specific recommendations will be submitted to the Board of Directors in 2003.

Audit Committee

The mandate of the Audit Committee, composed exclusively of members of the Board of Directors not connected to management, includes reviewing the financial statements and management's analysis of them, and recommending their approval to the Board, as well as following up on recommendations made by the internal and external auditors and the Auditor General of Québec. The Audit Committee met five times during the year.

Human Resources, Ethics and Corporate Governance Committee

The Human Resources, Ethics and Corporate Governance Committee reviews and recommends Caisse senior management appointments, ensures the adequacy of the senior management succession plan and recommends remuneration policies to the Board of Directors.

The Committee is responsible for developing and applying controls governing restricted use of confidential information and resolution of complaints and conflicts of interest. It reviews the *Code of Ethics and Professional Conduct* on a regular basis and recommends its approval to the Board.

The Committee reviews all matters involving corporate governance and compliance with related rules and directives.

The Human Resources, Ethics and Corporate Governance Committee met 12 times in 2002. This Committee consists solely of members of the Board of Directors not connected to management.

Risk Management Committee

The Risk Management Committee oversees policies and systems designed to maintain an acceptable level of operational, market, credit and liquidity risk. It ensures the application of such policies. The Committee reviews any transaction, investment or investment-related matter, particularly as a function of its impact on the portfolio or asset allocation. The Risk Management Committee has met twice since it was created in October 2002. The Committee consists exclusively of members of the Board of Directors.

Management committees

In addition to the Committees of the Board, the Caisse has three Committees that were also restructured in the fall of 2002:

/ The main mandate of the Executive Committee is to advise the Chairman and Chief Executive Officer regarding the main decisions to be taken in the overall management of the organization. In this capacity, the Committee plans, oversees and monitors all operations.

/ The Overall Asset Allocation Management Committee reviews and approves the Caisse's main asset allocation policies, the foreign exchange hedge ratio and the impact of such decisions on management of the Caisse's liquid assets and financial leverage. The Caisse also has a Liquid Asset Allocation Management Committee, which approves the allocation of liquid market assets on the basis of decisions made by the Overall Asset Allocation Management Committee. The Liquid Asset Allocation Management Committee reports to the Risk Management Committee of the Board of Directors.

/ The main mandate of the Depositor-Client Account Management and Integrated Risk Management Committee (DRC) is to review depositors' policies. The DRC has a mandate to oversee and put in place policies and systems to maintain an acceptable level of operational, market, credit and liquidity risk. It defines and supervises overall risk management as well as the measurement methods and standards applied. It ensures results and actions are analyzed to reduce levels of risk.

Compliance with standards

The Caisse's operations comply with the requirements of the *Act respecting the Caisse de dépôt et placement du Québec* and industry practice. Its financial statements are prepared in accordance with accounting principles generally accepted in Canada. The tables of composites and calculations of returns as at December 31, 2002, relating to the depositor account composites of the Caisse de dépôt et placement du Québec for the periods presented, from January 1, 1998, to December 31, 2002, have been audited by Deloitte & Touche LLP and comply with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), namely the version of the Global Investment Performance Standards (GIPS®) that applies to Canada and the United States. A complete list of the institution's composites and returns is available on request.

The Auditor General of Québec audits the financial statements and ensures that the institution's operations comply with the Act.

The fair value of investments is determined according to valuation methods used in capital markets, such as the discounting of future cash flows at current interest rates, the closing prices of the major stock exchanges and those provided by recognized brokerage firms. Private equity investments are assessed periodically according to recognized methods and are subject to independent review by valuation committees consisting exclusively of external specialists.

The Caisse de dépôt et placement du Québec has designated Ginette Depelteau, Vice-President and Corporate Secretary, as the person responsible for receiving and analyzing complaints from clients and members of the public, and devoting the necessary attention to them.

Ginette Depelteau
Telephone: (514) 847-5901
Fax: (514) 847-5445
E-mail: gdepelteau@cdpcapital.com

Risk management

To ensure objective and rigorous risk management, independent teams of portfolio managers are responsible for defining and monitoring risk management policies.

The Risk Management Committee of the Caisse's Board of Directors ensures oversight of the policies and systems designed to maintain an acceptable level of operational, market, credit and liquidity risk. It ensures that these policies are applied. The Committee also examines any transaction, investment or investment-related matter of significance, in particular as a function of its impact on the overall portfolio. The Committee approves the Caisse's risk policies and budgets, which are submitted to it by the Depositor-Client Account Management and Integrated Risk Management Committee (DRC).

The DRC for its part has a mandate to oversee and put in place policies and systems designed to maintain an acceptable level of operational, market, credit and liquidity risk.

The DRC's duties include interpreting depositors' investment policies, in particular in terms of market, liquidity and credit risk. It monitors and controls such risks and makes regular reports to the Executive Committee and the Board's Risk Management Committee.

It examines measures to be taken to manage risks adequately. It approves risk policies and limits to maintain the best possible risk-return balance.

Any transactions that exceed a manager's risk budget are submitted to the DRC, which must approve them. If such transactions exceed the DRC's level of authority, it seeks approval from the Risk Management Committee of the Board of Directors.

Ongoing improvement of risk management

The DRC and portfolio managers are supported by internal and external experts, whose role is to improve risk evaluation methods.

To ensure that the Caisse's oversight and integrated risk management comply with the industry's best practices, risk management policies are reviewed regularly with a view to ongoing improvement.

Risk categories

The risks managed by the Caisse fall into four main categories.

Market risk

Market risk is the risk of financial loss resulting from fluctuations in the price of financial instruments. The value of a financial instrument can be affected by interest rate and foreign exchange fluctuations, as well as variations in the price of shares and commodities.

The market risk to which the portfolios are exposed is assessed periodically. It is measured according to the value at risk (VaR) method, which is based on a statistical evaluation of the volatility of individual market positions and their co-relation. The Caisse uses risk-assessment methods associated with cash securities and derivative financial instruments.

A team of specialists, independent from the teams of portfolio managers, assesses and monitors risk in individual portfolios. This follow-up is then used to assess the risk of each asset class and the overall portfolio and to determine the asset mix that will achieve an optimal risk-return balance. Moreover, these specialists act as advisers to the managers, who are given a risk budget to optimize the risk-return balance of the overall portfolio.

Credit risk

Credit risk is the risk of financial loss resulting from the inability of a counterparty to honour its obligations. The Caisse constantly monitors investments that are sensitive to credit risk with the help of several analyses.

/ The analysis of concentration risk measures the fair value of all financial products related to a single issuer or a group of issuers with common characteristics.

/ The analysis of default risk measures the probability of default and the recovery rate on debt products held by the Caisse taking into account the credit quality of each security.

/ The analysis of counterparty risk measures, in the case of derivative financial products, current credit exposure of the Caisse's counterparties for over-the-counter derivatives. This analysis takes creditworthiness into account to establish reasonable limits for each counterparty.

/ The analysis of delivery risk measures the risk of default and liquidity in the settlement of transactions. This risk arises mainly from currency contracts.

These four analyses give an overview of the various aspects of credit risk.

Liquidity risk

Liquidity risk is related to the Caisse's ability to ensure that the invested funds are available and to discharge its financial obligations.

Compliance with established rules is verified on a daily basis and the liquidity status is submitted on a monthly basis to the DRC. Risk management evaluates the liquidity situation in scenarios involving unfavourable movements on financial markets and recommends an acceptable level of liquidity.

Operational risk

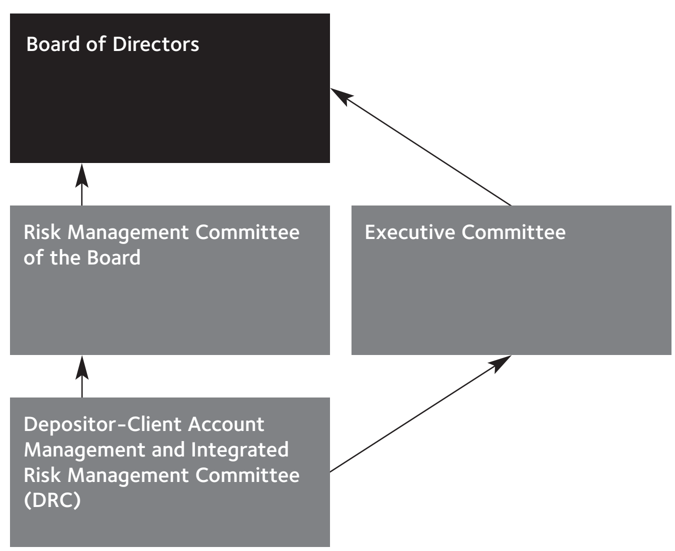
Operational risk corresponds to the risk of direct or indirect financial loss arising from inadequate or failed business processes, human resources and systems or from external events.

As part of integrated risk management, a new team has been assigned to operational risk. The team's mandate for 2003 will be to put in place ways of measuring the number of errors that occur at each stage of the transaction process. These statistics will be used to improve the process.

Legal risk is an operational risk related to the rights and obligations pertaining to the Caisse's operations and the legislative framework in which they are carried out. Compliance with the laws and regulations governing the Caisse and its management teams and assurance that the agreements concluded by the institution reflect the planned activities and contain the appropriate provisions are important facets of legal risk.

A team of experts provides routine advisory and support services to the managers regarding legal matters. These experts define the risks associated with each sector of activity, promote awareness of legal risk and propose methods based on the needs of decision-making centres.

Figure 14
Risk management



Financial Statements

Management's responsibility for financial reporting

The combined financial statements of the Caisse de dépôt et placement du Québec were prepared by management, which is responsible for the completeness and fairness of such data. This responsibility includes selecting the appropriate accounting policies in accordance with generally accepted accounting principles in Canada. Combined financial statements may contain information based on management's best estimates and judgment and considering their relative importance.

Management is also responsible for the information and declarations disclosed in other sections of the Operations report, and ensures that the financial information presented elsewhere in this annual report is consistent with that shown in the 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 combined financial statements. The Board of Directors is assisted by the Audit Committee, of which all members are outside directors. The Audit Committee meets with management and the auditor, examines the financial statements and recommends their approval by the Board of Directors.

The combined financial statements of the Caisse are audited by the Auditor General of Québec, who conducted his audit in accordance with generally accepted auditing standards in Canada. 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.

Henri-Paul Rousseau
Chairman of the Board and Chief Executive Officer

Ghislain Parent
Executive Vice-President, Finance and Administration

Montréal, February 13, 2003

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, 2002, 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 auditing standards generally accepted in Canada. These 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, 2002, and the results of their operations and the changes in their net assets for the year then ended in accordance with accounting principles generally accepted in Canada. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, except for the change to the hedge accounting of foreign exchange risk, as explained in note 3, these principles have been applied on a basis consistent with that of the preceding year.

Acting Auditor General

Doris Paradis

Doris Paradis, CA
Québec City, February 13, 2003

Combined Financial Statements

Combined Statement of Net Assets

As at December 31, 2002

(in millions of dollars)	**2002**	2001
ASSETS		
Investments at fair value *(note 4a)*	**103,863**	116,647
Advances to depositors	**1,157**	789
Investment income, accrued and receivable	**764**	862
Transactions being settled	**665**	1,206
Other assets	**967**	848
	107,416	120,352
LIABILITIES		
Liabilities related to investments *(note 4b)*	**27,070**	31,702
Transactions being settled	**854**	1,890
Other liabilities	**889**	885
Non-controlling interests *(note 4c)*	**921**	602
	29,734	35,079
DEPOSITORS' HOLDINGS *(note 5)*	**77,682**	85,273

Contingencies *(note 12)*

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

On behalf of the Board of Directors,

Henri-Paul Rousseau

Jean-Claude Bachand

Combined Statement of Income and Changes in Net Assets

For the Year Ended December 31, 2002
(in millions of dollars)

	2002	2001
Net investment income *(note 6a)*	**3,564**	3,600
Less:		
Administrative expenses *(note 8)*	**68**	57
Net investment income	**3,496**	3,543
Gains (losses) on sale of investments *(note 6b)*	**(6,068)**	(1,310)
Total realized income	**(2,572)**	2,233
Unrealised decrease in the value of investments and liabilities related to investments *(note 6c)*	**(5,981)**	(6,897)
Total investment operations	**(8,553)**	(4,664)
Excess depositors' deposits over withdrawals	**962**	1,674
DECREASE IN COMBINED NET ASSETS	**(7,591)**	(2,990)
COMBINED NET ASSETS, BEGINNING OF YEAR	**85,273**	88,263
COMBINED NET ASSETS, END OF YEAR	**77,682**	85,273

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

Combined Funds

Notes to Financial Statements

December 31, 2002

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. Pursuant to both the federal and provincial income tax acts, the Caisse is not subject to income taxes.

GENERAL FUND (consolidated statements)
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:

	2002		2001	
	Number of units	**%**	Number of units	%
Régie des rentes du Québec				
Fonds du Régime de rentes du Québec	**21,734,582**	**98.2**	20,402,243	97.6
Régime de rentes de survivants*	**396,952**	**1.8**	391,730	1.9
La Financière agricole du Québec**	**—**	**—**	110,581	0.5
Office de la protection du consommateur				
Fonds des cautionnements des agents de voyages				
Cautionnements collectifs				
Détaillants	**3,258**	**—**	4,690	—
Grossistes	**—**	**—**	570	—
Cautionnements individuels	**1,117**	**—**	1,117	—
Magazine Protégez-Vous	**2,100**	**—**	2,100	—
Régie des marchés agricoles et alimentaires du Québec				
Fonds d'assurance-garantie	**5,236**	**—**	5,190	—
Fédération des producteurs de bovins du Québec	**2,662**	**—**	2,375	—
	22,145,907	**100.0**	20,920,596	100.0

* For the administration of survivor benefits for the management personnel of the government and public sector, under the responsibility of the secretariat of the Conseil du Trésor.
** On November 1, 2002, the Financière agricole du Québec's share of net assets in the General Fund, representing 0.2% of the net holdings of participation deposit holders of such fund, was transferred into the Fonds d'assurance stabilisation des revenus agricoles and the Fonds d'assurance récolte, created at that date for this depositor. The fair value of the net assets transferred, established as of October 31, 2002, was $34 M. As of January 1, 2003, other depositors will transfer their holdings from the general Fund into their own individual funds.

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

Fund 301
For the Government and Public Employees Retirement Plan administered by the Commission administrative des régimes de retraite et d'assurances.

Fund 302
For the future Pension Plan for Management 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 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.

Fund 307
For the Société de l'assurance automobile du Québec.

Fund 311
For the Supplemental Pension Plan for Employees of the Québec Construction Industry – general account – administered by the Commission de la construction du Québec.

Fund 312
For the Supplemental Pension Plan for Employees of the Québec Construction Industry – retirees account – administered by the Commission de la construction du Québec.

Fund 313
For the Supplemental Pension Plan for Employees of the Québec Construction Industry – supplementary account – administered by the Commission de la construction du Québec.

Fund 314
For the Régie de l'assurance-dépôts du Québec.

Fund 315
For the Fonds d'assurance-prêts agricoles et forestiers administered by la Financière agricole du Québec (previously administered by the Société de financement agricole du Québec).

Fund 316
For the Fonds d'amortissement du régime de retraite – RREGOP administered by the ministère des Finances du Québec.

Fund 317
For the Fonds d'amortissement of the future Pension Plan for Management – PPM administered by the ministère des Finances du Québec.

Fund 318
For the Fonds d’amortissement des autres régimes de retraite administered by the ministère des Finances du Québec.

Fund 325
For the Fonds d’assurance stabilisation des revenus agricoles administered by the Financière agricole du Québec.

Fund 326
For the Fonds d’assurance récolte administered by the Financière agricole du Québec.

Fund 330
For the Commission de la santé et de la sécurité du travail.

SPECIALIZED PORTFOLIOS

The specialized portfolios are pooled funds for participation deposits of the various Funds. The specialized portfolios are the following:

/ Bonds
/ Québec International Bonds
/ Canadian equities
/ Diversified, strategic and tactical investments
/ U.S. equities – hedged (consolidated statements)
/ U.S. equities – unhedged
/ Emerging markets equities
/ Foreign equities – hedged (consolidated statements)
/ Foreign equities – unhedged
/ Mortgages (consolidated statements)
/ Real estate investments (consolidated statements)
/ Short-term investments

2 – ACCOUNTING POLICIES

The combined financial statements of the Caisse have been prepared by management in accordance with generally accepted accounting principles in Canada. 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 specialized portfolios. The accounts of each of these Funds and each of these portfolios are reflected in separate financial statements audited by the Auditor General of Québec.

B) INVESTMENTS AND JOINT OPERATIONS

Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value which would be agreed upon in an arm’s-length transaction between knowledgeable, willing parties who are under no compulsion to act, established at year-end.

Fixed-income securities

Fixed-income securities comprise short-term investments, bonds and mortgages. These securities are recorded as at the commitment date, except mortgages, which are recorded as at the date of agreement.

i) *Valuation method*

The fair value of fixed-income securities is determined by means of valuation methods used in capital markets, such as the annualization of future cash flows at the current interest rate and the closing prices of the major stock exchanges as well as those provided by recognized financial institutions. In addition, certain valuations are made according to commonly used valuation methods or on the basis of similar arm's-length transactions.

ii) *Investment income and gains and losses on the sale of investments*

Investment income from fixed-income securities includes amortization of the premium and the discount, which makes it possible to maintain a constant real return until maturity.

Gains and losses on the sale of investments represent the difference between the unamortized cost and the net realizable fair value on the sale of investments. The unamortized cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments, and it is restated to take into account amortization of the premium or the discount.

Variable-income securities

Variable-income securities comprise shares and convertible securities as well as real estate holdings. Shares and convertible securities are recorded as at the commitment date whereas real estate holdings are recorded as at the date of agreement.

i) *Valuation method*

The fair value of shares traded on a stock exchange is determined from the closing prices on the major stock exchanges as well as those provided by recognized financial institutions. For shares not traded on a stock exchange and real estate holdings, valuations are made by independent valuators, while others are made according to commonly used valuation methods or on the basis of similar arm's-length transactions. The valuations of shares and convertible securities that are not publicly traded are reviewed annually by an independent valuation committee.

ii) *Investment income and gains and losses on the sale of investments*

Dividend income is recognized on the ex-dividend date.

Income from real estate holdings is reduced by interest on loans, notes payable and mortgage loans payable, and is recorded under the item Net investment income – variable-income securities.

Gains and losses on the sale of investments represent the difference between the cost and the net realizable value on the sale of investments. The cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments.

Derivative financial instruments

Pursuant to its investment operations management, the Caisse conducts transactions involving various derivative financial instruments, to manage the risks associated with exchange rate, interest rate and market fluctuations.

Derivative financial instruments whose fair value is favourable are recorded in the item Investments, while those whose fair value is unfavourable are recorded in Liabilities related to investments.

i) *Valuation method*
Derivative financial instruments are recorded at their fair value at year-end. These values are established from closing prices on the major stock exchanges as well as those provided by recognized financial institutions. In the case of unlisted instruments, certain valuations are made on the basis of similar arm's-length transactions or according to recognized, commonly used models.

ii) *Investment income and gains and losses on the sale of investments*
Investment income relative to derivative financial instruments is included in income from fixed-income and variable-income securities, whereas gains and losses relative to derivative financial instruments are included in gains (losses) on the sale of investments as a function of the underlying investments. The balance of deferred gains and losses on derivative financial instruments used to hedge foreign exchange risks, as of December 31, 2001, is recorded in gains and losses on the sale of investments based on the balance of portfolio positions in foreign investments, net of disposals over the coming years.

Securities acquired under reverse repurchase agreements

The Caisse conducts securities borrowing operations involving short-term investments and bonds, to cover short sales or to generate additional income from securities borrowing operations. These securities borrowing operations are recorded in Securities acquired under reverse repurchase agreements. Interest earned on reverse repurchase agreements is recorded as interest income under the item Net investment income – Fixed-income securities.

Securities sold under repurchase agreements

The Caisse conducts securities lending operations involving short-term investments and bonds, to generate cash flow liquidity purposes or to generate additional income from securities lending operations. These securities lending operations are recorded in Securities sold under repurchase agreements. Interest paid on repurchase agreements is reduced by Net investment income – Fixed-income securities.

Short selling of securities

Short selling of securities represents the commitment by the Caisse to purchase securities that it did not hold at the time of the sale. Interest related to commitments involving short selling of short-term investments and bonds is recorded in net Investment income – fixed-income securities, while costs related to commitments involving short selling of shares are recorded in Net investment income – Variable-income securities.

Gains and losses on commitments related to short selling of short-term investments and bonds are recorded in Gains and losses on the sale of investments – Fixed-income securities, while those related to short selling of shares are recorded in Gains and losses on the sale of investments – Variable-income securities.

C) PROPERTY ADMINISTERED AND PROPERTY UNDER MANAGEMENT

The subsidiaries of the Caisse administer and manage property entrusted to them by clients and on their behalf. This property is not included in the combined statement of net assets of the Caisse. The subsidiaries of the Caisse receive fees in return for the portfolio management services and administrative services provided, which include administration of real estate properties and management of securitized loans.

D) FOREIGN CURRENCY TRANSLATION

The fair 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 from integrated foreign operations and the unamortized cost of investments in bonds, mortgages and short-term investments are translated at the rate prevailing on the acquisition date. The cost of investments from self-sustaining foreign operations is translated at the rate prevailing at year-end.

Income is translated at the rate of exchange prevailing on the transaction date, except income from the specialized real estate investments portfolio, which is translated at the average rate for the year.

E) LOAN SECURITIZATION

The Caisse periodically securitizes loans by selling loans to a collateralized security entity which then issues securities to investors. Such transactions are recorded as sales where the Caisse is deemed to have abandoned control over such assets and to have received compensation other than the beneficial rights attached to the assets disposed of, in accordance with accounting guideline No.12. At the time of securitization, no beneficial right attached to the securitized loans is retained. Any gains and losses deriving from such transactions are recorded in Gains (losses) on sale of investments – Mortgages.

The Caisse usually continues to manage loans after disposition. Since management fees are established based on market, no assets or liabilities under management have been recorded as at the date of disposition.

F) 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 – CHANGE IN ACCOUNTING POLICY

The Caisse no longer applies hedge accounting for foreign exchange risks, as of January 1, 2002. Gains and losses on derivative financial instruments in connection with foreign exchange risks are recorded in income at the time such instruments are liquidated. Previously, gains and losses on such instruments were deferred and recorded in income at the time investments hedged by such instruments were liquidated.

The prospective application of this change has no impact on the depositors' holdings, as it basically implies disclosing the amounts between gains (losses) on the sale of investments and the unrealized increase (decrease) in the value of investments and liabilities related to investments, in the statement of income and changes in net assets.

4 – INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A) INVESTMENTS

(in millions of dollars)	**2002**		2001	
	Fair value	**Cost**	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	**4, 427**	**4,460**	4,134	4,151
Foreign	**1,245**	**1,261**	981	1,001
	5,672	**5,721**	5,115	5,152
Bonds				
Securities issued or guaranteed by:				
Canadian government	**7,650**	**7,386**	8,911	8,708
Province of Québec	**12,919**	**11,792**	13,204	12,494
Other Canadian provinces	**271**	**266**	284	291
Municipalities and other Canadian bodies	**1,377**	**1,227**	1,469	1,325
Canadian government corporations	**5,032**	**4,200**	4,741	4,145
U.S. government	**633**	**584**	2,701	2,638
Other foreign governments	**204**	**180**	1,097	1,118
Mortgage securities	**97**	**92**	13	13
Canadian corporations	**3,941**	**4,044**	3,760	3,828
Foreign corporations	**1,941**	**2,371**	2,587	2,713
	34,065	**32,142**	38,767	37,273
Mortgages				
Canadian	**3,896**	**3,748**	3,819	3,746
Foreign	**648**	**625**	336	311
	4,544	**4,373**	4,155	4,057
Total fixed-income securities	**44,281**	**42,236**	48,037	46,482
Variable-income securities				
Shares and convertible securities				
Canadian	**16,118**	**19,407**	19,531	20,370
American	**10,068**	**12,442**	11,030	11,033
Foreign and emerging markets	**9,846**	**11,481**	11,747	12,339
Other	**2,472**	**2,685**	1,131	1,077
	38,504	**46,015**	43,439	44,819
Real estate holdings				
Canadian	**9,100**	**9,360**	9,121	9,201
Foreign	**7,665**	**7,226**	6,557	6,089
	16,765	**16,586**	15,678	15,290
Total variable-income securities	**55,269**	**62,601**	59,117	60,109
Amounts to be received in respect of investments				
Canadian securities acquired under reverse repurchase agreements	**1,111**	**1,111**	1,103	1,103
Foreign securities acquired under reverse repurchase agreements	**2,038**	**2,011**	7,407	7,369
Amount pertaining to Canadian derivative products	**202**	**12**	137	—
Amount pertaining to foreign derivative products	**962**	**196**	846	247
	4,313	**3,330**	9,493	8,719
TOTAL INVESTMENTS	**103,863**	**108,167**	116,647	115,310

B) LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	2002		2001	
	Fair value	**Cost**	Fair value	Cost
Canadian securities sold under repurchase agreements	**9,403**	**9,401**	5,802	5,801
Foreign securities sold under repurchase agreements	**2,161**	**2,143**	6,505	6,478
Canadian loans and notes payable	**563**	**565**	747	755
Foreign loans and notes payable	**127**	**137**	472	474
Canadian commercial mortgage-backed securities	**646**	**608**	675	659
Short selling of Canadian securities	**4,421**	**4,470**	5,076	4,967
Short selling of foreign securities	**1,553**	**1,568**	5,362	5,183
Canadian mortgage loans payable	**2,422**	**2,307**	2,539	2,483
Foreign mortgage loans payable	**4,035**	**3,981**	3,345	3,325
Amount pertaining to Canadian derivative products	**219**	**36**	127	19
Amount pertaining to foreign derivative products	**1,520**	**164**	1,052	171
	27,070	**25,380**	31,702	30,315

C) NON-CONTROLLING INTERESTS

(in millions of dollars)	2002		2001	
	Fair value	**Cost**	Fair value	Cost
Canadian	**430**	**489**	392	440
Foreign	**491**	**343**	210	93
	921	**832**	602	533

D) SUMMARY GEOGRAPHIC BREAKDOWN AT MARKET VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	2002			2001		
	Canadian	**Foreign**	**Total**	Canadian	Foreign	Total
Investments						
Fixed-income securities	**38,916**	**5,365**	**44,281**	39,732	8,305	48,037
Shares and convertible securities	**16,118**	**22,386**	**38,504**	19,531	23,908	43,439
Real estate holdings	**9,100**	**7,665**	**16,765**	9,121	6,557	15,678
Amounts to be received in respect of investments	**1,313**	**3,000**	**4,313**	1,240	8,253	9,493
	65,447	**38,416**	**103,863**	69,624	47,023	116,647
Liabilities related to investments	**17,674**	**9,396**	**27,070**	14,966	16,736	31,702
Non-controlling interests	**430**	**491**	**921**	392	210	602

E) SUMMARY OF MATURITIES OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS AT PAR VALUE

(in millions of dollars)				2002			2001
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effective interest rate	Total per value	Effective interest rate
Fixed-income securities							
Short-term investments							
Canadian	3,950	259	263	4,472	3.4%	4,057	2.8%
Foreign	213	204	874	1,291	5.2%	996	6.4%
	4,163	463	1,137	5,763	3.8%	5,053	4.1%
Bonds							
Securities issued or guaranteed by:							
Canadian government	2,037	764	4,248	7,049	5.0%	8,230	5.4%
Province of Québec	1,029	3,443	6,998	11,470	6.4%	12,002	6.5%
Other Canadian provinces	—	50	197	247	5.7%	248	5.7%
Municipalities and other Canadian bodies	243	424	501	1,168	7.2%	1,252	7.4%
Canadian government corporations	118	323	3,789	4,230	7.5%	4,344	7.6%
U.S. government	—	—	826	826	5.3%	2,597	4.0%
Other foreign governments	—	—	308	308	5.7%	1,059	3.7%
Mortgage securities	—	26	66	92	7.5%	13	8.2%
Canadian corporations	546	2,155	1,228	3,929	6.3%	3,554	6.4%
Foreign corporations	199	502	1,571	2,272	6.3%	2,771	6.5%
	4,172	7,687	19,732	31,591	6.2%	36,070	6.2%
Mortgages							
Canadian	929	625	2,194	3,748	7.2%	3,732	7.4%
Foreign	106	216	303	625	9.4%	311	13.7%
	1,035	841	2,497	4,373	7.5%	4,043	7.9%
	9,370	8,991	23,366	41,727	6.0%	45,166	6.0%
Amounts to be received with respect to investments							
Canadian securities acquired under reverse repurchase agreements	1,104	—	—	1,104	2.7%	1,109	2.2%
Foreign securities acquired under reverse repurchase agreements	2,195	—	—	2,195	1.3%	7,415	1.5%
	3,299	—	—	3,299	1.8%	8,524	1.6%
Liabilities related to investments							
Securities sold under repurchase agreements	12,558	—	—	12,558	2.5%	12,329	1.9%
Loans and notes payable	701	—	—	701	3.2%	1,443	3.4%
Canadian commercial mortgage-backed securities	54	19	535	608	6.6%	660	6.2%
Short selling of securities	51	1,200	1,532	2,783	4.4%	7,288	3.4%
Mortgage loans payable	2,517	1,705	2,073	6,295	6.0%	5,808	6.5%
	15,881	2,924	4,140	22,945	3.8%	27,528	3.4%

The balance of losses on derivative financial foreign exchange risk hedging instruments reported in the cost of investments as of December 31, 2001, was $371 M as at December 31, 2002 ($557 M as at December 31, 2001).

The fair value of investments in bonds, shares and convertible securities, and short-term investments includes investments in private companies, in the amount of $1,525 M, $771 M and $5,373 M respectively as at December 31, 2002 ($1,317 M in short term investments, $1,100 M in bonds, and $6,955 M in shares and convertible securities in 2001), for which market prices are not available.

In addition, the $6,068 M ($1,310 M in 2001) of losses on the sale of investments recorded in the combined statement of changes in net assets includes $317 M in foreign exchange losses ($196 M in gains in 2001).

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 monthly period for the General Fund and 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.

(in millions of dollars)	**2002**	2001
Indebtedness toward depositors		
Demand deposits	**155**	106
Term deposits	**23**	36
Interest on demand and term deposits	**(1)**	—
Net income to be paid out to participation deposit holders	**195**	455
	372	597
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	**80,190**	73,802
Units issued	**5,107**	6,949
Units cancelled	**(595)**	(561)
Balance, end of year	**84,702**	80,190
Amount not allocated with respect to real estate holdings*	**56**	73
Unrealized increase (decrease) in value allocated following interfund transactions	**22**	(129)
Amount not allocated following gains and losses on the sale of investments in the specialized portfolios**	**(1,387)**	4,661
Unrealized increase (decrease) in the value of investments and other related assets and liabilities	**(6,083)**	(119)
	77,310	84,676
DEPOSITORS' HOLDINGS	**77,682**	85,273

* Represents the restated amount of accumulated amortization of real estate properties resulting from the recording of investments at fair value. This amount will be allocated upon the sale of the properties.
** Represents the gains and losses on the sale of investments in the specialized portfolios which are not distributed at year-end. This amount will be allocated upon the sale of the participation units in portfolios.

6 – NET INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A) NET INVESTMENT INCOME

(in millions of dollars)	**2002**	2001
Fixed-income securities		
Short-term investments	**208**	282
Bonds	**1,856**	2,000
Mortgages	**259**	207
	2,323	2,489
Variable-income securities		
Shares and convertible securities	**696**	579
Real estate holdings	**753**	651
	1,449	1,230
Other income	**38**	32
Investment management expenses net of fees received *(note 7)*	**(189)**	(98)
Non-controlling interests	**(57)**	(53)
	3,564	3,600

B) GAINS (LOSSES) ON SALE OF INVESTMENTS

(in millions of dollars)	**2002**	2001
Fixed-income securities		
Short-term investments	**186**	441
Bonds	**66**	377
Mortgages	**9**	—
	261	818
Variable-income securities		
Shares and convertible securities	**(6,317)**	(2,130)
Real estate holdings	**(10)**	19
	(6,327)	(2,111)
Non-controlling interests	**(2)**	(17)
	(6,068)	(1,310)

C) UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	2002	2001
Fixed-income securities		
Short-term investments	**164**	(330)
Bonds	**524**	136
Mortgages	**76**	62
Securities acquired under reverse repurchase agreements	**(11)**	48
	753	(84)
Variable-income securities		
Shares and convertible securities	**(6,185)**	(7,340)
Real estate holdings	**(226)**	187
	(6,411)	(7,153)
Less:		
Liabilities related to investments		
Loans and notes payable	**(2)**	(9)
Commercial mortgage-backed securities	**22**	11
Securities sold under repurchase agreements	**(8)**	17
Short selling of securities	**(352)**	22
Mortgage loans payable	**93**	59
Derivative financial instruments	**550**	(330)
Non-controlling interests	**20**	(110)
	(323)	(340)
	(5,981)	(6,897)

7 – INVESTMENT MANAGEMENT EXPENSES NET OF FEES RECEIVED

(in millions of dollars)	2002	2001
Salaries and employee benefits	**100**	77
Professional fees	**53**	35
Premises and equipment	**9**	6
Depreciation of fixed assets	**16**	11
Other	**32**	20
	210	149
External – management and safekeeping of securities	**14**	15
	224	164
Less:		
Received fees	**64**	66
	160	98
Reorganization costs *(note 9)*	**29**	—
	189	98

During 2002, the Caisse had office space rental costs payable to subsidiaries in the amount of $5 M ($5 M in 2001). These costs were not recorded for combined financial statement purposes.

8 – ADMINISTRATIVE EXPENSES

(in millions of dollars)	**2002**	2001
Salaries and employee benefits	**28**	31
Professional fees	**11**	9
Premises and equipment	**5**	3
Depreciation of fixed assets	**5**	4
Other	**11**	10
	60	57
Reorganization costs *(note 9)*	**8**	—
	68	57

9 – REORGANIZATION COSTS

The combined results for 2002 include reorganization costs in the amount of $37 M, of which $29 M were recorded as investment management costs and $8 M as administrative expenses. Such costs derive from the reorganization of investment operations, corporate functions and institutional services. Costs include termination allowances, professional services including consultant contracts cancelled due to the downsizing of some foreign operations, professional services in connection with the corporate appraisal process and other costs such as lease and equipment rental contracts cancelled. The Caisse expects to finalize most of its reorganization in 2003. The balance at the end of 2002 is recorded in Other liabilities in the combined statement of net assets.

(in millions of dollars)			**2002**
	Costs incurred during 2002	**Amount paid**	**Balance at end of year**
Termination allowances	**11**	**1**	**10**
Other termination allowances for permanent and contractual employees due to the downsizing of some foreign operations	**11**	**—**	**11**
Professional services	**10**	**1**	**9**
Other	**5**	**1**	**4**
	37	**3**	**34**

10 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates as a function of the underlying security, and which do not require holding or delivery of the underlying good itself. The underlying good may be of a financial nature (interest rate, foreign currency, stock market security or index) or a commodity (precious metal, foodstuff, oil).

The notional amount of a derivative financial instrument represents the value of the theoretical capital to which a rate or a price applies to determine the exchange of future financial returns, and dœs not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include those described below:

Forward contracts and futures contracts are undertakings that enable to receive or deliver an underlying good, the quantity and price of which are determined in the contract, by a predetermined delivery date. A forward contract involves customized conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.

A swap is a transaction whereby two parties agree to exchange financial returns on predetermined conditions that include a notional amount and a term.

An option is a contract negotiated by mutual agreement or traded on an organized market, giving the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity, at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies as well as related derivative financial instruments. To manage the exchange risk, the Caisse uses instruments negotiated with banks; maturities generally range from one to three months in the case of forward exchange contracts and options, and one to two years for foreign currency swaps. On maturity, new derivative financial instruments are negotiated to maintain effective long-term management of foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

Moreover, swaps, futures contracts and options negotiated with counterparties are used to manage the interest rate and market risks of the total investment portfolio, as well as to generate additional income, which is included in income or expenses from fixed-income and variable-income securities.

These transactions are negotiated with counterparties whose credit rating is established by a recognized credit rating agency, and operational limits are duly approved by management, which supports signing compensation agreements in order to limit credit risk.

A) SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)

	2002				2001
		Fair value			
	Notional amount	**Assets**	**Liabilities**	**Net amount**	Net amount
Foreign exchange risk management					
Foreign currency swaps	**570**	**4**	**221**	**(217)**	(132)
Forward contracts	**28,425**	**22**	**652**	**(630)**	(318)
Over-the-counter foreign currency options					
Purchases	**712**	**5**	**—**	**5**	2
Sales	**499**	**—**	**4**	**(4)**	—
	30,206	**31**	**877**	**(846)**	(448)
Interest rate and market risk management					
Interest rate and foreign currency swaps	**29,659**	**544**	**677**	**(133)**	76
Equity swaps	**4,057**	**27**	**10**	**17**	(1)
Forward contracts	**22,972**	**325**	**34**	**291**	101
Futures contracts	**22,062**	**—**	**—**	**—**	—
Exchange-traded options					
Purchases	**5,529**	**19**	**—**	**19**	29
Sales	**15,599**	**—**	**15**	**(15)**	(26)
Over-the-counter options					
Purchases	**20,845**	**218**	**—**	**218**	162
Sales	**13,282**	**—**	**126**	**(126)**	(89)
	134,005	**1,133**	**862**	**271**	252
Fair value of derivative financial instrument contracts	**164,211**	**1,164**	**1,739**	**(575)**	(196)

B) SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENT MATURITIES

(in millions of dollars)				**2002**	2001
				Notional amount – Maturity	Notional amount
	Less than 2 years	**2 to 5 years**	**More than 5 years**	**Total**	Net amount
Foreign exchange risk management					
Foreign currency swaps	**20**	**70**	**480**	**570**	527
Forward contracts	**28,425**	**—**	**—**	**28,425**	28,774
Over-the-counter foreign currency options					
Purchases	**696**	**16**	**—**	**712**	255
Sales	**499**	**—**	**—**	**499**	120
	29,640	**86**	**480**	**30,206**	29,676
Interest rate and market risk management					
Interest rate and foreign currency swaps	**4,887**	**12,196**	**12,576**	**29,659**	32,097
Equity swaps	**4,053**	**—**	**4**	**4,057**	2,935
Forward contracts	**22,972**	**—**	**—**	**22,972**	24,670
Futures contracts	**14,328**	**7,392**	**342**	**22,062**	44,990
Exchange-traded options					
Purchases	**5,529**	**—**	**—**	**5,529**	15,782
Sales	**15,599**	**—**	**—**	**15,599**	19,823
Over-the-counter options					
Purchases	**13,859**	**5,331**	**1,655**	**20,845**	12,669
Sales	**7,347**	**4,829**	**1,106**	**13,282**	8,526
	88,574	**29,748**	**15,683**	**134,005**	161,492
Total derivative financial instrument contracts	**118,214**	**29,834**	**16,163**	**164,211**	191,168

11 – SECURITIZATION

During the year, the Caisse securitized a number of commercial mortgages and mortgage securities in the amount of $335.5 M, through commercial mortgage-backed securities. In 2002, commercial mortgage-backed securities in the amount of $352.5 M were issued. The Caisse received net proceeds of $346.1 M. A net gain of $7.6 M, net of transactions costs, was recorded in Gains (losses) on sale of investments – Mortgages.

Commercial mortage-backed securities acquired by the Caisse are recorded in the combined statement of net assets, Mortgage securities. As at December 31, 2002 such securities amounted to $34.0 M. Securitization allowed the Caisse to generate $0.2 M in management fees during 2002. As regards transactions finalized during the year, no rights were retained in the specialized portfolio of mortgages (Hypothèques CDPQ Inc.). No losses are expected due to the nature and quality of the loans.

12 – CONTINGENCIES

A) COLLATERALS

In the normal course of business, the Caisse conducts transactions involving the lending and borrowing of securities in exchange for collateral or assets with various counterparties with which clearing agreements have been signed to limit credit risk. In its securities-lending operations, the Caisse received assets as collateral. As at December 31, the Caisse pledged and received as collateral securities and other assets for amounts of $12.561 M ($13.173 M in 2001) and $5.197 M ($9.364 M in 2001) respectively. The amount of the assets pledged as collateral consists of assets with a value of $704 M ($747 M in 2001), which were pledged to participate in clearing and payment systems, and deposited with depositaries.

B) CLAIMS PENDING

Certain Caisse subsidiaries are subjected to legal actions for damages for a total amount of CAN$240 M (US$150 M). The subsidiaries believe the outcome of such actions will have no important negative impact on the Caisse's financial position.

13 – COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to conform with the presentation used in 2002.

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE FUNDS

(in millions of dollars)

	GENERAL FUND		INDIVIDUAL FUNDS							
			301		302		303		305	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
ASSETS										
Investments at fair value										
Bonds	6,700.7	7,809.8	10,340.3	11,766.8	1,550.3	1,723.5	57.5	67.1	35.0	36.2
Shares and convertible securities	7,004.1	7,759.4	12,162.7	13,587.4	1,932.9	2,109.3	81.2	92.0	49.3	55.2
Mortgage loans	692.7	614.4	1,389.8	1,104.1	193.2	151.5	5.1	5.4	3.0	3.3
Real estate investments	1,921.8	1,624.5	2,743.8	2,751.2	458.0	473.4	17.5	14.5	10.6	13.0
Short-term investments	754.9	660.4	489.9	674.1	77.5	102.8	2.3	4.2	1.4	2.5
Demand deposits in the General Fund	—	—	10.6	—	—	—	—	—	—	0.4
	17,074.2	18,468.5	27,137.1	29,883.6	4,211.9	4,560.5	163.6	183.2	99.3	110.6
Other assets	4,373.9	3,159.6	133.0	160.1	20.7	25.3	0.7	0.9	0.5	0.7
	21,448.1	21,628.1	27,270.1	30,043.7	4,232.6	4,585.8	164.3	184.1	99.8	111.3
LIABILITIES										
Demand and term deposits	4,459.2	2,656.3	—	16.6	0.1	15.3	—	—	—	—
Notes payable	137.5	370.9	108.4	48.8	16.8	7.4	0.6	—	0.4	0.2
Derivative financial instruments	6.2	10.6	9.4	—	1.5	—	—	—	—	—
Other liabilities	241.6	363.4	80.4	200.1	12.5	23.9	0.4	0.9	0.3	4.0
	4,844.5	3,401.2	198.2	265.5	30.9	46.6	1.0	0.9	0.7	4.2
PARTICIPATION DEPOSIT HOLDERS' NET HOLDINGS	16,603.6	18,226.9	27,071.9	29,778.2	4,201.7	4,539.2	163.3	183.2	99.1	107.1
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31										
INCOME										
Investment income										
Bonds	436.8	552.0	704.7	820.1	101.7	117.4	4.0	4.6	2.4	4.6
Shares and convertible securities	127.4	92.7	227.8	184.8	34.7	28.7	1.5	1.3	0.9	1.3
Mortgage loans	55.8	38.8	110.4	66.9	15.1	9.0	0.5	0.6	0.3	0.4
Real estate investments	158.4	112.5	224.8	187.1	37.6	32.3	1.4	1.0	0.9	0.9
Short-term investments	12.7	26.4	4.8	29.6	0.7	4.6	—	0.2	—	0.3
Demand deposits (Advances from) in the General Fund	—	—	—	0.3	—	0.2	—	—	—	—
	791.1	822.4	1,272.5	1,288.8	189.8	192.2	7.4	7.7	4.5	7.5
Other income	11.7	4.1	—	—	—	—	—	—	—	—
Total income	802.8	826.5	1,272.5	1,288.8	189.8	192.2	7.4	7.7	4.5	7.5
Investment management expenses	6.3	3.2	—	—	—	—	—	—	—	—
Net income from investments	796.5	823.3	1,272.5	1,288.8	189.8	192.2	7.4	7.7	4.5	7.5
EXPENDITURES										
Administrative expenses	1.2	0.4	—	—	—	—	—	—	—	—
Interest on demand and term deposits	14.7	10.0	—	—	—	—	—	—	—	—
NET INVESTMENT INCOME	780.6	812.9	1,272.5	1,288.8	189.8	192.2	7.4	7.7	4.5	7.5
CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31										
INVESTMENT OPERATIONS										
Net investment income	780.6	812.9	1,272.5	1,288.8	189.8	192.2	7.4	7.7	4.5	7.5
Gains (losses) on sale of investments	(55.4)	218.4	(14.7)	555.0	(1.3)	81.0	(0.5)	1.5	—	7.0
Unrealized increase (decrease) in value of investments and liabilities	(2,654.4)	(1,978.7)	(3,911.5)	(3,400.8)	(635.5)	(529.6)	(24.9)	(18.9)	(15.3)	(27.9)
Total investment operations	(1,929.2)	(947.4)	(2,653.7)	(1,557.0)	(447.0)	(256.4)	(18.0)	(9.7)	(10.8)	(13.4)
Participation deposits	1,031.1	1,310.4	1,205.2	1,750.3	298.0	331.9	5.0	6.0	7.3	(72.9)
Net income allocated to participation deposit holders	(725.2)	(1,031.4)	(1,257.8)	(1,843.8)	(188.5)	(273.2)	(6.9)	(9.2)	(4.5)	(14.5)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	(1,623.3)	(668.4)	(2,706.3)	(1,650.5)	(337.5)	(197.7)	(19.9)	(12.9)	(8.0)	(100.8)
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	18,226.9	18,895.3	29,778.2	31,428.7	4,539.2	4,736.9	183.2	196.1	107.1	207.9
CONSOLIDATED NET ASSETS, END OF YEAR	16,603.6	18,226.9	27,071.9	29,778.2	4,201.7	4,539.2	163.3	183.2	99.1	107.1
INVESTMENTS AND CERTAIN LIABILITIES AT COST AS AT DECEMBER 31										
ASSETS										
Investments										
Bonds	7,563.8	8,085.5	10,492.4	11,574.8	1,623.6	1,719.5	55.7	64.3	33.9	34.6
Shares and convertible securities	7,862.1	6,607.7	13,768.1	11,723.7	2,179.8	1,815.1	98.0	85.6	58.1	49.8
Mortgage loans	674.3	607.6	1,353.4	1,091.2	188.3	149.8	4.9	5.3	3.0	3.2
Real estate investments	1,879.1	1,522.5	2,598.8	2,499.9	437.6	434.9	16.2	12.6	10.0	11.8
Short-term investments	753.9	654.4	488.0	669.0	77.2	102.1	2.3	4.1	1.4	2.5
Demand deposits in the General Fund	—	—	10.7	—	—	—	—	—	—	0.4
	18,733.2	17,477.7	28,711.4	27,558.6	4,506.5	4,221.4	177.1	171.9	106.4	102.3
LIABILITIES										
Term deposits	23.3	36.1	—	—	—	—	—	—	—	—
Notes payable	135.8	370.9	105.7	—	16.4	7.4	0.6	—	0.4	—
Derivative financial instruments	0.5	—	—	—	—	—	—	—	—	—

															INDIVIDUAL FUNDS
306		307		311		312		313		314		315		316	
2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
68.4	67.3	**1,661.7**	2,107.5	**880.1**	1,045.3	**897.0**	1,015.8	**337.3**	378.2	**130.2**	114.4	**35.8**	40.1	**1,602.4**	1,530.8
47.8	49.1	**3,280.8**	3,882.1	**1,474.9**	1,742.3	**1,491.2**	1,667.8	**560.2**	623.7	**—**	—	**20.0**	19.3	**1,838.3**	1,605.9
—	—	**272.4**	231.3	**86.0**	95.5	**87.0**	91.4	**32.7**	34.1	**—**	—	**5.3**	3.5	**210.1**	130.4
7.7	6.3	**590.9**	569.6	**274.5**	269.1	**266.0**	242.3	**98.4**	92.3	**0.5**	—	**2.2**	2.0	**337.7**	183.0
2.8	2.7	**112.0**	156.9	**46.9**	72.8	**54.6**	69.8	**20.7**	26.1	**128.4**	114.2	**27.4**	26.9	**115.2**	79.5
—	—	**—**	—	**—**	—	**—**	0.3	**—**	—	**—**	—	**0.1**	0.2	**—**	—
126.7	125.4	**5,917.8**	6,947.4	**2,762.4**	3,225.0	**2,795.8**	3,087.4	**1,049.3**	1,154.4	**259.1**	228.6	**90.8**	92.0	**4,103.7**	3,529.6
0.5	0.6	**25.6**	35.1	**12.0**	16.6	**11.9**	15.6	**4.5**	5.9	**0.9**	0.9	**0.4**	0.5	**18.9**	15.8
127.2	126.0	**5,943.4**	6,982.5	**2,774.4**	3,241.6	**2,807.7**	3,103.0	**1,053.8**	1,160.3	**260.0**	229.5	**91.2**	92.5	**4,122.6**	3,545.4
—	—	**1.7**	3.6	**—**	0.6	**—**	—	**—**	0.2	**—**	—	**—**	—	**0.1**	0.6
0.5	0.2	**23.7**	11.4	**11.0**	5.2	**11.2**	5.0	**4.2**	1.8	**1.0**	—	**0.4**	—	**16.4**	5.7
0.1	—	**2.0**	—	**1.0**	—	**1.0**	—	**0.4**	—	**0.1**	—	**—**	—	**1.4**	—
0.4	0.9	**12.5**	39.1	**6.0**	18.5	**6.8**	14.7	**2.2**	5.3	**1.0**	1.0	**0.3**	0.4	**12.1**	10.5
1.0	1.1	**39.9**	54.1	**18.0**	24.3	**19.0**	19.7	**6.8**	7.3	**2.1**	1.0	**0.7**	0.4	**30.0**	16.8
126.2	124.9	**5,903.5**	6,928.4	**2,756.4**	3,217.3	**2,788.7**	3,083.3	**1,047.0**	1,153.0	**257.9**	228.5	**90.5**	92.1	**4,092.6**	3,528.6
4.5	4.5	**121.6**	152.9	**62.5**	75.0	**62.4**	69.7	**23.3**	26.3	**8.2**	7.3	**2.6**	2.5	**100.3**	78.9
0.9	0.6	**61.2**	59.4	**27.5**	26.5	**27.4**	24.6	**10.2**	9.3	**—**	—	**0.3**	0.3	**31.6**	18.0
—	—	**22.2**	14.2	**7.7**	7.1	**7.7**	6.6	**2.9**	2.5	**—**	—	**0.4**	0.2	**15.7**	6.8
0.6	0.4	**48.4**	38.6	**22.5**	18.3	**21.5**	16.5	**8.0**	6.3	**—**	—	**0.1**	0.1	**27.5**	12.3
—	0.1	**0.8**	10.4	**0.3**	4.3	**0.5**	4.1	**0.2**	1.5	**3.2**	3.5	**0.7**	0.9	**1.3**	3.8
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
6.0	5.6	**254.2**	275.5	**120.5**	131.2	**119.5**	121.5	**44.6**	45.9	**11.4**	10.8	**4.1**	4.0	**176.4**	119.8
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
6.0	5.6	**254.2**	275.5	**120.5**	131.2	**119.5**	121.5	**44.6**	45.9	**11.4**	10.8	**4.1**	4.0	**176.4**	119.8
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
6.0	5.6	**254.2**	275.5	**120.5**	131.2	**119.5**	121.5	**44.6**	45.9	**11.4**	10.8	**4.1**	4.0	**176.4**	119.8
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
6.0	5.6	**254.2**	275.5	**120.5**	131.2	**119.5**	121.5	**44.6**	45.9	**11.4**	10.8	**4.1**	4.0	**176.4**	119.8
6.0	5.6	**254.2**	275.5	**120.5**	131.2	**119.5**	121.5	**44.6**	45.9	**11.4**	10.8	**4.1**	4.0	**176.4**	119.8
0.2	1.3	**19.9**	125.2	**(3.1)**	46.9	**(1.7)**	26.7	**(1.2)**	6.3	**0.3**	0.2	**(0.1)**	(0.2)	**(28.3)**	(12.1)
(12.8)	(9.9)	**(1,024.9)**	(858.2)	**(441.1)**	(377.5)	**(441.9)**	(329.7)	**(165.4)**	(121.9)	**1.9**	3.8	**(4.7)**	(1.7)	**(526.3)**	(236.4)
(6.6)	(3.0)	**(750.8)**	(457.5)	**(323.7)**	(199.4)	**(324.1)**	(181.5)	**(122.0)**	(69.5)	**13.6**	14.8	**(0.7)**	2.1	**(378.2)**	(128.7)
14.1	13.4	**—**	174.0	**(19.8)**	22.9	**147.3**	181.5	**59.4**	53.5	**27.5**	24.2	**3.1**	10.8	**1,090.4**	1,698.9
(6.2)	(6.9)	**(274.1)**	(400.8)	**(117.4)**	(178.1)	**(117.8)**	(148.2)	**(43.4)**	(52.4)	**(11.7)**	(11.0)	**(4.0)**	(3.8)	**(148.1)**	(107.7)
1.3	3.5	**(1,024.9)**	(684.3)	**(460.9)**	(354.6)	**(294.6)**	(148.2)	**(106.0)**	(68.4)	**29.4**	28.0	**(1.6)**	9.1	**564.1**	1,462.5
124.9	121.4	**6,928.4**	7,612.7	**3,217.3**	3,571.9	**3,083.3**	3,231.5	**1,153.0**	1,221.4	**228.5**	200.5	**92.1**	83.0	**3,528.5**	2,066.1
126.2	124.9	**5,903.5**	6,928.4	**2,756.4**	3,217.3	**2,788.7**	3,083.3	**1,047.0**	1,153.0	**257.9**	228.5	**90.5**	92.1	**4,092.6**	3,528.6
63.5	63.6	**1,524.7**	1,957.5	**818.0**	986.3	**832.4**	955.0	**313.1**	355.4	**123.5**	110.5	**34.3**	39.1	**1,643.3**	1,539.8
58.0	45.9	**3,772.6**	3,381.6	**1,728.6**	1,562.1	**1,812.3**	1,550.3	**707.7**	608.1	**—**	—	**26.5**	20.9	**2,625.5**	1,909.6
—	—	**265.4**	228.8	**83.5**	94.2	**84.3**	89.9	**31.6**	33.6	**—**	—	**5.1**	3.5	**204.2**	128.2
7.3	5.5	**566.7**	524.9	**260.7**	245.3	**242.6**	212.1	**92.1**	82.4	**1.0**	—	**2.1**	1.8	**334.1**	166.9
2.8	2.6	**111.5**	155.5	**46.7**	72.4	**54.4**	69.2	**20.7**	25.9	**126.5**	111.9	**27.2**	26.4	**114.8**	78.8
—	—	**—**	—	**—**	—	**—**	0.3	**—**	—	**—**	—	**0.1**	0.2	**—**	—
131.6	117.6	**6,240.9**	6,248.3	**2,937.5**	2,960.3	**3,026.0**	2,876.8	**1,165.2**	1,105.4	**251.0**	222.4	**95.3**	91.9	**4,921.9**	3,823.3
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
0.5	0.2	**23.1**	11.3	**10.8**	5.2	**10.9**	5.0	**4.1**	1.8	**1.0**	—	**0.4**	—	**16.0**	5.7
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE FUNDS (continued)

(in millions of dollars)

	INDIVIDUAL FUNDS									
	317		318		325 (created 01-11-02)		326 (created 01-11-02)		330	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
ASSETS										
Investments at fair value										
Bonds	**239.2**	236.7	**1,832.8**	1,976.7	**—**	—	**7.4**	**—**	**1,402.5**	**1,845.8**
Shares and convertible securities	**276.0**	253.8	**2,144.8**	2,222.9	**—**	—	**8.0**	**—**	**4,193.0**	**5,009.9**
Mortgage loans	**31.5**	20.6	**245.1**	180.6	**—**	—	**0.8**	**—**	**235.9**	**207.6**
Real estate investments	**53.3**	33.3	**466.0**	397.5	**1.8**	—	**2.1**	**—**	**758.6**	**793.6**
Short-term investments	**16.0**	12.6	**98.1**	110.1	**—**	—	**0.4**	**—**	**120.3**	**181.5**
Demand deposits in the General Fund	**—**	—	**—**	—	**—**	—	**—**	**—**	**0.5**	**12.9**
	616.0	557.0	**4,786.8**	4,887.8	**1.8**	—	**18.7**	**—**	**6,710.8**	**8,051.3**
Other assets	**2.9**	2.6	**23.2**	25.1	**0.4**	—	**0.1**	**—**	**27.6**	**42.1**
	618.9	559.6	**4,810.0**	4,912.9	**2.2**	—	**18.8**	**—**	**6,738.4**	**8,093.4**
LIABILITIES										
Demand and term deposits	**—**	—	**0.1**	0.8	**—**	—	**—**	**—**	**—**	**—**
Notes payable	**2.5**	—	**19.1**	8.0	**—**	—	**0.1**	**—**	**26.9**	**13.1**
Derivative financial instruments	**0.2**	—	**1.7**	—	**—**	—	**—**	**—**	**2.3**	**—**
Other liabilities	**1.8**	1.7	**14.0**	12.6	**—**	—	**—**	**—**	**9.5**	**44.3**
	4.5	1.7	**34.9**	21.4	**—**	—	**0.1**	**—**	**38.7**	**57.4**
PARTICIPATION DEPOSIT HOLDERS' NET HOLDINGS	**614.4**	557.9	**4,775.1**	4,891.5	**2.2**	—	**18.7**	**—**	**6,699.7**	**8,036.0**
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31										
INCOME										
Investment income										
Bonds	**15.2**	13.2	**121.1**	127.3	**0.1**	—	**0.1**	—	**106.5**	153.4
Shares and convertible securities	**4.8**	2.9	**39.0**	28.7	**—**	—	**—**	—	**77.2**	76.6
Mortgage loans	**2.4**	1.1	**19.1**	10.6	**—**	—	**—**	—	**20.2**	14.0
Real estate investments	**4.4**	2.3	**38.1**	27.0	**—**	—	**—**	—	**62.3**	54.1
Short-term investments	**0.1**	0.6	**0.9**	5.1	**—**	—	**—**	—	**1.1**	14.6
Demand deposits (Advances from) in the General Fund	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(0.5)
	26.9	20.1	**218.2**	198.7	**0.1**	—	**0.1**	—	**267.3**	312.2
Other income	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Total income	**26.9**	20.1	**218.2**	198.7	**0.1**	—	**0.1**	—	**267.3**	312.2
Investment management expenses	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Net income from investments	**26.9**	20.1	**218.2**	198.7	**0.1**	—	**0.1**	—	**267.3**	312.2
EXPENDITURES										
Administrative expenses	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Interest on demand and term deposits	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
NET INVESTMENT INCOME	**26.9**	20.1	**218.2**	198.7	**0.1**	—	**0.1**	—	**267.3**	312.2
CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31										
INVESTMENT OPERATIONS										
Net investment income	**26.9**	20.1	**218.2**	198.7	**0.1**	—	**0.1**	—	**267.3**	312.2
Gains (losses) on sale of investments	**(4.2)**	(2.5)	**(51.3)**	(36.6)	**(2.9)**	—	**—**	—	**(25.5)**	99.8
Unrealized increase (decrease) in value of investments and liabilities	**(80.0)**	(39.9)	**(624.1)**	(393.3)	**3.3**	—	**0.1**	—	**(1,317.9)**	(1,005.0)
Total investment operations	**(57.3)**	(22.3)	**(457.1)**	(231.2)	**0.5**	—	**0.2**	—	**(1,076.1)**	(593.0)
Participation deposits	**136.5**	210.0	**507.7**	746.7	**(1.1)**	—	**18.6**	—	**(18.4)**	(74.2)
Net income allocated to participation deposit holders	**(22.7)**	(17.6)	**(167.0)**	(162.1)	**2.8**	—	**(0.1)**	—	**(241.8)**	(412.0)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**56.5**	170.1	**(116.4)**	353.4	**2.2**	—	**18.7**	—	**(1,336.3)**	(1,079.2)
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**557.9**	387.8	**4,891.5**	4,538.1	**—**	—	**—**	—	**8,036.0**	9,115.2
CONSOLIDATED NET ASSETS, END OF YEAR	**614.4**	557.9	**4,775.1**	4,891.5	**2.2**	—	**18.7**	—	**6,699.7**	8,036.0
INVESTMENTS AND CERTAIN LIABILITIES AT COST AS AT DECEMBER 31										
ASSETS										
Investments										
Bonds	**246.1**	238.7	**1,904.3**	2,008.4	**—**	—	**9.2**	—	**1,293.6**	1,726.7
Shares and convertible securities	**401.7**	306.0	**3,248.5**	2,757.3	**—**	—	**9.9**	—	**5,198.1**	4,737.2
Mortgage loans	**30.6**	20.2	**237.3**	176.8	**—**	—	**0.9**	—	**228.9**	204.2
Real estate investments	**52.3**	30.4	**449.5**	364.8	**2.0**	—	**2.7**	—	**726.9**	732.2
Short-term investments	**15.9**	12.4	**97.5**	108.9	**—**	—	**0.5**	—	**119.9**	180.3
Demand deposits in the General Fund	**—**	—	**—**	—	**—**	—	**—**	—	**0.5**	12.9
	746.6	607.7	**5,937.1**	5,416.2	**2.0**	—	**23.2**	—	**7,567.9**	7,593.5
LIABILITIES										
Term deposits	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Notes payable	**2.4**	—	**18.6**	8.0	**—**	—	**0.1**	—	**26.2**	13.1
Derivative financial instruments	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—

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SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS

(in millions of dollars)

	BONDS		QUÉBEC INTERNATIONAL BONDS		CANADIAN EQUITIES	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2002**	2001	**2002**	2001	**2002**	2001
ASSETS						
Investments at fair value						
Bonds	**30,203.9**	34,565.6	**4,131.5**	4,166.9	**310.0**	788.8
Shares and convertible securities	**—**	—	**758.1**	299.7	**18,424.9**	21,891.6
Mortgage loans	**—**	—	**—**	—	**—**	—
Mortgage securities	**—**	—	**—**	—	**—**	—
Real estate holdings	**—**	—	**—**	—	**—**	—
Short-term investments and secured loans	**1,787.5**	1,756.8	**970.7**	1,037.1	**3,692.6**	1,228.4
Demand deposits in the General Fund	**3,325.4**	2,147.4	**—**	—	**—**	124.3
Securities acquired under reverse repurchase agreements	**3,598.8**	8,509.5	**1,137.6**	390.8	**—**	—
	38,915.6	46,979.3	**6,997.9**	5,894.5	**22,427.5**	24,033.1
Other assets	**623.3**	1,671.3	**613.4**	66.3	**138.1**	161.5
	39,538.9	48,650.6	**7,611.3**	5,960.8	**22,565.6**	24,194.6
LIABILITIES						
Advances from the General Fund	**—**	—	**1,751.5**	461.8	**41.1**	—
Deposits on loans of securities	**11,363.3**	12,707.4	**729.9**	—	**—**	—
Commitments related to short selling of securities	**3,013.1**	7,514.6	**3.1**	—	**2,782.2**	2,879.8
Loans and notes payable	**573.6**	195.6	**—**	—	**—**	—
Mortgage loans payable	**—**	—	**—**	—	**—**	—
Commercial mortgage-backed securities	**—**	—	**—**	—	**—**	—
Derivative financial instruments	**1,055.9**	606.5	**22.0**	6.5	**82.9**	80.5
Other liabilities	**818.4**	1,333.3	**40.6**	23.7	**132.4**	679.0
Non-controlling interests	**—**	—	**—**	—	**—**	—
	16,824.3	22,357.4	**2,547.1**	492.0	**3,038.6**	3,639.3
NET HOLDINGS OF FUNDS	**22,714.6**	26,293.2	**5,064.2**	5,468.8	**19,527.0**	20,555.3
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31						
INCOME						
Investment income						
Bonds	**1,509.3**	1,705.2	**252.2**	280.1	**44.5**	47.0
Shares and convertible securities	**—**	—	**12.6**	2.7	**365.2**	282.9
Mortgage loans	**—**	—	**—**	—	**—**	—
Real estate holdings	**—**	—	**—**	—	**—**	—
Short-term investments and secured loans	**91.4**	131.3	**27.0**	54.9	**81.5**	9.9
Demand deposits (advances from) in the General Fund	**37.4**	93.7	**(21.7)**	(24.9)	**2.2**	(16.3)
	1,638.1	1,930.2	**270.1**	312.8	**493.4**	323.5
Other income	**14.0**	12.3	**—**	—	**9.6**	9.6
Total income	**1,652.1**	1,942.5	**270.1**	312.8	**503.0**	333.1
Investment management expenses	**23.2**	23.3	**1.0**	2.7	**65.6**	42.8
Net income from investments	**1,628.9**	1,919.2	**269.1**	310.1	**437.4**	290.3
EXPENDITURES						
Administrative expenses	**6.7**	11.2	**0.2**	0.8	**13.9**	7.1
INCOME BEFORE THE FOLLOWING ITEM	**1,622.2**	1,908.0	**268.9**	309.3	**423.5**	283.2
Interests on notes payable	**13.2**	7.8	**—**	—	**—**	2.5
Non-controlling interests	**—**	—	**—**	—	**—**	—
NET INVESTMENT INCOME	**1,609.0**	1,900.2	**268.9**	309.3	**423.5**	280.7
CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31						
INVESTMENT OPERATIONS						
Net investment income	**1,609.0**	1,900.2	**268.9**	309.3	**423.5**	280.7
Gains (losses) on sale of investments	**51.6**	386.8	**(1,379.5)**	(982.5)	**(2,465.0)**	998.1
Unrealized increase (decrease) in value of et postes du passif	**502.8**	46.9	**(2.9)**	(21.3)	**(4,538.4)**	(5,007.6)
Total investment operations	**2,163.4**	2,333.9	**(1,113.5)**	(694.5)	**(6,579.9)**	(3,728.8)
Participation units	**(4,133.0)**	(6,487.6)	**977.8**	1,093.8	**3,611.7**	2,948.9
Transfer from portfolio	**—**	—	**—**	—	**2,363.4**	—
Net income allocated to participation unit holders	**(1,609.0)**	(1,900.2)	**(268.9)**	(309.3)	**(423.5)**	(280.7)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**(3,578.6)**	(6,053.9)	**(404.6)**	90.0	**(1,028.3)**	(1,060.6)
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**26,293.2**	32,347.1	**5,468.8**	5,378.8	**20,555.3**	21,615.9
CONSOLIDATED NET ASSETS, END OF YEAR	**22,714.6**	26,293.2	**5,064.2**	5,468.8	**19,527.0**	20,555.3
INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31						
ASSETS						
Investments						
Bonds	**27,529.4**	32,631.7	**3,883.5**	4,054.7	**658.4**	858.3
Shares and convertible securities	**—**	—	**880.5**	301.0	**23,431.5**	22,375.0
Mortgage loans	**—**	—	**—**	—	**—**	—
Mortgage securities	**—**	—	**—**	—	**—**	—
Real estate holdings	**—**	—	**—**	—	**—**	—
Short-term investments and secured loans	**1,775.9**	1,803.5	**970.5**	1,037.1	**3,694.5**	1,228.4
Demand deposits in the General Fund	**3,325.4**	2,147.4	**—**	—	**—**	124.3
Securities acquired under reverse repurchase agreements	**3,568.9**	8,468.9	**1,138.6**	389.8	**—**	—
	36,199.6	45,051.5	**6,873.1**	5,782.6	**27,784.4**	24,586.0
LIABILITIES						
Deposits on loans of securities	**11,345.8**	12,675.7	**729.6**	—	**—**	—
Commitments related to short selling of securities	**2,929.7**	7,353.6	**3.1**	—	**2,925.0**	2,757.0
Loans and notes payable	**573.6**	195.4	**—**	—	**—**	—
Mortgage loans payable	**—**	—	**—**	—	**—**	—
Commercial mortgage-backed securities	**—**	—	**—**	—	**—**	—
Derivative financial instruments	**235.2**	163.3	**—**	—	**2.9**	0.6
Non-controlling interests	**—**	—	**—**	—	**—**	—

DIVERSIF., STRAT. AND TACTICAL INVEST.		U.S. EQUITIES HEDGED		U.S. EQUITIES UNHEDGED		EMERGING MARKET EQUITIES		FOREIGN EQUITIES HEDGED		FOREIGN EQUITIES UNHEDGED		MORTGAGES	
2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
—	0.2	**74.4**	77.8	**—**	—	**—**	—	**90.2**	41.6	**—**	—	**—**	—
973.0	2,161.5	**7,003.4**	7,087.1	**—**	—	**1,081.3**	1,357.7	**8,352.9**	9,067.0	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**4,428.9**	4,040.4
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**103.1**	12.6
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**13.9**	30.3
103.4	98.2	**6.7**	1,030.8	**5,008.0**	5,584.4	**—**	—	**55.4**	—	**5,661.7**	6,529.7	**—**	—
—	—	**343.1**	156.0	**—**	—	**46.7**	—	**604.8**	72.5	**17.7**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**10.3**	9.8
1,076.4	2,259.9	**7,427.6**	8,351.7	**5,008.0**	5,584.4	**1,128.0**	1,357.7	**9,103.3**	9,181.1	**5,679.4**	6,529.7	**4,556.2**	4,093.1
5.1	2.2	**32.3**	27.0	**11.4**	7.1	**9.6**	6.5	**105.4**	56.5	**12.9**	14.7	**98.3**	44.7
1,081.5	2,262.1	**7,459.9**	8,378.7	**5,019.4**	5,591.5	**1,137.6**	1,364.2	**9,208.7**	9,237.6	**5,692.3**	6,544.4	**4,654.5**	4,137.8
755.6	714.0	**—**	—	**81.3**	23.5	**—**	6.9	**—**	—	**—**	14.2	**170.1**	321.2
—	—	**—**	—	**—**	—	**—**	—	**618.5**	—	**—**	—	**—**	—
29.4	—	**0.1**	0.8	**—**	—	**—**	—	**136.4**	43.1	**—**	—	**10.3**	9.8
—	56.0	**4,923.8**	5,513.6	**—**	—	**—**	—	**5,450.8**	6,443.3	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**831.6**	864.9
27.5	61.0	**119.0**	99.2	**—**	—	**7.1**	9.0	**300.7**	134.0	**1.4**	56.0	**84.3**	25.8
15.6	13.2	**36.2**	14.3	**8.9**	5.0	**2.9**	2.5	**44.9**	42.6	**1.0**	1.4	**67.6**	42.4
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
828.1	844.2	**5,079.1**	5,627.9	**90.2**	28.5	**10.0**	18.4	**6,551.3**	6,663.0	**2.4**	71.6	**1,163.9**	1,264.1
253.4	1,417.9	**2,380.8**	2,750.8	**4,929.2**	5,563.0	**1,127.6**	1,345.8	**2,657.4**	2,574.6	**5,689.9**	6,472.8	**3,490.6**	2,873.7
—	1.0	**10.0**	4.9	**—**	—	**—**	—	**5.7**	1.9	**—**	—	**—**	—
19.9	24.6	**101.5**	65.8	**—**	—	**18.4**	21.7	**151.5**	140.9	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**284.6**	178.4
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
2.0	8.1	**10.6**	60.4	**82.3**	79.7	**—**	0.4	**0.4**	—	**129.4**	94.9	**—**	—
(10.1)	(31.8)	**2.2**	9.2	**(0.1)**	(0.4)	**(0.3)**	0.1	**18.9**	7.3	**—**	(0.4)	**1.0**	1.0
11.8	1.9	**124.3**	140.3	**82.2**	79.3	**18.1**	22.2	**176.5**	150.1	**129.4**	94.5	**285.6**	179.4
0.7	1.5	**1.0**	1.2	**—**	—	**0.6**	0.1	**23.3**	31.6	**—**	—	**6.3**	8.1
12.5	3.4	**125.3**	141.5	**82.2**	79.3	**18.7**	22.3	**199.8**	181.7	**129.4**	94.5	**291.9**	187.5
12.8	8.3	**4.6**	2.8	**9.4**	5.3	**14.7**	2.7	**16.9**	9.5	**35.9**	18.2	**8.4**	7.1
(0.3)	(4.9)	**120.7**	138.7	**72.8**	74.0	**4.0**	19.6	**182.9**	172.2	**93.5**	76.3	**283.5**	180.4
4.8	2.5	**0.9**	0.3	**1.9**	0.8	**1.0**	0.2	**1.3**	0.4	**2.7**	0.7	**3.1**	1.4
(5.1)	(7.4)	**119.8**	138.4	**70.9**	73.2	**3.0**	19.4	**181.6**	171.8	**90.8**	75.6	**280.4**	179.0
0.4	21.3	**82.3**	79.6	**—**	—	**—**	—	**129.4**	94.9	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
(5.5)	(28.7)	**37.5**	58.8	**70.9**	73.2	**3.0**	19.4	**52.2**	76.9	**90.8**	75.6	**280.4**	179.0
(5.5)	(28.7)	**37.5**	58.8	**70.9**	73.2	**3.0**	19.4	**52.2**	76.9	**90.8**	75.6	**280.4**	179.0
55.1	(470.6)	**323.8**	233.8	**(1,236.3)**	(488.5)	**(62.6)**	(123.5)	**(841.0)**	560.0	**(780.2)**	(1,179.2)	**20.2**	(2.8)
969.9	(846.9)	**(1,101.6)**	(447.2)	**(415.8)**	237.1	**(213.5)**	47.3	**(160.8)**	(1,339.2)	**(544.5)**	137.9	**40.9**	42.3
1,019.5	(1,346.2)	**(740.3)**	(154.6)	**(1,581.2)**	(178.2)	**(273.1)**	(56.8)	**(949.6)**	(702.3)	**(1,233.9)**	(965.7)	**341.5**	218.5
173.9	1,745.8	**407.8**	2,135.4	**1,018.3**	1,997.9	**57.9**	353.7	**1,084.6**	(1,647.6)	**541.8**	3,024.3	**555.8**	868.8
(2,363.4)	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
5.5	28.7	**(37.5)**	(58.8)	**(70.9)**	(73.2)	**(3.0)**	(19.4)	**(52.2)**	(76.9)	**(90.8)**	(75.5)	**(280.4)**	(179.0)
(1,164.5)	428.3	**(370.0)**	1,922.0	**(633.8)**	1,746.5	**(218.2)**	277.5	**82.8**	(2,426.8)	**(782.9)**	1,983.1	**616.9**	908.3
1,417.9	989.6	**2,750.8**	828.8	**5,563.0**	3,816.5	**1,345.8**	1,068.3	**2,574.6**	5,001.4	**6,472.8**	4,489.7	**2,873.7**	1,965.4
253.4	1,417.9	**2,380.8**	2,750.8	**4,929.2**	5,563.0	**1,127.6**	1,345.8	**2,657.4**	2,574.6	**5,689.9**	6,472.8	**3,490.6**	2,873.7
—	0.4	**126.8**	85.3	**—**	—	**—**	—	**113.6**	50.7	**—**	—	**—**	—
959.9	3,111.2	**7,932.1**	6,556.4	**—**	—	**1,459.6**	1,520.5	**9,635.3**	9,642.9	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**4,233.4**	3,942.8
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**98.4**	12.4
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**20.1**	35.4
65.0	46.6	**6.7**	1,030.8	**5,270.1**	5,430.8	**—**	—	**54.9**	—	**6,030.6**	6,299.6	**—**	—
—	—	**343.2**	156.0	**—**	—	**46.7**	—	**604.8**	72.5	**17.8**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**10.3**	9.8
1,024.9	3,158.2	**8,408.8**	7,828.5	**5,270.1**	5,430.8	**1,506.3**	1,520.5	**10,408.6**	9,766.1	**6,048.4**	6,299.6	**4,362.2**	4,000.4
—	—	**—**	—	**—**	—	**—**	—	**614.7**	—	**—**	—	**—**	—
31.3	—	**0.3**	0.9	**—**	—	**—**	—	**138.9**	39.3	**—**	—	**9.6**	9.5
—	55.1	**5,270.0**	5,430.8	**—**	—	**—**	—	**6,030.6**	6,299.6	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**782.1**	841.8
—	16.3	**0.5**	7.2	**—**	—	**—**	—	**—**	—	**—**	—	**42.7**	17.6
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS (continued)

(in millions of dollars)

	REAL ESTATE		SHORT-TERM INVESTMENTS		CANADAM SHORT-TERM INVESTMENTS (closed March 31, 2001)	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2002**	2001	**2002**	2001	**2002**	2001
ASSETS						
Investments at fair value						
Bonds	**17.5**	—	**—**	—	**—**	—
Shares and convertible securities	**1,962.8**	1,767.7	**—**	—	**—**	—
Mortgage loans	**563.2**	532.3	**—**	—	**—**	—
Mortgage securities	**—**	—	**—**	—	**—**	—
Real estate holdings	**16,644.4**	15,538.8	**—**	—	**—**	—
Short-term investments and secured loans	**55.3**	96.5	**5,037.7**	4,373.6	**—**	2,087.3
Demand deposits in the General Fund	**—**	—	**129.3**	—	**—**	—
Securities acquired under reverse repurchase agreements	**—**	—	**—**	—	**—**	395.8
	19,243.2	17,935.3	**5,167.0**	4,373.6	**—**	2,483.1
Other assets	**928.5**	632.4	**136.9**	19.7	**—**	10.0
	20,171.7	18,567.7	**5,303.9**	4,393.3	**—**	2,493.1
LIABILITIES						
Advances from the General Fund	**95.7**	197.8	**—**	22.4	**—**	533.3
Deposits on loans of securities	**—**	—	**449.7**	—	**—**	—
Commitments related to short selling of securities	**—**	—	**—**	—	**—**	—
Loans and notes payable	**3,479.5**	3,068.5	**2,824.0**	2,201.0	**—**	—
Mortgage loans payable	**6,879.3**	6,414.0	**—**	—	**—**	—
Commercial mortgage-backed securities	**—**	—	**—**	—	**—**	—
Derivative financial instruments	**212.4**	156.6	**1.3**	4.0	**—**	10.2
Other liabilities	**744.2**	769.8	**409.2**	118.3	**—**	11.6
Non-controlling interests	**921.3**	602.4	**—**	—	**—**	—
	12,332.4	11,209.1	**3,684.2**	2,345.7	**—**	555.1
NET HOLDINGS OF FUNDS	**7,839.3**	7,358.6	**1,619.7**	2,047.6	**—**	1,938.0
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31						
INCOME						
Investment income						
Bonds	**1.3**	—	**—**	—	**—**	—
Shares and convertible securities	**26.5**	39.7	**—**	—	**—**	—
Mortgage loans	**51.7**	37.4	**—**	—	**—**	—
Real estate holdings	**631.5**	504.2	**—**	—	**—**	—
Short-term investments and secured loans	**30.7**	22.4	**126.5**	234.6	**—**	56.6
Demand deposits (advances from) in the General Fund	**(3.1)**	(12.1)	**(0.4)**	(0.5)	**—**	(5.7)
	738.6	591.6	**126.1**	234.1	**—**	50.9
Other income	**45.8**	32.2	**—**	—	**—**	—
Total income	**784.4**	623.8	**126.1**	234.1	**—**	50.9
Investment management expenses	**44.6**	29.7	**1.7**	0.4	**—**	0.1
Net income from investments	**739.8**	594.1	**124.4**	233.7	**—**	50.8
EXPENDITURES						
Administrative expenses	**26.6**	31.0	**0.8**	0.3	**—**	0.1
INCOME BEFORE THE FOLLOWING ITEM	**713.2**	563.1	**123.6**	233.4	**—**	50.7
Interests on notes payable	**—**	—	**76.1**	170.1	**—**	—
Non-controlling interests	**56.8**	53.5	**—**	—	**—**	—
NET INVESTMENT INCOME	**656.4**	509.6	**47.5**	63.3	**—**	50.7
CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31						
INVESTMENT OPERATIONS						
Net investment income	**656.4**	509.6	**47.5**	63.3	**—**	50.7
Gains (losses) on sale of investments	**85.4**	71.6	**1.7**	15.5	**—**	(355.9)
Unrealized increase (decrease) in value of et postes du passif	**(200.6)**	233.1	**(7.0)**	8.9	**—**	2.5
Total investment operations	**541.2**	814.3	**42.2**	87.7	**—**	(302.7)
Participation units	**595.9**	1,288.9	**(422.6)**	1,043.6	**—**	(1,233.0)
Transfer from portfolio	**—**	—	**—**	—	**—**	—
Net income allocated to participation unit holders	**(656.4)**	(509.6)	**(47.5)**	(63.3)	**—**	(50.7)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**480.7**	1,593.6	**(427.9)**	1,068.0	**—**	(1,586.4)
CONSOLIDATED NET ASSETS. BEGINNING OF YEAR	**7,358.6**	5,765.0	**2,047.6**	979.6	**—**	3,524.4
CONSOLIDATED NET ASSETS. END OF YEAR	**7,839.3**	7,358.6	**1,619.7**	2,047.6	**—**	1,938.0
INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31						
ASSETS						
Investments						
Bonds	**15.4**	—	**—**	—	**—**	—
Shares and convertible securities	**1,689.7**	1,542.4	**—**	—	**—**	—
Mortgage loans	**543.7**	518.0	**—**	—	**—**	—
Mortgage securities	**—**	—	**—**	—	**—**	—
Real estate holdings	**16,280.1**	15,099.9	**—**	—	**—**	—
Short-term investments and secured loans	**55.3**	96.5	**5,032.3**	4,359.1	**—**	2,087.3
Demand deposits in the General Fund	**—**	—	**129.4**	—	**—**	—
Securities acquired under reverse repurchase agreements	**—**	—	**—**	—	**—**	384.3
	18,584.2	17,256.8	**5,161.7**	4,359.1	**—**	2,471.6
LIABILITIES						
Deposits on loans of securities	**—**	—	**449.5**	—	**—**	—
Commitments related to short selling of securities	**—**	—	**—**	—	**—**	—
Loans and notes payable	**3,477.5**	3,063.2	**2,824.0**	2,201.0	**—**	—
Mortgage loans payable	**6,683.2**	6,318.9	**—**	—	**—**	—
Commercial mortgage-backed securities	**—**	—	**—**	—	**—**	—
Derivative financial instruments	**28.2**	19.5	**0.8**	1.2	**—**	—
Non-controlling interests	**832.5**	532.9	**—**	—	**—**	—

Glossary

Active risk
Forecast volatility of the manager's value added, generally measured on the basis of the manager's current positions, and the volatility and correlations of the return associated with these positions.

AIMR®
Association for Investment Management and Research®. Association of investment professionals headquartered in Charlottesville, Virginia, United States. The association's mission is to serve investment professionals by providing training to its members and establishing high ethical standards for portfolio management.

Authorized investment
An investment is authorized when its parameters (financial instrument used, financing terms, cost, expected return, etc.) have been reviewed and accepted by the competent authority.

Benchmark index
Recognized market index for comparison with the portfolio management result obtained by the Caisse for each asset class or management mandate.

The benchmark index may vary depending on the investment horizon and mandate. It can be a stock market index for an asset class or a subindex that corresponds to a chosen basket of securities in a management mandate.

Examples are the *S&P/TSX* index for Canadian equities and the Consumer Staples subindex of the *S&P/TSX*.

CMBS
Commercial mortgage-backed securities, in this case sequential-payment bonds guaranteed by a set of commercial mortgage loans.

Composite index
Index based on market indexes or subindexes in predetermined proportions, which must reflect the basket of securities the manager has access to in a given management mandate.

Depositor
Organization or entity which is obliged to make deposits with the Caisse de dépôt et placement du Québec.

Depositors' net assets or holdings
Depositors' total assets less liabilities related to such assets.

Depositors' total assets
The fair value of all assets held on behalf of depositors.

Derivative financial products
Derivative financial products are contracts, commitments or agreements for the sale or purchase of assets at a future date. These financial instruments are called "derivatives" because their value depends on an underlying asset or commodity.

There are two types of derivative financial products: futures contracts and option contracts. A futures contract is a commitment to take delivery of or to deliver an underlying value, while an option contract is a conditional commitment that enables the holder to buy or sell an underlying value at the price stipulated in the contract. Both types involve many assets: shares, indexes, interest rates, currencies, commodities, etc.

Derivative financial products are included in a portfolio mainly to protect its value against a drop in prices or to diversify investment strategies, manage risks effectively and achieve investment objectives.

Direct investment / Indirect investment
A direct investment is made directly in a company as opposed to an indirect investment, which refers to an investment in a fund or limited partnership that in turn makes investments in companies.

EBITDA (Earnings before interest, taxes, depreciation and amortization)
Figure often used in evaluating a company in order to assess its ability to generate cash flow from total capital.

Euro Zone
Group of 12 countries that adopted the euro as their common currency (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain).

Foreign exchange risk hedging
Financial operation whereby an investment is protected from fluctuations in the exchange rate between the currency in which the investment was made and the investor's original currency.

Fund of funds
A fund whose component securities are hedge funds. This approach generally ensures diversification of style, philosophy, risk, etc.

Internal rate of return (IRR)
Discount rate that equates the net present value of an investment's cash inflows with its cash outflows.

Prime interest rate
Rate at which a central bank acts in the markets.

Liquidity
A market is said to be liquid when the number of buyers and sellers is large enough to conclude transactions.

A security is said to be liquid if it trades in large enough quantities that sizable transactions can take place without significant impact on market price.

Mezzanine loan
Financing that bridges the gap between traditional financing and the equity required for a project.

Opportunity product
Real estate investment made from a short-term perspective (usually less than three years) with the expectation of a high return (20% or more).

For example, the purchase of a building whose developer has declared bankruptcy, the acquisition of a portfolio of properties of which an entity wishes to divest itself, or a new position in a building are opportunity products. The investor purchases the assets for less than their value, upgrades them and sells them quickly.

Overweighting
Percentage that is greater than the benchmark weight.

Private equity
Investment negotiated on a private basis with a company. Such transactions do not involve the usual mechanisms of the organized markets.

Assets under administration
Assets for which the subsidiaries of the Caisse provide administrative services on behalf of the clients that own such assets (also referred to as "property administered"). Originally, such assets included only real estate. Today they also include securitized loans. The subsidiaries that administer such assets receive compensation in the form of fees.

Assets under management
Assets that belong to partners or clients of the Caisse and are managed by a Caisse subsidiary or affiliate (also referred to as "property under management").

The management services provided include investment selection, investment management, and provision of advisory services regarding investment and related matters such as information systems. The management teams receive fees in consideration for services rendered.

Quartile
When the results of a sampling of fund managers are classified in descending order, those in the top quarter are referred to as the first quartile and those in the third quarter are called the third quartile. The second quartile is referred to as the median.

Realized investment
A realized investment implies that partial or full disbursement has been made. For example, an investment in a fund is disbursed gradually, in line with the fund's need to invest in companies or projects. When the authorized amount has been partially disbursed, the investment is said to be partially realized and, when totally disbursed, it is said to be fully realized.

Relative return
Difference between the absolute return on a portfolio and the return on the benchmark index. The expressions "value added" or "added value" are often used to denote the relative return.

Securitization
Operation whereby a company converts assets or debt securities (mortgage loans, credit card debt, etc.) by combining and structuring them in the form of a new security, which it offers to investors. In this way, it can increase its return, liquid assets, revenues, etc.

Stability and Growth Pact
Pact adopted in December 1996 by the Dublin European Council to prevent excessive budget deficits in the Euro Zone.

Syndication
Group of financial institutions that carry out an investment or financing operation.

Total assets under management
All assets managed by CDP Capital, namely all depositors' assets, as well as property under management and property administered on behalf of clients.

Underweighting
Percentage that is less than the benchmark weight.

Value added
See *Relative return*.

Value at risk (VaR)
See *Active risk*.

Venture capital
Capital invested in stocks or convertible securities of an early stage, start-up or growth company that is closely held, i.e. not traded on a stock exchange. This capital is invested for five to seven years and is not guaranteed with any assets.

Volatility
A market or security is said to be volatile when it is subject to rapid price changes. Volatility is said to be high when prices or rates vary widely over a short period.

Board of Directors and Management

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

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* Appointed January 31, 2003
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René Tremblay
President and Chief Executive Officer
Ivanhœ Cambridge

[5] Cadim's new name since March 2003

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Denis Dionne
President
CDP Capital – Technology Ventures

Normand Provost
President
CDP Capital – Americas

Head Office

Édifice Price
65 Sainte-Anne
14e étage
Québec (Québec)
Canada G1R 3X5
Telephone: (418) 684-2334
Facsimile: (418) 684-2335

Main Business Office

Centre CDP Capital
1000, place Jean-Paul-Riopelle
Montréal (Québec)
Canada H2Z 2B3
Telephone: (514) 842-3261
Facsimile: (514) 847-2498

Regional Québec Business Offices

Bas-Saint-Laurent
125, rue de l'Évêché Ouest, bureau 101
Rimouski (Québec) G5L 4H4
Telephone: (418) 725-2717
Facsimile: (418) 722-4727

Centre-du-Québec
1125, boul. St-Joseph, bureau 210
Drummondville (Québec) J2C 2C8
Telephone: (819) 475-2975
Facsimile: (819) 475-5107

Estrie
65, rue Belvédère Nord, bureau 290
Sherbrooke (Québec) J1H 4A7
Telephone: (819) 822-1400
Facsimile: (819) 822-1232

Gaspésie-Les-Îles
142, boulevard de Gaspé
Gaspé (Québec) G4X 1A9
Telephone: (418) 368-8939
Facsimile: (418) 368-3547

Outaouais
15, rue Gamelin, bureau 602
Hull (Québec) J8Y 1V4
Telephone: (819) 771-9898
Facsimile: (819) 771-2882

Saguenay-Lac-Saint-Jean
3780, rue Panet
Jonquière (Québec) G7X 0E5
Telephone: (418) 547-2274
Facsimile: (418) 547-6131

Other Business Offices

Toronto Office
BCE Place
161 Bay Street, Suite 2800
Toronto, Ontario
Canada M5J 2S1
Telephone: (416) 214-0603
Facsimile: (416) 214-3414

Paris Office
128, rue du Faubourg Saint Honoré
75008 Paris, France
Telephone: (33 1) 56 69 25 30
Facsimile: (33 1) 45 62 02 04

Hong Kong Office
Suite 5408, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Telephone: (852) 2586-6222
Facsimile: (852) 2802-3803

Los Angeles Office
9200 Sunset Boulevard, Suite 520
Los Angeles, California 90069
United States
Telephone: (310) 281-0031
Facsimile: (310) 281-0020

The *Annual Report 2002* and the publication *Annual Report – Additional Information* are available on the Internet: www.cdpcapital.com

Information:
Tel.: (514) 842-3261
e-mail: info@cdpcapital.com

Ce rapport annuel est aussi disponible en français sur notre site web.

Legal Deposit 2003 – Bibliothèque nationale du Québec
ISBN 2-550-40564-1
ISSN 1705-6462
ISSN online 1705-6470

www.cdpcapital.com

1000, place Jean-Paul-Riopelle
Montréal (Québec)
H2Z 2B3

Tel: (514) 842-3261
Fax: (514) 847-2498