Managing for the future

Annual Report 2005

Caisse de dépôt et placement du Québec

General notes

1. The Caisse's operations comply with the requirements of the *Act respecting the Caisse de dépôt et placement du Québec*[1] and with investment industry practices. Its financial statements are prepared in accordance with generally accepted accounting principles in Canada. Each year, the Auditor General of Québec, to the extent that he deems it appropriate, conducts the financial audit and ensures that the Caisse's operations comply with laws, regulations, policies and guidelines, and with the systems and procedures set up to control and protect its assets.
2. The Annual Report 2005 – Additional Information is an integral part of the Annual Report 2005 and presents the Schedules (tables of returns) as at December 31, 2005, relating to the composites of the Caisse depositors' accounts. The Schedules and calculations have been audited as at December 31, 2005, by Deloitte & Touche LLP for compliance with the Global Investment Performance Standards (GIPS®).
3. The terms "depositors' holdings" and "depositors' net assets" are equivalent.
4. The returns on the specialized portfolios represent the time-weighted rate of return.
5. Unless otherwise indicated, returns are presented before operating expenses. They include the return on cash and cash equivalents and they take into account a foreign exchange hedging position. The return spreads related to the operating expenses of each specialized portfolio are presented in the Schedules of the Annual Report 2005 – Additional Information.
6. Certain returns are expressed in basis points (b.p.). One hundred basis points equal 1.0% and one basis point equals 0.01%.
7. Unless otherwise indicated, all figures are given in Canadian dollars.
8. Totals may vary because of the rounding of figures.
9. Many of the financial terms in this Annual Report are defined in the "Glossary" section.
10. Unless otherwise indicated, all data in the tables and figures are from studies made by the Caisse.
11. The benchmark index for the investment groups is the weighted average of the benchmark indexes of the specialized portfolios they manage.

[1] The *Act respecting the Caisse de dépôt et placement du Québec* can be consulted on the Caisse's Web site at: www.lacaisse.com

Table of contents

1 Profile
2 Highlights 2005
8 Caisse depositors
10 Message from the Chairman
12 Message from the President and Chief Executive Officer
18 Executive Committee

21 Analysis of returns and financial situation

23 Economic context 2005
27 Information disclosure and financial certification
30 Conclusions about the effectiveness of the disclosure controls and procedures
32 Summary of the Caisse's overall performance

42 Investment operations and analysis of returns
44 Fixed Income
48 Equity Markets
55 Private Equity
63 Real Estate
72 Absolute Return
76 Investment Analysis and Optimization

79 Contribution to Québec's economic development
82 International operations

84 Analysis of combined financial statements and financing activities
85 Analysis of combined financial statements
88 Analysis of operating expenses
89 CDP Financial's operations

90 Combined financial statements
91 Management's responsibility for combined financial reporting
92 Auditor's report
93 Combined statement of net assets
94 Combined statement of income and changes in net assets
95 Combined funds – Notes to financial statements

115 Board of Directors and Board Committees

117 Board of Directors
121 Report of the Board of Directors
125 Committee reports
125 Report of the Audit Committee
127 Report of the Human Resources Committee
133 Report of the Governance and Ethics Committee
135 Report of the Risk Management Committee

137 Governance and management operations

140 Governance
142 Internal governance
143 Integrated risk management
146 Compliance
148 Financial governance
149 Internal and external communications
151 Internal audit

152 Management operations: The Caisse's operational levers
154 Lever: Human resources excellence
155 Lever: Rigorous and dynamic risk management
156 Lever: Leading-edge research
157 Lever: Leading-edge technology and operational efficiency

158 Strategic plan 2006-2008

164 Glossary
170 Tables and figures

Annual Report 2005 – Additional Information
Schedules (tables of returns)
Financial statistics and review
Code of Ethics and Conduct for Directors
Code of Ethics and Professional Conduct for Officers and Employees

Mission

"The mission of the Fund is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development."

Act respecting the Caisse de dépôt et placement du Québec, section 4.1

Investment philosophy

Active management

Exploit opportunities in all financial markets by adapting strategies to various issues.

Fundamental and opportunistic approach

Emphasize the intrinsic value of companies as well as their potential earnings and value creation over the medium and long terms.

Open management

Use external management or partnerships to complement in-house expertise, especially for certain distant markets.

Internal research and investment process

Invest on the basis of internal research and rigorous analysis.

Risk management

Optimize risk level and allocation, using a range of financial products, various management styles and investment diversification based on company size, sector and geographic location.

Accountability of the Caisse and its managers

Ensure managers are fully accountable for their results.

Values

Excellence

The determination to excel and the commitment to aim constantly for outstanding success in a given field of expertise. This value is based on development of employees' competencies and recognition of their performance as well as the use of best practices for each area.

Ethics

Endorsement by all employees of high standards and criteria in their behaviour and business practices and of rules of conduct for relations with colleagues, suppliers and partners.

Boldness

Leadership and a flair for innovation in all areas of activity. It is also the determination to take calculated risks in order to act on promising business and investment opportunities and to achieve objectives, as well as the ability to learn from one's mistakes.

Transparency

Clear communication with employees, depositors, the public and other stakeholders as well as accurate, regular reporting on practices, objectives and results.

Profile

The Caisse de dépôt et placement du Québec was created in 1965 by an Act of the National Assembly of Québec to manage the funds contributed to a newly created universal pension plan, the Québec Pension Plan. In the decades that followed, many other public organizations also became depositors, increasing the pool of capital that the Caisse represents.

The Caisse is the largest institutional fund manager in Canada. It invests in Québec and Canada as well as internationally, and conducts its operations from its business office in Montréal and its head office in Québec City.

Organizational Structure

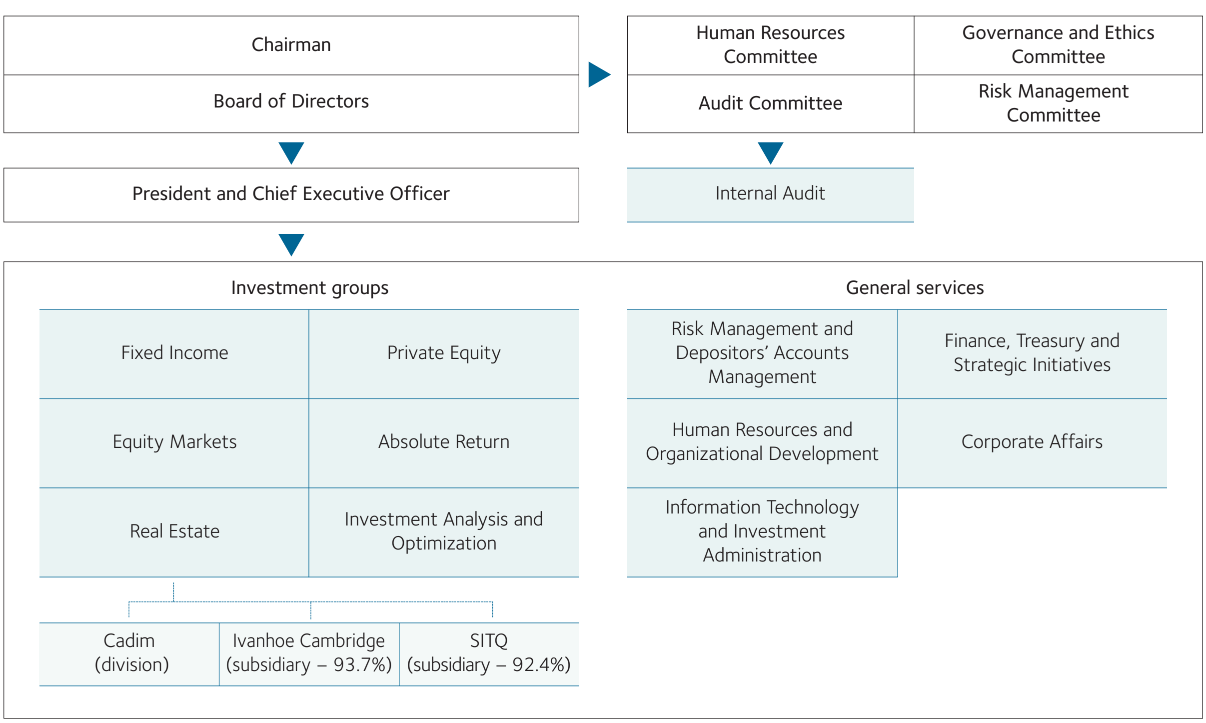
The Caisse has six investment groups: Fixed Income; Equity Markets; Private Equity; Real Estate; Absolute Return; and Investment Analysis and Optimization. These groups are supported by five general services teams: Risk Management and Depositors' Accounts Management; Finance, Treasury and Strategic Initiatives; Human Resources and Organizational Development; Corporate Affairs; and Information Technology and Investment Administration.

The *Act to amend the Act respecting the Caisse de dépôt et placement du Québec* came into force on January 15, 2005, and considerably changed the Caisse's governance. Separation of the position of Chairman from that of President and Chief Executive Officer heads the list of changes to the Act. In addition, from the functional standpoint Internal Audit now reports to the Chairman of the Audit Committee of the Board of Directors. The organization chart reflects these changes.

The Caisse had 824 employees[1] as at December 31, 2005. The real estate management and administration subsidiaries Ivanhoe Cambridge and SITQ had a total of 1,407 employees.

Caisse organization chart as at December 31, 2005

figure 1



[1] *Including the Real Estate group's Cadim division.*

Highlights 2005

Q1

- Coming into force of the *Act to amend the Act respecting the Caisse de dépôt et placement du Québec*.
- Inroads into Europe's financial services sector with the acquisition of a 10% stake in La Compagnie Financière Edmond de Rothschild.
- Acquisition of a stake in Germany's Hochtief Airport Capital, a world leader in airport management.
- Partnership with the Institut québécois pour les familles en affaires to promote family-business continuity.
- Creation of the Collège des administrateurs de sociétés, in co-operation with Université Laval, the Autorité des marchés financiers and the Ministère du Conseil exécutif of the Québec government.

Q2

- Creation of the specialized Long Term Bonds portfolio.
- Appointment of Pierre Brunet as Chairman of the Caisse, and Louise Charette, Yvan Allaire, Claude Garcia and A. Michel Lavigne as Board members.
- Acquisition by Cadim of the subordinated real estate debt portfolio of Allied Capital Corporation for more than US$1 billion.
- Acquisition, in partnership, of YBR Group, Europe's leading publisher of telephone directories.
- Introduction of certificates of compliance with depositors' investment policies.

Q3

- Acquisition with GE Commercial Finance of a major pipeline in the U.S. Midwest.
- Opening of an office by Ivanhoe Cambridge in Shanghai.
- Increase in CDP Financial's commercial paper program from $3 billion to $5 billion.
- Implementation of an order management system (OMS) to automate purchases and sales and to verify transaction compliance for the Equity Markets group.
- Adoption of the mandates of the committees of the Board of Directors.

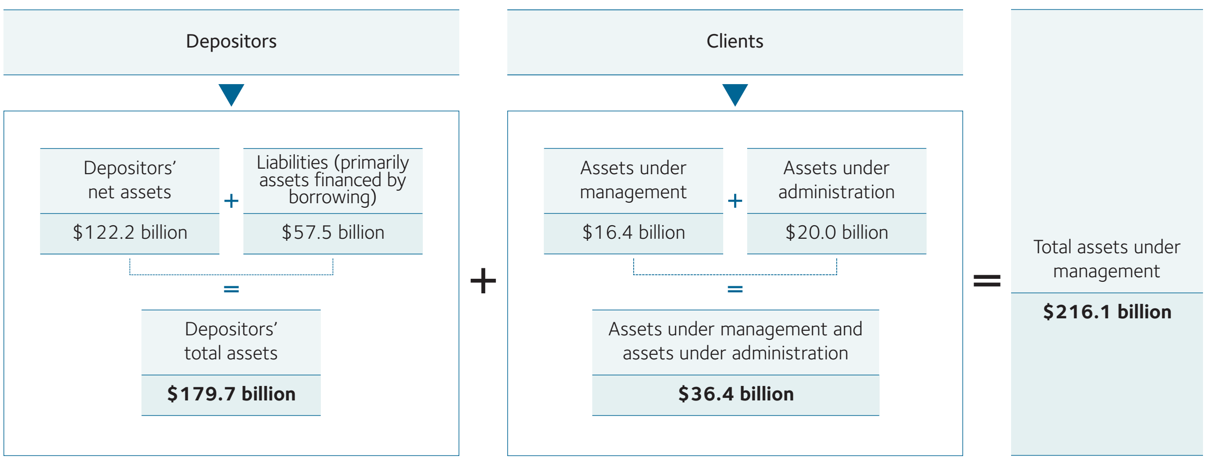
Q4

- Partnership with National Bank to provide succession financing for Québec SMEs.
- First investment by Ivanhoe Cambridge in Germany with an interest of more than 90% in three shopping centres and acquisition of a strategic stake in European Retail Enterprises, whose operations include properties in Poland and France.
- Penetration of the German market by SITQ with the acquisition of two buildings in Frankfurt's International Banking Centre.
- Announcement of the opening of a New York office to manage a portion of the international equity portfolios.
- Participation in the financing of Garda World, a leading North American security and armoured services provider, for the acquisition of Vance International.
- Formation of the Disclosure Committee.
- Adoption of the strategic plan 2006-2008.
- Formation of a partnership with AXA Private Equity.

Composition of total assets under management

figure 2

(as at December 31, 2005)



Depositors: Public or private pension funds and insurance plans whose funds are managed by the Caisse.

Depositors' net assets: Fair market value of the depositors' holdings managed by the Caisse.

Liabilities: Primarily undertakings related to investments, such as mortgage loans, securities sold under repurchase agreements and securities sold short.

Depositors' total assets: Depositors' net assets plus assets financed by borrowing as well as transactions being settled, other liabilities and non-controlling interests.

Clients: Companies to which the Caisse or one of its subsidiaries provides portfolio management or property administration services in consideration of fees.

Assets under management: Assets that are owned by partners or clients and managed by a subsidiary or an affiliate of the Caisse. The units that manage the assets are involved in investment and disinvestment decisions and receive fees as payment for services rendered.

Assets under administration: Assets for which the Caisse's subsidiaries and affiliates provide administrative services on behalf of the clients that own them. The companies that administer the assets are not involved in investment or disinvestment decisions and receive payment in the form of fees.

Total assets under management: All assets managed by the Caisse, namely all depositors' assets as well as assets under management and assets under administration on behalf of clients.

→ Many of the financial terms used in this Annual Report are defined in the "Glossary" section.

Highlights 2005 (cont.)

Results and changes in total assets under management

table 3

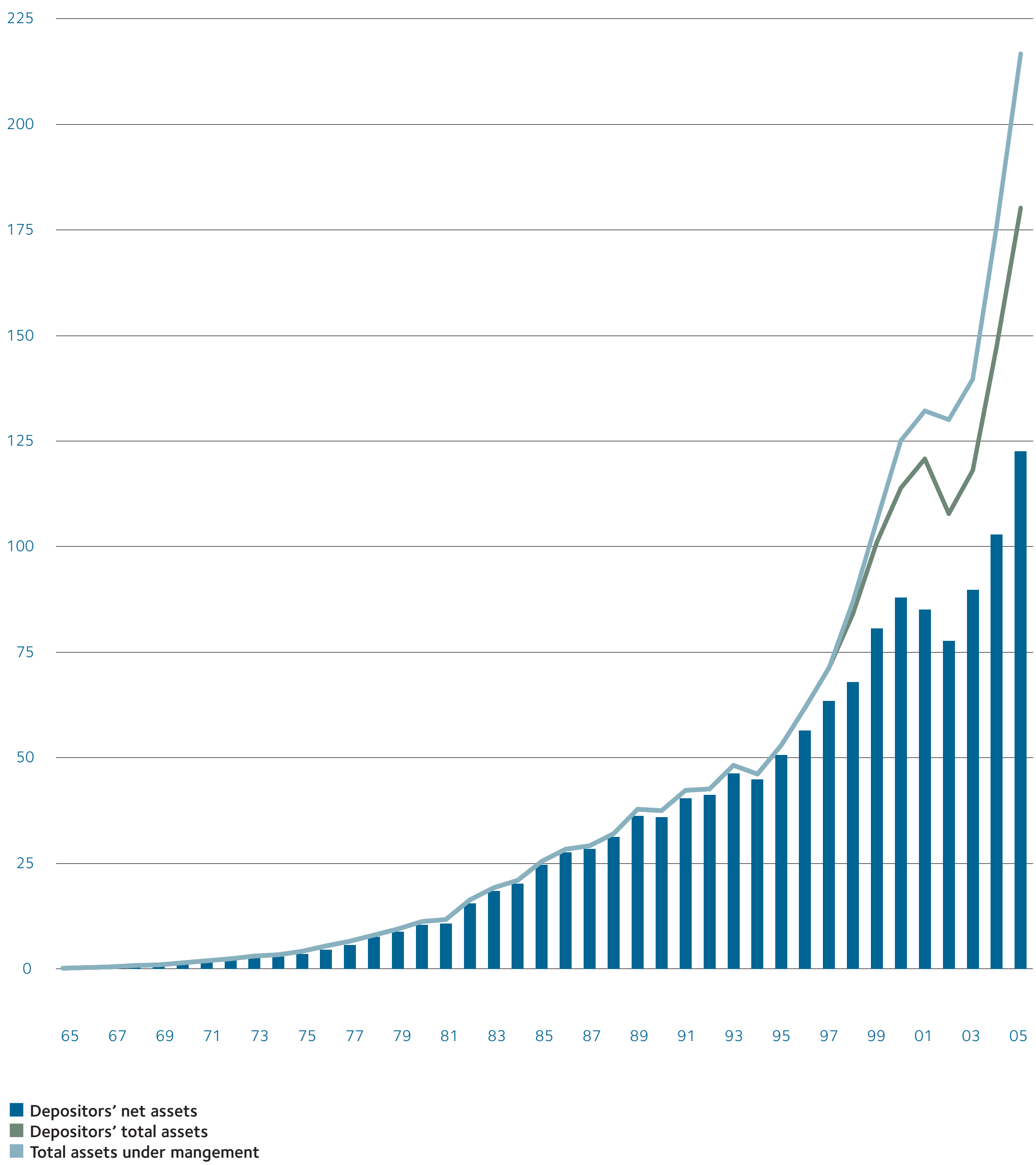
(for periods ended December 31 – in millions of dollars)	**2005**	2004[1]
Investment activities		
Investment income	**4,724**	3,850
less: operating expenses	**239**	212
Net investment income	**4,485**	3,638
Net gains on the sale of investments	**7,715**	4,169
Total realized income	**12,200**	7,807
Net unrealized increase in value	**2,955**	3,011
Total investment operations	**15,155**	10,818
Excess deposits over withdrawals	**4,571**	2,217
Increase in net assets	**19,726**	13,035
Depositors' net assets	**122,159**	102,433
Liabilities (primarily assets financed by borrowing)	**57,580**	44,643
Depositors' total assets	**179,739**	147,076
Assets under management	**16,417**	10,664
Assets under administration	**19,997**	17,778
Assets under management and assets under administration	**36,414**	28,442
Total assets under managment	**216,153**	175,518

[1] Certain items have been revised to meet the new presentation guidelines adopted as at December 31, 2005.

Changes in assets

figure 4

(as at December 31– in billions of dollars)



Highlights 2005 (cont.)

Returns for the Caisse and its depositors

table 5
(for periods ended December 31)

	2005	2004
Weighted average return on depositors' funds (return on the Caisse's overall portfolio):	**14.7%**	12.2%
Global index	**12.9%**	11.2%
Value added	**178b.p.**	100b.p.
Individual returns for the main depositors' funds were between:	**13.4% and 17.9%**	11.3% and 14.6%

Contributions and returns of the investment groups

table 6
(for periods ended December 31)

Investment group	**Contribution 2005 ($ billion)**	**Return 2005 %**	**Value Added[1] 2005 b.p.**	Return 2004 %
Fixed Income	**2.6**	**6.6**	**8**	7.1
Equity Markets	**6.6**	**17.0**	**(94)**	12.6
Private Equity	**1.9**	**22.3**	**1,410**	20.5
Real Estate	**3.5**	**26.4**	**565**	22.7
Absolute Return	**0.5**	**11.2**	**507**	7.8
Investment Analysis and Optimization **($million)**	**1.0**	**9.1**	**9.1**	(107.3)
Total	**15.2**	**14.7**	**178**	12.2

1 In relation to market or recognized indexes.

Detailed breakdown of depositors' net assets by investment type

table 7

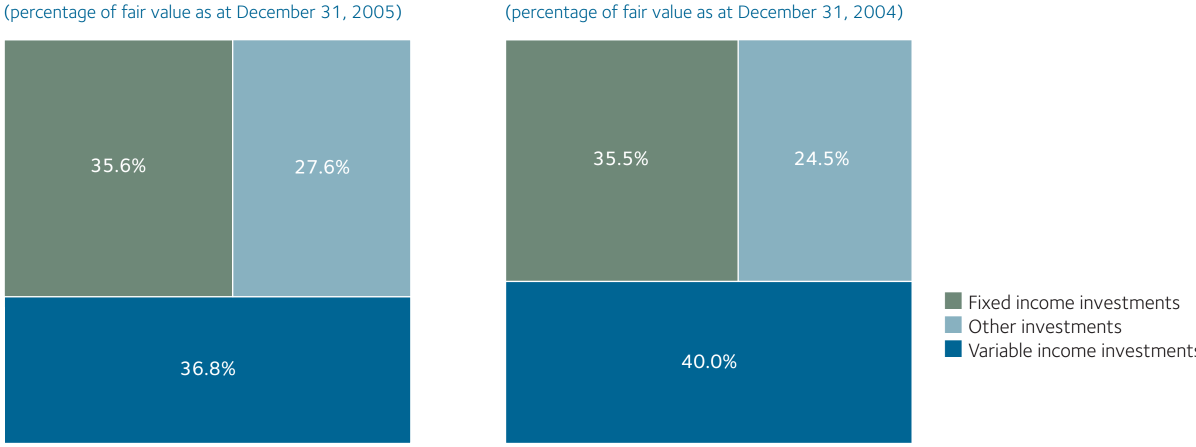
(percentage of fair value as at December 31)	**2005** %	2004 %
Specialized portfolio		
Fixed income investments		
Short Term Investments	**3.3**	2.3
Real Return Bonds	**1.0**	1.1
Bonds	**29.7**	32.1
Long Term Bonds	**1.6**	–
	35.6	35.5
Variable income investments		
Canadian Equity	**14.3**	15.0
U.S. Equity	**5.7**	8.3
Foreign Equity	**6.8**	7.8
Emerging Markets Equity	**1.1**	0.9
Québec International	**8.9**	8.0
	36.8	40.0
Other investments		
Investments and Infrastructures	**3.9**	3.8
Private Equity	**5.1**	5.0
Real Estate Debt[1]	**5.2**	4.2
Real Estate	**8.8**	7.6
Hedge Funds	**3.2**	2.7
Commodities	**1.3**	1.0
Asset Allocation	**0.1**	0.2
	27.6	24.5
Total	**100.0**	100.0

[1] In 2005, the specialzed Real Estate Debt (previously Mortgages) portfolio was moved from fixed income investments into other investments.

General breakdown of depositors' net assets by investment type

figure 8

(percentage of fair value as at December 31, 2005) (percentage of fair value as at December 31, 2004)



Caisse depositors

The Caisse's depositors are public and private pension funds and insurance plans that entrust the management of their funds to the Caisse. About 60% of the contributions received by these bodies come from individuals (workers and insured persons). All these organizations have a common objective: to earn a superior return on the moneys provided by their contributors with a view to meeting future needs, such as payment of pension benefits or accident compensation.

As at December 31, 2005, the Caisse managed 25 funds belonging to 20 depositors: pension and insurance plans as well as funds of various types. Seven of them account for 98.5% of depositors' net assets. During the year, two new depositors joined the Caisse, the Conseil de gestion de l'assurance parentale and the Régime de retraite des centres de la petite enfance et des garderies conventionnées du Québec, while the Office des producteurs de tabac jaune du Québec left the ranks of the Caisse's depositors.

The seven main depositors

The Government and Public Employee Retirement Plan (RREGOP) is the depositor with the greatest assets. This plan consists primarily of contributions by employees who work in Québec's health and social services sector, education system and public sector. The plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA).

The Fonds du Régime de rentes du Québec contributes to Quebecers' income security by providing in particular for payment of a retirement pension. Administered by the Régie des rentes du Québec (RRQ), the plan is mandatory and the contributions to the fund are made by all employers and employees.

The Fonds d'amortissement des régimes de retraite (FARR) provides for payment of retirement benefits that are the responsibility of the government, according to the provisions of the retirement plans for the public and parapublic sectors. The fund is financed by the Québec government and administered by the Ministère des Finances.

The Supplemental Pension Plan for the Employees of the Québec Construction Industry is administered by the Commission de la construction du Québec (CCQ). The contributions to the plan are paid by construction industry employers and employees.

The Health and Work Safety Fund mainly compensates workers who have work-related accidents and contributes to their rehabilitation. The fund is administered by the Commission de la santé et de la sécurité du travail (CSST) and financed by contributions from Québec employers.

The Fonds d'assurance automobile du Québec provides the funds required to compensate victims of vehicular accidents and to promote traffic safety. The fund is financed mainly by fees collected by the Société de l'assurance automobile du Québec (SAAQ) for driver's licences and vehicle registration.

The Pension Plan for Management (RRPE) consists of contributions by management employees in the public and parapublic sectors. The plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA).

Caisse depositors

table 9
(fair value as at December 31 – in millions of dollars)

	Symbol	First deposit	Number of participants[1]	Depositors' net assets 2005 $	2005 %	2004 $	2004 %
Pension plans							
Régie des rentes du Québec	RRQ						
Fonds du Régime de rentes du Québec		1966	3,710,000	**27,436**	**22.5**	22,854	22.3
Commission de la construction du Québec	CCQ						
Supplemental Pension Plan for Employees of the Quebec Construction Industry		1970	127,345	**9,750**	**8.0**	8,405	8.2
Commission administrative des régimes de retraite et d'assurances	CARRA						
Government and Public Employees Retirement Plan	RREGOP	1973	485,000	**38,922**	**31.9**	34,362	33.6
Pension Plan for Managment	RRPE	1973	25,000	**6,421**	**5.2**	5,529	5.4
Individual Plans		1977	270	**226**	**0.2**	201	0.2
Pension Plan for Elected Municipal Officials	RREM	1989	1,850	**144**	**0.1**	126	0.1
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	RRTAQ	1990	4,222	**206**	**0.2**	176	0.2
Fonds d'amortissement des régimes de retraite	FARR	1994	1	**20,859**	**17.1**	14,985	14.6
Régime de retraite de l'Université du Québec	RRUQ	2004	10,600	**132**	**0.1**	86	0.1
Régime de retraite du personnel des centres de la petite enfance et des garderies privées conventionnées du Québec[2]		2005	53,115	**2**	**–**	–	–
Insurance plans							
Régie des marchés agricoles et alimentaires du Québec	RMAAQ						
Fonds d'assurance-garantie		1967	84	**5**	**–**	5	–
La Financière agricole du Québec*		1968	*	**209**	**0.2**	173	0.2
Autorité des marchés financiers**	AMF	**	**	**388**	**0.3**	343	0.3
Commission de la santé et de la sécurité du travail	CSST						
Health and Work Safety Fund		1973	186,480	**9,224**	**7.6**	7,928	7.7
Société de l'assurance automobile du Québec	SAAQ						
Fonds d'assurance automobile du Québec		1978	5,041,801	**7,617**	**6.2**	6,890	6.7
La Fédération des producteurs de bovins du Québec		1989	21,672	**4**	**–**	4	–
Régime de rentes de survivants		1997	1	**406**	**0.3**	362	0.4
Conseil de gestion de l'assurance parentale[2]							
Parental Insurance Fund		2005	–	**198**	**0.1**	–	–
Other depositors							
Office de la protection du consommateur	OPC	1992	942	**10**	**–**	4	–
Société des alcools du Québec[3]	SAQ	1994	–	**–**	**–**	–	–
Total				**122,159**	**100.0**	**102,433**	**100.0**

* Fonds d'assurance-prêts agricoles et forestiers		16,310
Fonds d'assurance-récolte		13,329
** Includes the Fonds d'assurance-dépôts	1969	585

1 Estimate
2 New depositor in 2005
3 This depositor uses only the Caisse's treasury management services.

Message from the Chairman

When new legislative provisions concerning primarily the independence and the responsibility of the Board of Directors came into force, on January 15, 2005, a new governance era began at the Caisse de dépôt et placement du Québec. First, the *Act respecting the Caisse* separates the position of Chairman from that of President and Chief Executive Officer. Moreover, it stipulates that at least two-thirds of the Board members, including the Chairman, must be independent.

The Board approves the Caisse's strategic plan and business plan, as well as its budgets, financial statements and Annual Report. It establishes risk management guidelines and policies, and it approves investment policies, standards and procedures. It gives its approval to human resources policies, as well as rules of ethics and professional conduct covering the Caisse's directors as well as its officers and employees.

The Board also evaluates the integrity of internal controls, information disclosure controls and information systems, and approves a financial disclosure policy. Lastly, the Act stipulates that the Caisse's Board creates an Audit Committee, a Human Resources Committee and a Governance and Ethics Committee.

Implementation of the Act

On April 27, 2005, I had the honour of being appointed Chairman of the Caisse by the Québec government, at the same time as four other new Board members were appointed. As soon as I took up this position, with the assistance of my colleagues on the Board, I ensured that the new governance provisions of the *Act respecting the Caisse* would be applied as quickly as possible, to build on the work already done in this area.

The first action taken by the Board was to create the three committees provided by the Act – Audit, Human Resources, and Governance and Ethics – as well as a Risk Management Committee, and to approve their mandates. Thereafter, on the recommendation of the Governance and Ethics Committee, the Board adopted a series of measures to ensure its independence. It approved a method to evaluate the Board's performance as well as an expertise profile for the appointment of independent members. The Board also approved the new Code of Ethics and Professional Conduct for the Caisse's directors, given that such rules strengthen the public's confidence in its integrity.

The Board adopted an information disclosure policy defining the way the Caisse processes and discloses information regarding it, so that its reporting will be exemplary. This policy ensures a balance between the institution's desire for transparency and its obligation to protect depositors' interests, in compliance with its Act, its contractual undertakings and third-party rights.

The Board also adopted a financial certification policy based on the stringent reporting rules governing publicly traded companies. The process defined in this policy enables the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, to publicly certify the reliability of the financial information presented in the Annual Report, starting in 2005. Lastly, the Board approved the implementation of a new management framework for the Caisse to ensure documentation, monitoring and evaluation of the processes used for internal control, risk management and resource optimization.

Pierre Brunet

All these measures faithfully reflect the values of ethics and transparency espoused by the Caisse. They will undoubtedly help make the institution a governance leader. Moreover, the Caisse has a major responsibility toward its depositors and must be able to report to them with the utmost transparency and integrity. As an institutional investor, the Caisse must set an example if it is to encourage the companies in which it invests to adopt rules of good governance.

Strategic plan 2006-2008
In 2005, the Board of Directors took part in another initiative that is vital for the Caisse's future: development of a strategic plan for the period from 2006 to 2008. On completion of this exercise, it approved the Caisse's priorities as well as the strategies and actions to be initiated or continued over the next three years. The strategic planning process also provided an opportunity for the Board members to get to know the Caisse's management team and employees and to further their understanding of its issues and projects.

Reports by the Board and its committees
Publication of the activity reports of the Board of Directors and its committees in this Annual Report is another first in the Caisse's history. Under the Act, the Human Resources Committee's report concerns such matters as remuneration of the most senior officer of the Caisse and of its wholly owned subsidiaries, and of the five most highly remunerated officers reporting directly to him.

In recent years, in a context in which competition for talent is intense, the Caisse has reviewed and improved its compensation programs so that it can compete in its market. The institution is striving to equip itself with the means to attract, retain and motivate talented employees, so as to achieve its business objectives and to meet depositors' expectations. In light of the Human Resources Committee's report, the Board of Directors approved the overall compensation for the Caisse's officers. The Board members will continue to monitor the market closely and to make remuneration an important management tool.

Acknowledgments
In conclusion, I should like to acknowledge the hard work and dedication of the Caisse's employees, who contributed to the excellent results reported in the pages that follow. On behalf of the Board of Directors, I should like to express our heartfelt gratitude. We are well aware of the maturity of the institution and the depth of its teams, as well as the vitality and professionalism of all personnel.

I should also like to thank the members of the Board of Directors for their constructive contribution to the Board's work and deliberations. Finally, I should like to renew my support for Henri-Paul Rousseau, the President and Chief Executive Officer, and the members of the Executive Committee in their efforts to adapt the Caisse to the requirements of its Act, to apply the various measures set out in the strategic plan 2006-2008 and to achieve the institution's performance objectives.

Pierre Brunet
Chairman

Message from the President and Chief Executive Officer

Mindful of the heritage conferred by 40 years of history, the Executive Committee wanted to pave the way for future success. Before 2005 ended, it therefore established the Caisse's strategic priorities for the next three years, in concert with the Board of Directors.

The Caisse de dépôt et placement du Québec began 2005 with a sense of renewal, as legislative provisions to clarify its mission and to introduce new governance rules came into force. The celebrations held to mark the Caisse's 40th anniversary afforded the opportunity to look back on the path taken by the institution as an adviser and manager of its depositors' holdings, and to point up its role in shaping the modern Québec.

Mindful of the heritage conferred by 40 years of history, the Executive Committee wanted to pave the way for future success. Before 2005 ended, it therefore established the Caisse's strategic priorities for the next three years, in concert with the Board of Directors.

Acknowledgments

As President and Chief Executive Officer, I should first like to thank and to congratulate the Caisse's employees for their determination and professionalism throughout 2005 but also over the past three years. They are the main authors of the institution's progress during that period, and the sustained returns that have resulted. Thanks are also due to the members of the depositors' investment committees and boards of directors for their close co-operation and abiding confidence.

At the end of a year marked by events that will shape the Caisse's future, I should especially like to thank Pierre Brunet, the Chairman of the Board of Directors, as well as the Board members, for their invaluable contribution and support, especially in the preparation of the strategic plan 2006-2008.

Lastly, I should like to express my gratitude to the outgoing Board members: Nicole Trudeau, Jean-Claude Bachand, Yves Filion and Gilles Godbout. I offer them my sincere thanks for the expertise and experience they brought to the Caisse during their mandates.

Henri-Paul Rousseau

2005 results

The Caisse recorded another fine performance in 2005. The individual returns for the Caisse's main depositors range from 13.4% to 17.9% and reflect the diverse requirements and objectives expressed in their investment policies. I am particularly pleased that all depositors reaped the benefits of value added in 2005, in other words returns that exceed the benchmark indexes specified in their investment policies. Moreover, the portfolios of six of the Caisse's seven main depositors posted first-quartile returns.

As for the Caisse's overall return, namely the weighted average return on depositors' funds, it was 14.7% and contributed $15.2 billion to depositors' net assets. This return exceeds the first-quartile threshold for Canadian fund managers by 110 basis points (1.1%) and the median by 270 basis points (2.7%), according to the average calculated from various industry benchmarking studies. It also exceeds the return on the overall index of the Caisse's benchmark portfolio by 178 basis points (1.78%).

<u>Increase in depositors' net assets and total assets under management</u>

Depositors' net assets rose to $122.2 billion in 2005, an increase of $19.8 billion from 2004. Of this substantial amount, $15.2 billion is due to the combined effect of the depositors' investment policies and active management by the Caisse's fund managers, and $4.6 billion to net deposits made by the depositors during the year.

Depositors' total assets amounted to $179.7 billion as at December 31, 2005, while total assets under management stood at $216.1 billion.

<u>Returns earned by the investment groups</u>

As in 2004, Real Estate and Private Equity posted the best performances of the Caisse's investment groups, returning 26.4% and 22.3% respectively. The Real Estate group's contribution to depositors' net assets was $3.5 billion, while Private Equity contributed $1.9 billion.

The Absolute Return group earned 11.2%, for a contribution of $0.5 billion, while the Fixed Income group, with a 6.6% return, produced a gain of $2.6 billion. The 17% return on the specialized portfolios managed by the Equity Markets group made the largest contribution to depositors' net assets, with $6.6 billion.

In terms of value added, the Real Estate and Private Equity groups recorded stand-out performances once again, surpassing their benchmark indexes by 565 basis points (5.65%) and 1,410 basis points (14.10%) respectively. The Absolute Return and Fixed Income groups also outperformed their indexes, the first by 507 basis points (5.07%) and the second by eight basis points (0.08%).

Message from the President and Chief Executive Officer (cont.)

The return earned by the Equity Markets group fell short of the benchmark index by 94 basis points. The international equity portfolios generated 41 basis points (0.41%) more than their indexes. The specialized Canadian Equity portfolio, with a 21% return, underperformed the S&P/TSX Capped Index by 313 basis points (3.13%), however. This difference is due mainly to the portfolio's defensive positioning in the energy sector.

Sustained returns over three years

Considering the challenge of meeting depositors' long-term expectations, the constant improvement in the Caisse's results over the past three years is worthy of note.

For the period from 2003 to 2005, the Caisse's average overall return is 14%, or 110 basis points (1.1%) more than the first-quartile threshold for Canadian fund managers. In addition, the Caisse's value added increased considerably during the period: from eight basis points (0.08%) in 2003, it went to 100 basis points (1.00%) in 2004 and to 178 basis points (1.78%) in 2005. This performance represents an average of 96 basis points (0.96%) and slightly exceeds the objective of 90 basis points (0.90%) set by the Caisse and its depositors.

Depositors' net assets rose from $77.7 billion as at December 31, 2002, to $122.2 billion as at December 31, 2005, an increase of $44.5 billion. Almost 85% of this growth is due to the Caisse's investment activities, with $35.5 billion coming from the return on the Caisse's benchmark portfolio and $2.6 billion from active management. This amount also takes into account $7.0 billion of depositors' net contributions and $0.6 billion of operating expenses.

Improved performance

I should like to take this opportunity to point out that four important decisions, made at the end of 2002 in co-operation with the depositors, led to the increase in value generated by investment activities in the three following years. First, the Caisse did not systematically realize its losses of market value when the bubble in the telecommunication, media and information technology sectors burst. Rather, it managed these investments strategically, according to their potential for appreciation, and even made further investments in some of them to promote their recovery. Second, it continued to invest in the equity markets despite their weakness in 2002 and early in 2003.

Third, in view of the lower returns offered by the stock and bond markets, it elected to invest more in the less liquid asset classes, such as real estate, private equity and hedge funds, so as to enhance the return on the overall portfolio. Finally, the Caisse took advantage of low interest rates and its excellent credit ratings to increase its borrowing and to use the leverage effect for many investments, particularly its real estate holdings.

The excellent results posted by the Caisse from 2003 to 2005 are also a reflection of the efforts made to improve the organization's performance from every point of view and to achieve the goal of sustained superior returns.

In applying a new business model that is focused, open and efficient, the Caisse has emphasized consolidation of its four operational levers. With various projects and initiatives, it has developed and improved programs to ensure human resources excellence; rigorous, dynamic risk management; investment-policy research and proprietary research within the investment groups; and technology architecture, information systems and processes that ensure operational efficiency.

Contribution to Québec's economic development

This year the Caisse's Annual Report contains a new section, "Contribution to Québec's economic development." This text presents a general discussion of the various facets of its contribution. It explains how the Caisse's financial performance can contribute significantly to Québec's economic development, owing to the impact of its returns on the pension funds and insurance plans concerned. It also gives an overview of the Caisse's historic role as an investor closely involved with Québec institutions and companies, and describes how this role continues today in newer and more targeted forms. Finally, the section outlines various other impacts and summarizes the measures that will be taken from 2006 to 2008 to enhance the Caisse's contribution.

Outlook and challenges

We are satisfied with our performance improvements, but we are also well aware that the Caisse is not likely to produce long-term absolute returns comparable to those recorded from 2003 to 2005. The favourable market conditions that prevailed during that period – surplus liquidity, strong economic growth and rising financial asset values – will in all likelihood change as central banks take measures to mitigate the economic and financial imbalances created since 2001. As these imbalances became more pronounced in 2005, the possibility of an abrupt adjustment is a major risk for the global economy.

In this context, we believe the markets will offer lower returns in the years to come. Still, we expect that, with its balanced portfolio, the Caisse will be able to meet its depositors' long-term expectations by earning an overall return of about 7% on a 10-year horizon.

In the years to come, with depositors' approval, the Caisse intends to take advantage of the expertise of its investment teams and its considerable size to derive further benefit from real estate, private equity and infrastructure, as well as absolute return and asset allocation operations. It will also strive to increase its presence in promising new markets, especially emerging markets.

Message from the President and Chief Executive Officer (cont.)

To succeed, the Caisse will have to stand out from the other major investors in a climate of intense competition and bidding, not only to secure rewarding investment opportunities but also to recruit, retain and motivate talented employees in highly specialized fields.

On the Québec market, the Caisse will pursue its general investment operations and its role as an investor that works closely with its portfolio companies. The goal is to identify and to act on undervalued investment opportunities before other investors do. Along with its partners, the Caisse will continue to fulfill its commitments in such areas as venture capital, SME financing and the Accès Relève solution for business succession.

Strategic plan 2006-2008

The Caisse's examination of the challenges it faces served as the foundation for a planning exercise that gave rise to a strategic plan for the period from 2006 to 2008. This initiative first served to determine a collective ambition: the Caisse intends to be recognized as a benchmark organization for institutional fund managers.

We concluded that the day when the Caisse is recognized as a benchmark organization it will have a sustained return that is derived from diversified sources and meets depositors' long-term expectations, it will comprise teams collaborating actively to achieve common objectives, and it will be an employer of choice equipped with high-performance management practices, systems, tools and operational processes that are regularly benchmarked.

Four strategic priorities

Before the strategic priorities for 2006 to 2008 were defined, an analysis was done of the Caisse's external environment, the situation within the institution and the outlook for the returns on its various asset classes. The main findings of this analysis are presented in the "Strategic plan 2006-2008" section of this Annual Report.

With this research and reflection we established four strategic priorities of equal importance. The first priority is to generate a return that meets depositors' long-term expectations by optimizing our investment strategies. The second is to put in place a management framework based on the attributes of a benchmark organization, strategic priorities and legal requirements, especially for internal control, risk management and resource optimization. The third priority is to strengthen our operational levers to optimize resources. Lastly, the fourth priority in the strategic plan 2006-2008 is to contribute to Québec's economic development.

Objectives 2006

The Caisse will continue to set itself apart in 2006 by increasing and diversifying its sources of value added. It will use external partnerships to act on the best business opportunities as well as internal partnerships to develop new investment strategies.

The Caisse also intends to refine its management framework, so as to meet the requirements of its constituting statute, to respect the principles of good financial governance that it has adopted and to ensure it can carry out its strategic plan 2006-2008.

To build on the progress achieved over the past three years, it will also continue to invest in human resources, research and risk management. Moreover, it will strive to improve its information technology and operating environment with three key projects: it will optimize the operational chain for the investment processes, create a corporate information factory to enhance the quality of management information and implement a sophisticated risk management system for the various portfolios.

By defining the Caisse's ambition as well as the four priorities of the strategic plan 2006-2008, management has sought to create conditions that are the sine qua non of progress and success. The depositors will be the first to benefit from this initiative, which we are undertaking with a long-term view.

The success of our strategic plan will also bring about positive benefits for Québec's economic development. Moreover, we believe Québec society as a whole stands to gain from the Caisse's stature as a benchmark organization.

Henri-Paul Rousseau
President and Chief Executive Officer

Executive Committee

Suzanne Masson
Executive Vice-President Corporate Affairs and Secretary

V.P. Pham
Executive Vice-President Information Technology and Investment Administration

Richard Guay
Executive Vice-President Risk Management and Depositors' Accounts Management

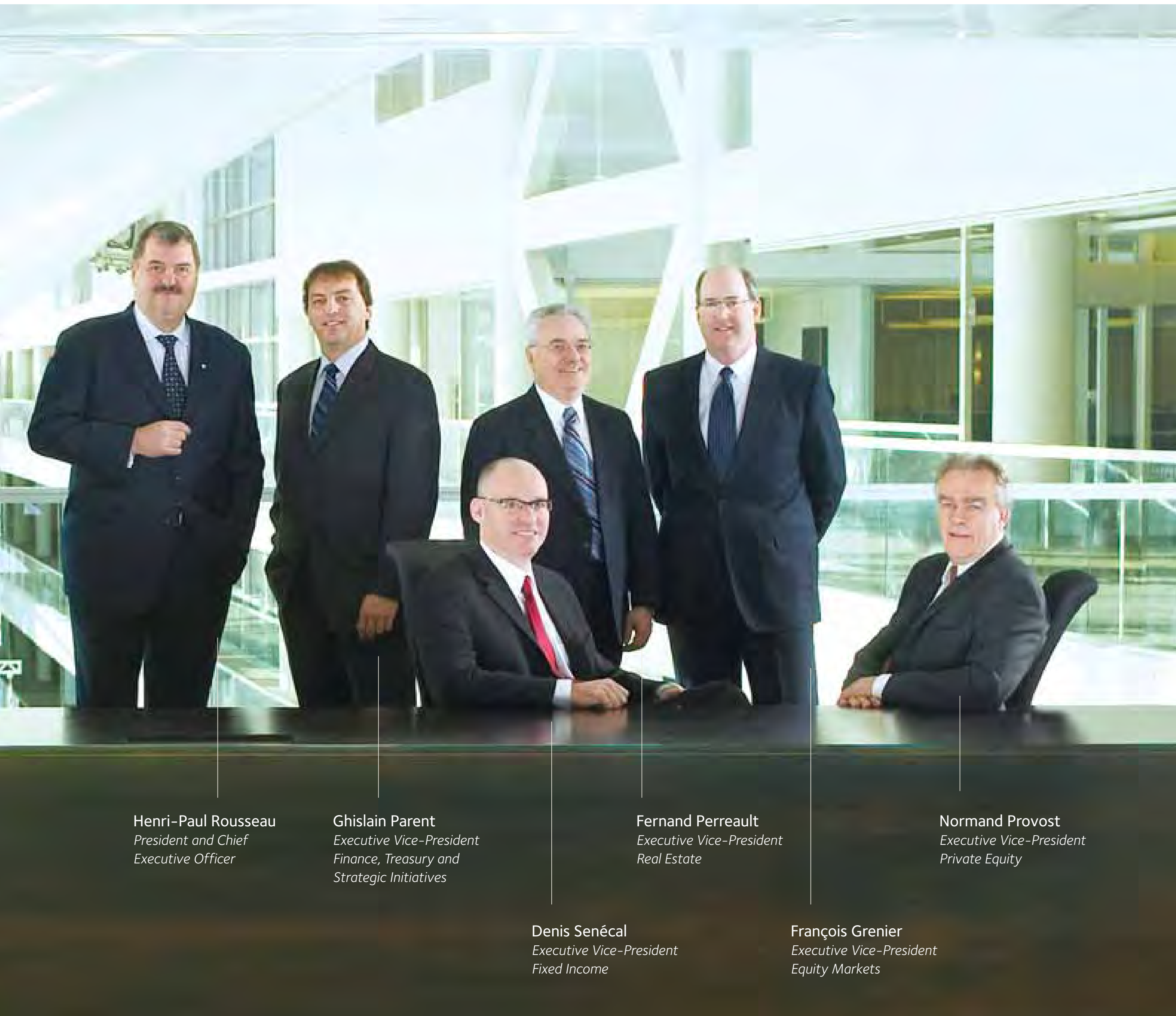
Christian Pestre
Executive Vice-President Absolute Return

Michel Malo
Executive Vice-President Investment Analysis and Optimization

Robert W. Desnoyers
Executive Vice-President Human Resources and Organizational Development

"Our results for 2005 are due to the contribution made by each member of the organization. For that reason, we have made a commitment to put in place the resources, the framework and the support required for the success of our collective efforts. In this way, we shall be well placed to carry out our strategic plan 2006-2008 and to achieve our ambition of becoming a benchmark organization."

The senior management team



Henri-Paul Rousseau
President and Chief Executive Officer

Ghislain Parent
Executive Vice-President Finance, Treasury and Strategic Initiatives

Fernand Perreault
Executive Vice-President Real Estate

Normand Provost
Executive Vice-President Private Equity

Denis Senécal
Executive Vice-President Fixed Income

François Grenier
Executive Vice-President Equity Markets

Analysis of returns and financial situation

Analysis of returns and financial situation

23 Economic context 2005
27 Information disclosure and financial certification
30 Conclusions about the effectiveness of the disclosure controls and procedures
32 Summary of the Caisse's overall performance

42 Investment operations and analysis of returns
44 Fixed Income
48 Equity Markets
55 Private Equity
63 Real Estate
72 Absolute Return
76 Investment Analysis and Optimization

79 Contribution to Québec's economic development
82 International operations

84 Analysis of combined financial statements and financing activities
85 Analysis of combined financial statements
88 Analysis of operating expenses
89 CDP Financial's operations

90 Combined financial statements
91 Management's responsibility for combined financial reporting
92 Auditor's report
93 Combined statement of net assets
94 Combined statement of income and changes in net assets
95 Combined Funds – Notes to financial statements

Economic context 2005

Red-hot real estate, spiralling energy prices and low interest rates
Global economic growth slowed in 2005 in relation to the previous year, but was nevertheless very vigorous in North America and the emerging markets, especially China, where economic growth was robust for the 15th straight year. The strength of these economies continued to stimulate global demand for commodities and to push their prices up (Figure 10).

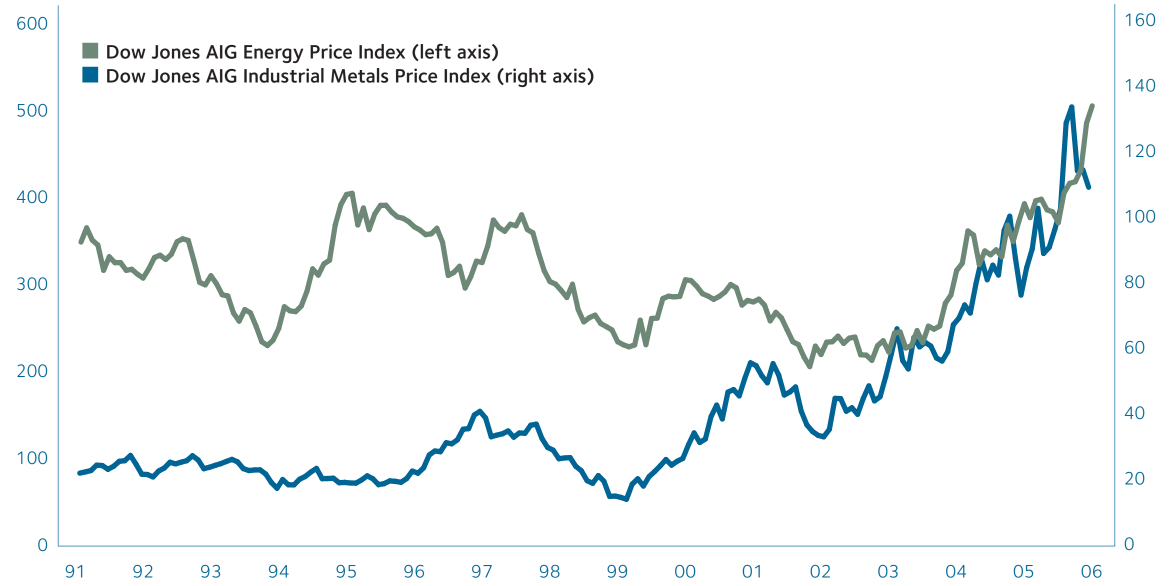
In the case of energy, strong demand combined with inadequate production and refining capacity – a situation aggravated by the devastating impact of hurricanes on the oil and gas facilities in the Gulf of Mexico – drove prices to record levels early in the fall. Rapidly rising energy prices temporarily revived the spectre of inflation, but overall price increases remained modest as a result of structural deflation caused by expanding trade with emerging markets, global production platforms and improved management of inflation expectation by central banks.

The U.S. Federal Reserve continued to increase its key rate at a measured pace, a process begun the previous year, in an effort to tighten credit conditions, slow growth and contain any latent inflationary pressures. Long-term interest rates remained surprisingly low despite the central bank's rate hikes, and enthusiasm for U.S. residential real estate continued unabated in 2005, creating a wealth effect that fuelled household spending.

Despite the negative impact of rising energy prices on household budgets, consumer spending in the United States continued to stimulate imports, particularly from China. The U.S. current account deficit deepened further, while the combined current account surplus of the emerging markets and oil-exporting countries continued to increase. The excess savings of these countries helped finance the U.S. deficit and keep long-term interest rates low, which in turn was conducive to continuing U.S. expansion based on debt.

Energy and industrial metals price indexes

figure 10



Sources: Macroeconomic Analysis, Datastream.

Economic context 2005 (cont.)

Global context

North America

In the United States, substantial increases in property values stimulated credit and consumer spending. The housing-price spiral accelerated in 2005 (Figure 11), creating a considerable wealth effect. Many households took on additional mortgage debt, using their rising home equity to finance spending. As a result of massive borrowing, consumer spending exceeded disposable income, pushing the household savings rate into negative territory. Despite rising energy prices, the spending cycle continued unabated; the United States' enormous trade deficit widened further, helping drive the current account deficit to about 6.5% of GDP.

Despite this deficit, the greenback appreciated during the year and long-term interest rates remained low, so the United States had little difficulty financing its colossal international deficit. In fact, the central banks in the Asian countries and the oil-exporting nations channelled a portion of their vast current-account surpluses into the purchase of U.S. dollars and financial assets.

The usual mechanism that adjusts the current account deficit – normally it would drive the dollar down, bring interest rates up, slow U.S. consumer spending and accelerate external demand – did not make itself felt. As a result, the global imbalances observed early in the year became more pronounced.

In Canada, consumer spending also made a strong contribution to economic growth, mainly because of the real estate boom. Sustained economic activity brought the unemployment rate down to 6.5%, its lowest level in 30 years. The strength of the commodities markets and the U.S. economy also played a major role. The resource sector continued to benefit from the favourable global context. China's economic expansion, for example, pushed up prices for energy as well as basic and precious metals.

United States housing price index

figure 11

(annual percentage variation)

Sources: Macroeconomic Analysis, Office of Federal Housing Enterprise Oversight, Datastream.

The loonie, which began to strengthen in 2002, continued to rise. In 2005, it was up 18% against the euro and the yen, 15% against the pound sterling and 3% against the greenback (Figure 12). From early 2002 until late 2005, the Canadian dollar rose 37% against its U.S. counterpart.

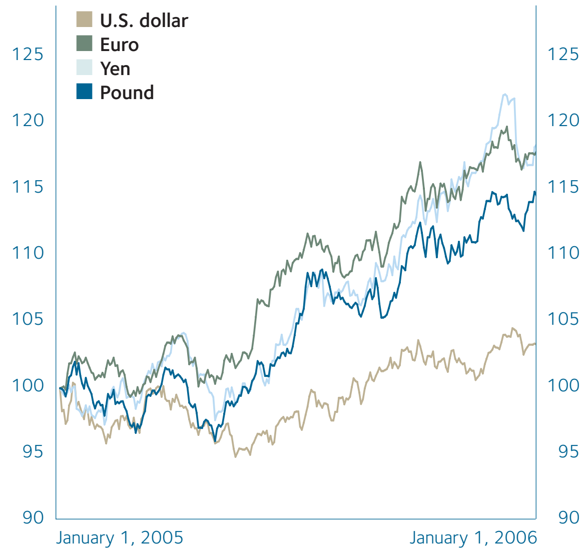
The dollar's strength is further reducing the competitiveness of manufacturers already tested severely by increasingly intense competition from emerging markets. In addition, China could soon supersede Canada as the leading exporter to the United States. Still, U.S. demand for Québec products remained firm despite the rising Canadian dollar. Moreover, strong consumer spending and construction partially offset the negative impact of our higher currency on Québec's economy.

In the United States and Canada, corporate earnings were generally excellent. Operating revenues remained very high in the United States, although they fell during the second half of the year, with higher production costs and downward pressure on prices as a result of Asian competition contributing to smaller profit margins. In Canada, operating revenues exceeded 15% of GDP, a level not seen since the end of the 1980s. The financial services and natural resource sectors saw their profitability increase, while in the manufacturing sector profits fell in relation to 2004.

Value of the Canadian dollar in relation to the U.S. dollar, the yen, the euro and the pound sterling in 2005[1]

figure 12

(January 1, 2005 = 100)



1 In this figure, a decrease corresponds to depreciation of the Canadian dollar, whereas an increase represents appreciation.

Sources: Macroeconomic Analysis, Datastream.

<u>Europe</u>

The euro zone's economy remained sluggish in 2005, and for the fifth straight year economic growth was less than 2% (Figure 13). Germany, France and Italy all posted growth rates below their long-term potential. Consumer spending remained essentially anemic in Germany; the country's unemployment is still high and the labour market, which has recently been showing signs of greater flexibility, is still burdened by significant structural rigidity. Consumers continue to save at a high rate and are hesitant to loosen their purse strings. As a result of its exports, Germany managed to avoid a recession and maintained a 1% growth rate.

Several other countries in the euro zone experienced a real estate boom and a modicum of consumer-spending growth, attributable in some cases to a significant expansion of credit. The exterior sector contributed negatively to growth in Italy and France, however. Italy is struggling with a rising public deficit, and was at a standstill from an economic point of view, while France's growth was a mere 1.5%. This weak economic performance contributed to the fragility of the euro in 2005, as did the rejection of the European Constitution and the European Central Bank's policy of keeping its key rate relatively low.

In the United Kingdom, the restrictive monetary policy adopted in 2003 paid off. The monetary tightening orchestrated by the Bank of England cooled the residential real estate sector and curbed household demand for credit. The resulting net slowdown in consumer spending pushed economic growth below 2%. The Bank of England decided to reverse its policy by lowering its key rate by a quarter of a percentage point in August. Economic activity was showing encouraging signs toward year-end.

Economic context 2005 (cont.)

Asia

China's economy continued to grow quickly in 2005. According to official statistics, the economic growth rate was about 10%. This spectacular expansion, driven mainly by exports and capital spending, fuelled increases in the prices of a large number of commodities. In a gesture designed to appease the influential protectionist members of the U.S. Congress, China devalued its currency slightly in relation to the greenback, a move that did not prevent the U.S. trade deficit vis-à-vis China from rising to a new peak.

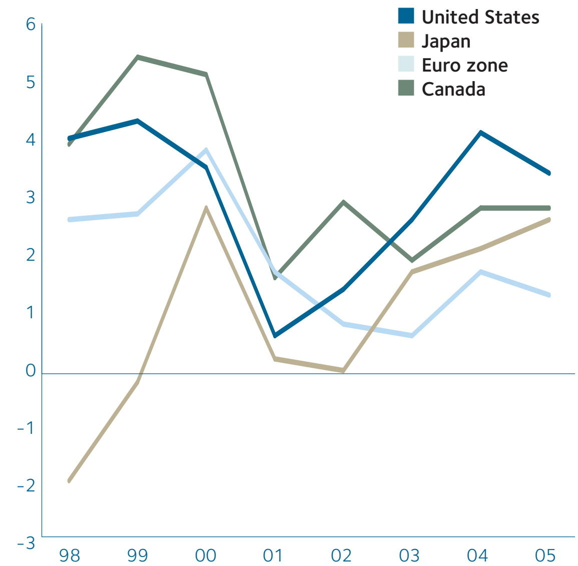
India was also very active; the economic growth rate of emerging Asia's other giant in the making has exceeded 7% since 2003. In contrast to China, India's growth is driven by domestic demand from an expanding middle class eager for consumer goods. The government is continuing its reforms: foreign investment has begun to flow into the country, especially into the information technology sector, and liberalization of foreign investment in construction and retail is attracting international investors to India's real estate sector. Still, substandard infrastructure, regulatory bureaucracy and endemic poverty are preventing India's economy from reaching its full potential.

In Japan, depreciation of the yen and China's growth contributed to exports in 2005. The country showed other signs of vigour: cleaned-up corporate balance sheets, a positive performance by the banking sector and remarkable gains on the stock market. Moreover, domestic demand firmed despite the very unfavourable demographic context. In short, after a long period of stagnation Japan posted a year of respectable growth. But 2005 did not see the country conquer the deflation it has been struggling with for several years, despite the Bank of Japan's accommodative monetary policy.

Real GDP: United States, Japan, euro zone, Canada

figure 13

(annual percentage variation)



Sources: Macroeconomic Analysis, Datastream.

Uneven global growth in 2005

In brief, global growth was solid but uneven: North America and the emerging markets, particularly the Asian countries, were the main drivers of the world's economy, while Western Europe grew less quickly. Moreover, the global imbalances already present early in the year were exacerbated, and the possibility of an abrupt adjustment of these imbalances represents a heightened risk for the global economy.

Information disclosure and financial certification

Two new policies, adopted in 2005, govern the Caisse's information disclosure processes.

Information disclosure policy
This policy meets a requirement contained in the Act. It gives effect to the Caisse's undertaking to provide quality information, and determines the rules to be followed to that end. It states the obligations under laws and regulations as well as the Caisse's disclosure practices, and specifies the disclosure forms and processes, thereby creating a framework conducive to disclosure of the information required.

In addition to the information disclosure policy, the Caisse has a financial certification policy that governs preparation and disclosure of financial information.

Financial certification policy
By adopting such a policy, the Caisse undertakes to respect the principles of good financial governance set out in Multilateral Instrument 52-109 of the Canadian Securities Administrators, although the Caisse is not a reporting issuer within the meaning of the regulation in effect.

This policy stipulates that the Caisse must at all times maintain internal financial controls and disclosure controls that are designed to produce and disclose reliable and complete information that accurately reflects the Caisse's financial situation in all material respects. It ensures that financial information is entered, processed, checked and presented in a timely manner.

Under the financial certification process, the officers of the Caisse are responsible for the quality of the information produced and the internal controls for production and disclosure of such information. Accordingly, on the basis of internal certificates signed by various officers and senior managers, the individual financial certificates of the President and Chief Executive Officer and of the Executive Vice-President, Finance, Treasury and Strategic Initiatives, are published in the Caisse's Annual Report in accordance with the sample certificate prepared by Canadian regulatory authorities. The Caisse's Audit Committee establishes the documents to be provided and the schedule for implementation of the policy.

The information disclosure policy and the financial certification policy can be consulted on the Caisse's Web site at the following address: www.lacaisse.com

Financial certificate of the President and Chief Executive Officer

I, **Henri-Paul Rousseau, President and Chief Executive Officer** of the Caisse de dépôt et placement du Québec, certify that:

1. I have reviewed the combined financial statements, the Schedules (tables of returns) presented in the Annual Report 2005 – Additional Information, the press release announcing the annual results and the Annual Report (hereafter referred to as the "**Annual Filings**") of the **Caisse de dépôt et placement du Québec** (the "**Caisse**") for the year ended **December 31, 2005**.

2. To the best of my knowledge, the Annual Filings do not contain any untrue statement of a material fact or omit to state a material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the fiscal year covered by the Annual Filings.

3. To the best of my knowledge, the combined financial statements and the other financial information included in the Annual Filings fairly present in all material respects the financial situation of the Caisse as at the closing dates of the fiscal years presented in the Annual Filings, as well as the results of its operations for those years.

4. The Executive Vice-President, Finance, Treasury and Strategic Initiatives, and I are responsible for establishing and maintaining disclosure controls and procedures for the Caisse, and we have:

   a) Designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the Caisse, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the Annual Filings are prepared;

   b) Evaluated the effectiveness of the disclosure controls and procedures as at the end of the fiscal year covered by the Annual Filings; and

   c) Presented in the Annual Report 2005 our conclusions about the effectiveness of the disclosure controls and procedures as they were applied during fiscal 2005, in accordance with our self-assessment.

Henri-Paul Rousseau

Henri-Paul Rousseau
President and Chief Executive Officer

March 24, 2006

Financial certificate
of the Executive Vice-President, Finance, Treasury and Strategic Initiatives

I, **Ghislain Parent, Executive Vice-President, Finance, Treasury and Strategic Initiatives** of the Caisse de dépôt et placement du Québec, certify that:

1. I have reviewed the combined financial statements, the Schedules (tables of returns) presented in the Annual Report 2005 – Additional Information, the press release announcing the annual results and the Annual Report (hereafter referred to as the "**Annual Filings**") of the **Caisse de dépôt et placement du Québec** (the "**Caisse**") for the year ended **December 31, 2005**.

2. To the best of my knowledge, the Annual Filings do not contain any untrue statement of a material fact or omit to state a material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the fiscal year covered by the Annual Filings.

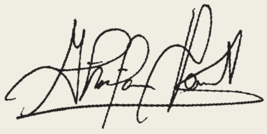
3. To the best of my knowledge, the combined financial statements and the other financial information included in the Annual Filings fairly present in all material respects the financial situation of the Caisse as at the closing dates of the fiscal years presented in the Annual Filings, as well as the results of its operations for those years.

4. The President and Chief Executive Officer and I are responsible for establishing and maintaining disclosure controls and procedures for the Caisse, and we have:

   a) Designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the Caisse, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the Annual Filings are prepared;

   b) Evaluated the effectiveness of the disclosure controls and procedures as at the end of the fiscal year covered by the Annual Filings; and

   c) Presented in the Annual Report 2005 our conclusions about the effectiveness of the disclosure controls and procedures as they were applied during fiscal 2005, in accordance with our self-assessment.



Ghislain Parent
Executive Vice-President
Finance, Treasury and Strategic Initiatives

March 24, 2006

Conclusions about the effectiveness of the disclosure controls and procedures as applied to the 2005 Annual Filings

The disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and submitted in a timely fashion to senior management, in particular to the President and Chief Executive Officer and to the Executive Vice-President, Finance, Treasury and Strategic Initiatives, so that the appropriate decisions can be made regarding information disclosure.

In accordance with the Caisse's financial certification policy, the effectiveness of the disclosure controls and procedures relative to the 2005 Annual Filings was the subject of a self-assessment. The Annual Filings consist of the combined financial statements, the Schedules (tables of returns), the press release announcing the annual results and the Annual Report.

The Disclosure Committee, which includes the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, reviewed the results of the self-assessments. The Committee determined no weakness and therefore had no recommendation to make. These self-assessments are based on the control-evaluation model usually adopted by North American companies, that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Accordingly, the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, concluded that, for the 2005 Annual Filings, the disclosure controls and procedures were applied effectively and provided reasonable assurance that material information, including that from the subsidiaries, was reported to them in a timely fashion, to enable them to provide complete, reliable information reflecting reality in its entirety.

The Board of Directors also approved the 2005 Annual Filings before their public disclosure.

Responsibilities of the Caisse and its depositors

Unlike organizations that manage their funds and also administer their pension or insurance plan, the Caisse and its depositors share these responsibilities according to conditions set out in various laws and as specified in service agreements.

Responsibilities of the depositor
Each depositor, through its pension committee, investment committee or board of directors, is responsible for its actuarial liabilities, namely the sum of its financial obligations. It also develops and updates its investment policy as a function of its needs, investment horizon and risk tolerance.

The policy, which is revised at least every three years, specifies the plan's profile and characteristics, its benchmark portfolio and the market indexes for the asset classes in it, the return expected by the depositor and the level of risk it is prepared to assume.

Responsibilities of the Caisse
Advisory services
As an adviser, the Caisse provides advisory services to its depositors for the development or review of their investment policies. For example, it prepares economic analyses and forecasts as well as risk, return and correlation forecasts for the specialized portfolios.

It also simulates various asset allocation scenarios that enable the depositors to establish their benchmark portfolio. It designs and proposes new investment products to suit their changing needs. Lastly, it prepares studies and presentations on subjects related to their investment policies.

In conjunction with its advisory services, the Caisse offers depositors training and information sessions on portfolio management as well as on its own structures, processes and operations.

Fund management
As a fund manager, the Caisse undertakes to manage the funds it receives from depositors by seeking an optimal return on capital in accordance with their investment policies. This commitment includes the responsibility to report on the results of its operations. The Caisse reports periodically to each of its depositors on the return obtained, the source of the return, the value added or subtracted in relation to market or recognized indexes, the risk assumed and its performance in comparison with other institutional fund managers.

It also issues compliance certificates to attest that the portfolio managers have respected the depositors' investment policies as well as the investment policies of the specialized portfolios. The Caisse must also keep depositors informed of its strategic orientations and significant changes affecting various aspects of its organization and management.

Summary of the Caisse's overall performance

Overall Results

The Caisse's overall return refers to the weighted average return on depositors' funds and is calculated from the depositors' returns and the relative weight of each depositor.

The Caisse recorded a 14.7% overall return for 2005, a performance that added $15.2 billion to depositors' net assets. This return exceeds the Caisse's overall benchmark portfolio by 178 b.p. (1.78%). In 2004 and 2003, the overall return was 12.2% and 15.2% for contributions of $10.8 billion and $11.5 billion to depositors' net assets. The value added was 100 b.p. (1.00%) in 2004 and 8 b.p. (0.08%) in 2003. In 2005, the Caisse therefore generated the highest value added of the past three years.

The 14.7% weighted average return for 2005 is 110 b.p. (1.1%) above the first-quartile threshold return for Canadian fund managers and 270 b.p. (2.7%) above their median, according to various industry benchmarking studies. These studies set the first-quartile threshold at 13.6% and the median return at 12.0% for 2005. The Caisse's average three-year return, at 14.0%, is also 110 b.p. (1.1%) above the first-quartile threshold for Canadian funds managers for this period.

Table 14 shows the Caisse's overall return for one year, three years and five years in comparison with the overall index of the benchmark portfolio. The 14.0% three-year return therefore exceeds the return on the benchmark index by 96 b.p. (0.96%), while over five years it is 111 b.p. (1.11%) below the return on the benchmark index. This negative five-year performance is due mainly to subtracted value of 348 b.p. (3.48%) in 2001 and 388 b.p. (3.88%) in 2002.

Weighted average return on depositors' funds

table 14

(for periods ended December 31, 2005)

	Return %	Index[1] %	**Spread b.p.**
1 year	14.7	12.9	**178**
3 years	14.0	13.1	**96**
5 years	5.0	6.1	**(111)**

[1] Overall index of the Caisse's benchmark portfolio.

The 14.7% overall return for 2005 is due to the operating results of the 18 specialized portfolios managed by the Caisse's six investment groups, namely Fixed Income, Equity Markets, Private Equity, Real Estate, Absolute Return, and Investment Analysis and Optimization. The returns on the specialized portfolios for periods from one year to 10 years are given in Additional Information – Annual Report 2005.

Depositors' individual returns

The Caisse's overall return consists of the individual returns of 25 depositors' funds. For 2005, the individual returns of the main depositors range from 13.4% to 17.9%. In 2004, these returns ranged from 11.3% to 14.6%. This spread reflects the depositors' different investment policies; some include a greater proportion of fixed income, while others include a larger proportion of variable income securities.

The weighted average return on depositors' funds depends on four factors:

- Behaviour of the markets;
- Depositors' investment policies (benchmark portfolios);
- Weight of each depositor in the Caisse's overall portfolio;
- Active management of each of the Caisse's specialized portfolios.

Changes in depositors' net assets

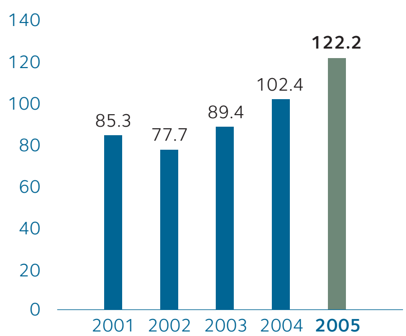
Figure 15 shows that depositors' net assets reached a low of $77.7 billion as at December 31, 2002, as a result of deficits of $4.7 billion and $8.5 billion recorded in 2001 and 2002, as shown in Figure 16. Since that low point, depositors' net assets have increased by $44.5 billion, going from $77.7 billion to $122.2 billion during the period from 2003 to 2005.

Table 17 shows the changes in depositors' net assets from January 1, 2003, to December 31, 2005, as well as the main reasons for these changes, namely the return related to the depositors' choice of investment policy, the return arising from active management and depositors' net contributions.

Depositors' net assets – 2001 to 2005

figure 15

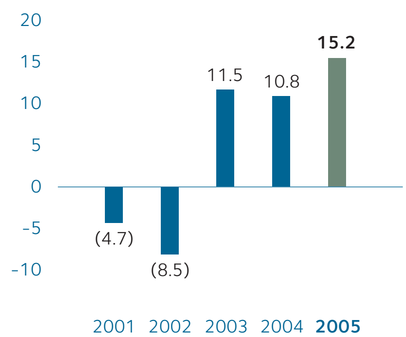
(as at December 31 – in billions of dollars)



Total contribution of investment activities – 2001 to 2005

figure 16

(for periods ended December 31 – in billions of dollars)



Analysis of changes in depositors' net assets – 2003 to 2005

table 17

(in billions of dollars)

	2003	2004	**2005**	**2003-2005**
Net assets at beginning	77.7	89.4	**102.4**	**77.7**
Income generated by asset allocation decisions (depositors' investment policies)[1]	11.6	10.2	**13.7**	**35.5**
Value added by active management[2]	0.1	0.8	**1.7**	**2.6**
Depositors' net contributions	0.2	2.2	**4.6**	**7.0**
Subtotal	11.9	13.2	**20.0**	**45.1**
Operating expenses	(0.2)	(0.2)	**(0.2)**	**(0.6)**
Subtotal	11.7	13.0	**19.8**	**44.5**
Net assets at end	89.4	102.4	**122.2**	**122.2**

1 The main objective of investment policy management is to establish the allocation of depositors' assets among the Caisse's various specialized portfolios, according to their risk characteristics and return outlook, as a function of the needs and objectives of each depositor. The depositors take part in this management, with the Caisse providing a range of financial products as well as advisory services.

2 The objective of active management, which is the Caisse's exclusive responsibility, is to produce an optimal return for each specialized portfolio.

Summary of the Caisse's overall performance (cont.)

For the period from 2003 to 2005, about 85% of the growth in net assets is attributable to investment operations, namely $35.5 billion, which is due to the depositors' investment policies and $2.6 billion, which is due to active management. Depositors' net contributions totalling $7.0 billion are added, while operating expenses of $0.6 billion for the three-year period are subtracted.

Contributions and returns by investment groups in relation to the indexes

Table 18 shows the contributions in dollars made by the Caisse's investment groups in 2004 and 2005. Over all, the contribution was up $4.4 billion in 2005 in relation to 2004, and that pertaining to each investment group also increased.

In terms of relative value, the contributions made by Real Estate and Private Equity total 36.0% in 2005 versus 35.2% in 2004. This contribution is outstanding, considering that these two investment groups represented only 23.1% of depositors' net assets in 2005 and 20.6% in 2004. This trend is reversed for the Fixed Income and Equity Markets groups. Although these two groups represented 72.3% of net assets in 2005 and 75.5% in 2004, their relative share of the contribution was 60.6% in 2005 and 63.9% in 2004.

Table 19 shows the returns for the investment groups and the specialized portfolios, as well as the depositors' benchmark indexes for each specialized portfolio.

In 2005, the Caisse outperformed the depositors' benchmark index by 178 b.p. (1.78%). Each of the 18 specialized portfolios managed by the Caisse's investment groups generated a positive absolute return in 2005, and 10 of them outperformed their benchmark indexes.

In terms of value added, the Real Estate group and the Private Equity group stand out once again with their excellent returns. The Absolute Return group also did very well, as a result of the return on the specialized Hedge Funds portfolio. Finally, the changes made to the specialized U.S. Equity portfolio in 2004 paid off in 2005. Conversely, the specialized Canadian Equity portfolio underperformed its index as a result of the strategy adopted for the energy sector. Further details on the specialized portfolios are presented in the section "Investment operations and analysis of returns."

Breakdown of contribution by investment group

table 18

(for periods ended December 31)

				2005				2004
		Contribution	Weighting	Return		Contribution	Weighting	Return
	$ billion	%	%	%	$ billion	%	%	%
Fixed Income	**2.6**	**17.0**	**35.6**	**6.6**	2.3	21.3	35.5	7.1
Equity Markets	**6.6**	**43.6**	**36.7**	**17.0**	4.6	42.6	40.0	12.6
Private Equity	**1.9**	**12.8**	**9.0**	**22.3**	1.6	14.8	8.8	20.5
Real Estate	**3.5**	**23.2**	**14.1**	**26.4**	2.2	20.4	11.8	22.7
Absolute Return	**0.5**	**3.1**	**4.5**	**11.2**	0.1	0.9	3.7	7.8
Investment Analysis and Optimization **($ million)**[1]	**1.0**	**0.0**	**0.1**	**9.1**	–	–	0.2	(107.3)
	15.2	**100.0**	**100.0**	**14.7**	10.8	100.0	100.0	12.2

[1] The results for this group include a loss of $43 million, which is also accounted for in the specialized portfolios.

Returns earned by the investment groups in relation to indexes

table 19
(for the period ended December 31, 2005 – percentage unless otherwise indicated)

Investment group Specialized portfolio	Return	Index	Spread b.p.	Market index
Fixed Income				
Short Term Investments	2.9	2.6	37	SC 91-Day Canadian T-Bill
Real Return Bonds	15.1	15.2	(13)	SC Real Return Bond
Bonds	6.5	6.5	3	SC Real Universe Bond
Long Term Bonds (portfolio created April 1, 2005)	12.0	11.6	42	SC Long Term Government Bond adjusted
	6.6	**6.5**	**8**	
Equity Markets				
Canadian Equity	21.0	24.1	(313)	S&P/TSX capped
U.S. Equity (hedged)	5.3	4.1	119	S&P 500 hedged
U.S. Equity (unhedged)	3.4	2.3	115	S&P 500 unhedged
Foreign Equity (hedged)	28.1	28.4	(28)	MSCI – EAFE hedged
Foreign Equity (unhedged)	10.4	10.7	(27)	MSCI – EAFE unhedged
Emerging Markets Equity	30.5	30.6	(16)	MSCI – EM
Québec International	19.4	19.1	27	Québec International
	17.0	**18.0**	**(94)**	
Private Equity				
Investments and Infrastructures	12.3	18.6	(623)	S&P/TSX adjusted
Private Equity	29.8	0.7	2,915	S&P 600 adjusted
	22.3	**8.2**	**1,410**	
Real Estate				
Real Estate Debt	10.9	6.5	443	SC Universe Bond
Real Estate	38.6	31.0	762	Aon – Real Estate
	26.4	**20.8**	**565**	
Absolute Return				
Hedge Funds	8.9	2.0	689	S&P Hedge Fund hedged
Commodities	16.8	17.0	(20)	Commodity Financial Instruments
	11.2	**6.1**	**507**	
Investment Analysis and Optimization ($ million)[1]				
Asset allocation				
Asset allocation and active rebalancing	156	n.a.	156	n.a.
Portfolio-rebalancing constraints	(147)	n.a.	(147)	n.a.
	9.1	**n.a.**	**9.1**	
Weighted average return on depositors' funds	**14.7**	**12.9**	**178**	

[1] As a function of market indexes for evaluation of cash decisions.
N.B.: The returns on the specialized portfolios for periods of one to ten years are given in Annual Report 2005 – Additional Information.

Summary of the Caisse's overall performance (cont.)

Investment group performances in relation to return thresholds

The annual objective of the managers of liquid portfolios, in particular the Equity Markets and Fixed Income groups, is to generate value added in relation to market indexes.

As for the managers of less liquid portfolios, such as Real Estate, Private Equity and Hedge Funds, they have a five-year value-added objective and do not have to outperform the market indexes in the current year. To reflect this specific characteristic, their annual returns are evaluated on the basis of return thresholds that are independent of market fluctuations and established to generate the level of value added expected over five years in relation to market indexes.

In 2005, the Caisse's managers outperformed the overall return threshold by 316 b.p. (3.16%). Table 20 gives the details of these results.

Return thresholds

Annual return thresholds are set for the less liquid portfolios whose value-added objective in relation to the indexes extends over a five-year horizon. For the specialized Investments and Infrastructures, Private Equity and Real Estate portfolios, these return thresholds are established on the basis of the three following components:

1) **Expected long-term rate of return on government bonds**
This component is generally measured by the yield to maturity of 10-year Government of Canada bonds.

2) **Equity risk premium**
This component, which is widely discussed in the financial literature, corresponds to the additional return expected from the equity markets, given the added risk assumed compared with holding long-term government bonds.

3) **Risk premium related to the portfolios that are compared with return thresholds**
Comparison parameters for the specialized portfolios, i.e. databases providing the distribution of returns earned by other managers, are used to calculate the third component.

The average return drawn from these distributions provides information on the historical excess return from these operations in comparison with the equity markets. This return provides a point of reference for determining the short-term return expected on these portfolios, namely the return on equity markets plus a risk premium reflecting the additional systematic risks associated with these operations (lower liquidity, less diversification, additional leverage, manager risk and additional operational risks).

For example, the predetermined short-term return threshold of the specialized Private Equity portfolio, after operating expenses, was 12.0% in 2005:

- Expected return on long-term government bonds: 4.3%;
- Plus the equity risk premium: 2.7%;
- Plus the risk premium related to portfolios compared with thresholds: 5.0%.

The private equity managers therefore have a mandate to construct a portfolio whose return exceeds the threshold of 12.0%.

Returns earned by the investment groups in relation to return thresholds

table 20
(for the period ended December 31, 2005 – percentage unless otherwise indicated)

Investment group Specialized portfolio	Return	Index or threshold	Spread b.p.	Market index or return threshold
Fixed Income				
Short Term Investments	2.9	2.6	37	SC 91-Day Canadian T-Bill
Real Return Bonds	15.1	15.2	(13)	SC Real Return Bond
Bonds	6.5	6.5	3	SC Universe Bond
Long Term Bonds (portfolio created April 1, 2005)	12.0	11.6	42	SC Long Term Government Bond adjusted
	6.6	**6.5**	**8**	
Equity Markets				
Canadian Equity	21.0	24.1	(313)	S&P/TSX capped
U.S. Equity (hedged)	5.3	4.1	119	S&P 500 hedged
U.S. Equity (unhedged)	3.4	2.3	115	S&P 500 unhedged
Foreign Equity (hedged)	28.1	28.4	(28)	MSCI – EAFE hedged
Foreign Equity (unhedged)	10.4	10.7	(27)	MSCI – EAFE unhedged
Emerging Markets Equity	30.5	30.6	(16)	MSCI – EM
Québec International	19,4	19.1	27	Québec International
	17.0	**18.0**	**(94)**	
Private Equity				
Investments and Infrastructures	12.3	9.0	334	9%
Private Equity	29.8	12.0	1,782	12%
	22.3	**10.8**	**1,155**	
Real Estate				
Real Estate Debt	10.9	6.5	443	Real estate debt
Real Estate	38.6	9.0	2,962	9%
	26.4	**7.9**	**1,855**	
Absolute Return				
Hedge Funds	8.9	2.6	632	SC 91-Day Canadian T-Bill
Commodities	16.8	17.0	(20)	Commodity Financial Instruments
	11.2	**6.5**	**465**	
Investment Analysis and Optimization ($ million)				
Asset allocation				
Asset allocation and active rebalancing	n.a.	n.a.	n.a.	n.a.
Portfolio-rebalancing constraints	n.a.	n.a.	n.a.	n.a.
	n.a.	**n.a.**	**n.a.**	
Weighted average return on depositors' funds	**14.7**	**11.5**	**316**	

Specialized portfolios compared with a return threshold.

Summary of the Caisse's overall performance (cont.)

Impact of currency hedging on the results
The strength of the Canadian dollar against other currencies affected the Caisse's overall return, with the result that the specialized portfolios hedged against foreign exchange risk outperformed the unhedged specialized portfolios. The hedged Foreign Equity portfolio returned 28.1%, significantly more than the 10.4% return on the unhedged portfolio. This difference of 1,766 b.p. (17.66%) is due mainly to the appreciation of the Canadian dollar against the euro (18%), but also against the yen (18%) and the pound sterling (15%).

As for the difference of 182 b.p. (1.82%) between the return on the hedged U.S. Equity portfolio and the return on the unhedged U.S. Equity portfolio, it is due to the 3% appreciation of the Canadian dollar against the greenback. The Investments and Infrastructures, Private Equity, Real Estate Debt and Real Estate portfolios are hedged against currency risk.

Changes in the Caisse's overall portfolio
The Caisse set itself apart from other fund managers by advising its depositors on their investment policies and proposing a benchmark portfolio that includes a wide range of specialized and complementary portfolios.

Given the prospect of lower returns on liquid markets over the long term, the Caisse has begun, with the agreement of its depositors, to reduce the weighting of stocks and bonds in favour of other investments such as real estate, private equity and absolute return operations. In addition to offering potentially higher returns, these other investments increase the diversification of the overall portfolio and, in many cases, also offer protection against inflation.

In 2005, the proportion of other investments in the overall portfolio increased from 24.5% to 27.7%. That being said, the weighting of the specialized Emerging Markets Equity and Québec International portfolios is also expected to increase in order to take advantage of their strong growth potential, even though the overall weighting of the specialized equity portfolios will decrease. These main policies will be pursued in the years to come, along with appropriate risk management.

The structure of the benchmark portfolio was modified slightly in 2005. In April, the Caisse created a specialized Long Term Bonds portfolio to meet the needs of depositors seeking better matching of their assets and liabilities. In October, the profile of the specialized Real Estate Debt portfolio (previously Mortgages) was modified after the authorized proportion of subordinated debt was raised to 40%. This asset is riskier but offers potentially higher returns.

Table 21 presents the composition of the Caisse's benchmark portfolio as at December 31, 2005, as well as the effective allocation of the Caisse's overall portfolio as at December 31, 2004, and 2005. The presentation of the benchmark portfolio was modified in 2005. The specialized Real Estate Debt portfolio was moved from fixed income into other investments, to better reflect its risk and return characteristics.

In its current form, the Caisse's benchmark portfolio generated a 12.9% return in 2005. Optimal use of the upper and lower limits and implementation of profitable investment strategies enabled the managers to add 178 b.p. (1.78%) to the return on the benchmark portfolio, generating an overall return of 14.7%.

Development of the benchmark portfolio

Each depositor determines the long-term return objective that will enable it to meet its financial obligations. On the basis of that objective and the depositor's characteristics, the Caisse proposes various asset allocation scenarios. Each scenario reflects not only the expected return but also a level of absolute risk related to market volatility. The risk depends directly on the percentage allocated to each asset class in a scenario. The experts at the Caisse then work closely with the depositor to define the scenario that will offer the best risk-return ratio. This scenario becomes the depositor's benchmark portfolio and specifies the upper and lower limits for each of the asset classes to ensure control over any future changes in their weighting. The overall benchmark portfolio, or the Caisse's benchmark portfolio, is the weighted combination of all the depositors' benchmark portfolios.

Composition of the benchmark portfolio and changes in the Caisse's overall portfolio

table 21

Caisse's overall portfolio as at December 31, 2005		Benchmark portfolio as at December 31, 2005			Benchmark portfolio as at December 31, 2004	
	%	Lower limit %	Benchmark portfolio %	Upper limit %	%	
Fixed income investments						**Fixed income investments**
Short Term Investments	3.3	0.3	2.0	10.1	2.3	Short Term Investments
Real Return Bonds	1.0	0.2	1.1	2.4	1.1	Real Return Bonds
Bonds[1]	29.7	29.9	34.6	41.8	32.1	Bonds
Long Term Bonds	1.6	1.3	1.6	2.5	–	–
Subtotal	**35.6**		**39.3**		**35.5**	**Subtotal**
Variable income investments						**Variable income investments**
Canadian Equity	14.3	9.5	14.3	19.4	15.0	Canadian Equity
U.S. Equity	5.7	1.9	5.8	10.0	8.2	U.S. Equity
Foreign Equity and Emerging Markets Equity	7.8	3.5	7.5	11.9	8.8	Foreign Equity and Emerging Markets Equity
Québec International	8.9	6.6	9.1	11.3	8.0	Québec International
Subtotal	**36.7**		**36.7**		**40.0**	**Subtotal**
Other investments						**Other investments**
Investments and Infrastructures	3.9	1.9	3.9	7.0	3.8	Investments and Infrastructures
Private Equity	5.1	3.3	6.9	8.7	5.0	Private Equity
Real Estate Debt[1]	5.2	–	0.4	–	4.2	Mortgages
Real Estate	8.9	5.1	8.5	11.7	7.6	Real Estate
Hedge Funds	3.2	0.5	3.1	5.2	2.7	Hedge Funds
Commodities	1.3	0.0	1.2	2.4	1.0	Commodities
Asset Allocation	0.1	–	–	–	0.2	Asset Allocation
Subtotal	**27.7**		**24.0**		**24.5**	**Subtotal**
Total	**100.0**		**100.0**		**100.0**	**Total**

N.B.: The benchmark portfolio and its upper and lower limits are the result of the weighted average of the depositors' benchmark portfolios.

[1] The specialized Real Estate Debt portfolio was separated from the specialized Bonds portfolio during the year. For 2005, the limits given for the specialized Bonds portfolio correspond to the two combined portfolios. The limits for the specialized Real Estate Debt portfolio will be specified starting in 2006.

Summary of the Caisse's overall performance (cont.)

Active management and active risk

The absolute risk of the Caisse's benchmark portfolio is determined by the market risk of the asset classes in the portfolio. For example, if the depositors generally decide to increase the proportion of equities in their individual benchmark portfolios, this risk will automatically increase.

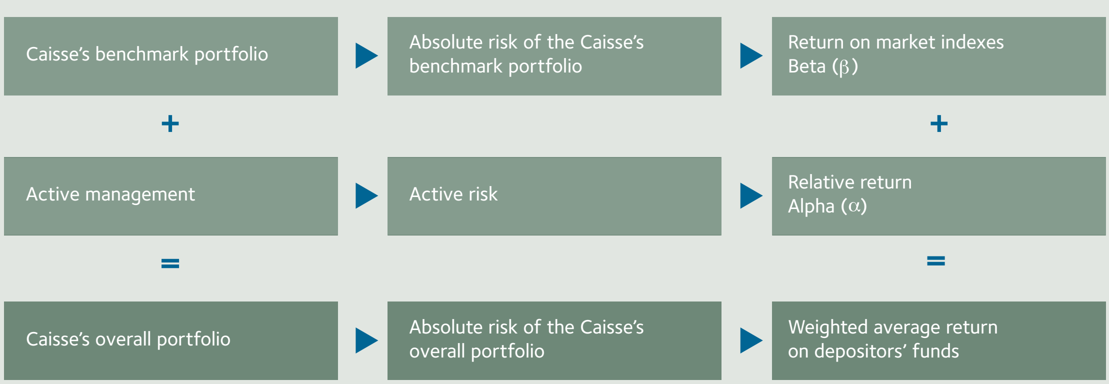
Active risk represents the possibility that the Caisse will generate a return that differs from the return on its benchmark portfolio in actively managing its overall portfolio.

The combination of the absolute risk of the Caisse's benchmark portfolio and the active risk assumed by the Caisse gives the absolute risk of the Caisse's overall portfolio. Each of these three risks is measured regularly.

Figure 22 shows the components of risk and return arising from the Caisse's active management in 2005.

Active management and active risk

figure 22



Risk of the Caisse's overall portfolio

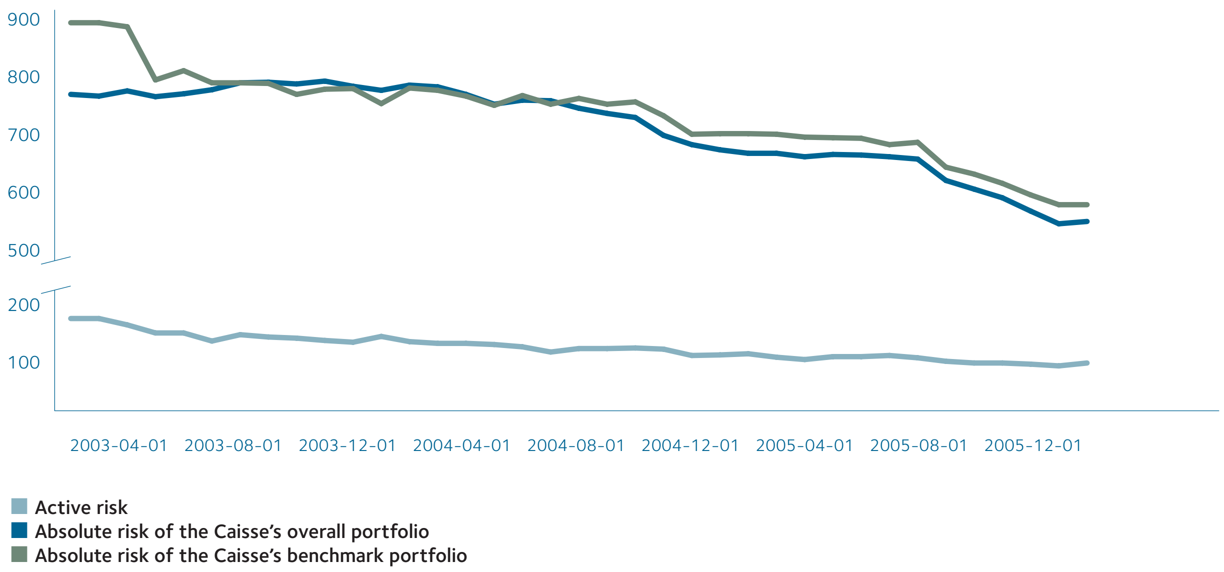
In 2005, the Caisse earned a return superior to that of the previous years while assuming less risk. In a context in which the stock markets are less volatile and more correlated than in the past, the Caisse decided to reduce the active risk associated with the equity portfolios and to transfer it to real estate and private equity, which offer better potential for value added. This decision proved to be wise in 2005, since these other investments did indeed generate the greatest value added. In addition, the active risk of the Caisse's overall portfolio generally decreased, since the decrease in the risk associated with equities was greater than the increase in the risk associated with other investments.

Lastly, it should be noted that, owing to their size and volatility, the equity portfolios continue to represent the greatest share of the absolute risk of the Caisse's overall portfolio; this proportion is decreasing, however, because the weight of variable income investments in the Caisse's effective portfolio fell from 40.0% in 2004 to 36.7% in 2005.

Change in risk

figure 23

(in basis points)



Investment operations and analysis of returns

With a range of specialized, complementary portfolios, managed actively, the Caisse strives to offer its depositors a return that outperforms their benchmark portfolios.

Within the investment groups, each specialized portfolio is divided into management mandates that are assigned to internal or external managers. In addition, the managers responsible for asset allocation can modify the weighting of each of the specialized portfolios in the overall portfolio, within the upper and lower limits of the Caisse's benchmark portfolio. Their decisions are based on the results of work to optimize the risk of the overall portfolio and its components, and are then approved by the Asset Allocation Management Committee.

In 2005, the Caisse managed its depositors' net assets with six investment groups: Fixed Income, Equity Markets, Private Equity, Real Estate, Absolute Return, and Investment Analysis and Optimization. Table 24 gives the investment groups and the specialized portfolios they are responsible for. The investment activities and the analysis of returns are discussed on the pages that follow.

Specialized portfolios by investment group

table 24

Investment group	Specialized portfolio
Fixed Income	Short Term Investments Real Return Bonds Bonds Long Term Bonds
Equity Markets	Canadian Equity U.S. Equity (hedged) U.S. Equity (unhedged) Foreign Equity (hedged) Foreign Equity (unhedged) Emerging Markets Equity Québec International
Private Equity	Investments and Infrastructures Private Equity
Real Estate	Real Estate Debt Real Estate
Absolute Return	Hedge Funds Commodities
Investment Analysis and Optimization	Asset Allocation

Investment operations and analysis of returns (cont.)

Fixed Income

Diversified, optimal strategies to enhance returns

The Fixed Income group earned a 6.6% overall return in 2005. The specialized Short Term Investments portfolio stood out with a return that exceeded its value-added objective. Early in the year, the group created a strategic management mandate to foster development and exploitation of the best investment ideas. The investments managed by the Fixed Income group form the basis of the Caisse's benchmark portfolio. These investments, which represent 35.6% of depositors' net assets, help preserve capital and offer a high degree of liquidity.

Investment philosophy
The investment philosophy of the Fixed Income group is to create value in an effective, constant manner according to the following principles:

- Exploitation of opportunities offered by all fixed income markets;
- Diversification and selection of management styles and investment strategies;
- Diversification of value-added sources through the complementary expertise of external managers;
- Rationalization of control over potential losses with a rigorous risk management structure.

A broad range of styles and strategies for major markets
The Fixed Income group conducts its investment operations on the international markets, invests in specialized products with the potential for high returns and takes part in major structured operations. It is responsible for managing four specialized portfolios: Short Term Investments, Real Return Bonds, Bonds and Long Term Bonds (Table 25).

Highlights
In 2005, at the depositors' request, the Fixed Income group created a new specialized portfolio consisting of long-term government bonds. This portfolio permits better matching of depositors' assets with their financial commitments over the long term.

During the year, the group also created a strategic management mandate to diversify and maximize sources of value added through:

- Allocation of bond assets;
- Exploitation of the best investment ideas;
- Selection of external managers;
- Rebalancing of the portfolio as funds flow in and out.

The group also rebalanced the weighting of certain sectors of the specialized Bonds portfolio to manage active risk more effectively. As well, the weighting of Québec government bonds was reduced in favour of corporate bonds.

The Fixed Income group intends to optimize its active management in 2006 by:

- Increasing the dollar benefits of bond asset allocation;
- Using quantitative methods to manage interest rates and volatility;
- Making further use of fundamental analysis for corporate bond management.

It also intends to be involved in the creation of partnerships between the Caisse's investment groups to select, create and exploit new investment vehicles. In terms of information technology, in 2006 the group will continue to integrate the new automated systems used throughout the Caisse to monitor portfolio risks and results.

Specialized portfolio management by the Fixed Income group

table 25

Fixed Income				
Specialized portfolio	**Short Term Investments**	**Real Return Bonds**	**Bonds**	**Long Term Bonds**
Management type	Active Internal	Index Internal	Active Internal and external	Active Internal
Management approach	Discretionary	–	Discretionary	Discretionary
Main analytical approach	Fundamental Top-down	Index replication	Fundamental Top-down and bottom-up	Fundamental Top-down and bottom-up
Investment horizon	0 to 3 months	–	0 to 18 months	0 to 18 months
Main management styles and investment strategies	Directional Long/short with interest rate, credit and volatility strategies	–	Directional Long/short with interest rate, credit and volatility strategies Event-driven	Directional Long/short with interest rate, credit and volatility strategies Event-driven

Investment operations and analysis of returns (cont.)

Market review

In 2005, the Canadian bond market was characterized by outstanding returns in relation to the U.S. market, as well as greater monetary tightening than expected. The Canadian rate curve fell below the U.S. curve, and its overall flattening continued. Interest rate volatility decreased significantly, while demand increased for long-term products, such as 30-year bonds.

On the corporate bond markets, with the exception of the auto sector, the credit spreads for high-quality notes were relatively stable in 2005. Rate spreads widened in the spring and the fall, but the trend was favourable during the summer. Positive fundamental data, favourable conditions for the stock markets, considerable liquidity and investor tolerance for risk offset the uncertainties created by high energy prices and the weakness of the auto sector.

On the international markets, the year saw narrower spreads in emerging markets, a continuation of Japan's accommodative monetary policy and a revaluation of the Chinese currency, although it was less significant than expected.

Overall return and specialized portfolio analysis

The depositors' net assets managed by the Fixed Income group totalled $43.4 billion as at December 31, 2005 (Figure 26), up $7.1 billion in relation to 2004. The group generated a 6.6% return in 2005, contributing $2.6 billion and 8 b.p. (0.08%) in relation to its benchmark index.

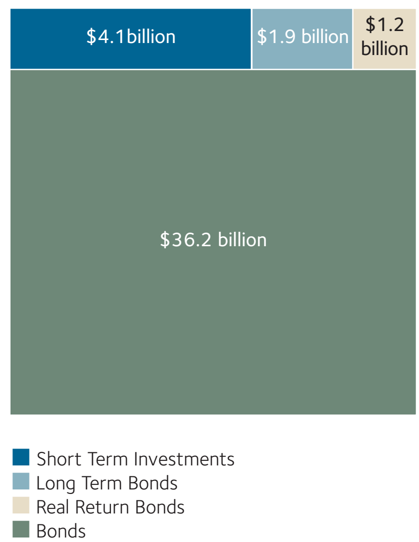
<u>Specialized Short Term Investments portfolio</u>

The Short Term Investments portfolio outperformed its index in 2005 by 37 b.p. (0.37%) with a 2.9% return. Over three years, the portfolio's return is 2.9%, versus 2.6% for the benchmark index.

Depositors' net assets by specialized portfolio

figure 26

(as at December 31, 2005)



Return on Short Term Investments

table 27

(for periods ended December 31, 2005)

	Return %	Index[1] %	**Spread b.p.**	Information ratio
1 year	2.9	2.6	**37**	n.a.
3 years	2.9	2.6	**27**	1.3
5 years	3.3	3.0	**31**	1.3

1 SC 91-Day Canadian T-Bill.

The value added in 2005 is due essentially to the portfolio's duration, which was shorter than that of its benchmark index. Also contributing to the return was active management of interest rate futures contracts, as well as certain credit positions.

Specialized Real Return Bonds portfolio

The return on the Real Return Bonds portfolio was 15.1% in 2005, or 13 b.p. (0.13%) less than the return on its benchmark index.

Return on Real Return Bonds[1]

table 28

(for the period ended December 31, 2005)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	15.1	15.2	**(13)**	n.a.

[1] Portfolio created January 1, 2004.
[2] SC Real Return Bond.

Index management is used for the Real Return Bonds portfolio. Replication of the portfolio's benchmark index was carried out within the limits specified in the investment policy.

Specialized Bonds portfolio

The Bonds portfolio returned 6.5% in 2005, or 3 b.p. (0.03%) more than its index. Over three years, the portfolio's return has outperformed the index by 35 b.p. (0.35%).

Return on Bonds

table 29

(for periods ended December 31, 2005)

	Return[1] %	Index[2] %	**Spread b.p.**	Information ratio
1 year	6.5	6.5	**3**	n.a.
3 years	7.1	6.8	**35**	1.4
5 years	8.1	7.4	**64**	1.4

[1] Excluding private equity investments.
[2] SC Universe Bond.

During the year, the strategies of the managers responsible for the Canada, provincial and corporate bond mandates all outperformed their indexes. The managers responsible for the Canada mandate took advantage of the flattening Canadian interest rate curve and the market's superior return in relation to the U.S. market. Managers with the provincial mandate made a judicious allocation among the various government bond categories. Lastly, the managers with the corporate bond mandate took advantage of the favourable credit-spread trend, mainly during the summer.

The portfolio's sector allocation did not produce the desired results. Although the underweighting of corporate bonds was reduced in July, it subtracted value, since the Canadian bonds used to offset the spread between the composition of the portfolio and that of the index produced a lower return than did corporate bonds.

Non-indexed operations did not add value to the portfolio.

Specialized Long Term Bonds portfolio

This new portfolio, whose operations began on April 1, 2005, returned 12.0% in comparison with 11.6% for the benchmark index during the same period.

Return on Long Term Bonds

table 30

(for the period ended December 31, 2005)

	Return %	Index[1] %	**Spread b.p.**	Information ratio
9 months	12.0	11.6	**42**	n.a.

[1] While the portfolio was being put in place, the index consisted of 50% SC long-term government bond and 50% SC long-term federal bond. This proportion was adjusted by 10% a month so that SC long-term government bond became the index in September 2005.

The managers took advantage of attractive prices during the portfolio construction period. Thereafter, they overweighted Canadian government bonds, which generated better results than provincial bonds and helped enhance the portfolio's return.

Equity Markets

$6.6 billion added to depositors' net assets

The Equity Markets group recorded $6.6 billion of gains in 2005 with an absolute return of 17%, which underperformed its benchmark index. The Canadian Equity portfolio, because of its selection of energy stocks, did not derive the full benefit of the spiralling oil price, which pushed up global equity indexes. Still, changes made to the U.S. Equity portfolio in 2004 paid off this year, and the portfolio outperformed its index. As for the Foreign Equity, Emerging Markets and Québec International portfolios, they generated returns very similar to those of their indexes.

Investment philosophy

To achieve the value-added objectives in relation to the benchmark index, the group is partial to:

- An analytical approach based on the intrinsic value of companies and their earnings outlook over the medium and long terms;
- Optimization of risk and return to foster the construction of coherent, focused portfolios that offer excellent potential returns while respecting the limits set by the investment policies.

Coverage of main markets with diversified management styles

The Equity Markets group is responsible for managing the following specialized portfolios: Canadian Equity, U.S. Equity (hedged and unhedged), Foreign Equity (hedged and unhedged), Emerging Markets Equity and Québec International (Table 31). This range of portfolios provides strategic coverage of the main global markets and ensures diversified management styles.

Highlights

During the year, the group reviewed the composition of its management teams and specialized portfolios, and the teams responsible for the most promising markets in terms of value added assumed a greater level of risk.

The number of Canadian equity portfolio management mandates was reduced significantly to concentrate on a limited number of securities, and the managers also assumed a higher degree of active risk. The results of these changes will be seen over the long term.

As result of the review of the structure and composition of the internal and external mandates for the U.S. Equity portfolio carried out in 2004, the process was applied in 2005 to the Foreign Equity portfolios and the Emerging Markets portfolios. The award of specialized external mandates made it possible to reduce the active risk of these portfolios and to increase their potential value added. In addition, the opening of an office in New York will give the Equity Markets group greater access to U.S. and foreign equity management expertise.

Processes for sale and purchase orders as well as verification of transaction compliance were automated during the year, which will no doubt have a favourable direct impact on operational efficiency.

In 2006, the group will pay special attention to the development of the Emerging Markets portfolio. The assets under management in this portfolio will be increased, given the attractive long-term potential of Asia and the countries in Central and Eastern Europe. It is also expected that the Foreign Equity portfolio will make the transition from a long management style to a long-short style to optimize risk and return. Lastly, the group intends to continue to increase its international absolute return operations.

Specialized portfolio management by the Equity Markets group

table 31

Equity Markets

Market	Canadian	International			
Specialized portfolio	Canadian Equity	U.S. Equity (hedged and unhedged)	Foreign Equity (hedged and unhedged)	Emerging Markets Equity	Québec International
Management type	Active Internal	Active Internal and external Index Internal	Active Internal and external Index Internal	Active Internal and external	Active Internal and external
Management approach	Discretionary	Discretionary and systematic (external)	Discretionary and systematic (external)	Discretionary	Discretionary and systematic
Main analytical approach	Fundamental Bottom-up	Fundamental Bottom-up	Fundamental Bottom-up	Fundamental Bottom-up and top-down	Fundamental Bottom-up and top-down
Investment horizon	**0 to 3 years**				
Main management styles and investment strategies	Core Long	Core Long/short	Core Long/short	Directional Long	Long/short (equity) Directional (bonds)

Investment operations and analysis of returns (cont.)

Market review

Corporate earnings were up sharply in 2005, occasionally even exceeding investor expectations. The global markets therefore recorded excellent performances. Still, the threat of sustained interest rate hikes and the financial imbalances in the United States hindered the progress of the U.S. stock market, which significantly underperformed the other markets.

Global growth was dominated by low interest rates, vigorous emerging markets and investor appetite for basic materials and energy. During the year, the price of crude oil reached a record US$70.85 a barrel.

The energy sector, which was up a spectacular 63%, contributed 50% to the 24.1% return on the S&P/TSX Capped Index in 2005. All the other sectors, excluding utilities, underperformed the index.

Overall return and specialized portfolio analysis

Depositors' net assets in the group's portfolios totalled $44.8 billion as at December 31, 2005 (Figure 32), up $3.9 billion in relation to 2004.

The Equity Markets group's overall return in 2005 was 17%, or 94 b.p. (0.94%) less than its index.[1] Over all, the international equity portfolios, namely the U.S. Equity, Foreign Equity, Emerging Markets Equity and Québec International portfolios, returned 14.4%, or 41 b.p. (0.41%) more than the index.[2] The 21.0% return on the Canadian Equity portfolio underperformed its index by 313 b.p. (3.13%), however.

[1] *This index is the weighted resultant of the equity portfolio indexes.*
[2] *This index is the weighted resultant of the international equity portfolio indexes.*

Depositors' net assets by specialized Equity Markets portfolio

figure 32

(as at December 31, 2005)

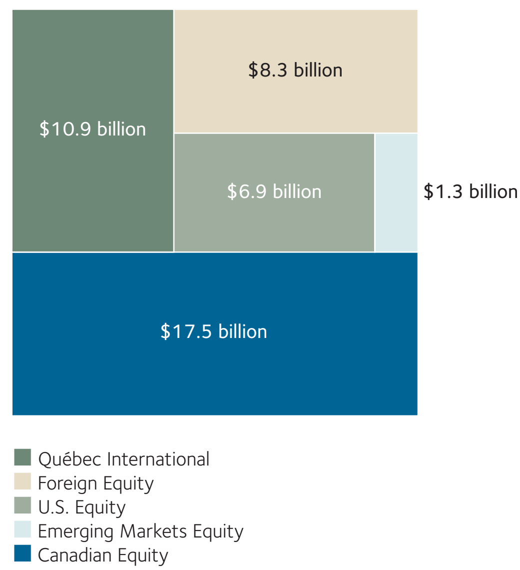


Figure 33 shows the sector breakdown of the investments and the weighting of the sectors in the Equity Markets group's index as well as the contribution[3] to active risk by sector.[4] The main active risks assumed are related to the energy and financials sectors. In both cases, the share of risk is related to security selection rather than sector selection.

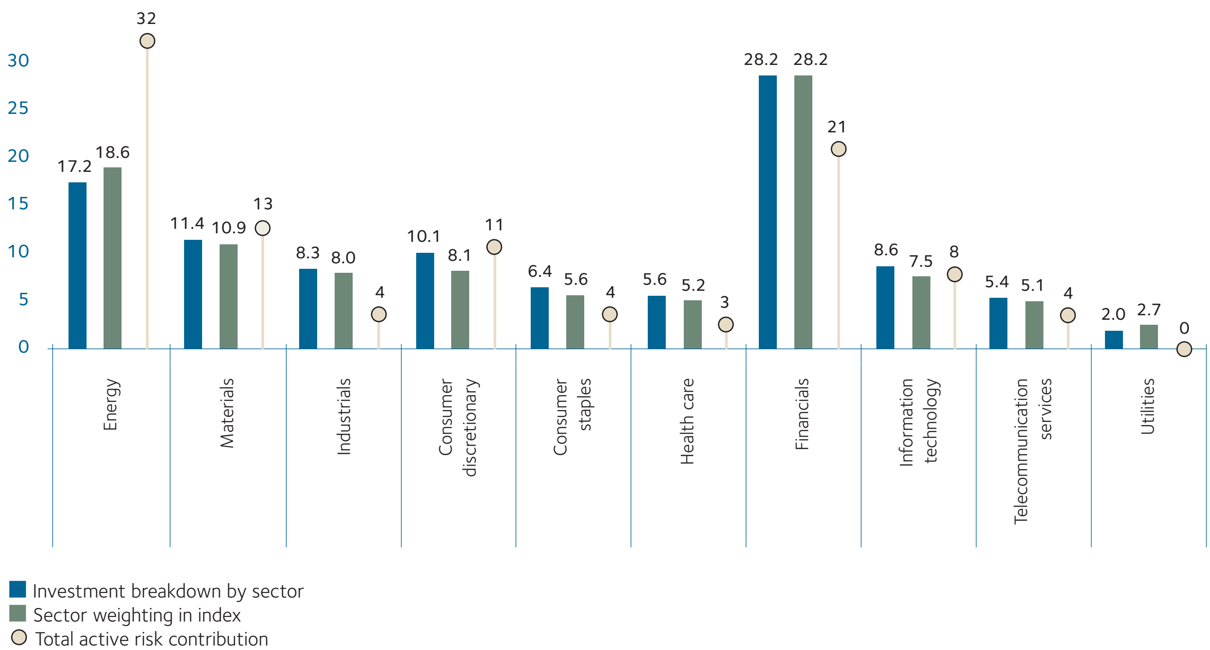
The active risk assumed by the managers can also be subdivided on a geographical basis. Figure 34 illustrates the breakdown of investments[4] and the contribution to overall active risk assumed by the managers of the group's specialized portfolios. The contribution to active risk by geographical markets comes essentially from security selection in Canada and the relative importance of investments in the United States.

[3] *Adjusted contribution.*
[4] *Excluding the specialized Québec International portfolio, which is a structured product.*

Active risk breakdown by sector

figure 33

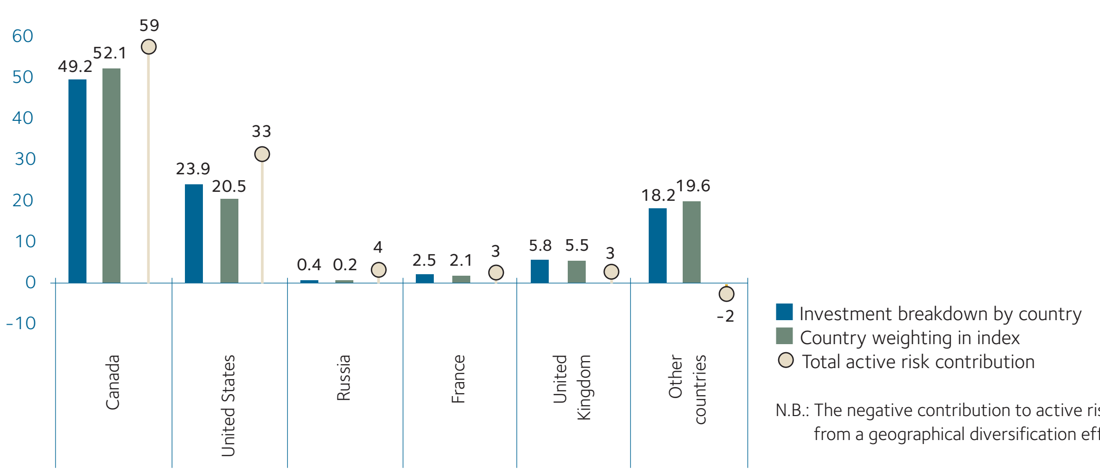
(in percentage – as at December 31, 2005)



Active risk breakdown by country

figure 34

(in percentage – as at December 31, 2005)



N.B.: The negative contribution to active risk comes from a geographical diversification effect.

Investment operations and analysis of returns (cont.)

Specialized Canadian Equity portfolio

In 2005, the Canadian Equity portfolio returned 21.0%, or 313 b.p. (3.13%) less than the 24.1% return on its index. Over five years, the portfolio's return underperformed its index by 12 b.p. (0.12%).

Return on Canadian Equity

table 35

(for periods ended December 31, 2005)

	Return[1] %	Index[2] %	**Spread b.p.**	Information ratio
1 year	21.0	24.1	**(313)**	n.a.
3 years	21.2	21.7	**(46)**	(0.4)
5 years	6.5	6.6	**(12)**	(0.1)

1 Excluding private equity investments.
2 S&P/TSX Capped since January 1, 2003, S&P/TSX since May 1, 2002, TSE 300 before.

The return fell short of the S&P/TSX Capped Index in 2005, mainly because of the defensive position taken in the energy sector. The managers adopted this stance in 2004 on the basis of an analysis of standardized historical prices. They accentuated this position at the end of 2004, when the price of oil reached a then-historic peak of US$43.45 a barrel. The energy sector was therefore slightly underweighted in the portfolio, and the emphasis was on foreign integrated oil companies,[5] which are historically less volatile. These securities, such as Exxon Mobil and Royal Dutch Shell, offered more attractive valuations at that point than did Canadian securities.

But the energy sector recorded a spectacular run-up in 2005. Canadian stocks in particular reached new peaks amid enthusiasm for unconventional energy reserves, such as oil sands and low-permeability gas deposits.

Absolute return operations, however, significantly enhanced the return on the specialized portfolio. Careful stock picking in the media, telecommunications and materials sectors also proved productive.

The information ratio for the managers of the portfolio is -0.1 over five years and -0.4 over three years.

Specialized U.S. Equity portfolios

The hedged U.S. Equity portfolio returned 5.3% in 2005, or 119 b.p. (1.19%) more than the 4.1% return on the index. Over five years, the return on the hedged portfolio is comparable to that of the index.

Return on U.S. Equity (hedged)

table 36

(for periods ended December 31, 2005)

	Return[1] %	Index[2] %	**Spread b.p.**	Information ratio
1 year	5.3	4.1	**119**	n.a.
3 years	14.1	14.9	**(83)**	(1.0)
5 years	0.7	0.7	**(1)**	0.0

1 Excluding private equity investments.
2 S&P 500 hedged.

The return on the unhedged U.S. Equity portfolio was 3.4%. The difference between the return on this portfolio and the hedged portfolio is due to the strength of the Canadian dollar.

The restructuring carried out in 2004 afforded the opportunity to apply new processes for selecting external managers and optimizing the allocation of capital, which the portfolio benefited from.

External management generated a positive return as a result of effective security selection, especially in the health care, information technology, energy and consumer discretionary sectors. As for internal management, careful stock picking in the consumer staples and consumer discretionary sectors added value to the portfolio. Security selection in the energy, information technology, health care, telecommunications and financials sectors, as well as the decision to underweight utilities, proved less advantageous, however.

5 Under the investment policy of the specialized Canadian Equity portfolio, up to 20% of the assets may be invested in international equities.

Specialized Foreign Equity portfolios

The hedged specialized Foreign Equity portfolio returned 28.1% in 2005, or 28 b.p. (0.28%) less than the return on the index.

Return on Foreign Equity (hedged)

table 37

(for periods ended December 31, 2005)

	Return[1] %	Index[2] %	**Spread b.p.**	Information ratio
1 year	28.1	28.4	**(28)**	n.a.
3 years	19.4	20.7	**(134)**	(1.8)
5 years	0.0	1.4	**(140)**	(1.2)

[1] Excluding private equity investments.
[2] MSCI EAFE hedged. The provisional index was used from October 2001 to May 2002.

The unhedged Foreign Equity portfolio returned 10.4%. The difference in the return on this portfolio and the hedged portfolio is due to the strength of the Canadian dollar.

The changes made to the portfolio began to pay off in 2005, and the benefits of these changes should continue in 2006.

Internal management experienced difficulties on the U.K. market, mainly because of security selection in the consumer discretionary, energy, health care and industrials sectors. Overweighting the telecommunications sector also subtracted value.

As for Continental Europe, overweighting telecommunications and underweighting industrials subtracted value. Security selection in the financials, telecommunications and utilities sectors added value, however.

During the year, the Equity Markets group renewed its team of specialized external foreign equity managers, and the new management mandates yielded positive results, especially in the information technology, consumer discretionary and financials sectors.

Specialized Emerging Markets Equity portfolio

The Emerging Markets Equity portfolio returned 30.5% in 2005, or 16 b.p. (0.16%) less than its benchmark index. Over five years, the portfolio has outperformed its index by 44 b.p. (0.44%), however.

Return on Emerging Markets Equity

table 38

(for periods ended December 31, 2005)

	Return[1] %	Index[2] %	**Spread b.p.**	Information ratio
1 year	30.5	30.6	**(16)**	n.a.
3 years	24.2	24.7	**(51)**	(0.3)
5 years	13.7	13.3	**44**	0.2

[1] Excluding private equity investments.
[2] MSCI EM unhedged since July 1, 2000.

Selection of countries and sectors enabled the internal management team to outperform the index. The results for external management were rather disappointing, however. The costs associated with cancellation of management mandates and redeployment of investment operations to new external managers also subtracted value.

Investment operations and analysis of returns (cont.)

Québec International

The specialized Québec International portfolio has a hybrid structure. It consists of fixed income securities denominated in Canadian dollars, which implicitly protects it against currency risk, as well as a basket of futures contracts based on world stock markets. The futures contracts produce a stock-index return in exchange for a return on short-term investments. The portfolio's objective is to increase the exposure of the Caisse's overall portfolio to foreign equity markets so as to increased diversification and obtain superior returns.

Specialized Québec International portfolio

The Québec International portfolio returned 19.4%, for 27 b.p. (0.27%) of value added in relation to its index. Over five years, the portfolio has outperformed its index by 11 b.p. (0.11%).

Return on Québec International

table 39

(for periods ended December 31, 2005)

	Return %	Index[1] %	**Spread b.p.**	Information ratio
1 year	19.4	19.1	**27**	n.a.
3 years	22.1	22.1	**3**	0.1
5 years	5.2	5.1	**11**	0.2

[1] Index based 20% on Canadian treasury bills and 80% on the SC Provincial Québec Subindex plus a basket of equity futures contracts.

The portfolio's value added in 2005 is due essentially to active management strategies for money market and bond holdings, as well as strategies deployed on the equity markets, especially the U.S. market. The Québec International Index generated 410 b.p. (4.10%) more than the hedged MSCI World Index, which returned 15%. Since inception, the Québec International Index has outperformed the hedged MSCI World Index, mainly because of strong results for Québec bonds, which represent 80% of the underlying assets.

Private Equity

Partnerships to ensure a sustained long-term return

In 2005, the Private Equity group's overall return was 22.3%, which added $1.9 billion to depositors' net assets. Since the two specialized portfolios managed by the group were created in July 2003, they have generated outstanding cumulative returns.

During the year, the Private Equity group concluded several co-operative agreements to consolidate its leadership position, notably with AXA Private Equity, one of its main partners. The two groups will consolidate their operations on the U.S. leveraged buyout market and the European medium-sized business markets, and will set up an investment platform on the Asian market.

The Caisse is the leading Canadian private equity investor, with investments in this asset class representing 9% of its overall portfolio.

Investment philosophy

Private equity investment requires in-depth coverage of target markets and companies. The group's investment philosophy is therefore based on:

- An approach that favours proximity to markets (partnerships for distant markets) and is opportunistic, depending on market conditions;
- Selection of the best corporate management teams and investment funds to maximize the long-term return on capital;
- Risk management based on rigorous monitoring and analysis of investments, including exit strategies;
- Diversification of investments by industrial sector, geographic region, financial product and maturity of businesses.

A seasoned team

The Private Equity group's team of professionals are distinguished by their depth and maturity. Many members of the team involved in the development of the private equity unit at its inception in the 1980s still work for the Caisse. In fact, the Vice-Presidents have an average of 20 years of experience in the group.

Since July 1, 2003, the investments held by the Private Equity group have been divided into two specialized portfolios: Private Equity; and Investments and Infrastructures (Table 40).

Highlights

<u>External partnerships</u>

Several agreements were concluded with new partners of choice in 2005, with which the Private Equity group shares ambitious global projects.

For example, the partnership with AXA Private Equity is being deployed gradually. Its objectives include consolidation of the dominant position of AXA Private Equity and the Caisse on the medium-sized business markets in Europe and the United States, setting up an investment platform in Asia and a joint investment strategy on the leveraged buyout fund market, as well as pooling of information and personnel. Over all, more than €1.5 billion will be invested to give effect to this agreement.

In addition, the group's expertise and global positioning have resulted in a considerable increase in the market value of the infrastructure investments. The strategy for this category is to invest in businesses offering constant, foreseeable income streams. The main partnerships concluded in 2005 include agreements with Hochtief Airport Capital, a global leader in airport management, and GE Commercial Finance Energy Financial Services, a major energy sector investor. Another is InTransitBC, a partnership with SNC-Lavalin and British Columbia Investment Management Corporation (bcIMC) for the construction and operation of a rapid link for the mass transit system in Metropolitan Vancouver.

Investment operations and analysis of returns (cont.)

Specialized portfolio management by the Private Equity group

table 40

Private Equity								
Specialized portfolio		**Investments and Infrastructures**				**Private Equity**		
Investment category		Develop-ment capital	Debt	Infra-structure and energy	Accumu-lation	Venture capital	Venture capital Leveraged buyouts	Mezzanine debt
Management type		Active						
Manage-ment by geographic region	**Québec**	Direct or partnership	Direct	Direct	Direct	Indirect or partnership	Indirect or partnership	Indirect or partnership
	Canada – ex Québec	Direct or partnership	Direct or syndication	Direct or partnership	Direct	Indirect or partnership	Indirect or partnership	Indirect or partnership
	United States / Europe	–	Partnership or syndication (United States only)	Direct or partnership	Direct	Indirect or partnership	Indirect or partnership	Indirect or partnership
	Emerging markets	–	–	Indirect and market watch	–	–	Indirect and market watch	Indirect and market watch
Main investment vehicles		Equity securities	Senior debt	Equity securities	Publicly traded equity securities	Funds	Funds	Funds and mezzanine debt
Management approach		Discretionary						
Main analytical approach		Fundamental Bottom-up						
Investment horizon		3 to 7 years						
Main management styles and investment strategies		Long Participation						

Support for Québec businesses

The Private Equity group was very active in 2005 in its efforts to support Québec companies. It partnered with National Bank to offer a succession-financing product for Québec SMEs. This partnership came out of the Accès Relêve business solution that the group began developing in 2000. The group also announced financing for the Institut québécois pour les familles en affaires (IQFA) for the next three years, which will enable this organization dedicated to family-business continuity to pursue its operations. In addition, for the second straight year, the Private Equity group organized two information sessions on Asian markets for SMEs.

Lastly, the strategy adopted for Québec technology venture capital took flight in 2005. This strategy, which is designed to bring Québec closer to the international venture capital markets, took effect with the arrival in Montréal of the Canadian funds Brightspark, J.L. Albright and Venture West as well as two U.S. funds, Vantage Point Venture Partners and ProQuest.

New investments authorized

The group's transaction volume was once again up substantially in 2005. Authorized investments totalled a record $7.0 billion, with $4.4 billion of direct transactions and $2.6 billion in investment funds, as shown in Table 41.

Authorized investments

table 41

	Number	$ billions
Investment category		
Debt	21	0.9
Infrastructures and energy	7	0.9
Venture capital	25	0.9
Leveraged buyouts and mezzanine debt	31	2.9
Development capital and accumulation	40	1.4
Total	**124**	**7.0**
Direct transactions	92	4.4
Investment funds	32	2.6
Total	**124**	**7.0**

A good number of the new authorized investments are the result of partnerships established in 2005. Table 42 gives a summary of the new agreements concluded between the Private Equity group and businesses seeking financing.

The Private Equity group will continue to seek partners in 2006 to act on the best investment opportunities the market offers. Investments in infrastructures have increased significantly over the past two years. The group intends to continue, if not accelerate, its rate of investment in this area, given its appealing risk-return ratio.

It may also emphasize venture capital, as a result of a more favourable positioning in the investment cycle. Lastly, attractive opportunities on the leveraged buyout markets will be evaluated actively, whether sales or purchases are involved, since they are increasingly rare and are coveted by many investors.

Investment operations and analysis of returns (cont.)

Summary of authorized investments

table 42

Targeted firm	Geographic region	Sector	Partner	Project
Garda World Security	Québec	Security and armoured services	Transaction financing by a banking group	Acquisition of Vance International, a division of SPX Corporation for US$67 million
Ezeflow	Québec	Manufacture of pipe fittings for the energy sector	Ezeflow is a family-owned company	Investment through Accès Relève, a Caisse business solution that facilitates ownership transfers
Yellow Pages Income Fund	Québec	Publication of telephone directories	Yellow Pages Income Fund is a trust that indirectly owns Yellow Pages Group	Investment made as part of the $2.5-billion acquisition of Advertising Directory Solutions Holdings
Cari-All group	Québec	Manufacture of shopping carts and shelving products	OMERS	Purchase of Cari-All Products, Rondi Industries Inc. and Technibilt Ltd.
Hydro-Solution	Québec	Stock of electric hot water heaters	Gaz Métro Plus Confort Expert	Acquisition of a stock of hot water heaters leased to 200,000 customers
NewStar Credit Opportunities Fund Ltd.	United States	Commercial finance	Och-Ziff Capital Management Group	US$150 million provided by the partners for development of the company
Southern Star Central Corp. (EFS-SSCC Holdings LLC)	United States	Gas transmission	GE Commercial Finance Energy Financial Services	Acquisition of the Southern Star pipeline system
European Directories S.A.	Europe	Publication of directories	Consortium: Macquarie Capital Alliance Group, Macquarie Bank Limited and Nikko Principal Investments Ltd.	Acquisition of YBR Group for €1.8 billion
Hochtief Airport Capital	Europe	Airport management	Hastings Funds Management KFW IPEX-Bank	€125-million investment in a world leader in airport management

With respect to internal operations, special attention will be paid to enhancement of information technology tools, improved research capability and consolidation of the group to confirm its position as a leader and to make it an industry benchmark.

Market review

As a result of strong economic growth and low interest rates, enthusiasm for private equity continued to increase in 2005. The industry is now going through a very prolific subscription period, with a worldwide total of $215 billion in 2005, a significant increase over 2004.

Subscriptions in leveraged buyout funds ($181 billion) far exceeded the previous record set in 2000 ($114 billion). All indications are that this level could be reached again in 2006. The amount of capital to be invested is contributing to bidding wars as well as the risk of a correction on the buyout markets. The market is increasingly using financial leverage, and it is characterized by a pronounced increase in transaction prices as well as extremely flexible financing conditions.

The other private equity sectors of interest, including senior debt, venture capital and development capital, as well as infrastructures, seem to offer more favourable opportunities. The North American venture capital industry saw subscriptions recover slightly in 2005, but they did not compare with the wave of 1991 to 2001. The funds available have been falling since 2002 since subscriptions are lower than the amounts invested. The industry therefore continues to clean itself up, which indicates a promising outlook.

Generally speaking, the Private Equity group is operating in a highly volatile, competitive context, which indicates that in the next few years returns will in all likelihood revert to their historic average.

Overall return and specialized portfolio analysis

As shown by Table 43, depositors' net assets in the Investments and Infrastructures and Private Equity portfolios totalled $10.9 billion as at December 31, 2005, for an increase of $1.9 billion in relation to 2004. Depositors' total assets amounted to $13.1 billion, and assets under management or administration, to $0.9 billion. Lastly, the group's total assets under management amounted to $14.0 billion at year-end. Owing to the types of investment held, the risk level of the Investments and Infrastructures portfolio is lower than that of the Private Equity portfolio.

As at December 31, 2005, direct investments represented 79% of the fair value of the group's investments, versus 21% for indirect investments, which shows the importance of active management by the internal management teams.

Total assets under management by the Private Equity group

table 43

(fair value as at December 31, 2005 – in billions of dollars)	Depositors' net assets	Depositors' total assets	Assets under management or under administration	Total assets under management	%
Investments and Infrastructures portfolio	4.7	6.7	0.9	7.6	54.3
Private Equity portfolio	6.2	6.4	–	6.4	45.7
	10.9	**13.1**	**0.9**	**14.0**	**100.0**

Investment operations and analysis of returns (cont.)

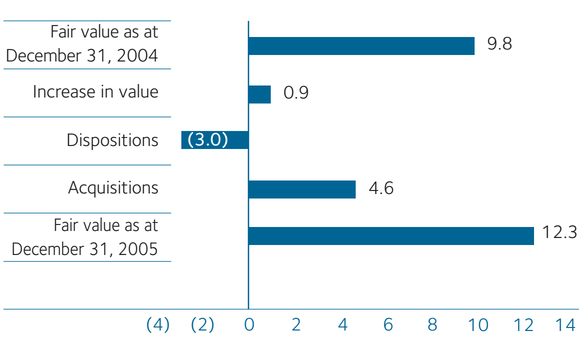
As shown by Figure 44, the fair value of the group's investments was $12.3 billion as at December 31, 2005, up $2.5 billion from the year-earlier figure. This increase is due to the combined effect of $4.6 billion of acquisitions, including $1.4 billion of buyouts, $3.0 billion of dispositions, more than 40% of that amount from leveraged buyouts, and a $0.9 billion increase in the value of investments. Inflows of funds from dispositions had a significant impact on returns, as more than two-thirds of the return realized in 2005 is due to dispositions.

As a result of exceptional market conditions and high realized gains for the third straight year, the group's overall return was 22.3% in 2005, or 1,155 b.p. (11.55%) more than the return threshold and 1,410 b.p. (14.10%) more than the benchmark index.

Changes in the value of the Private Equity group's investments

figure 44

(in billions of dollars)



N.B.: Non-consolidated, before leverage and financial instruments.

<u>Specialized Investments and Infrastructures portfolio</u>

As at December 31, 2005, the fair value of the holdings in the specialized Investments and Infrastructures portfolio was divided into 249 funds and companies.

In 2005, the Investments and Infrastructures portfolio returned 12.3%, or 334 b.p. (3.34%) more than its 9.0% return threshold. Its return was 623 b.p. (6.23%) less than its benchmark index, which recorded 18.6%.

Return on Investments and Infrastructures [1]

table 45

(for the period ended December 31, 2005)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	12.3	18.6	**(623)**	n.a.

[1] Portfolio created July 1, 2003.
[2] S&P/TSX adjusted.

As shown by Figures 46 and 47, the portfolio's proportion of Québec investments is 45.5% and it is geared to development capital and debt for medium-sized and large businesses. Still, investment in infrastructures saw the greatest growth within the portfolio in 2005, and this growth is expected to continue in the next few years.

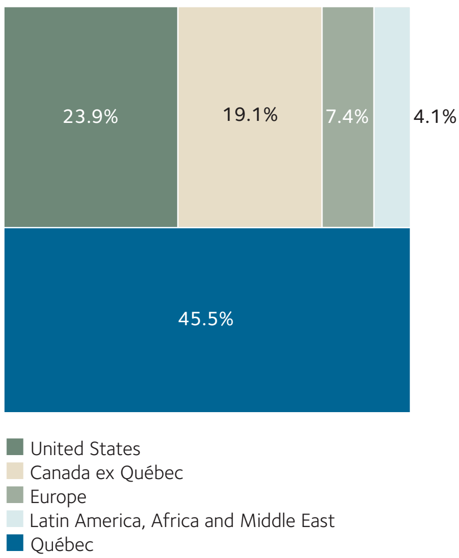
In fact, infrastructures provided the main source of return, whereas accumulation operations made a negative contribution to the absolute return in 2005. Telecommunications and energy are the sectors that made the most positive contributions to the absolute return, while the materials sector produced a negative absolute return.

As shown by Figure 48, the predominant sectors are financials, utilities and consumer discretionary.

Geographic breakdown of the specialized Investments and Infrastructures portfolio

figure 46

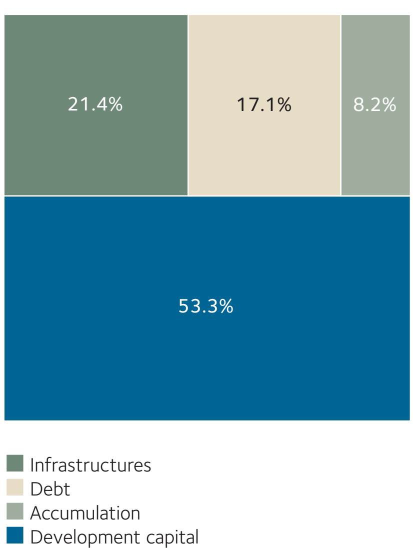
(percentage of fair value as at Decembrer 31, 2005)



Breakdown of the specialized Investments and Infrastructures portfolio by investment category

figure 47

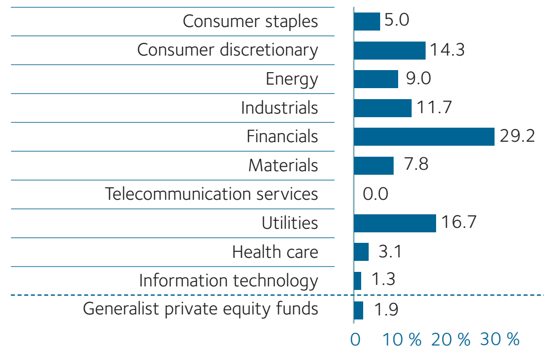
(percentage of fair value as at December 31, 2005)



Sector breakdown of the specialized Investments and Infrastructures portfolio

figure 48

(percentage of fair value as at December 31, 2005)



N.B.: Investments held by generalist private equity funds have been broken down by sector, where possible.

<u>Specialized Private Equity portfolio</u>

The Private Equity portfolio returned 29.8% in 2005. This gross return corresponds to a gain of $1.5 billion, less operating expenses. The portfolio outperformed its 12.0% return threshold by 1,782 b.p. (17.82%). It also generated 2,915 b.p. (29.15%) of value added in relation to the 0.7% return on its benchmark index.

Return on Private Equity[1]

table 49

(for the period ended December 31, 2005)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	29.8	0.7	**2,915**	n.a.

[1] Portfolio created July 1, 2003.
[2] S&P 600 adjusted.

The 2005 results were especially remarkable, for all types of investment vehicle as well as all investment regions.

Leveraged buyouts were buoyed by market enthusiasm and contributed 89% of the portfolio's total return, although they represent only three-quarters of the investments (Figure 50). The outstanding market conditions made it possible not only to earn an excellent return but also to realize a substantial portion of it.

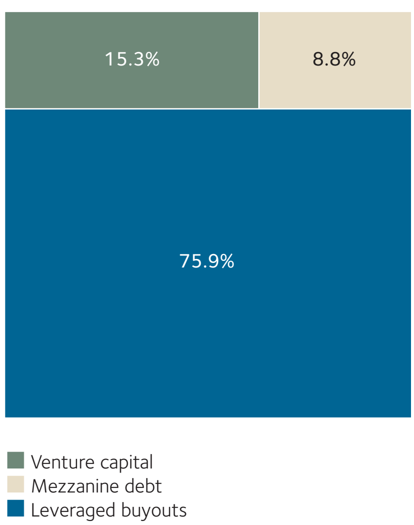
Investment operations and analysis of returns (cont.)

As at December 31, 2005, the fair value of the investments held by the Private Equity portfolio was divided among 504 funds and companies. The portfolio consists mainly of investments in the form of leveraged buyouts and venture capital, as shown by Figure 50.

Breakdown of the specialized Private Equity portfolio by investment category

figure 50

(percentage of fair value as at December 31, 2005)



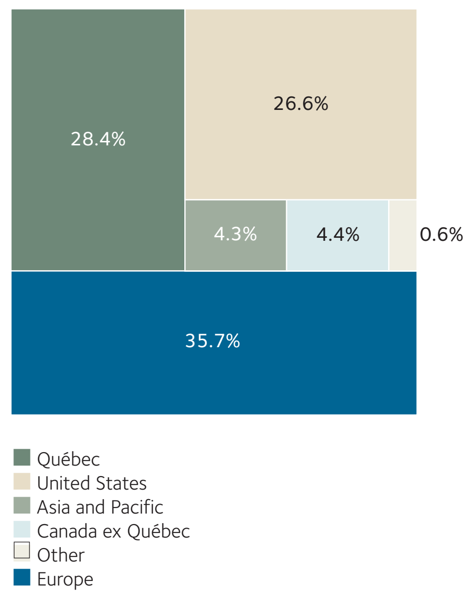
The fair value of the investments in Canada totalled more than $2.0 billion, or 32.8% of the portfolio, of which $1.7 billion is invested in Québec companies. Foreign investments represent 67.2% of the portfolio (Figure 51).

As shown by Figure 52, the portfolio's investments include companies in many sectors, but primarily the consumer discretionary sector. Venture capital investments are concentrated mainly in the health care and information technology sectors, however.

Geographic breakdown of the specialized Private Equity portfolio

figure 51

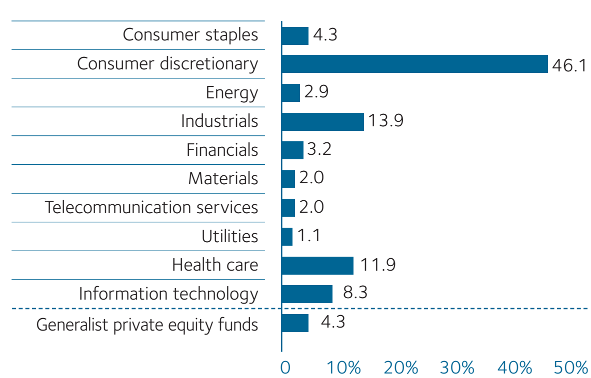
(percentage of fair value as at December 31, 2005)



Sector breakdown of the specialized Private Equity portfolio

figure 52

(percentage of fair value as at December 31, 2005)



N.B.: Investments held by generalist private equity funds have been broken down by sector, where possible.

Real Estate

A return of more than 20%

For the second straight year, the Real Estate group recorded an overall return of more than 20% in 2005. During the year, the group successfully pursued its strategy of geographic diversification and consolidated its position as a leading real estate lender with major acquisitions. The Caisse has been active in real estate since 1967 and now manages one of the world's 10 largest real estate asset portfolios. As at December 31, 2005, the Real Estate portfolio consisted of more than 240 properties in seven countries, for depositors' total assets of $17.4 billion. As at the same date, the Real Estate Debt portfolio held loans and other financing products for depositors' total assets of $6.9 billion.

Investment philosophy

The Real Estate group's philosophy is based on three main parameters:

- Active management to create value through asset turnover and arbitrage between markets, type of holdings and products with due regard for the real estate cycle;
- A partnership strategy to access the expertise of local markets, act on business opportunities more effectively and reduce risk;
- Rigorous management of leverage risks and concentration risks as a function of the needs of depositors and other clients, to ensure the best possible return on investments.

**Two specialized portfolios:
Real Estate and Real Estate Debt**

The Real Estate group invests in equity and financing products in the office and business park, retail, hotel and residential sectors in North America, Europe and Asia. The group co-ordinates the operations of its Cadim division and its subsidiaries Ivanhoe Cambridge and SITQ, whose holdings are divided into two specialized portfolios, Real Estate and Real Estate Debt (Table 53).

Highlights

After carrying out an extensive dispositions program over the past three years, the Real Estate group resumed making acquisitions in 2005. The year was characterized by greater geographic diversification, additional investments and new partnerships in Europe. In the same spirit, Ivanhoe Cambridge opened an office in Shanghai to explore the immense potential of the Asian markets. During the year, the Real Estate group also increased its exposure to development projects and hotels, two sectors with high value-creation potential. Lastly, as a result of various transactions, the Caisse achieved the critical mass to become a foremost real estate financing player in North America.

In terms of real estate holdings, the group continued to make progress in Europe with a stake in St. Enoch Shopping Centre in Glasgow and construction of Tour T1 in Paris. But the year's most notable developments were undoubtedly the group's first foray into Germany and consolidation of its presence in Central Europe, two markets with high growth potential. Ivanhoe Cambridge acquired more than 90% of three German shopping centres, in partnership with Management für Immobilien. The subsidiary also acquired a 39.5% interest in European Retail Enterprises (ERE), which owns 10 shopping centres in Europe. At the same time, Ivanhoe Cambridge partnered with a U.S. giant, Simon Property Group, which holds 34.7% of ERE. SITQ, for its part, acquired two of the three buildings in Frankfurt's International Banking Centre, for its first investment in Germany.

As for Cadim, it strengthened its position in the hotel sector by acquiring a stake in a portfolio of eight North American hotels operated under the Westin banner. Finally, the New York, Paris and London markets, where the Real Estate group is well established, saw very active management, either with the purchase and sale of properties or with opportunistic development and repositioning strategies.

Investment operations and analysis of returns (cont.)

Specialized portfolio management by the Real Estate Group

table 53

Real Estate			
Specialized portfolio	**Real Estate**		**Real Estate Debt (previously Mortgages)**
Investment categories	Investment Asset and portfolio management, financial engineering Development and construction Building operation Advisory services		Real estate financing Underwriting, closing and servicing of real estate loans Securitization and issuance of real estate financing products Investment
Management type	Active Internal and partnership		Active Internal and partnership
Management approach	Discretionary		Discretionary
Main management styles and investment strategies	Conventional investments	Opportunistic investissements	Underwriting of real estate financing Purchase of securities
Main analytical approach	Top-down and bottom-up	Top-down and bottom-up	Bottom-up
Investment horizon	More than 5 years	Less than 3 years	1 to 10 years

In real estate financing, the Caisse became a leading North American player as a result of strong growth of its subordinated debt assets, which grew from $0.4 billion to $1.4 billion in 2005. The Caisse acquired the portfolio of commercial mortgage-backed securities (CMBS) and collateralized debt obligations (CDOs) of Allied Capital Corporation of Washington in a transaction valued at more than US$1 billion.

Moreover, at year-and, the Caisse announced an agreement to acquire CRIIMI MAE, a U.S. real estate investment trust that holds and manages a portfolio of commercial loans worth more than US$1 billion. While consolidating its position in the United States, the Real Estate group also laid the foundations for a real estate financing platform in Western Europe, a market that will be developed in the years to come.

In 2006, the Real Estate group intends to further its geographic diversification, notably through additional acquisitions in the rapidly growing markets of Central and Eastern Europe. Its stake in ERE will serve as a stepping stone toward consolidation of its position in European shopping centres. In real estate financing, the emphasis will be on active management of the subordinated debt portfolio and consolidation of a European platform.

Market review

The past year was quite similar to 2004, with a very dynamic real estate market characterized by constant inflows of capital in a context of low interest rates. Increasingly, institutional investors are turning to real estate in their search for returns superior to those offered by stocks and bonds. In addition to offering investment diversification, real estate provides stable current income and a hedge against inflation.

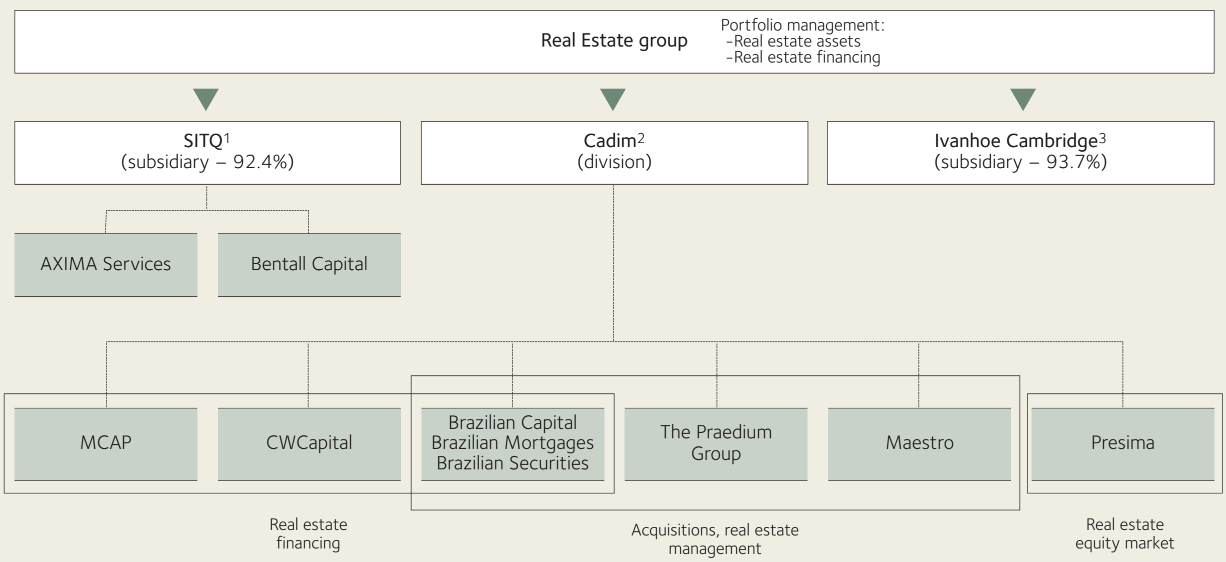
At the same time, the industry is becoming more transparent with improved access to information (transaction prices, rents, vacancy rates, etc.). Investment trusts are proliferating throughout the world and globalization is creating greater real estate investment liquidity as well as an expanded investment universe. Property values continued to rise in 2005, generating high returns for investors already active in the market. The situation is similar in real estate debt, where a continuing influx of capital resulted in a narrowing of rate spreads in relation to bond rates.

The real estate market is benefiting from a favourable environment: the global economy is performing well, employment is recovering and interest rates are low. Vacancy rates have fallen, while construction has remained weak in non-residential real estate. These ideal conditions will not continue much longer, however. Ultimately, moderate interest rate hikes should stabilize property values and bring returns closer to their historic average. This soft-landing scenario could be jeopardized by a surge of inflation or a significant economic slowdown, but these risks seem relatively limited over the short term.

Investment operations and analysis of returns (cont.)

Organizational chart of Real Estate group

figure 54



[1] Paul D. Campbell, President and Chief Executive Officer, SITQ.
[2] Richard Dansereau, President and Chief Operating Officer, Cadim.
[3] René Tremblay, President and Chief Executive Officer, Ivanhoe Cambridge.

Division and main subsidiaries

Cadim (formerly CDP Capital – Real Estate Advisory) is involved in merchant banking and real estate investment management in Canada, the United States, Europe and Asia. Its investments include opportunistic products that are usually held for less than three years. Cadim also manages a large subordinated debt portfolio, in addition to offering advisory and structured finance services. As at December 31, 2005, it had $29.0 billion of total assets under management. Cadim is a division of the Caisse de dépôt et placement du Québec.

Ivanhoe Cambridge manages, develops and invests in shopping centres in urban areas of Canada, the United States and Europe. The Company owns about 70 shopping centres outright or in partnership, for total leasable area of more than four million square metres. As at December 31, 2005, Ivanhoe Cambridge had $11.4 billion of total assets under management. The Caisse has a 93.7% stake in Ivanhoe Cambridge. The other shareholders are four Canadian pension funds.

SITQ develops, invests in and manages office buildings and business parks owned outright or in partnership. SITQ's portfolio consists of more than 100 properties in large urban centres in Canada, the United States, France, Great Britain and Germany, for more than 2.7 million square metres of leasable area. As at December 31, 2005, it had $19.2 billion of assets under management. The Caisse owns 92.4% of SITQ. The other shareholders are five Canadian financial institutions and pension funds.

Other subsidiaries and affiliates

Canada

AXIMA Services (formerly Alizé) specializes in technical management of office buildings. Its operations take in more than 2.3 million square metres in Québec.

Bentall Capital is a real estate asset manager that specializes in office buildings in Canada and on the U.S. West Coast. Its assets under management or administration total $12.3 billion.

Maestro is a real estate asset manager that specializes in residences for seniors and students. It has $0.6 billion of assets under management.

MCAP manages real estate debt assets in four main sectors: residential, commercial and construction mortgages as well as equipment leasing. It has $11.8 billion of assets under management or administration.

Presima manages an international portfolio of listed real estate securities. It has $0.6 billion of assets under management.

United States

CWCapital manages real estate debt assets in all sectors of the industry. It has $9.1 billion of assets under management or administration (excluding the CRIIMI MAE portfolio, to be recorded in fiscal 2006).

The Praedium Group is a real estate asset manager that specializes in mid-sized unproductive and undervalued assets. It has $3.0 billion of assets under management.

Brazil

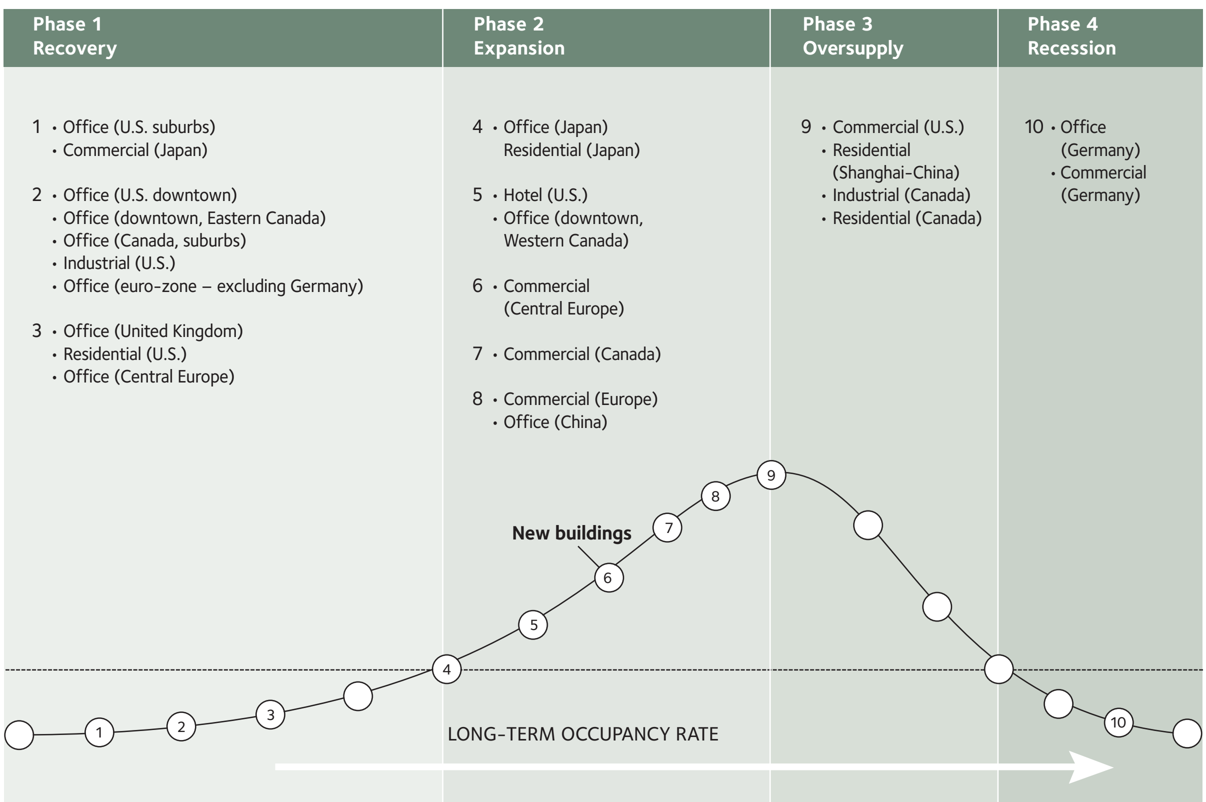
Brazilian Capital, Brazilian Mortgages and Brazilian Securities specialize in management of real estate funds and assets, real estate financing and loan securitization, respectively. They have close to $55 million of assets under management.

Investment operations and analysis of returns (cont.)

Figure 55 shows the positioning for several regions of the world within the global real estate cycle at the end of 2005. The real estate cycle consists of four phases: recovery, expansion, oversupply and recession.

Regional distribution within the global commercial real estate cycle (at the end of 2005)

figure 55



Phase 1	Phase 2	Phase 3	Phase 4
• Declining vacancy rates • Rental rate growth, below inflation rates • No new building activity	• Strong rental rate growth in tighter markets • Rising rental rates justify building activity • Decline in vacancy rates	• Increase in rental rates, although at slower pace • Increase in vacancy rates • New building activity, increase in development and redevelopment projects	• Decline in rental rates • Increase in vacancy rates • Building activity, increased competition

Overall return and specialized portfolio analysis

The Real Estate group added $3.5 billion to depositors' net assets in 2005, with an overall return of 26.4%, versus 22.7% in 2004. The group's management generated 565 b.p. (5.65%) of value added in relation to the benchmark index.

As at December 31, 2005, depositors' net assets in the two portfolios managed by the group totalled $17.2 billion – with $6.4 billion in the Real Estate Debt portfolio and $10.8 billion in the Real Estate portfolio – in comparison with $12.1 billion in 2004. As a result of various acquisitions, the Real Estate Debt portfolio grew considerably in 2005, ending the year with $2.1 billion more than in 2004.

Depositors' total assets amounted to $24.3 billion as at December 31, 2005, versus $21.6 billion a year earlier. Lastly, total assets under management, including assets under management or assets under administration amounted to $59.6 billion versus $48.1 billion in 2004. Table 56 gives the breakdown of the total assets under management by the Real Estate group according to portfolio.

The Real Estate group's transaction volume in 2005 was $12.9 billion, with $4.2 billion of acquisitions and investments, $0.9 billion of construction, renovation and leasehold improvements, $2.9 billion of dispositions and $4.9 billion of real estate financing transactions.

Specialized Real Estate Debt portfolio

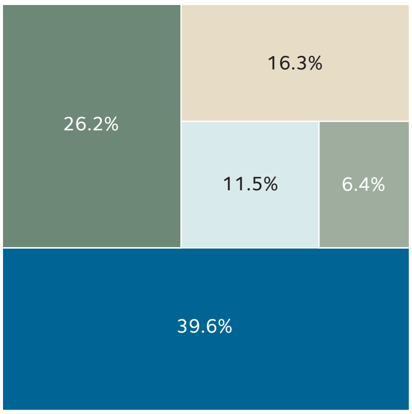
Total assets under management

As at December 31, 2005, the total assets under management in the Real Estate Debt portfolio amounted to $6.9 billion, up $1.7 billion from the previous year. Real estate financing was provided in 2005 to a wide range of clients for various types of property. The amount of the loans ranged from $0.1 million to $310 million, and the transactions totalled $4.9 billion. Figures 57 and 58 show the portfolio's sector and geographic breakdown at year-end.

Sector breakdown of the specialized Real Estate Debt portfolio

figure 57

(percentage of fair value as at December 31, 2005)



Breakdown of total assets under management – Real Estate group

table 56

(fair value as at December 31, 2005 – in billions of dollars)

	Depositors' net assets	Depositors' total assets	Assets under management or under administration	Total assets under management	%
Real Estate Debt portfolio	**6.4**	**6.9**	**–**	**6.9** [1]	**11.6**
SITQ		5.7	13.5	19.2	32.2
Ivanhoe Cambridge		7.8	3.6	11.4	19.1
Cadim		3.9	18.2	22.1 [1]	37.1
Real Estate portfolio	**10.8**	**17.4**	**35.3**	**52.7**	**88.4**
	17.2	**24.3**	**35.3**	**59.6**	**100.0**

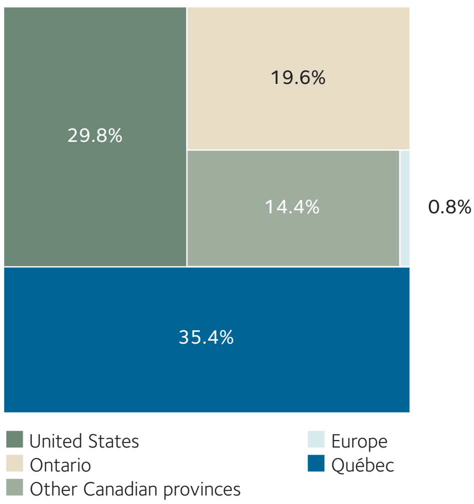
[1] The assets in the Real Estate Debt portfolio are managed by subsidiaries and affiliates of which Cadim owns 50% or more. As at December 31, 2005, Cadim's total assets under management amounted to $29.0 billion.

Investment operations and analysis of returns (cont.)

Geographic breakdown of the specialized Real Estate Debt portfolio

figure 58

(percentage of fair value as at December 31, 2005)



Analysis of return

The Real Estate Debt portfolio returned 10.9% in 2005, or 443 b.p. (4.43%) more than the return on its index. Over five years, the portfolio returned 10.6% and outperformed the index by 320 b.p. (3.20%).

This fine performance is partially attributable to the increase in the subordinated debt held by the portfolio, especially as a result of resecuritization of the assets of Allied Capital Corporation. The decrease in mortgage rate spreads also contributed to the portfolio's strong return.

Return on Real Estate Debt

table 59

(for periods ended December 31, 2005)

	Return %	Index[1] %	**Spread b.p.**	Information ratio
1 year	10.9	6.5	**443**	n.a.
3 years	10.8	6.8	**403**	4.0
5 years	10.6	7.4	**320**	3.5

[1] Before October 2005, the index was SC Universe Bond. Since October 1, 2005, the index has consisted of 90% SC Universe Bond and 10% the Lehman Brothers CMBS B hedged.

Specialized Real Estate portfolio

Total assets under management

As at December 31, 2005, depositors' total assets amounted to $17.4 billion, and assets under management or administration totalled $35.3 billion, bringing the total assets under management in the Real Estate portfolio to $52.7 billion. Table 60 gives the portfolio's top 10 investments.

In the retail sector, Ivanhoe Cambridge's transactions totalled $2.3 billion in 2005, with $0.4 billion of sales, $1.3 billion of acquisitions and $0.6 billion of construction, renovation and leasehold improvements.

In the office and business park sector, $0.2 billion of sales, $0.7 billion of acquisitions and $0.3 billion of construction, renovation and leasehold improvements brought SITQ's transactions to $1.2 billion.

Top 10 Real Estate portfolio investments

table 60

(as at December 31, 2005)

1515 Broadway, New York, NY	SITQ
Bayshore Shopping Centre, Ottawa, Ontario	Ivanhoe Cambridge
CityPoint, London, England	SITQ
International Banking Centre, Frankfurt, Germany	SITQ
Lone Star (Asia-Europe fund)	Cadim
Metropolis at Metrotown I and II, Burnaby, British Columbia	Ivanhoe Cambridge
Newport Corporate Center, Seattle, WA	SITQ
Paunsdorf Center, Leipzig, Germany	Ivanhoe Cambridge
Place Ville Marie, Montréal, Québec	SITQ
St. Enoch Shopping Centre, Glasgow, Scotland	Ivanhoe Cambridge

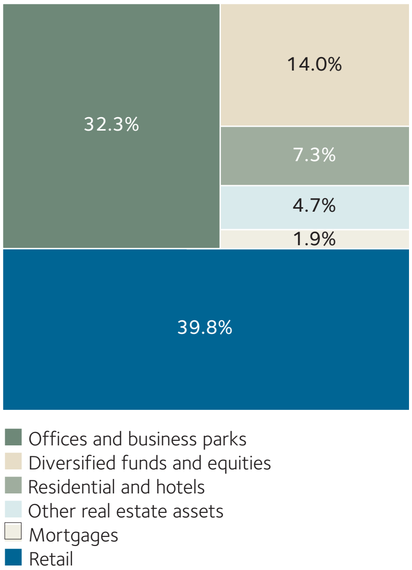
Lastly, in opportunistic products and residential buildings, Cadim's transactions totalled $4.5 billion, with $2.3 billion of sales and $2.2 billion of investments and acquisitions.

Figures 61 and 62 give the sector and geographic breakdowns at year-end.

Sector breakdown of the specialized Real Estate portfolio

figure 61

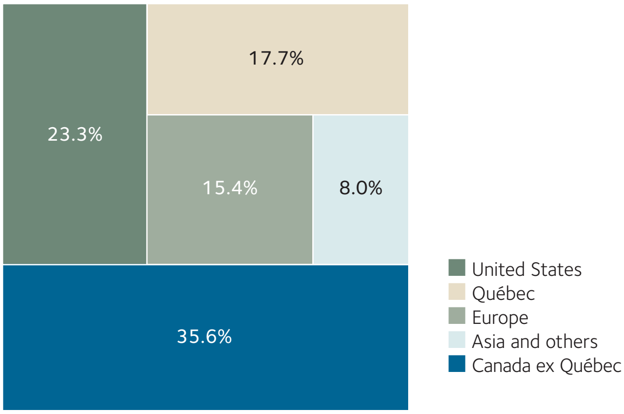
(percentage of fair value as at December 31, 2005)



Geographic breakdown of the specialized Real Estate portfolio

figure 62

(percentage of fair value as at December 31, 2005)



Analysis of return

The Real Estate portfolio posted an outstanding 38.6% return in 2005, outperforming by 762 b.p. (7.62%) the Aon Index - Real Estate, which posted 31.0%. The value added in relation to the return threshold is 2,962 b.p. (29.62%). The return over longer periods gives a better idea of the performance of the Real Estate portfolio, which has consistently surpassed the benchmark index. In fact, the 10-year average return, at 17.7%, outperformed the index by 380 b.p. (3.80%).

Once again, the portfolio's return reflects investor enthusiasm for real estate products at the expense of other investment vehicles. The portfolio's excellent performance is due to generally lower capitalization rates for real estate assets, to exceptional increases in value realized by the Lone Star distressed debt funds, in which Cadim has a large stake, and to higher occupancy rates for Canadian and U.S. properties.

Return on Real Estate

table 63

(for periods ended December 31, 2005)

	Return %	Index[1] %	**Spread b.p.**	Information ratio
1 year	38.6	31.0	**762**	n.a.
3 years	27.5	20.0	**747**	n.a.
5 years	20.6	15.5	**503**	n.a.

[1] Aon – Real Estate

Investment operations and analysis of returns (cont.)

Absolute Return

Solid foundations for deployment of analysis and investment operations

The Absolute Return group generated an excellent return of 11.2% in 2005, while equipping itself to ensure current and future deployment of its analytical capabilities and investment operations.

The group was created in 2003 to give depositors new sources of value added. It has a mandate to manage hedge fund strategies to generate a high, stable absolute return with a low degree of correlation with stock and bond returns. The group has also managed a specialized Commodities portfolio since 2004.

Investment philosophy

The group's investment philosophy is based on the inefficiencies that constantly exist in the financial markets and the ability to exploit them.

To achieve its objectives, the group relies on:

- Talented managers;
- Quantitative methods to identify investment opportunities;
- Rigorous risk management in the design of each strategy and transaction;
- Leading-edge information technology and analytical support.

Diversified internal and external hedge funds

The Absolute Return group is responsible for two specialized portfolios.

The specialized Hedge Funds portfolio consists of four internal hedge funds (Fixed Income Relative Value, Quantitative Strategies, Currencies and Commodities) and external hedge funds of funds (Table 64).

The specialized Commodities portfolio is a hybrid portfolio whose underlying assets consist of U.S. real return bonds (80%) and U.S. treasury bills (20%). These securities are overlaid by derivative financial instruments that reproduce the return on the commodities in the benchmark index. Management of this portfolio also includes absolute return strategies designed to add value.

Highlights

In addition to exceeding the overall return objective, the year's highlight for the group is the implementation of a common analytical platform (a database, models and a decision-aid interface) for the internal hedge funds management teams. This platform complements the integrated system used by the Caisse to manage portfolio positions.

It offers the flexibility required to create new quantitative analysis tools and makes it possible to generate ideas, analyze and structure various types of transaction, perform valuations and allocate returns. The Fixed Income Relative Value team was the first to take advantage of the power and flexibility of this new system.

While improvements were being made to information technology, the Absolute Return group expanded its range of management styles by redefining the internal Global Macro mandate, which became Quantitative Strategies. The team responsible for this mandate is partial to a systematic rather than discretionary approach, and it began constructing a portfolio of market-neutral long-short equity positions. In addition, the team responsible for hedge funds of funds added emerging markets to the regions covered.

Specialized portfolio management by the Absolute Return group

table 64

Absolute Return

Specialized portfolio	Hedge Funds					Commodities
Management mandate	Fixed Income Relative Value	Quantitative Strategies	Currencies	Commodities	Hedge funds of funds	Value-added management Underlying money market management Underlying real return bond management Index management
Management type	Active Internal and partnership	Active Internal and partnership	Active Internal	Active Internal and partnership	Active External	Index and active Internal and external
Management approach	Discretionary	Systematic	Discretionary	Discretionary	Discretionary	Discretionary and systematic
Main analytical approach	Fundamental	Fundamental	Fundamental and technical	Fundamental and technical	Fundamental Top-down (selection of strategies) and bottom-up (selection of managers)	Fundamental and technical
Investment horizon	0-18 months	0-12 months	0-12 months	0-18 months	0-3 years	0-18 months
Main management styles and investment strategies	Long-short	Long-short, market-neutral	Directional	Long-short Directional	Arbitrage Event-driven Global macro	Long-short Directional

Investment operations and analysis of returns (cont.)

In 2006, the Absolute Return group will continue to develop its portfolio management, especially that of the team responsible for quantitative strategies. From the standpoint of information technology, it plans to extend the use of its new analytical platform and to implement a new computer system designed especially for management of funds of funds. The group also intends to finish documenting its various investment processes, in line with the exhaustive reporting process introduced in 2005.

Market review

The first half of 2005 was rather difficult for the hedge fund industry, particularly for funds that specialize in convertible bond arbitrage. Owing to the weak results generated by this strategy in 2004 because of a pronounced decrease in volatility, the managers had to cope with a high level of redemption requests from investors.

Another factor was investors' reassessment of the default risks related to investment-grade securities and above all high-yield securities. The pronounced widening of credit spreads had a negative impact on the results of certain credit arbitrage strategies in the first half of the year.

Still, several strategies saw an upturn in the second half. Funds that specialize in long-short equity positions and distressed debt recorded the best returns. In contrast, funds specializing in interest rate arbitrage and convertible security arbitrage generated negative returns. The year ended on a positive note, however, with the S&P Hedge Fund Index returning 2.7% in U.S. dollars.

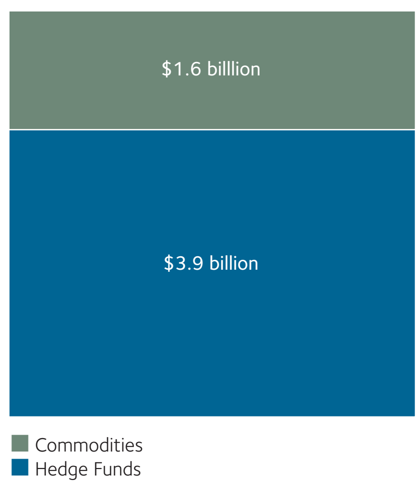
Overall return and specialized portfolio analysis

Depositors' net assets in the Hedge Funds and Commodities portfolios totalled $5.5 billion as at December 31, 2005 (Figure 65), up $1.7 billion from 2004. The overall return earned by the Absolute Return group was 11.2% in 2005, for a contribution of $0.5 billion and 507 b.p. (5.07%) of value added in relation to its benchmark index.

Depositors' net assets by specialized portfolio

figure 65

(as at December 31, 2005)



Specialized Hedge Funds portfolio

The specialized Hedge Funds portfolio returned 8.9% in 2005, or 689 b.p. (6.89%) more than its index. It also exceeded its return threshold – namely the return on the SC 91-Day Canadian T-Bill Index, which posted 2.6% – by 632 b.p. (6.32%).

Return on Hedge Funds[1]

table 66

(for the period ended December 31, 2005)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	8.9	2.0	**689**	n.a.

[1] Portfolio created April 1, 2003.
[2] S&P Hedge Fund hedged.

Internal management generated a positive return that is attributable mainly to the excellent results for the Fixed Income Relative Value mandate. The managers responsible for this mandate took advantage of higher bond yields in the United States and Japan, as well as widespread flattening of bond rate curves. The managers responsible for the Quantitative Strategies mandate posted a strong return as a result of strategies involving currencies and intra-country equity-bond allocation. Commodities management generated a loss in value, however, as a result of unproductive strategies involving energy futures and market dislocation caused by Hurricane Katrina.

The excellent return posted by the external hedge funds of funds is closely related to the positive results of several managers. Standing out were hedge funds geared to special situations (strategies that took advantage of rising earnings and improved corporate balance sheets), statistical arbitrage and global macro systematic strategies (currency strategies based on appreciation of the U.S. dollar and long-term bond strategies taking advantage of lower rates for this segment).

Moreover, managers who invested in long-short equity positions involving Japanese equities (excellent returns on bank stocks and securities buoyed by massive inflows of foreign capital) and European equities took advantage of the opportunities on their markets. Lastly, emerging markets represented a significant source of profit for hedge fund managers, regardless of their style.

Specialized Commodities portfolio

The Commodities portfolio returned 16.8% in 2005, underperforming its benchmark index by 20 b.p. (0.20%).

Return on Commodities[1]

table 67

(for the period ended December 31, 2005)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	16.8	17.0	**(20)**	n.a.

[1] Portfolio created August 1, 2004.
[2] Commodity financial instruments.

Active management added value to the portfolio's return. The arbitrage strategy designed to take advantage of anomalies observed in futures contract rollover yielded positive results. It offset the weaker results generated by operations involving metals, energy and agricultural commodities.

Still, as result of the cost of replicating the commodities index, index management subtracted more value than active management created.

Investment operations and analysis of returns (cont.)

Investment Analysis and Optimization

A positive contribution to the overall return

The Investment Analysis and Optimization (IAO) group generated a net return of $9.1 million in 2005. External management operations had a significant impact on the group's value added, while the two internal management mandates initiated during the year posted excellent results after only a few months of operations.

The IAO group was created in 2003 with the main mandate of enhancing the Caisse's return through dynamic management of asset allocation and overall portfolio risk.

Investment philosophy

The investment philosophy of the IAO group is to:

- Identify market inefficiencies through continual analysis of fundamental factors likely to affect the return on the asset classes in the overall portfolio;
- Implement an asset allocation program to optimize the overall portfolio's absolute return and absolute risk.

Complementary management approaches

The IAO group manages the specialized Asset Allocation portfolio using two complementary approaches (Table 68).

The discretionary approach taken by Strategic Asset Allocation aims for a diversified portfolio taking into account the risk related to each of the strategies, their correlation and the managers' degree of conviction regarding each proposed strategy. The systematic approach taken by Global Tactical Asset Allocation involves modelling the impact of the global economic and financial context on the main indexes used for the Caisse's benchmark portfolio, to optimize the overall portfolio's risk-return profile on an 18-month horizon.

Highlights

In 2005, on completion of a rigorous portfolio construction and simulation process, the IAO group initiated its two internal management mandates: Strategic Asset Allocation and Global Tactical Asset Allocation. It also continued to deploy its external management program and finished repositioning the economic-analysis advisory services offered to the Caisse's investment groups.

The IAO group plans to continue developing its internal investment operations in 2006. It will therefore emphasize an increase in active risk and the number of investment strategies, as well as development of portfolio analysis and tracking tools. Active management of the program involving external asset allocation managers will also be one of the group's priorities in the year to come.

Market review

In 2005, the context of low interest rates and sustained corporate earnings growth was again favourable to high-risk assets, particularly equities. The relative returns of the various stock markets reflected their valuations, with Japan and emerging markets leading the way. The U.S. market was less attractive on the basis of its fundamentals, mainly because of the monetary tightening in progress.

The bond markets showed that investors were expecting solid economic growth, without inflation, in the years to come. Long-term interest rates fluctuated only slightly despite such inflationary factors as rising energy prices and eroding surplus production capacity. Moreover, the risk premium for emerging markets debt fell, and the premium for corporate debt remained very low in historic terms.

Specialized portfolio management by the Investment Analysis and Optimization group

table 68

Investment Analysis and Optimization

Specialized portfolio	Asset allocation		
Management mandate	Strategic asset allocation	Global tactical asset allocation	
Management type	Active Internal	Active Internal	Active External
Management approach	Discretionary and systematic	Systematic	Discretionary and systematic
Main analytical approach	Top-down Relative evaluation of financial markets and risk premiums	Top-down Econometric modelling and optimization	Top-down Relative evaluation of financial markets and risk premiums Econometric modelling and optimization
Investment horizon	0 to 3 years	0 to 18 months	0 to 18 months
Main management styles and investment strategies	Global macro Long-short		

Investment operations and analysis of returns (cont.)

Analysis of asset allocation operations

The specialized Asset Allocation portfolio posted a net return of $9.1 million in 2005 (Table 69). Active management (asset allocation and asset rebalancing) generated $156.0 million of value added. Portfolio-rebalancing constraints resulted in a shortfall of $146.9 million, however. This situation is due mainly to the lack of indexes or liquid instruments that can substitute for the real estate sector index.

Return on Asset Allocation

table 69

(for the period ended December 31, 2005)

	1 year Return $ million
Asset allocation and active rebalancing	156.0
Portfolio-rebalancing constraints	(146.9)
Total	**9.1**

Asset allocation and active rebalancing

The value added by active management is due to a considerable extent to the external management mandates. The two internal management mandates initiated during the year, as well as active rebalancing, also produced excellent results.

Strategic Asset Allocation

After six months of operations, the Strategic Asset Allocation mandate posted a positive return. The managers took advantage of the outstanding returns on the international stock markets, especially in emerging markets as opposed to the U.S. equity markets, strong equity results in relation to the bond market in Japan and the rising materials index vis-à-vis the industrials index. The position based on widening credit spreads subtracted value from the portfolio, however.

Global Tactical Asset Allocation

After three months of operations, the Global Tactical Asset Allocation mandate also generated a positive return. Generally speaking, the managers took advantage of equity returns, which were superior to bond returns. The structure of the positions in the country indexes favoured Canada, owing to its economic structure, and Japan, whose undervalued stock market presented appealing earnings growth potential. The market valuations and growth outlook tended to favour Continental Europe over the United States and Great Britain.

Lastly, the return on the externally managed portfolio exceeded expectations. The scope of the market's trends and turns in 2005 tended to favour global macro managers, who form the majority of the IAO group's external managers.

Asset rebalancing

Asset rebalancing operations involving private equity generated value added in 2005. To rebalance the Caisse's overall portfolio, the weighting of the specialized portfolios is brought back within the specified upper and lower limits each month. This operation involves the sale or purchase of units of the specialized portfolios and derivatives.

Contribution to Québec's economic development

The Caisse de dépôt et placement du Québec contributes to Québec's economic development in various ways. It does so primarily through:

- Its financial return on depositors' capital;
- Its impact as an investor involved closely with Québec institutions and companies;
- The spinoff benefits of its operations for Québec's financial sector;
- Its social commitment and that of its employees.

Financial return on depositors' capital

The return on depositors' capital is the first contribution made by the Caisse to Québec's economic development.

The Caisse's depositors are public and private pension funds and insurance plans. The contributors to these plans are exclusively individuals or companies from Québec. The funds in these plans come from deductions at source from the income of individuals in the case of pension plans (RRQ, RREGOP, CCQ and other pension plans) or insurance premiums paid by individuals and companies under obligatory plans (SAAQ and CSST). The Caisse manages the funds of these plans in order to generate a superior return on them in accordance with their individual investment policies.

All these plans have real and actuarial liabilities, in other words financial obligations that they must meet over the, medium and long terms. To match its financial resources and its obligations, each plan uses assumptions of the real (after-inflation) return on its capital. With all else being equal, if the real return generated by the Caisse is in line with a depositor's return assumptions, the plan will be able to pay retirement or insurance benefits and maintain contributions at the forecast level.

But if the real return generated by the Caisse exceeds a depositor's return assumptions, the plan will have an actuarial surplus and may eventually lower the level of contributions, or increase retirement or insurance benefits. Finally, if the real return falls short of the depositor's return assumptions, the plan will have an actuarial deficit and eventually will have to increase the level of contributions or decrease the retirement or insurance benefits.

In economic terms, this means that when the Caisse produces returns that exceed depositors' actuarial assumptions, it contributes directly to Québec's economic development by ultimately increasing the disposable income of the various plans' contributors or beneficiaries, whether they are individuals or businesses. This increase takes the form of lower contributions, or higher pension and insurance benefits, or both.

Let's take as an example the CSST, whose inflows of funds come from contributions on wages paid by employers and whose outflows and commitments are used to provide financial support to workers who are covered by the plan and sustain an accident. If, all other things being equal, the return on the CSST's funds is higher than its actuarial assumptions over a long period, the CSST can lower the level of contributions made by Québec companies or pay higher benefits to its insured persons. In both cases, Québec's economy becomes more competitive and prosperous.

If, however, the opposite occurs, and the return on the CSST's funds does not meet the level expected by the plan, all other things being equal, the CSST will have to raise its contributions or reduce insurance benefits. In both cases, Québec's economy will be less competitive and less prosperous. Moreover, if the situation persists, the plan's viability could be compromised.

This analysis can be applied to all the Caisse's depositors, and the same conclusion will be reached each time: value-added returns are the best way to contribute to Québec's economic development.

Conversely, if the Caisse produces returns that are lower than the depositors' actuarial assumptions, it will have a negative impact on economic development by ultimately decreasing the disposable income of the contributors to the various plans. This shortfall leads to higher contributions, which are comparable to a tax bite in the case of universal public plans, or to lower pension and insurance benefits, or both.

Contribution to Québec's economic development (cont.)

Involvement with Québec companies and institutions

Like other investors on their local markets, in Québec the Caisse has the advantage of proximity, which has enabled it, throughout its history, to use its knowledge of the local market to identify opportunities. In so doing, the Caisse has obtained competitive returns on its investments and has had a structuring effect on Québec's economy.

Seeking optimal returns and structuring effects

A brief recap provides a better understanding of the impacts that the Caisse's investments have had on Québec's economic development.

In the 1960s and 1970s, one of the areas of inefficiency in Québec's financial markets was the financing of infrastructure projects undertaken by the Québec government, Hydro-Québec, municipalities and school commissions. These Québec institutions had no alternative but to obtain financing at a premium. The advent of the Caisse helped increase the funds available, stimulate competition between suppliers of capital and make the market more efficient. Today, these Québec institutions can, with few exceptions, obtain financing on the major recognized financial markets at optimal rates that accurately reflect their financial capability. The Caisse now participates in these markets on the same basis as other investors.

To cite another example from the 1970s and 1980s, many Québec companies had structural problems in obtaining funds to finance their growth. The Caisse financed the development of many of them, which found such an arrangement advantageous just as the Caisse saw it as a profitable investment opportunity. Today these companies, which are generally publicly traded, obtain financing on efficient markets, where the cost of capital is optimal as a rule. The Caisse now takes part in these markets on the same basis as other investors.

Throughout its history, the Caisse has taken advantage of its proximity to invest in Québec, to obtain an optimal risk-adjusted return, to create spinoff benefits for Québec's companies and GDP growth and to have a sustainable structuring impact on the functioning of the financial markets. That is what it continues to do today with its investment operations in Québec, mainly with its private equity investments, but in a manner adopted to the ever-changing economic and financial context.

As in all financial markets, inefficiencies still occur in Québec, and the Caisse continues to invest in undervalued opportunities. Such opportunities are becoming scarcer and more limited, however, given the abundance of available capital and the larger number of investors active in Québec. Three of these inefficiencies, however, are more structural in nature, and the Caisse has been especially partial to them in recent years, namely venture capital, SME financing and transition capital for succession. In all three cases, the Caisse prefers to take a partnership approach, since the partners' advanced expertise increases the likelihood of investment success.

Venture capital

In 2004, the Caisse adopted a venture capital approach that is intended to be both profitable for depositors and more structuring for Québec's economy. Rather than investing directly in technology start-ups or growth companies, the Caisse now invests in venture capital funds active in Québec, whether they are local or foreign. In this way it contributes to a more competitive and more solid venture capital industry in Québec and increases the sources of financing for businesses. Finally, it diversifies its "manager risk" by working with various investment teams using different approaches.

In 2005, this approach included creating three local funds with $180 million to invest, including $48 million from the Caisse, and the establishment in Montréal of six new international venture capital players. Over three years, the Caisse intends to invest $200 million in its strategy of partnering with venture capital funds active in Québec, with $150 million in the form of joint investments and $20 million in start-up funds.

SME financing

Over the years, the Caisse has contributed to the financing of Québec SMEs. This sector is now well served by tax-advantaged funds, banks, the Desjardins Group and various government players, including Investissement Québec and Société générale de financement.

To increase its impact and to optimize its return in this area, the Caisse concluded a strategic partnership with the Business Development Bank of Canada (BDC) in 2003 for the creation of a new $300-million joint investment fund that is owned equally. BDC manages the fund and distributes the products through its network of regional offices.

This new approach has proved beneficial in four ways: first, it has increased the capital available for Québec SMEs. Second, it has reduced the cost of managing this portfolio by one-half. Third, it has generated a better return for depositors, as a result of BDC's unique expertise in this area. And, fourth, the fund, which also covers the Canadian market, has enabled the Caisse to improve the quality of its SME portfolio through diversification. The fund had made a total of $87 million of investments in Québec SMEs as at December 31, 2005.

Succession financing with Accès Relève

In the years to come, many Québec companies will face the challenge of succession. In 2000, the Caisse created the Accès Relève product, whose objective is to provide the capital required for ownership transfers of private companies from one generation of managers to another.

This product includes other elements such as consultation services, and it was revised in 2003 to reflect the new market conditions and to include a partnership approach. To date, two financial institutions have partnered with the Caisse to distribute its products to their commercial customers, namely National Bank and Royal Bank. The new commitments made in 2005 totalled $38 million. The new partnerships should make it possible to increase the rate of investment in the years to come.

At the same time, the Desjardins Group, the Solidarity Fund QFL and Investissement Québec have created their own succession products. To complement its Accès Relève product, the Caisse supports the Institut québécois des familles en affaires (IQFA) to promote the continuity of family businesses.

Benefits for Québec's financial sector and other types of contribution

The Caisse has several other direct and indirect impacts on Québec's economy. The Caisse's operations in Montréal and elsewhere in Québec make a structuring contribution to the development of Québec's finance sector, through the creation of highly specialized jobs and the acquisition of services. Private equity operations in Québec involve many information and networking activities that benefit the Caisse's portfolio companies and Québec's business community in general.

The Caisse also actively promotes the best governance practices by contributing to initiatives such as the creation of the Collège des administrateurs de sociétés. It promotes social responsibility to businesses by exerting its influence in this area, notably through the exercise of its proxy voting rights according to the principles and guidelines of its socially responsible investment policy.

It also finances various research chairs, including the Bell-CDPQ Chair on Experimental Economics at the Université de Montréal and the SITQ Real Estate Chair at the Université du Québec à Montréal. The Caisse's real estate subsidiaries manage a large portfolio of Québec properties and demonstrate constant concern for the province's architectural heritage. Lastly, the Caisse and its employees support various charitable, cultural and educational organizations, including Centraide/United Way.

2006-2008 horizon

To optimize its contribution to Québec's economic development, the Caisse included in its strategic plan 2006-2008 various activities related to this aspect of its mission.

The measures include:

- More effectively evaluating the economic contribution arising from the Caisse's financial return;
- Making a more effective contribution to the profitable development of Québec businesses;
- Providing greater assistance to portfolio companies for deployment of their business strategies;
- Increasing the Caisse's influence in terms of socially responsible management of companies;
- Intensifying strategic consideration of depositor issues;
- Improving stakeholders' understanding of the Caisse's positioning and issues in the fund management industry;
- Reporting more effectively on the Caisse's contribution to Québec's economic growth by developing a long-term analytical framework.

These measures are part of the strategic plan 2006-2008 and will be carried out gradually.

International operations

Over the past 40 years, the Caisse has constantly intensified its presence in the international arena. The Caisse has traded bonds on the international markets since its inception, and its first international equity transactions go back to 1983. The institution's first foreign private equity investments followed in 1984, and it began making international real estate investments in 1993.

Today, the Caisse invests on five continents in all asset classes. It enjoys an enviable reputation and is a sought-after partner on international markets. Moreover, its imposing size gives it entrée to many world-class investment projects, particularly in real estate and private equity.

Such international ambitions are part of a widespread trend on the part of institutional investors and reflect the Caisse's renewed mandate to seek optimal returns wherever they can be found. Still, this shift does not prevent the institution from making most of its investments in Québec and Canada, the natural markets where its experience and expertise are greatest.

Caisse investments abroad

More than 30% of the Caisse's investments are outside Canada, most of them in industrialized countries. As at December 31, 2005, countries where the Caisse had more than $1 billion of assets included the United States, Great Britain, Japan, Australia, France and Germany. Investments in emerging markets accounted for about 1% of assets in 2005, a proportion that should double in 2006, subject to depositors' approval. In total, about 30% of the Caisse's assets are denominated in foreign currencies.

For example, as at December 31, 2005, the Equity Markets group's international exposure was 60% of its investments, with securities in about 60 countries, while the Fixed Income group was active on the bond markets of about a dozen foreign countries, which represent 7% of its investments. In 2005, the Private Equity group acquired stakes in Southern Star Central's U.S. pipeline system and YBR Group's European directories business. As for the Real Estate group, it made forays into two new markets in 2005: it acquired shopping centres and office buildings in Germany, and it began a residential development project in China. And these are only a few examples of the Caisse's recent international investments.

In a global economy, the Caisse's international exposure is in fact far broader than it appears at first glance. For one thing, a company's country of origin is less representative of the location of its operations. Certain Canadian multinationals, for example, have more operations outside the country than they do within its borders. Moreover, the Caisse assists Québec companies involved in foreign expansion projects. Generally speaking, Canadian companies are exposed to major global phenomena that originate elsewhere in the world and over which they have very little control: trade liberalization, subcontracting in the manufacturing and service sectors, rising prices for natural resources and so on.

Partnership strategy

In most of its foreign investments, the Caisse seeks strategic partners that are leaders in their markets or international in their scope. This strategy enables investors to share risks and expertise and is especially appropriate for real estate and private equity.

In fact, most of the Caisse's foreign real estate investments are made with a partner. In 2005, the Real Estate group partnered with Simon Property Group to operate shopping centres in Europe. The Real Estate group also operates a network of subsidiaries and specialized companies that includes CWCapital (real estate financing) and The Praedium Group (investment and fund management) in the United States.

In the same spirit, the Caisse concluded a major partnership with AXA Private Equity. The two partners will jointly invest more than $2 billion in the mid-sized business niche in Europe and the United States, as well as in the creation of a fund focusing exclusively on the Asian market. Generally speaking, investments in funds give rise to sustained relationships that may last many years, whether in real estate (Lone Star distressed-debt funds) or private equity (Baring Vostok's medium-sized Russian business fund).

Lastly, the other investment groups are also likely to forge close relationships with external managers, whether in equity markets or hedge funds.

Outlook

For several years, North America and Asia's emerging markets have been driving global growth, while Europe and Japan have been marking time. In fact, economic growth is increasingly shifting to emerging markets, where investment opportunities are proliferating and the stock markets are rising to new heights. Canada, however, represents only 3.2% of global stock market capitalization. In seeking superior returns, the Caisse has therefore adopted a strategy of diversifying its investments, from the standpoint of region as well as asset class. The weighting of investments in emerging markets will therefore increase in the years to come.

With this objective in mind, the Caisse is actively monitoring these markets, especially the four largest emerging markets, Brazil, Russia, India and China (BRIC). The Caisse's fund managers regularly travel to these countries to monitor existing investments, develop contacts, seek business opportunities and assess risks. Discussion groups that include representatives of all the investment groups are held on a regular basis to allow an exchange of information and to increase the organization's knowledge.

Foreign presence

Toward the end of the 1990s, the Caisse opened a number of foreign offices, mainly to develop a clientele of institutional investors and to manage their assets. The Caisse's restructuring in 2002 led to the rationalization of these offices.

Today the institution has an office in Paris, which focuses on real estate, and it will open another in New York in 2006 to set up an international equity management team and to establish closer contacts with external managers. The Caisse also has an international presence through its real estate subsidiaries: Ivanhoe Cambridge has business offices in Madrid and Shanghai, and SITQ has an office in Brussels.

Analysis of combined financial statements and financing activities

Analysis of combined financial statements

The financial statements of the Caisse de dépôt et placement du Québec are combined, which means they include the accounts of subsidiaries controlled by the Caisse, the General Fund, the Individual Funds and the specialized portfolios. Depositors' holdings presented in the Combined statement of net assets reflect the combination of the net account value of each Caisse depositor.

The combined financial statements are prepared according to generally accepted accounting principles in Canada, as provided for by the *Act respecting the Caisse de dépôt et placement du Québec*.

To that end, in 2005 the Caisse adopted Accounting Guideline AcG-18, "Investment Companies." AcG-18 requires investment companies to carry investments at fair value, including those held by consolidated subsidiaries. The Caisse already reported its investments at fair value. Moreover, investments in joint ventures must henceforth be recorded according to the equity method, whereas previously they were accounted for according to the proportionate consolidation method.

The Caisse also adopted the recommendations of Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities." AcG-15 provides that the primary beneficiary (the one that absorbs most of the entity's expected losses and/or receives most of its residual returns) must consolidate its interest.

As required by the Act, the Auditor General of Québec audited the Caisse's books in 2005, and his report accompanies the combined financial statements. Over all, the Auditor General reports on 45 financial statements, including the Caisse's combined statements, that of the General Fund, those of the depositors' 25 Individual Funds and those of the 18 specialized portfolios. He has issued unqualified opinions for all the financial statements.

Total assets under management

As at December 31, 2005, the net assets belonging to the Caisse's various depositors totalled $122.2 billion, an increase of 19.3% in relation to the $102.4 billion recorded in 2004. If assets financed primarily by borrowing (liabilities) contracted mainly to optimize depositors' returns totalling $57.5 billion in 2005, versus $44.7 billion in 2004, are added, depositors' total assets rise to $179.7 billion in 2005 compared with $147.1 billion in 2004, an increase of 22.2%.

The $19.8-billion increase in depositors' net assets in 2005 comes from $15.2 billion of investment activities and $4.6 billion of depositors' net contributions. In 2004, the increase was $13.0 billion, of which $10.8 billion was attributable to investment activities and $2.2 billion came from depositors.

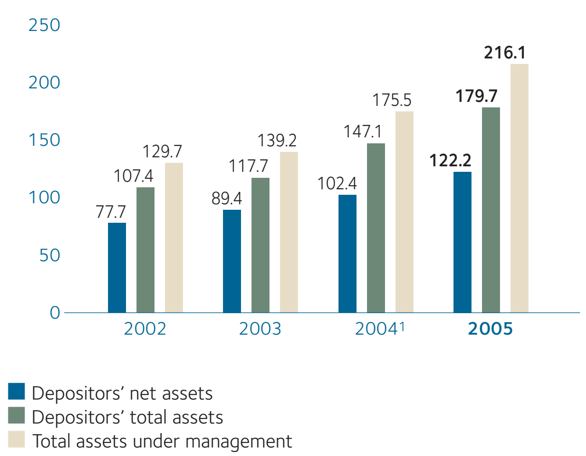
In addition to the assets entrusted to it by depositors, the Caisse manages and administers assets for third parties, primarily through its Real Estate group. The total amount of assets under management and assets under administration rose to $36.4 billion in 2005, up 28.2% from 2004.

The sum of depositors' total assets and assets under management or administration for third parties gives the Caisse's total assets under management, namely $216.1 billion in 2005, an increase of $86.4 billion, or 66.6%, since December 31, 2002.

Changes in total assets under management

figure 70

(as at December 31 – in billions of dollars)



[1] Certain figures have been revised to meet the new presentation guidelines adopted as at December 31, 2005.

Analysis of combined financial statements (cont.)

Fair value of investments

Investments are recorded in the financial statements at fair value. In the case of liquid investments, or almost 85% of the total, the Caisse uses quoted market prices or methods recognized by organized financial markets to determine fair value. In the case of private equity and real estate, or about 15% of investments, fair value is determined according to a valuation process that corresponds to good practices used by these industries. This valuation process is reviewed annually as a function of the changing standards and practices of Canadian and international organizations.

Investment valuation process

Liquid investments

The fair value of investments is established by means of valuation methods used in capital markets, such as discounting of future cash flows at the current interest rate, closing prices on major stock exchanges and data provided by securities brokers or other recognized specialist organizations.

At year-end, the portfolio of unlisted liquid products (bonds, privately negotiated derivatives, etc.) is subject to valuation by independent valuation professionals with respect to the valuation models and data used.

Private equity

The fair value of private equity investments is established semi-annually as at June 30 and December 31. The valuation is based on an institutional Caisse policy and is first determined by the managers responsible for the investments concerned. It is then approved by the senior managers of the Private Equity group.

Investments for which the fair value is higher than a pre-established material threshold must be submitted to an independent valuation committee. Given the specialized nature of private equity investments, several valuation committees are used. These committees, which report to the Caisse's Audit Committee, are composed of independent valuation professionals. The Auditor General of Québec attends all the meetings of the independent valuation committees. The annual valuation process is supplemented internally by periodic valuations and as events occur.

Real estate

For the specialized Real Estate portfolio, external chartered appraisers certify the fair value of real estate assets. For other real estate investments, fair value is usually determined by external managers and, for debt associated with real estate investments, by internal managers. Moreover, the real estate subsidiaries' external auditors participate in the compilation of fair values when the audited financial statements are produced. Finally, in auditing the Caisse's books and accounts, the Auditor General of Québec relies on the work of external auditors and reviews all valuation reports.

In the case of the specialized Real Estate Debt portfolio, the fair value of mortgages and other loans is established according to the discounted value of future contractual cash flows at the market interest rate. This is the rate that can be obtained for loans or securities with similar conditions and maturity dates. In situations where cash flow spread cannot be estimated reasonably or reliably, the fair value corresponds either to the fair value of any asset given as collateral for the security, after deduction of foreseeable realization costs and any amount legally owed to the borrowers, or to the relevant market price for the security. The year-end valuation of the Real Estate Debt portfolio was established by independent valuation professionals.

Combined earnings

Combined earnings for 2005 totalled $15.2 billion compared with $10.8 billion in 2004. This performance is due to three sources: investment income net of operating expenses (mainly interest income, dividends, fees and rents), net gains from the sale of investments (gains or losses realized on the sale of investments) and net unrealized increases in the value of investments (appreciation or depreciation relative to changes in the fair value of the investments that the Caisse held as at December 31, 2005).

Investment income totalled $4.7 billion in 2005, versus $3.9 billion in 2004. If operating expenses are excluded, this income totalled $4.5 billion in 2005 and $3.6 billion in 2004. Investment income came from fixed income securities ($2.9 billion in 2005 versus $2.4 billion in 2004) and variable income securities ($1.8 billion in 2005 versus $1.5 billion in 2004). The differences between 2005 and 2004 are mainly due to the variation in average investment volume.

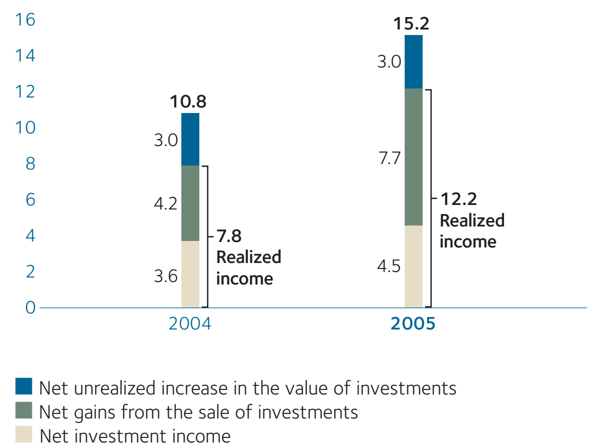
Net gains from the sale of investments totalled $7.7 billion in 2005, including $6.6 billion for variable income securities and $1.1 billion for fixed income securities. Net gains totalled $4.2 billion in 2004, including $4.1 billion for variable income securities and $0.1 billion for fixed income securities.

The net unrealized increase in the value of investments was $3.0 billion in 2005, including an increase of $3.5 billion for variable income securities and a decrease of $0.5 billion for fixed income securities, including liabilities related to investments. In 2004, the net unrealized increase in the value of investments was $3.0 billion, including $2.0 billion for variable income securities and $1.0 billion for fixed income securities, including liabilities related to investments.

Changes in combined earnings

figure 71

(for periods ended December 31 – in billions of dollars)



Analysis of operating expenses

The Caisse's operating expenses comprise management and administrative expenses related to portfolio management.

These expenses totalled $239 million in 2005, up $27 million from the operating expenses in 2004. The increase in 2005 in relation to 2004 is due to two items. The first is the addition of research expenses to operating expenses, whereas they were previously defrayed by means of soft-dollar commissions paid to brokers. The other item is the increase in the costs of external management mandates and securities custody as a result of the increase in investment volume and the growth of international investments. Since 2002, operating expenses have increased by only 8.1%, or $18 million.

Operational efficiency

It is essential that the Caisse ensure efficient operations by periodically reviewing its procedures and maintaining strict control over operating expenses. The goal of the Caisse's management team is to keep operating expenses at a level comparable to those of fund managers that are the same size and conduct similar operations, making due allowance for the composition of investments.

For many years, the Caisse has taken part in exercises to benchmark costs per asset class. Generally speaking, its costs are comparable to those of its peers.

It is common practice for fund managers to express operating expenses in basis points, or the cost in cents to manage $100 of average net assets.

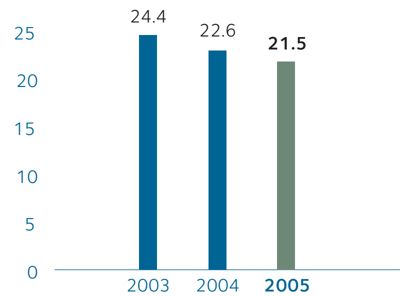
Figure 72 shows operating expenses expressed in cents per $100 of depositors' average net assets for 2003, 2004 and 2005.

Expressed per $100 dollars of depositors' average net assets, the Caisse's operating expenses fell from 24.4 cents in 2003 to 21.5 cents in 2005. This favourable difference reflects the combined effect of the increase in depositors' average net assets and the less rapid increase in operating expenses.

Recurring operating expenses expressed in cents per $100 of depositors' average net assets

figure 72

(for periods ended December 31)



Still, this measure is not ideally suited to the Caisse because the institution differs from other managers in that it assumes the cost of active management of a major program of investment-related liabilities, as well as management and administration, for clients, of portfolios of assets totalling $36.4 billion. Thus to monitor operating expenses related to its overall operations, the Caisse expresses its operating expenses as a function of average total assets under management.

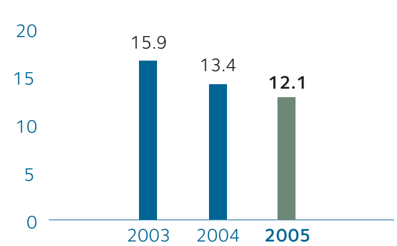
Figure 73 shows recurring operating expenses expressed in cents per $100 of average total assets under management for 2003, 2004 and 2005.

Expressed per $100 of average total assets under management, the Caisse's operating expenses fell from 15.9 cents in 2003 to 12.1 cents in 2005. This favourable difference is due to the combined effect of the increase in average total assets under management and the slower increase in operating expenses.

Recurring operating expenses expressed in cents per $100 of average total assets under management

figure 73

(for periods ended December 31)



CDP Financial's operations

In the context of rising short-term interest rates, CDP Financial, a wholly owned subsidiary of the Caisse, intensified its operations in 2005 by acting as a loan arrangement adviser to the Caisse's investment groups and real estate subsidiaries.

With its various borrowing programs, this subsidiary assisted managers seeking to optimize their investments with financial leverage. Certain investments, such as income properties, receive regular cash flow. In this case, the concept of leverage is accepted, and even recommended, to optimize investment returns while controlling risk. The use of borrowing for this type of investment assumes regular payments that are offset by foreseeable income.

At the same time, CDP Financial continued to issue debt securities in the markets. As at December 31, 2004, outstanding liabilities totalled $3.7 billion. They increased by $300 million during the year to $4.0 billion at year-end, a level significantly below the $9.2-billion limit authorized by the Caisse's Board of Directors (the maximum is set at 7.5% of depositors' net assets). CDP Financial's financing programs are guaranteed by the Caisse.

Short-term borrowing

In 2005, the Caisse's Board of Directors authorized an increase in the short-term borrowing limits, which rose from $3 billion to $5 billion. This increase will make it possible to meet the financing needs of current and future internal borrowers. The outstanding amount of short-term borrowing was $2.5 billion as at December 31, 2005, versus $2.2 billion a year earlier. The demand for top-quality commercial paper is constant throughout Canada, and more than 70% of the Caisse's offerings were purchased outside Québec, as shown by Figure 74. Annual transaction volume was $23.8 billion, for a turnover rate of 10.8 times the average amount outstanding and an average maturity of 35 days.

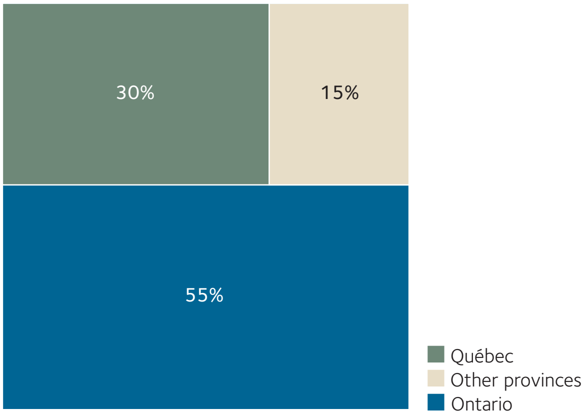
Medium-term borrowing

CDP Financial did not issue any medium-term notes in 2005.

Regional breakdown of commercial paper sales

figure 74

(as at December 31, 2005)



Letters of guarantee

The subsidiary continued to co-ordinate offerings of letters of guarantee, which provide interim support for certain investment operations. As at December 31, 2005, outstanding letters of guarantee amounted to $358 million, a 55% increase over the $231 million outstanding a year earlier.

New operations

During the year, borrowers used $123 million of structured products to finance new projects. The flexibility and low costs associated with these transactions enabled them to make significant savings.

Credit ratings

Dominion Bond Rating Services (DBRS), Moody's Investors Services (Moody's) and Standard & Poor's (S&P) maintained the highest issuer credit ratings for CDP Financial in 2005.

CDP Financial's credit ratings

table 75

	Short-term	Long-term
DBRS	R-1 high	AAA
Moody's	Prime-1 (Aaa)	Aaa
S&P	A-1 + A-1 high	AAA

Combined financial statements

Management's responsibility for combined financial reporting

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

Management maintains internal accounting control systems 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 that 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
President and Chief Executive Officer

Montréal, February 13, 2006

Ghislain Parent
Executive Vice-President
Finance, Treasury and Strategic Initiatives

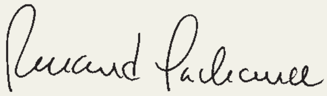
Auditor's report

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, 2005, along with the combined statement of income and changes in net assets for the year then ended. These financial statements are the responsibility of the Caisse's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Canada. These standards require that I plan and perform an audit in such a way as to obtain reasonable assurance that 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 the significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of these Funds as at December 31, 2005, as well as the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that in my opinion, with the exception of the changes to the accounting method applied to investments in joint ventures and interests in variable interest entities explained in note 3, these principles have been applied on a consistent basis with that of the preceding year.



Renaud Lachance, CA

Auditor General of Québec
Québec City, February 13, 2006

Combined statement of net assets

as at december 31, 2005

(in millions of dollars)	**2005**	2004
Assets		
Investments at fair value *(note 4a)*	**177,108**	144,193
Advances to depositors	**941**	884
Investment income, accrued and receivable	**950**	873
Transactions being settled	**349**	338
Other assets	**391**	788
	179,739	147,076
Liabilities		
Liabilities related to investments *(note 4b)*	**51,632**	41,945
Transactions being settled	**3,718**	1,047
Other liabilities	**970**	1,033
Non-controlling interests *(note 4c)*	**1,260**	618
	57,580	44,643
Depositors' holdings *(note 5)*	**122,159**	102,433

Derivative financial instruments *(note 8)*

Commitments and contingencies *(note 10)*

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

For the Board of Directors,

Henri-Paul Rousseau

Henri-Paul Rousseau

Claude Garcia

Claude Garcia

Combined statement of income and changes in net assets

for the year ended december 31, 2005

(in millions of dollars)	**2005**	2004
Investment income *(note 6a)*	**4,724**	3,850
Less:		
Operating expenses *(note 7)*	**239**	212
Net investment income	**4,485**	3,638
Gains (losses) on the sale of investments *(note 6c)*	**7,715**	4,169
Total realized income	**12,200**	7,807
Unrealized increase (decrease) in the value of investments and liabilities related to investments *(note 6d)*	**2,955**	3,011
Total investment operations	**15,155**	10,818
Excess depositors' deposits over withdrawals	**4,571**	2,217
Increase in combined net assets	**19,726**	13,035
Combined net assets, beginning of year	**102,433**	89,398
Combined net assets, end of year	**122,159**	102,433

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

Combined funds – Notes to financial statements

as at december 31, 2005

1 Constitution and operations

The Caisse de dépôt et placement du Québec, a legal person established in the public interest within the meaning of the Civil Code, is governed by the *Loi sur la Caisse de dépôt et placement du Québec* (R.S.Q., chapter C-2). It receives funds, the deposit of which is provided under the 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 comprises all treasury operations (management of demand and term deposits, and corporate financing).

On April 1, 2005, the assets of the Fonds du Régime de rentes du Québec were transferred to the new individual fund 300 created at that date for this depositor.

Individual funds
The individual funds are comprised of diversified investments, and each fund has only one depositor that exclusively makes participation deposits therein. The various individual funds are for the use of the following depositors:

Fund 300: Fonds du Régime de rentes du Québec administered by the Régie des rentes du Québec (created April 1, 2005);

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

Fund 302: Pension Plan for Management administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 303: Individual plans administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 305: Pension Plan for Elected Municipal Officers, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec;

Fund 307: Fonds d'assurance automobile du Québec administered by the Société de l'assurance automobile du Québec;

Fund 311: Supplemental Pension Plan for employees of the Québec construction industry – general account – administered by the Commission de la construction du Québec;

Fund 312: Supplemental Pension Plan for employees of the Québec construction industry – retirees account – administered by the Commission de la construction du Québec;

Fund 313: Supplemental Pension Plan for employees of the Québec construction industry – supplementary account – administered by the Commission de la construction du Québec;

Constitution and operations (cont.)

Fund 314: Fonds d'assurance-dépôts administered by the Autorité des marchés financiers;

Fund 315: Fonds d'assurance-prêts agricoles et forestiers administered by La Financière agricole du Québec;

Fund 316: Fonds d'amortissement du régime de retraite – RREGOP administered by the ministère des Finances, Government of Québec;

Fund 317: Fonds d'amortissement du régime de retraite – RRPE administered by the ministère des Finances, Government of Québec;

Fund 318: Fonds d'amortissement des autres régimes de retraite administered by the ministère des Finances, Government of Québec;

Fund 326: Fonds d'assurance-récolte administered by La Financière agricole du Québec;

Fund 327: Fédération des producteurs de bovins du Québec;

Fund 328: Régime de rentes de survivants administered by the Conseil du trésor, Government of Québec;

Fund 329: Fonds d'assurance-garantie administered by the Régie des marchés agricoles et alimentaires du Québec;

Fund 330: Fonds de la santé et de la sécurité du travail administered by the Commission de la santé et de la sécurité du travail;

Fund 332: Fonds des cautionnements des agents de voyages – cautionnements individuels administered by the Office de la protection du consommateur;

Fund 333: Fonds d'indemnisation des clients des agents de voyages administered by the Office de la protection du consommateur (previously the Fonds des cautionnements des agents de voyages – cautionnements collectifs: détaillants);

Fund 341: Fonds réservé administered by the Autorité des marchés financiers (previously the Fonds affecté à une fin particulière en vertu de la Loi sur les valeurs mobilières);

Fund 342: Régime de retraite de l'Université du Québec administered by the Comité de retraite du Régime de retraite de l'Université du Québec;

Fund 343: Fonds d'assurance parentale administered by the Conseil de gestion de l'assurance parentale (created August 1, 2005).

Specialized Portfolios

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

- Bonds
- Real Return Bonds
- Long-Term Bonds (created April 1, 2005)
- Commodity Financial Instruments
- Québec International
- Canadian Equity
- Hedge Fund (consolidated statements)
- U.S. Equity – hedged
- U.S. Equity – unhedged
- Emerging Markets Equity
- Foreign Equity – hedged
- Foreign Equity – unhedged
- Real Estate Debt (previously Mortgages) (consolidated statements)
- Real Estate (consolidated statements)
- Short-Term Investments
- Asset Allocation (consolidated statements)
- Private Equity (consolidated statements)
- Investments and Infrastructures (consolidated statements)

2 Accounting policies

The preparation of the combined financial statements of the Caisse in accordance with generally accepted accounting principles in Canada requires that management make estimates and assumptions, which have an impact on the accounting of assets and liabilities, the presentation of contingent assets and liabilities at the date of the financial statements as well as on the accounting of revenues and expenses during the financial year included in the financial statements. Actual results may differ from such estimates and assumptions.

a) Combined financial statements

The combined financial statements comprise the accounts of the Caisse's subsidiaries, along with those of the General Fund, the individual funds, and the specialized portfolios. The accounts of each fund and each portfolio are presented in 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 that 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 is restated in order to take into account amortization of the premium or the discount.

Variable-income securities

Variable-income securities comprise equities and convertible securities as well as real estate holdings. Equities 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 equities traded on a stock exchange is determined from the closing prices on major stock exchanges as well as those provided by recognized financial institutions. For equities 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 equities and convertible securities that are not publicly traded are reviewed biannually by an independent valuation committee.

Accounting policies (cont.)

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 operating expenses related to real estate holdings, operation expenses and loan financial expenses and is recorded under the item 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, except for the costs of investments in joint ventures which are recorded on an equity basis.

Derivative financial instruments

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

Derivative financial instruments whose fair value is favourable are recorded under the item Investments, while those whose fair value is unfavourable are recorded under 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 from derivative financial instruments is included in income from fixed-income and variable-income securities, whereas gains and losses from derivative financial instruments are included in gains (losses) on the sale of investments as a function of the underlying investments. As of December 31, 2001, the balance of deferred gains and losses on derivative financial instruments used to hedge foreign exchange risks is recorded in gains and losses on the sale of investments based on disposal of foreign investment.

Securities acquired under reverse repurchase agreements

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

Securities sold under repurchase agreements

The Caisse conducts security lending operations involving short-term investments and bonds in order to generate cash flow liquidity or to generate additional income from security lending operations. These security lending operations are recorded under Securities sold under repurchase agreements. Interest paid on repurchase agreements is applied against Investment income – Fixed-income securities.

Accounting policies (cont.)

Short selling of securities

Short selling of securities represents the commitment by the Caisse to purchase securities from third parties in order to cover such transactions. Interest related to commitments involving short selling of short-term investments and bonds are recorded under Investment income – Fixed-income securities, while costs related to commitments involving short selling of equities are recorded under 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 equities are recorded in Gains and losses on the sale investments – Variable-income securities.

c) Administered property and property under management

Some 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. Some 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 liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

The cost of investments in equities and that of real estate holdings from integrated foreign operations and the unamortized costs 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, with the exception of income from the specialized real estate 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 time of securitization, no beneficial right attached to the securitized loans is retained. Any gains and losses deriving from such transactions are recorded under Gains (losses) on sale of investments – Mortgages.

Companies under common control usually continue to manage loans after disposition. Since management fees are established based on the market for such services, no assets or liabilities under management have been recorded as of the date of disposition.

f) Operating expenses

Operating expenses cover all expenses related to investment operations, including expenses paid to external financial institutions, and are presented under a specific item, with the exception of those related to real estate management and operation expenses, which are deducted from real estate holdings investment income.

3 Adoption of new accounting standards issued by the Canadian Institute of Chartered Accountants

a) Investment companies

During the year, the Caisse, which defines itself as an investment company, adopted Accounting Guideline AcG-18, *Investment Companies*. This standard requires investment companies to carry investments at fair value, including those held by consolidated subsidiaries. The Caisse already recorded investments at fair value.

The adoption of this new standard resulted in only one change in the accounting and presentation of investments. Previously, the Caisse presented investments in joint ventures using the proportionate consolidation method. Now, investments in joint ventures are recorded in Investments using the equity method. This change was applied on a prospective basis and resulted in a decrease in the following items of the combined statement of net assets as at December 31, 2005:

(in millions of dollars)	
Investments at fair value	3,527
Investment income, accrued and receivable	5
Other assets	337
	3,869
Liabilities related to investments	3,439
Other liabilities	404
Non-controlling interests	26
	3,869

b) Variable interest entities

During 2005, the Caisse also adopted the recommendations in Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities*. According to this standard a variable interest entity (VIE) is an entity in which the equity is not sufficient to permit that entity to finance its activities without external support or in which equity investors lack voting control. The primary beneficiary is the party that will absorb the majority of expected losses of the entity, receive a majority of its expected residual returns, or both. The primary beneficiary has an obligation to consolidate its interest in the VIE.

As at December 31, 2005, the Caisse consolidated any interest held in VIEs qualifying as investment companies (see 3a) above). The AcG-15 was applied retroactively in the financial statements of the year 2005 and figures of preceding years were not restated. The adoption of AcG-15 resulted in an increase in the following items of the combined statement of net assets as at December 31, 2005:

(in millions of dollars)	
Investments at fair value	514
Investment income, accrued and receivable	3
Other assets	4
	521
Non-controlling interests	521

4 Investments and liabilities related to investments

a) Investments

(in millions of dollars)	**2005**		2004	
	Fair value	**Cost**	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	**29,738**	**29,741**	17,150	17,152
Foreign	**2,099**	**2,170**	1,752	1,819
	31,837	**31,911**	18,902	18,971
Bonds				
Issued or guaranteed by:				
Canadian government	**26,999**	**26,146**	21,523	21,006
Province of Québec	**9,391**	**8,372**	10,826	9,710
Other Canadian provinces	**1,898**	**1,815**	1,452	1,418
Municipalities and other Canadian bodies	**1,248**	**1,202**	1,129	1,052
Canadian government corporations	**9,883**	**9,073**	7,775	6,824
U.S. government	**1,807**	**1,886**	3,675	3,839
Other foreign government	**1,842**	**2,116**	1,971	1,950
Mortgage securities	**1,887**	**2,025**	793	801
Canadian corporations	**9,551**	**9,418**	5,280	5,118
Foreign corporations	**2,040**	**2,184**	2,215	2,227
Inflation-indexed securities				
Canadian	**1,277**	**1,111**	1,090	1,024
Foreign	**1,858**	**1,958**	865	912
Hedge funds	**1,473**	**1,491**	476	487
	71,154	**68,797**	59,070	56,368
Mortgages				
Canadian	**4,402**	**4,288**	3,998	3,832
Foreign	**579**	**591**	554	584
	4,981	**4,879**	4,552	4,416
Total fixed-income securities	**107,972**	**105,587**	82,524	79,755
Variable-income securities				
Equities and convertible securities				
Canadian	**17,350**	**15,584**	15,427	14,935
U.S.	**13,987**	**15,205**	14,030	14,986
Foreign and emerging markets	**16,057**	**14,490**	13,200	12,947
Hedge funds	**3,754**	**3,739**	2,335	2,463
	51,148	**49,018**	44,992	45,331
Real estate holdings				
Canadian	**9,247**	**7,490**	8,543	7,827
Foreign	**3,635**	**3,843**	3,130	3,609
	12,882	**11,333**	11,673	11,436
Total variable-income securities	**64,030**	**60,351**	56,665	56,767
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	**675**	**675**	734	734
Foreign	**2,694**	**2,717**	2,613	2,664
Amount pertaining to derivative instruments				
Canadian	**416**	**10**	225	8
Foreign	**1,321**	**472**	1,432	309
	5,106	**3,874**	5,004	3,715
Total investments	**177,108**	**169,812**	144,193	140,237

Investments and liabilities related to investments (cont.)

b) Liabilities related to investments

(in millions of dollars)	**2005**		2004	
	Fair value	**Cost**	Fair value	Cost
Securities sold under repurchase agreements				
Canadian	**25,458**	**25,462**	17,793	17,793
Foreign	**4,022**	**4,062**	5,496	5,590
Commercial paper payable	**2,519**	**2,519**	2,167	2,167
Medium-term notes	**1,215**	**1,206**	1,338	1,309
Loans payable				
Canadian	**113**	**110**	162	169
Foreign	**86**	**86**	169	169
Canadian commercial mortgage-backed securities	**356**	**327**	598	543
Short selling of securities				
Canadian	**12,232**	**11,565**	7,333	6,963
Foreign	**3,560**	**3,559**	2,639	2,599
Mortgage loans payable				
Canadian	**640**	**612**	1,683	1,532
Foreign	**233**	**227**	1,500	1,482
Amount pertaining to derivative instruments				
Canadian	**243**	**38**	237	89
Foreign	**955**	**343**	830	277
	51,632	**50,116**	41,945	40,682

c) Non-controlling interests

(in millions of dollars)	**2005**		2004	
	Fair value	**Cost**	Fair value	Cost
Canadian	**1,023**	**948**	481	462
Foreign	**237**	**183**	137	157
	1,260	**1,131**	618	619

Investments and liabilities related to investments (cont.)

Investments – Real estate holdings includes, among others, investments in joint ventures now reported on an equity basis. Previously this information was presented using the proportionate consolidation method. These investments at fair value were as follows as at December 31, 2005:

(in millions of dollars)	
Investments in joint ventures	**5,643**
Real estate holdings	9,167
Short-term investments	3
Investment income, accrued and receivable	5
Other assets	337
	9,512
Mortgage loans payable	3,439
Other liabilities	404
Non-controlling interests	26
	3,869

d) Summary geographic breakdown at market value of investments and liabilities related to investments

(in millions of dollars)			**2005**			2004
	Canadian	**Foreign**	**Total**	Canadian	Foreign	Total
Investments						
Fixed-income securities	**94,749**	**13,223**	**107,972**	70,217	12,307	82,524
Equities and convertible securities	**17,349**	**33,799**	**51,148**	15,427	29,565	44,992
Real estate holdings	**9,247**	**3,635**	**12,882**	8,543	3,205	11,748
Amount receivable with respect to investments	**1,091**	**4,015**	**5,106**	959	3,970	4,929
	122,436	**54,672**	**177,108**	95,146	49,047	144,193
Liabilities related to investments	**42,776**	**8,856**	**51,632**	31,311	10,634	41,945
Non-controlling interests	**1,023**	**237**	**1,260**	481	137	618

Investments and liabilities related to investments (cont.)

e) Summary of maturities of investments and liabilities related to investments at par value

(in millions of dollars)

					2005		2004
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effective interest rate	Total par value	Effective interest rate
Fixed-income securities							
Short-term investments							
Canadian	28,928	614	292	29,834	3.3%	17,966	2.7%
Foreign	1,193	511	399	2,103	5.1%	1,619	4.3%
	30,121	1,125	691	31,937	3.5%	19,585	2.9%
Bonds							
Issued or guaranteed by:							
Canadian government	3,659	4,957	15,279	23,895	3.8%	19,931	4.3%
Province of Québec	1,501	1,404	5,083	7,988	4.9%	9,393	5.7%
Other Canadian provinces	146	309	1,256	1,711	4.3%	1,372	4.7%
Municipalities and other Canadian bodies	223	627	335	1,185	5.3%	1,027	6.2%
Canadian government corporations	706	4,749	3,517	8,972	4.5%	6,710	5.4%
U.S. government	623	315	781	1,719	4.0%	3,869	4.3%
Other foreign governments	–	815	1,069	1,884	2.0%	1,914	2.5%
Mortgage securities	19	51	3,314	3,384	13.1%	1,056	12.1%
Canadian corporations	2,188	1,952	5,139	9,279	4.9%	5,050	5.4%
Foreign corporations	151	305	1,643	2,099	5.8%	2,323	4.9%
Inflation-indexed securities							
Canadian	–	–	745	745	2.4%	710	2.4%
Foreign	97	503	1,071	1,671	1.7%	736	1.2%
	9,313	15,987	39,232	64,532	4.7%	54,091	4.8%
Mortgages							
Canadian	1,063	1,726	1,491	4,280	6.4%	3,832	6.6%
Foreign	297	280	12	589	8.2%	584	8.0%
	1,360	2,006	1,503	4,869	6.6%	4,416	6.8%
	40,794	19,118	41,426	101,338	4.4%	78,092	4.5%
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements							
Canadian	676	–	–	676	3.3%	735	2.4%
Foreign	2,704	–	–	2,704	3.6%	2,640	1.6%
	3,380	–	–	3,380	3.5%	3,375	1.8%
Liabilities related to investments							
Securities sold under repurchase agreements	29,530	–	–	29,530	3.2%	23,335	2.4%
Commercial paper payable	2,525	–	–	2,525	3.3%	2,176	2.6%
Medium-term notes	175	1,035	–	1,210	4.2%	1,312	4.2%
Loans payable	190	–	3	193	3.9%	330	3.6%
Canadian commercial mortgage-backed securities	3	285	47	335	6.9%	550	6.9%
Short selling of securities	1,984	2,686	6,148	10,818	4.0%	7,215	4.3%
Mortgage loans payable	380	258	201	839	8.1%	3,014	6.9%
	34,787	4,264	6,399	45,450	3.5%	37,932	3.3%

Investments and liabilities related to investments (cont.)

The balance of losses on derivative financial foreign exchange risk hedging instruments reported in the cost of investments as of December 31, 2001, was $20 million as at December 31, 2005 ($127 million in 2004).

The fair value of investments in short-term investments, bonds, equities and convertible securities includes investments in private companies, in the amount of $1,271 million, $1,054 million and $10,836 million respectively as at December 31, 2005 ($1,125 million in short-term investments, $1,316 million in bonds, and $7,843 million in equities and convertible securities in 2004), for which market prices are not available.

In addition, the $7,715 million ($4,169 million in 2004) of gains on the sale of investments presented in the combined statement of changes in net assets includes $1,257 million in foreign exchange gains ($103 million in 2004).

5 Depositors' holdings

Demand and term deposits bear interest, and constitute indebtedness on the part of the Caisse 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 allocated are paid out to (recovered from) the depositors' demand deposit accounts.

(in millions of dollars)	**2005**	2004
Caisse's indebtedness toward depositors		
Demand deposits	**220**	41
Term deposits	**14**	–
Interest on demand and term deposits	**(1)**	(1)
Net income to be paid out to participation deposit holders	**828**	471
	1,061	511
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	**93,317**	87,206
Units issued	**11,957**	6,897
Units cancelled	**(1,112)**	(786)
Balance, end of year	**104,162**	93,317
Amount not allocated with respect to real estate holdings *	**31**	33
Unrealized increase (decrease) in value allocated following interfund transactions	**(597)**	182
Amount not allocated following gains and losses on the sale of investments in the specialized portfolios **	**11,851**	5,696
Unrealized increase (decrease) in value of investments and other related assets and liabilities	**5,651**	2,694
	121,098	101,922
Depositors' holdings	**122,159**	102,433

* *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 that are not distributed at year-end. This amount will be allocated upon the sale of the participation units in portfolios.*

6 Investment income, gains (losses) on the sale of investments, and unrealized increase (decrease) in value of investments and liabilities related to investments

a) Investment income

(in millions of dollars)	**2005**	2004
Fixed-income securities		
Short-term investments	**189**	253
Bonds	**2,391**	1,831
Mortgages	**321**	269
	2,901	2,353
Variable-income securities		
Equities and convertible securities	**1,370**	999
Real estate holdings *(note 6b)*	**514**	531
	1,884	1,530
Other income	**37**	22
Non-controlling interests	**(98)**	(55)
	4,724	3,850

Investment income – Fixed-income securities include $672 million ($365 million in 2004) in net expenses related to securities sold (acquired) under repurchase (reverse repurchase) agreements.

b) Net income from real estate holdings

(in millions of dollars)	**2005**	2004
Income from real estate holdings	**1,746**	1,844
Less:		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	**893**	967
Operation expenses	**73**	53
Loan financial expenses	**288**	308
	1,254	1,328
Other income	**22**	15
	514	531

c) Gains (losses) on the sale of investments

(in millions of dollars)	**2005**	2004
Fixed-income securities		
Short-term investments	**31**	(190)
Bonds	**1,041**	295
Mortgages	**24**	2
	1,096	107
Variable-income securities		
Equities and convertible securities	**6,577**	4,122
Real estate holdings	**68**	(76)
	6,645	4,046
Non-controlling interests	**(26)**	16
	7,715	4,169

Investment income, gains (losses) on the sale of investments, and unrealized increase (decrease) in value of investments and liabilities related to investments (cont.)

d) Unrealized increase (decrease) in value of investments and liabilities related to investments

(in millions of dollars)	**2005**	2004
Fixed-income securities		
Short-term investments	**(142)**	(14)
Bonds	**2**	1,100
Mortgages	**(36)**	59
Securities acquired under reverse repurchase agreements	**29**	(53)
	(147)	1,092
Variable-income securities		
Equities and convertible securities	**2,335**	1,541
Real estate holdings	**1,150**	427
	3,485	1,968
Total investments	**3,338**	3,060
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	**50**	(63)
Medium-term notes	**(20)**	27
Loans payable	**10**	(8)
Commercial mortgage-backed securities	**(26)**	26
Short selling of securities	**258**	162
Mortgage loans payable	**(135)**	13
Derivative financial instruments	**116**	34
Non-controlling interests	**130**	(142)
	383	49
	2,955	3,011

7 Operating expenses

(in millions of dollars)	**2005**	2004
Salaries and employee benefits	**107**	106
Professional services	**42**	38
Premises and equipment	**17**	15
Depreciation of fixed assets	**13**	18
External management and safekeeping of securities	**33**	21
Other	**27**	14
	239	212

8 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 delivering the underlying good itself. This 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 in order to determine the exchange of future cash flows, and does 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 the purchase or sale of 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 that gives 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. In order to manage the exchange risk, the Caisse uses instruments negotiated with banks; maturities generally range from one to twelve months in the case of forward contracts and options, and from one to two years for foreign currency swaps. Upon maturity, new derivative financial instruments are negotiated in order to maintain effective long-term management of foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

Derivative instruments that are traded on exchanges or with banks and securities dealers are used to manage the interest rate and market risks of the total investment portfolio, as well as to generate income from transactions, which is included in investment income from fixed-income and variable-income securities.

These transactions are negotiated with financial institutions 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 risks.

Derivative financial instruments (cont.)

a) Summary of derivative financial instruments

(in millions of dollars)

	2005				2004
		Fair value			
	Notional amount	**Assets**	**Liabilities**	**Net amount**	Net amount
Foreign exchange risk management					
Foreign currency swaps	**1,091**	**51**	**19**	**32**	(81)
Forward contracts	**26,776**	**188**	**154**	**34**	473
Over-the-counter foreign currency options					
Purchases	**33**	**5**	**–**	**5**	16
Sales	**15**	**–**	**4**	**(4)**	(2)
	27,915	**244**	**177**	**67**	406
Interest rate and market risk management					
Interest rate and foreign currency swaps	**69,150**	**631**	**480**	**151**	(169)
Credit risk swaps	**3,220**	**20**	**22**	**(2)**	–
Equity swaps	**11,387**	**174**	**15**	**159**	81
Forward contracts	**12,596**	**181**	**171**	**10**	108
Futures contracts	**152,209**	**–**	**–**	**–**	–
Exchange-traded options					
Purchases	**72,809**	**112**	**–**	**112**	21
Sales	**69,611**	**–**	**97**	**(97)**	(15)
Over-the-counter options					
Purchases	**53,238**	**375**	**–**	**375**	237
Sales	**32,601**	**–**	**236**	**(236)**	(154)
	476,821	**1,493**	**1,021**	**472**	109
Total derivative financial instrument contracts	**504,736**	**1,737**	**1,198**	**539**	515

Derivative financial instruments (cont.)

b) Summary of derivative financial instrument maturities

(in millions of dollars)

	2005				2004
	Notional amount – Maturity				Notional amount
	Less than 2 years	2 to 5 years	More than 5 years	Total	
Foreign exchange risk management					
Foreign currency swaps	**–**	**990**	**101**	**1,091**	432
Forward contracts	**26,607**	**–**	**169**	**26,776**	21,960
Over-the-counter foreign currency options					
Purchases	**33**	**–**	**–**	**33**	155
Sales	**15**	**–**	**–**	**15**	157
	26,655	**990**	**270**	**27,915**	22,704
Interest rate and market risk management					
Interest rate and foreign currency swaps	**16,495**	**14,571**	**38,084**	**69,150**	53,791
Credit risk swaps	**964**	**2,209**	**47**	**3,220**	–
Equity swaps	**9,960**	**1,427**	**–**	**11,387**	6,973
Forward contracts	**12,204**	**392**	**–**	**12,596**	19,287
Futures contracts	**142,878**	**9,331**	**–**	**152,209**	73,023
Exchange-traded options					
Purchases	**71,682**	**1,127**	**–**	**72,809**	7,039
Sales	**68,468**	**1,143**	**–**	**69,611**	7,975
Over-the-counter options					
Purchases	**48,020**	**2,176**	**3,042**	**53,238**	30,018
Sales	**27,014**	**1,608**	**3,979**	**32,601**	22,911
	397,685	**33,984**	**45,152**	**476,821**	221,017
Total derivative financial instruments contracts	**424,340**	**34,974**	**45,422**	**504,736**	243,721

9 Securitization

During the year, the Caisse securitized $165.5 million (nil in 2004) in commercial mortgage loans by creating notes payable. In 2005, notes payable were issued for an amount of $180.0 million (nil in 2004). The Caisse recorded net proceeds in cash of $178.4 million (nil in 2004). Net gains of $12.9 million (nil in 2004) on the sale of such notes, net of transaction costs, were recorded in Gains (losses) on sale of investments – Mortgages.

Commercial mortgage-backed securities acquired by the Caisse are recorded in the combined statement of net assets under Mortgage securities. As at December 31, 2005, these securities amounted to $275.8 million ($251.0 million in 2004). Securitization allowed the Caisse to generate $1.9 million in management fees in 2005 ($1.5 million in 2004). No losses are expected due to the nature and quality of the loans.

10 Commitments and contingencies

Given the nature of its operation, the Caisse has a number of commitments.

Commitments to buy investments mean the Caisse is committed to buying investments which will be settled over the coming financial years, in accordance with the terms and conditions in each agreement.

For the Caisse, collaterals and loan guarantees consist in securing future income deriving from the sale of investments and transactions on derivatives as well as the reimbursement of loans made by investee companies to financial institutions and corporations. Collaterals related to the reimbursement of loans have no specific maturity date, except in some cases, where the terms vary from one to five years.

(in millions of dollars)	**2005**	2004
Commitments to buy investments	**8,233**	7,262
Collaterals and loan guarantees	**737**	448
	8,970	7,710

The Caisse, through a subsidiary, made an offer to acquire the public U.S. company CRIIMI MAE. The offer to purchase at CA$23 per share (US$20) represents a total amount of approximately CA$408.9 million (US$350 million). The board of directors of the company approves of this offer and has informed its shareholders of its position. On January 18, 2006, a special shareholders meeting took place and the transaction was formally approved.

11 Collaterals

In the normal course of business, the Caisse conducts transactions involving the lending and borrowing of securities in exchange for collaterals or assets, with various counterparties, with which clearing agreements have been signed in order to limit credit risk. In its securities lending operations, the Caisse received assets as collateral. As at December 31, 2005, the Caisse pledged and received as collateral securities and other assets for amounts of $31,411 million ($25,210 million in 2004) and $6,769 million ($6,709 million in 2004) respectively. The amount of the assets pledged as collateral consists of assets with a value of $688 million ($631 million in 2004), which were pledged with depositaries to participate in clearing and payment systems.

12 Comparative figures

During the year, the presentation of certain items in the 2004 report was reviewed in order to better reflect the nature of some financial instruments. The change resulted in an increase (decrease) in the following items of the financial statements:

(in millions of dollars)		2004
	Fair value	Cost
Assets		
Investments	(124)	(47)
Liabilities		
Liabilities related to investments	(124)	(47)

Supplementary Information
Summary Financial Statements for the Specialized Portfolios

(in millions of dollars)

	Bonds		Real Return Bonds		Long Term Bonds (created 05-04-01)		Commodity Financial Instruments (created 04-08-01)		Quebec International	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
ASSETS										
Investments at fair value										
Bonds	**52,143.8**	47,657.5	**1,264.1**	1,089.8	**2,622.9**	–	**1,574.2**	847.7	**9,284.0**	6,462.1
Equities and convertible securities	–	–	–	–	–	–	**240.4**	11.1	**710.1**	509.6
Mortgages	–	–	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–	–	–
Real estate holdings	–	–	–	–	–	–	–	–	–	–
Short-term investments	**2,686.6**	14,790.2	–	–	–	–	**392.7**	211.3	**2,174.7**	1,658.8
Securities acquired under reverse repurchase agreements	**2,108.2**	3,271.7	–	–	–	–	–	–	**2,577.5**	636.2
Demand deposits in the General Fund	**18,507.7**	–	–	16.6	–	–	–	–	–	–
	75,446.3	65,719.4	**1,264.1**	1,106.4	**2,622.9**	–	**2,207.3**	1,070.1	**14,746.3**	9,266.7
Other assets	**1,497.1**	774.5	**4.5**	2.9	**83.9**	–	**51.7**	18.3	**125.9**	87.1
	76,943.4	66,493.9	**1,268.6**	1,109.3	**2,706.8**	–	**2,259.0**	1,088.4	**14,872.2**	9,353.8
LIABILITIES										
Advances from the General Fund	–	1,413.0	**18.0**	–	**42.8**	–	**48.5**	11.5	**1,267.2**	571.2
Securities sold under repurchase agreements	**29,199.5**	20,862.8	–	–	–	–	–	–	**612.2**	497.5
Short selling of securities	**10,976.8**	10,093.3	–	–	–	–	–	–	**1,861.8**	–
Loans and notes payable	–	–	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities	–	–	–	–	–	–	–	–	–	–
Amount pertaining to derivative instruments	**328.2**	353.0	–	–	–	–	**194.6**	64.7	**4.0**	10.1
Other liabilities	**350.3**	1,039.8	–	23.4	**733.6**	–	**454.7**	5.5	**292.2**	107.3
Non-controlling interest	–	–	–	–	–	–	–	–	–	–
	40,854.8	33,761.9	**18.0**	23.4	**776.4**	–	**697.8**	81.7	**4,037.4**	1,186.1
NET HOLDINGS OF FUNDS	**36,088.6**	32,732.0	**1,250.6**	1,085.9	**1,930.4**	–	**1,561.2**	1,006.7	**10,834.8**	8,167.7
STATEMENT OF CONSOLIDATED INCOME FOR THE YEAR ENDED DECEMBER 31										
INCOME										
Investment income										
Bonds	**1,515.0**	1,436.2	**47.7**	31.2	**45.0**	–	**58.5**	8.7	**354.5**	270.8
Equities and convertible securities	–	–	–	–	–	–	–	–	**8.1**	11.1
Mortgages	–	–	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–	–	–
Real estate holdings	–	–	–	–	–	–	–	–	–	–
Short-term investments	**65.1**	99.9	–	–	–	–	**8.2**	1.1	**54.2**	33.0
Demand deposits (advances from) in the General Fund	**(77.8)**	(35.4)	**(0.2)**	1.4	**(0.4)**	–	**(0.9)**	–	**(6.7)**	(3.1)
	1,502.3	1,500.7	**47.5**	32.6	**44.6**	–	**65.8**	9.8	**410.1**	311.8
Other income	**0.5**	–	–	–	–	–	–	–	–	–
	1,502.8	1,500.7	**47.5**	32.6	**44.6**	–	**65.8**	9.8	**410.1**	311.8
Operating expenses	**27.0**	26.8	**0.6**	0.5	**1.0**	–	**2.3**	0.7	**6.5**	4.3
INCOME BEFORE THE FOLLOWING ITEMS	**1,475.8**	1,473.9	**46.9**	32.1	**43.6**	–	**63.5**	9.1	**403.6**	307.5
Interest on notes payable	–	–	–	–	–	–	–	–	–	–
Non-controlling interest	–	–	–	–	–	–	–	–	–	–
NET INVESTMENT INCOME (LOSS)	**1,475.8**	1,473.9	**46.9**	32.1	**43.6**	–	**63.5**	9.1	**403.6**	307.5
CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31										
INVESTMENT OPERATIONS										
Net investment income (loss)	**1,475.8**	1,473.9	**46.9**	32.1	**43.6**	–	**63.5**	9.1	**403.6**	307.5
Gains (losses) on sale of investments	**830.1**	366.6	**16.2**	17.9	**40.0**	–	**100.6**	12.6	**1,357.2**	712.7
Unrealized increase (decrease) in value of investments and liabilities related to investments	**(142.7)**	369.8	**101.3**	62.6	**46.6**	–	**31.2**	(100.6)	**(4.5)**	101.6
Total investment operations	**2,163.2**	2,210.3	**164.4**	112.6	**130.2**	–	**195.3**	(78.9)	**1,756.3**	1,121.8
Participation units issued (cancelled)	**2,669.2**	4,272.0	**47.2**	1,005.4	**1,843.8**	–	**422.7**	1,094.7	**1,314.4**	1,297.6
Transfer to (from) portfolios	–	–	–	–	–	–	–	–	–	–
Net income allocated to participation unit holders	**(1,475.8)**	(1,473.9)	**(46.9)**	(32.1)	**(43.6)**	–	**(63.5)**	(9.1)	**(403.6)**	(307.5)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**3,356.6**	5,008.4	**164.7**	1,085.9	**1,930.4**	–	**554.5**	1,006.7	**2,667.1**	2,111.9
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**32,732.0**	27,723.6	**1,085.9**	–	–	–	**1,006.7**	–	**8,167.7**	6,055.8
CONSOLIDATED NET ASSETS, END OF YEAR	**36,088.6**	32,732.0	**1,250.6**	1,085.9	**1,930.4**	–	**1,561.2**	1,006.7	**10,834.8**	8,167.7
INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31										
ASSETS										
Investments										
Bonds	**49,935.8**	45,089.6	**1,100.2**	1,027.2	**2,576.3**	–	**1,676.2**	895.1	**8,933.2**	6,128.1
Equities and convertible securities	–	–	–	–	–	–	**74.4**	3.1	**688.6**	512.8
Mortgages	–	–	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–	–	–
Real estate holdings	–	–	–	–	–	–	–	–	–	–
Short-term investments	**2,652.5**	14,758.2	–	–	–	–	**392.8**	211.3	**2,174.5**	1,646.8
Securities acquired under reverse repurchase agreements	**2,104.4**	3,302.5	–	–	–	–	–	–	**2,577.5**	634.6
Demand deposits in the General Fund	**18,507.7**	–	–	16.6	–	–	–	–	–	–
	73,200.4	63,150.3	**1,100.2**	1,043.8	**2,576.3**	–	**2,143.4**	1,109.5	**14,373.8**	8,922.3
LIABILITIES										
Securities sold under repurchase agreements	**29,210.5**	20,914.5	–	–	–	–	–	–	**612.2**	497.6
Short selling of securities	**11,034.1**	9,914.5	–	–	–	–	–	–	**1,823.2**	–
Loans and notes payable	–	–	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities	–	–	–	–	–	–	–	–	–	–
Amount pertaining to derivative instruments	**108.0**	147.6	–	–	–	–	**61.3**	3.5	–	–
Non-controlling interest	–	–	–	–	–	–	–	–	–	–

Canadian Equity		Hedge Fund		U.S. Equity Hedged		U.S. Equity Unhedged		Emerging Markets Equity		Foreign Equity Hedged		Foreign Equity Unhedged		Real Estate Debt[1]	
2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
–	–	**2,624.0**	3,839.7	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
13,338.6	12,543.8	**3,791.7**	2,406.5	**7,324.1**	7,339.0	**–**	–	**1,557.8**	924.2	**9,236.8**	8,413.1	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**4,810.1**	4,390.0
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,837.9**	692.7
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**2.3**	7.4
8,091.9	5,237.0	**417.3**	482.8	**–**	–	**5,191.1**	4,950.8	**11.1**	25.8	**110.1**	14.1	**5,796.3**	5,149.9	**–**	–
–	–	**241.3**	1,000.1	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**26.9**	1,218.3	**1.8**	99.3	**–**	–	**–**	–	**54.8**	276.8	**159.9**	–
21,430.5	17,780.8	**7,074.3**	7,729.1	**7,351.0**	8,557.3	**5,192.9**	5,050.1	**1,568.9**	950.0	**9,346.9**	8,427.2	**5,851.1**	5,426.7	**6,810.2**	5,090.1
59.3	69.5	**28.4**	51.2	**8.0**	31.9	**6.0**	7.4	**1.0**	1.9	**26.6**	26.2	**2.0**	3.2	**85.4**	107.4
21,489.8	17,850.3	**7,102.7**	7,780.3	**7,359.0**	8,589.2	**5,198.9**	5,057.5	**1,569.9**	951.9	**9,373.5**	8,453.4	**5,853.1**	5,429.9	**6,895.6**	5,197.5
673.7	130.8	**144.4**	766.5	**–**	–	**–**	–	**285.3**	7.5	**1,061.6**	567.4	**–**	–	**–**	79.5
–	–	**1,747.4**	2,907.0	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
3,121.0	1,988.5	**509.9**	501.1	**354.4**	178.6	**–**	–	**1.7**	4.7	**16.0**	20.7	**–**	–	**–**	–
–	–	**–**	–	**5,186.0**	4,950.1	**–**	–	**–**	–	**5,788.2**	5,134.2	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**427.9**	730.1
28.8	15.2	**435.0**	485.6	**35.7**	7.6	**0.1**	54.2	**–**	–	**29.6**	25.6	**50.7**	60.4	**8.8**	16.9
265.8	408.1	**13.7**	114.7	**110.5**	27.9	**4.9**	6.3	**2.4**	1.3	**14.3**	20.4	**–**	1.7	**144.1**	96.4
–	–	**343.0**	200.4	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
4,089.3	2,542.6	**3,193.4**	4,975.3	**5,686.6**	5,164.2	**5.0**	60.5	**289.4**	13.5	**6,909.7**	5,768.3	**50.7**	62.1	**580.8**	922.9
17,400.5	15,307.7	**3,909.3**	2,805.0	**1,672.4**	3,425.0	**5,193.9**	4,997.0	**1,280.5**	938.4	**2,463.8**	2,685.1	**5,802.4**	5,367.8	**6,314.8**	4,274.6
–	–	**8.5**	(0.3)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
330.9	288.5	**0.7**	–	**124.5**	150.5	**–**	–	**26.8**	18.8	**396.0**	335.2	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**535.7**	302.0
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
191.9	104.2	**1.3**	(3.1)	**–**	–	**92.5**	95.9	**0.7**	0.4	**(0.1)**	–	**248.6**	215.0	**–**	–
(31.1)	(2.9)	**(8.1)**	(0.4)	**0.8**	1.1	**0.2**	–	**(0.6)**	(0.1)	**(32.7)**	(7.0)	**0.4**	0.4	**(1.8)**	1.2
491.7	389.8	**2.4**	(3.8)	**125.3**	151.6	**92.7**	95.9	**26.9**	19.1	**363.2**	328.2	**249.0**	215.4	**533.9**	303.2
1.5	1.4	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**5.2**	4.8
493.2	391.2	**2.4**	(3.8)	**125.3**	151.6	**92.7**	95.9	**26.9**	19.1	**363.2**	328.2	**249.0**	215.4	**539.1**	308.0
37.0	29.6	**32.4**	26.7	**5.6**	6.3	**15.5**	11.6	**11.4**	7.2	**8.3**	6.8	**17.9**	13.1	**24.1**	15.3
456.2	361.6	**(30.0)**	(30.5)	**119.7**	145.3	**77.2**	84.3	**15.5**	11.9	**354.9**	321.4	**231.1**	202.3	**515.0**	292.7
–	–	**–**	–	**92.5**	95.9	**–**	–	**–**	–	**248.5**	215.0	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
456.2	361.6	**(30.0)**	(30.5)	**27.2**	49.4	**77.2**	84.3	**15.5**	11.9	**106.4**	106.4	**231.1**	202.3	**515.0**	292.7
456.2	361.6	**(30.0)**	(30.5)	**27.2**	49.4	**77.2**	84.3	**15.5**	11.9	**106.4**	106.4	**231.1**	202.3	**515.0**	292.7
2,391.8	1,565.6	**585.6**	114.1	**222.0**	348.3	**200.6**	(6.1)	**193.2**	65.3	**297.0**	258.8	**210.9**	270.2	**112.2**	37.3
347.8	228.5	**(282.6)**	(40.1)	**(167.7)**	(59.5)	**(119.3)**	3.4	**73.0**	43.7	**201.7**	(76.2)	**86.2**	25.4	**(117.1)**	78.1
3,195.8	2,155.7	**273.0**	43.5	**81.5**	338.2	**158.5**	81.6	**281.7**	120.9	**605.1**	289.0	**528.2**	497.9	**510.1**	408.1
(646.8)	(2,075.6)	**801.3**	1,777.0	**(1,806.9)**	492.9	**115.6**	169.1	**75.9**	(127.2)	**(720.0)**	(96.2)	**137.5**	(446.0)	**2,045.1**	934.6
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
(456.2)	(361.6)	**30.0**	30.5	**(27.2)**	(49.4)	**(77.2)**	(84.3)	**(15.5)**	(11.9)	**(106.4)**	(106.4)	**(231.1)**	(202.3)	**(515.0)**	(292.7)
2,092.8	(281.5)	**1,104.3**	1,851.0	**(1,752.6)**	781.7	**196.9**	166.4	**342.1**	(18.2)	**(221.3)**	86.4	**434.6**	(150.4)	**2,040.2**	1,050.0
15,307.7	15,589.2	**2,805.0**	954.0	**3,425.0**	2,643.3	**4,997.0**	4,830.6	**938.4**	956.6	**2,685.1**	2,598.7	**5,367.8**	5,518.2	**4,274.6**	3,224.6
17,400.5	15,307.7	**3,909.3**	2,805.0	**1,672.4**	3,425.0	**5,193.9**	4,997.0	**1,280.5**	938.4	**2,463.8**	2,685.1	**5,802.4**	5,367.8	**6,314.8**	4,274.6
–	–	**2,712.8**	3,824.1	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
10,240.7	10,166.2	**3,830.5**	2,555.6	**7,496.8**	7,176.6	**–**	–	**1,275.2**	715.1	**8,393.0**	7,773.5	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**4,678.1**	4,201.9
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,900.4**	671.2
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**5.2**	10.9
8,081.3	5,234.1	**442.5**	469.4	**–**	–	**5,195.4**	4,781.8	**11.0**	26.4	**12.1**	–	**5,531.6**	4,961.8	**–**	–
–	–	**262.5**	1,012.2	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**26.9**	1,218.3	**1.8**	99.3	**–**	–	**–**	–	**54.8**	276.8	**159.9**	–
18,322.0	15,400.3	**7,248.3**	7,861.3	**7,523.7**	8,394.9	**5,197.2**	4,881.1	**1,286.2**	741.5	**8,405.1**	7,773.5	**5,586.4**	5,238.6	**6,743.6**	4,884.0
–	–	**1,778.6**	2,923.5	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
2,427.2	1,666.7	**527.5**	514.9	**345.4**	171.8	**–**	–	**1.4**	5.4	**17.0**	20.0	**–**	–	**–**	–
–	–	**–**	–	**5,195.5**	4,781.8	**–**	–	**–**	–	**5,531.6**	4,961.8	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**399.3**	674.2
13.7	8,402.0	**194.9**	485.9	**27.2**	7.3	**–**	–	**–**	–	**–**	–	**–**	–	**1.4**	14.3
–	–	**315.4**	191.7	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–

(1) *Previously named Mortgages*

Supplementary Information
Summary Financial Statements for the Specialized Portfolios (cont.)

(in millions of dollars)

	Real Estate		Short Term Investments		Asset Allocation		Private Equity		Investments and Infrastructures	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
ASSETS										
Investments at fair value										
Bonds	**–**	–	**–**	–	**1,468.5**	364.9	**510.4**	565.2	**549.5**	740.4
Equities and convertible securities	**3,414.9**	3,163.6	**–**	–	**1,824.2**	3,054.2	**5,539.2**	4,316.3	**5,094.3**	3,276.1
Mortgages	**340.9**	355.0	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**124.1**	131.1	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**12,994.7**	11,941.9	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**139.0**	112.6	**27,521.7**	11,148.1	**196.2**	202.6	**275.5**	287.6	**996.5**	828.3
Securities acquired under reverse repurchase agreements	**–**	–	**22,216.0**	14,798.0	**393.3**	–	**–**	–	**–**	–
Demand deposits in the General Fund	**–**	–	**–**	4,982.5	**–**	–	**65.3**	–	**–**	119.5
	17,013.6	15,704.2	**49,737.7**	30,928.6	**3,882.2**	3,621.7	**6,390.4**	5,169.1	**6,640.3**	4,964.3
Other assets	**352.2**	673.4	**280.7**	504.1	**8.1**	4.6	**48.8**	29.9	**42.7**	26.6
	17,365.8	16,377.6	**50,018.4**	31,432.7	**3,890.3**	3,626.3	**6,439.2**	5,199.0	**6,683.0**	4,990.9
LIABILITIES										
Advances from the General Fund	**20.1**	24.4	**12,999.0**	–	**1,486.1**	2,911.3	**–**	68.9	**133.3**	–
Securities sold under repurchase agreements	**–**	–	**21,700.0**	14,689.5	**387.5**	–	**–**	–	**–**	–
Short selling of securities	**43.5**	58.6	**–**	–	**582.3**	–	**84.6**	8.0	**59.3**	55.5
Loans and notes payable	**3,996.1**	3,744.2	**8,435.6**	14,254.3	**1,227.3**	299.6	**–**	–	**1,313.0**	1,029.3
Mortgage loans payable	**1,041.7**	3,358.6	**–**	–	**–**	–	**–**	–	**–**	–
Commercial mortgage-backed securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Amount pertaining to derivative instruments	**108.4**	155.4	**5.0**	18.0	**15.7**	160.6	**52.1**	17.8	**21.2**	12.6
Other liabilities	**753.7**	739.1	**2,839.3**	120.1	**29.7**	30.1	**74.6**	6.8	**33.5**	20.5
Non-controlling interest	**738.9**	617.8	**–**	–	**–**	–	**82.7**	–	**438.4**	–
	6,702.4	8,698.1	**45,978.9**	29,081.9	**3,728.6**	3,401.6	**294.0**	101.5	**1,998.7**	1,117.9
NET HOLDINGS OF FUNDS	**10,663.4**	7,679.5	**4,039.5**	2,350.8	**161.7**	224.7	**6,145.2**	5,097.5	**4,684.3**	3,873.0
STATEMENT OF CONSOLIDATED INCOME FOR THE YEAR ENDED DECEMBER 31										
INCOME										
Investment income										
Bonds	**–**	5.0	**–**	–	**8.9**	2.3	**55.4**	36.3	**53.4**	30.1
Equities and convertible securities	**40.6**	37.7	**–**	–	**15.3**	4.3	**191.8**	90.8	**234.7**	61.6
Mortgages	**43.5**	30.1	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**7.1**	7.8	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**398.8**	419.0	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**26.3**	18.4	**155.5**	216.6	**3.4**	–	**30.2**	29.7	**52.6**	38.5
Demand deposits (advances from) in the General Fund	**(1.3)**	(1.0)	**173.6**	46.7	**(40.8)**	(2.1)	**7.6**	2.3	**(2.0)**	(0.9)
	515.0	517.0	**329.1**	263.3	**(13.2)**	4.5	**285.0**	159.1	**338.7**	129.3
Other income	**–**	–	**–**	–	**–**	–	**10.5**	4.8	**21.0**	6.5
	515.0	517.0	**329.1**	263.3	**(13.2)**	4.5	**295.5**	163.9	**359.7**	135.8
Operating expenses	**8.0**	6.9	**1.6**	1.1	**8.1**	6.5	**31.9**	50.0	**27.1**	20.9
INCOME BEFORE THE FOLLOWING ITEMS	**507.0**	510.1	**327.5**	262.2	**(21.3)**	(2.0)	**263.6**	113.9	**332.6**	114.9
Interest on notes payable	**–**	–	**207.7**	203.5	**31.9**	0.1	**–**	–	**40.0**	24.5
Non-controlling interest	**39.7**	54.9	**–**	–	**–**	–	**–**	–	**58.4**	–
NET INVESTMENT INCOME (LOSS)	**467.3**	455.2	**119.8**	58.7	**(53.2)**	(2.1)	**263.6**	113.9	**234.2**	90.4
CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31										
INVESTMENT OPERATIONS										
Net investment income (loss)	**467.3**	455.2	**119.8**	58.7	**(53.2)**	(2.1)	**263.6**	113.9	**234.2**	90.4
Gains (losses) on sale of investments	**1,041.1**	373.0	**(16.8)**	4.5	**186.4**	(36.1)	**523.4**	(61.2)	**224.6**	0.2
Unrealized increase (decrease) in value of investments and liabilities related to investments	**1,497.5**	1,001.2	**2.6**	(14.9)	**(82.9)**	90.3	**709.3**	1,066.3	**(13.8)**	362.6
Total investment operations	**3,005.9**	1,829.4	**105.6**	48.3	**50.3**	52.1	**1,496.3**	1,119.0	**445.0**	453.2
Participation units issued (cancelled)	**445.3**	(1,265.4)	**1,702.9**	(46.7)	**(166.5)**	30.1	**(185.0)**	(1,496.1)	**600.5**	343.4
Transfer to (from) portfolios	**–**	–	**–**	–	**–**	–	**–**	(506.3)	**–**	506.3
Net income allocated to participation unit holders	**(467.3)**	(455.2)	**(119.8)**	(58.7)	**53.2**	2.1	**(263.6)**	(113.9)	**(234.2)**	(90.4)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**2,983.9**	108.8	**1,688.7**	(57.1)	**(63.0)**	84.3	**1,047.7**	(997.3)	**811.3**	1,212.5
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**7,679.5**	7,570.7	**2,350.8**	2,407.9	**224.7**	140.4	**5,097.5**	6,094.8	**3,873.0**	2,660.5
CONSOLIDATED NET ASSETS, END OF YEAR	**10,663.4**	7,679.5	**4,039.5**	2,350.8	**161.7**	224.7	**6,145.2**	5,097.5	**4,684.3**	3,873.0
INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31										
ASSETS										
Investments										
Bonds	**–**	–	**–**	–	**1,465.9**	364.9	**582.2**	558.5	**570.5**	759.0
Equities and convertible securities	**2,272.2**	2,257.7	**–**	–	**1,825.0**	2,979.2	**9,055.4**	8,730.0	**4,519.2**	2,681.0
Mortgages	**354.9**	372.4	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**124.6**	129.3	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**11,167.3**	11,264.9	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**139.7**	112.6	**27,524.5**	11,159.7	**198.1**	43.1	**278.5**	287.8	**997.4**	837.8
Securities acquired under reverse repurchase agreements	**–**	–	**22,219.5**	14,798.0	**398.1**	–	**–**	–	**–**	–
Demand deposits in the General Fund	**–**	–	**–**	4,982.5	**–**	–	**65.3**	–	**–**	119.5
	14,058.7	14,136.9	**49,744.0**	30,940.2	**3,887.1**	3,387.2	**9,981.4**	9,576.3	**6,087.1**	4,397.3
LIABILITIES										
Securities sold under repurchase agreements	**–**	–	**21,701.5**	14,704.9	**391.2**	–	**–**	–	**–**	–
Short selling of securities	**44.1**	54.4	**–**	–	**586.1**	–	**71.5**	8.0	**42.1**	40.2
Loans and notes payable	**3,988.1**	3,732.9	**8,435.6**	14,254.3	**1,231.0**	299.5	**–**	–	**1,311.4**	1,024.8
Mortgage loans payable	**992.9**	3,172.2	**–**	–	**–**	–	**–**	–	**–**	–
Commercial mortgage-backed securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Amount pertaining to derivative instruments	**8.5**	10.5	**1.5**	3.5	**0.2**	–	**–**	–	**0.6**	1.1
Non-controlling interest	**660.9**	618.6	**–**	–	**–**	–	**23.2**	–	**446.4**	–

Board of Directors and Board Committees

Board of Directors and Board Committees

117 Board of Directors
121 Report of the Board of Directors
125 Committee reports
125 Report of the Audit Committee
127 Report of the Human Resources Committee
133 Report of the Governance and Ethics Committee
135 Report of the Risk Management Committee

Board of Directors

This section presents the members of the Board of Directors, the Board's report and the reports of the Board's committees, namely the Audit Committee, the Human Resources Committee, the Governance and Ethics Committee and the Risk Management Committee. The Board comprised the following members as at December 31, 2005.

Pierre Brunet was President and Chief Executive Officer of National Bank Financial for many years. He has also served as Chairman of the Board of Governors of the Montréal Exchange, the Montréal Board of Trade, the Investment Dealers Association, the Canadian Institute of Chartered Accountants and the Montréal Symphony Orchestra, and he currently sits on the board of Montréal International. Mr. Brunet's many honours include the title of Fellow of the Ordre des comptables agréés du Québec, the Order of Merit from the Université de Montréal, and Officer of the Order of Canada.

Pierre Brunet
Chairman of the Board

Chairman of the Human Resources Committee

Member:

Governance and Ethics Committee

Board member since April 27, 2005

Yvan Allaire holds a doctorate in management science from the Massachusetts Institute of Technology and is a Fellow of the Royal Society of Canada, as well as Professor Emeritus of Strategy at the Université du Québec à Montréal and an Associate Professor at HEC Montréal. He is Chairman of the Institute for Governance of Private and Public Organizations (HEC-Concordia) and a former director of Bombardier (1997-2002) and CGI (1998-2003). He is also a member of the Conseil des relations internationales de Montréal (CORIM).

Yvan Allaire
Chairman
Institute for Governance of Private and Public Organizations (HEC Concordia)

Chairman of the Governance and Ethics Committee

Member:

Risk Management Committee

Board member since April 27, 2005

Bernard Bonin holds a doctorate in economics and has been a Professor at the École Nationale d'administration publique and a lecturer at various Québec universities. He has also written many books and articles on economics. From 1974 to 1981, Mr. Bonin served as Assistant Deputy Minister, first at Québec's Ministère de l'Immigration and then at the Ministère des Affaires intergouvernementales. He was named Deputy Governor of the Bank of Canada in 1988, and Senior Deputy Governor in 1994. He held that position until 1999.

Bernard Bonin
Economist-Adviser and former Senior Deputy Governor, Bank of Canada

Chairman of the Risk Management Committee

Member:

Governance and Ethics Committee

Board member since September 25, 2002

Board of Directors (cont.)

Claudette Carbonneau
President
Confédération des syndicats nationaux

Member:

Audit Committee

Board member since
September 25, 2002

Claudette Carbonneau holds a master's degree in political science and is the first woman to serve as President of the Confédération des syndicats nationaux (CSN), a position she has held since 2002. Previously, Ms. Carbonneau served as First Vice-President of the CSN and as Secretary General of the CSN's Conseil central du Montréal métropolitain. Ms. Carbonneau was appointed to the Québec government's Advisory Council on Labour and Manpower in 2002.

Louise Charette
Assistant Director General
Administration and Finance
Commission de la Construction du Québec

Member:

Risk Management Committee

Board member since
April 27, 2005

Louise Charette holds a master's degree in business administration and is completing a doctorate in mathematics. Since 1981, she has held various management positions at the Commission de la construction du Québec, including Director of Internal Audit. In addition to her current duties, she also heads the CCQ's Investment Committee. Ms. Charette has worked for a number of organizations. She was a founding member of the Regroupement des femmes cadres du Québec in 1984 and served as Vice-Chair of the Société d'habitation du Québec from 1998 to 2002.

Steven M. Cummings CM
President and Chief Executive Officer
Maxwell Cummings & Sons Holdings Ltd.

Member:

Human Resources Committee

Board member since
October 1, 2003

Steven M. Cummings is President and Chief Executive Officer of Maxwell Cummings & Sons Holdings Ltd. Active in community affairs, Mr. Cummings is a past President of Federation CJA and has served as President of the Jewish General Hospital Centre Board and its Foundation Board. He is also Founding Chair of the Montreal Holocaust Memorial Centre, and Founding Co-Chair of ProMontreal. He is currently Co-Chair of the Canadian Council for Israel and Jewish Advocacy and a director of VIA Rail Canada Inc. Mr. Cummings is also a Member of the Order of Canada.

Alban D'Amours
President and Chief Executive Officer
Desjardins Group

Member:

Risk Management Committee

Board member since
August 24, 2000

Alban D'Amours completed doctoral studies (Ph.D.), specializing in monetary theory, public finance and econometrics. After teaching for several years, he held a number of positions in Québec's public service, including Deputy Minister of Revenue and Associate Deputy Minister of Energy. He joined the Confédération des caisses Desjardins du Québec in 1988, and has held several management positions since then. Mr. D'Amours was elected President of the Desjardins Group in 2000 and was re-elected in 2004.

Sylvie Dillard holds a master's degree in economics and has held a number of management and research positions in Québec's public service, including Assistant Deputy Minister of Planning and Evaluation at the Ministère de la Santé et des Services sociaux. In 1998, she was named President and Director General of the Fonds pour la formation de chercheurs et l'aide à la recherche, and in 2001 she was appointed President and Chief Executive Officer of the Fonds québécois de la recherche sur la nature et les technologies.

Sylvie Dillard
President and
Chief Executive Officer
Fonds québécois de la recherche
sur la nature et les technologies

Guest member:

Human Resources Committee

Board member since
September 25, 2002

Claude Garcia has completed the course requirements for a doctorate from the London School of Economics and Political Science and is a Fellow of the Canadian Institute of Actuaries and the Society of Actuaries. In 1983, he joined Standard Life Insurance, where he held several senior management positions. In 1993, he was named President of the company's Canadian operations and served in that capacity until the end of 2004. Mr. Garcia has been actively involved with a number of organizations and currently sits on the boards of Cogeco and the Institut de recherches cliniques de Montréal.

Claude Garcia
Corporate Director

Chairman of the Audit Committee

Board member since
April 27, 2005

A. Michel Lavigne was President and Chief Executive Officer of Raymond Chabot Grant Thornton until May 2005. He has also served on various committees at the Canadian Institute of Chartered Accountants and the offices of the Auditors General of Canada and Québec. His directorships include Quebecor Media, TVA, Primary Energy and TeraXion Inc., and he is actively involved with several non-profit organizations. Mr. Lavigne has received many distinctions; most notably, he is a Fellow of the Ordre des comptables agréés du Québec and a recipient of the Queen Elizabeth II Golden Jubilee Medal.

A. Michel Lavigne
Corporate Director

Member:

Audit Committee

Board member since
April 27, 2005

Henri Massé has been President of the Fédération des travailleurs et travailleuses du Québec (FTQ) since 1998. He also serves as Chairman of the Board and Chairman of the Executive Committee of the Solidarity Fund QFL, and is a member of the Board of Directors of the Commission de la santé et de la sécurité du travail. Mr. Massé has served on various committees of the Advisory Council on Labour and Manpower, as well as the Executive Committee of the International Confederation of Free Trade Unions.

Henri Massé
President
Fédération des travailleurs
et travailleuses du Québec

Member:

Risk Management
Committee

Board member since
January 27, 1999

Board of Directors (cont.)

Pierre Prémont
President and General Manager
Régie des rentes du Québec

Guest member:

Audit Committee

Board member since
August 9, 2004

A chartered accountant with a doctorate in administrative sciences, Pierre Prémont became an Associate Professor at Université Laval in 1995. He subsequently became Director of the Institut des affaires électroniques in 2002 and a member of the administrative sciences faculty council. He previously held a number of senior management positions in Québec's public service, including President and Chief Executive Officer of the Société immobilière du Québec and President and General Manager of the Québec Metro High Tech Park. Mr. Prémont has been President and General Manager of the Régie des rentes du Québec since 2004.

Henri-Paul Rousseau
President and
Chief Executive Officer
Caisse de dépôt et placement du Québec

Member:

Risk Management Committee

Board member since
September 1, 2002

Henri-Paul Rousseau holds a doctorate in economics and taught monetary and financial economy before holding various senior management positions in the financial sector. He has also served as an economic adviser to the governments of Canada and Québec on various issues. His many honours include the T.M. Brown Thesis Prize for the best doctoral dissertation in economics at the University of Western Ontario and an honourary doctorate of law from Concordia University. Mr. Rousseau is actively involved with a number of charities and educational organizations.

Duc Vu
President
Commission administrative des régimes de retraite et d'assurances

Guest member:

Audit Committee

Board member since
September 25, 2002

Duc Vu is an engineer by training and has worked primarily in Québec's public service, including the Conseil du Trésor, where he assumed various responsibilities related to administrative and budgetary policies. Subsequently, he served as Assistant Deputy Minister in various departments, including Santé et services sociaux, Main-d'œuvre et formation professionnelle and Ressources naturelles. Before taking up his current position, Mr. Vu served as President and Chief Executive Officer of the Régie de l'assurance-maladie du Québec.

John T. Wall
Chairman of the Board
Capital Markets Advisors, Inc.

Member:

Human Resources Committee

Governance and Ethics Committee

Board member since
August 1, 2002

John T. Wall is Chairman of the Board and Chief Executive Officer of Capital Markets Advisors, Inc. He is also a director of the Friedman Billings Ramsey Group. From 1965 to 2002, he held various management positions with the National Association of Securities Dealers, Inc. and NASDAQ. In 1997, he was appointed President of Nasdaq International, Ltd. Mr. Wall has been a director of various organizations, including the National Securities Clearing Corporation (NSCC), the Options Clearing Corporation and the European Association of Securities Dealers Automated Quotation (EASDAQ).

Report of the Board of Directors

Under the *Act respecting the Caisse*, the Board of Directors delegates the review of specific matters to four committees consisting of members of the Caisse's Board: the Audit Committee, the Human Resources Committee, the Governance and Ethics Committee and the Risk Management Committee. To increase the Caisse's transparency vis-à-vis the public, the *Act respecting the Caisse* provides for reporting by the Board's committees and inclusion of their reports in the Caisse's Annual Report.

The *Act to amend the Act respecting the Caisse de dépôt et placement du Québec* came into force in 2005. The new provisions of the Caisse's constituting statute amended its rules of governance and brought about significant changes in the composition, independence and responsibility of the Board of Directors as well as the constitution of the Board's committees.

Composition of the Board

On April 27, 2005, the Québec government announced the appointment of Pierre Brunet as a member and Chairman of the Caisse's Board of Directors. Henri-Paul Rousseau, who was previously Chairman and Chief Executive Officer, became President and Chief Executive Officer of the Caisse.

On the same date, the government also appointed four new members to the Board of Directors: Louise Charette, Yvan Allaire, Claude Garcia and A. Michel Lavigne. The Chairman and the new members took up their functions on May 16, 2005.

Nicole Trudeau, Jean-Claude Bachand, Yves Filion and Gilles Godbout left the Board in 2005. During their years as directors, they made an enlightened and valuable contribution to the deliberations of the Board and the committees they sat on. They gave the Caisse their steadfast support and loyalty, and we are extremely grateful to them.

The Caisse's Board of Directors now has 15 members, of whom 10 are independent within the meaning of the new provisions of the constituting statute. The Board consists of its Chairman, the President and Chief Executive Officer, depositors' representatives, members of the business community and the co-operative movement, and labour union leaders.

Report of the Board of Directors (cont.)

Number of meetings and attendance
The Caisse's Board of Directors met 13 times in 2005, including eight times after May 16. The members' rate of attendance at the Board meetings was 90%.

Director	Meetings attended / Total meetings
Pierre Brunet	8 / 8
Henri-Paul Rousseau	13 / 13
Yvan Allaire	8 / 8
Bernard Bonin	13 / 13
Claudette Carbonneau	9 / 13
Louise Charette	7 / 8
Steven M. Cummings	10 / 13
Alban D'Amours	12 / 13
Sylvie Dillard	12 / 13
Claude Garcia	8 / 8
A. Michel Lavigne	7 / 8
Henri Massé	12 / 13
Pierre Prémont	12 / 13
Duc Vu	11 / 13
John T. Wall	11 / 13

Board member remuneration
The Chairman of the Board received a total annual remuneration of $125,000 for his services.

The Board members, other than the Chairman and the President and Chief Executive Officer, received no remuneration of any kind for the services they rendered to the Caisse.

Board mandate
The Board of Directors ensures the Caisse's management complies with the provisions of its constituting statute and regulations and that the institution takes the necessary measures to achieve the objectives stated in its mission, namely to achieve an optimal return on depositors' capital and to contribute through its operations to the development of Québec's economy.

The Board passes regulations and approves the Caisse's main guidelines and policies with respect to investment operations, socially responsible investment, risk management and delegation of authority.

The Board approves the Caisse's strategic plan, business plan, budgets and annual filings. The Board evaluates the integrity of the internal controls, disclosure controls and computer systems, and approves a financial disclosure policy.

Moreover, the Board approves the human resources policies as well as the remuneration standards and scales and the other employment conditions of the Caisse's officers and employees. It also determines the remuneration standards and scales and the other employment conditions of the President and Chief Executive Officer, according to the parameters that the government determines after consultation with the Board. On the recommendation of the President and Chief Executive Officer, the Board appoints the members of senior management.

The Board approves the rules of ethics and professional conduct applicable to the members of the Caisse's Board of Directors as well as to the officers and employees of the Caisse and its subsidiaries.

The Board of Directors provides for the constitution of the Audit Committee, the Human Resources Committee and the Governance and Ethics Committee, and may create other committees to study specific matters or to facilitate the proper functioning of the Caisse.

Lastly, the Board is seized of any investment proposal or any other matter that requires special attention, particularly as a result of its intrinsic importance or impact on the Caisse's portfolio or asset allocation.

Report on the Board's activities
<u>Implementation of the Caisse's constituting statute</u>
Throughout the year, the Board monitored the progress of work to ensure the Caisse complies with the provisions of its constituting statute. It therefore received from senior management a complete report presenting all activities accomplished or to be carried out.

Pursuant to the provisions of the Act, the Board delegates the review of specific matters to the Audit Committee, the Governance and Ethics Committee and the Human Resources Committee. The Board also created the Risk Management Committee. The Board established the mandates of its four committees. These mandates can be consulted in the "Committee reports" section of this Annual Report.

Strategic planning and business plans

The Board carried out a strategic planning exercise for the period from 2006 to 2008, which involved reviewing and approving the Caisse's strategic plan. Guided by the Caisse's mission and fundamental values, which are excellence, boldness, ethics and transparency, the Board approved the Caisse's vision, ambition and objectives. It also approved the strategic plan setting out the priorities, strategies and strategic action to be initiated or continued in the 2006-2008 period.

As part of this process, the Board reviewed analyses of external trends, the organization's strength and weaknesses, depositor requirements, return forecasts and investment strategies. Each business unit of the Caisse made a presentation to the Board on its business plan, including objectives, challenges, related risks and inherent human and financial considerations. These analyses gave the Board a detailed overview of the Caisse's projects so that it can effectively oversee operations.

Financial results, internal control and management system

After each meeting of the Audit Committee, the Board received from it a report on all its activities, including monitoring of quarterly financial statements and budgetary monitoring of operating expenses. On the recommendation of the Audit Committee, the Board approved the Caisse's annual financial statements and annual budget.

In co-operation with the Audit Committee, the Board reviewed the processes used for internal control, risk management and resource optimization. To sustain co-ordination, documentation and control for all the Caisse's operations, the Board approved the implementation of a management framework, on the recommendation of the Audit Committee.

In addition, considering the nature and importance of the Caisse's operations as a manager of institutional funds from public bodies, as well as the Caisse's will to ensure exemplary reporting, the Board adopted a financial certification policy, on the recommendation of the Audit Committee. This policy, which is based on the industry's best practices, enables the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, to publicly certify the reliability of the annual filings and the financial statements, implementation and application of disclosure controls and procedures as well as internal controls. The certificate signed by the President and Chief Executive Officer and that signed by the Executive Vice-President, Finance, Treasury and Strategic Initiatives, are in the "Information disclosure and financial certification" section of this Annual Report.

Moreover, to achieve a balance between the desire for transparency and the obligation to protect depositors' interests, the Board adopted an information disclosure policy, on the recommendation of the Audit Committee. This policy provides mechanisms for processing any financial or other information and disclosing it to the media and the public. In this way, the Caisse ensures complete and accurate communication.

Risk management

With assistance from the Risk Management Committee, the Board has identified the main risks faced by the Caisse and ensured that an efficient framework is in place to deal with them. After each meeting of the Risk Management Committee, the Board therefore received the Committee's report on all its activities.

On the Committee's recommendation, the Board approved the necessary changes to the integrated risk management policy and the investment policies governing the specialized portfolios. The Board also reviewed arguments submitted in favour of a request to deviate from the investment policy of a specialized portfolio and, on the Committee's recommendation, authorized it for a limited period.

Each quarter, after the review conducted by the Risk Management Committee, the Board received from the Executive Vice-President responsible for risk management a report on monitoring of returns and market risk.

Report of the Board of Directors (cont.)

In addition, the Board approved the Committee's recommendation regarding revision of the investment-approval thresholds. It examined and, where appropriate, approved investments requiring its authorization. In each instance, the Board paid special attention to the analysis of the investment's risks and its impact on the risk level and concentration of the portfolios concerned. The Board also received a report on investments requiring the authorization of Caisse senior management.

Operational agreements
Considering the intrinsic importance of certain agreements with Caisse suppliers and their impact on the institution's proper functioning, senior management submitted to the Board for approval proposals involving renewal or amendment of two of these agreements. The Board examined and approved the proposed terms.

Senior management oversight
The Board approved the objectives of the President and Chief Executive Officer of the Caisse. Moreover, at its meetings, senior officers regularly made presentations on their business units. These meetings provided the opportunity for frank discussions during which Board members exchanged ideas freely with members of senior management.

In addition, with assistance from the Human Resources Committee, the Board reviewed the performance of the most senior officer of the Caisse, as a function of the objectives established at the beginning of the year. It also examined his evaluation of the performance of the senior officers.

With assistance from the Human Resources Committee, the Board closely monitored staffing for all the Caisse's business units, approved a restructuring of several business units and redefined certain positions. Moreover, as it had requested after the strategic planning exercise, the Board reviewed, in particular with the Executive Vice-President responsible for human resources, the outlook for the period from 2006 to 2008. The Board was satisfied with the strategies presented.

On the recommendation of the Human Resources Committee, the Board approved the 2005 salary conditions and the 2004 bonuses for the Caisse's employees and members of senior management.

Corporate governance
In co-operation with the Governance and Ethics Committee, the Board develops and oversees implementation of the Caisse's rules, procedures and policies regarding corporate governance. The Board received a report from the Committee after each of the Committee's meetings.

On the Committee's recommendation, the Board approved the mandates given to its four committees. The activity reports of the Board's committees are found on the pages that follow.

With respect to rules of ethics and professional conduct, the Board adopted the Code of Ethics and Professional Conduct for Directors as submitted by the Governance and Ethics Committee. This Code includes the obligation to act with loyalty, honesty and integrity, to avoid conflicts of interest and to protect confidential information.

On the Committee's recommendation, the Board also adopted a process for preauthorization of Board members' personal transactions as well as a form for the declaration of all interests held by each director.

Regarding the performance of the Board of Directors, the Governance and Ethics Committee and the Human Resources Committee proposed the adoption of an expertise and experience profile for the appointment of the Board's independent members. The Governance and Ethics Committee also suggested a method for evaluating the Board's performance. The Board approved these proposals. Evaluation of the Board's performance will begin in 2006.

Lastly, the Board adopted a resolution specifying the cases and circumstances in which a director's repeated absence from Board meetings constitutes a vacancy.

Orientation and ongoing training
The members of the Board of Directors all took part in the Claude Prieur Strategy Planning Session. This information and discussion session on the challenges facing the Caisse is attended by representatives of all the institution's stakeholders. At this event, the directors furthered their understanding of the environment in which the Caisse operates as well as the depositors' concerns.

In addition, at the request of the Governance and Ethics Committee, training on risk management at the Caisse was offered to the Board members.

Finally, during the Board's regular meetings, presentations are made to the directors on various aspects of the Caisse's operations. Over the past year, these presentations concerned global imbalances and their impact on asset management, investment analysis and optimization, and hedge fund management.

Report of the Audit Committee

The *Act to amend the Act respecting the Caisse de dépôt et placement du Québec* provides for the creation of an Audit Committee. This committee, formed on May 18, 2005, replaces the previous Audit Committee.

Composition of the Committee
The Audit Committee consists of three independent members:

Chairman: Claude Garcia
Members: Claudette Carbonneau and A. Michel Lavigne

The Committee also has two guest members, Duc Vu and Pierre Prémont. The guest members attend the meetings of the Audit Committee and take part in the discussions, but may not constitute a quorum or vote.

In accordance with the rules of good governance, the Chairman of the Audit Committee does not sit on any other committee of the Caisse's Board of Directors.

Number of meetings and attendance
The Audit Committee met six times in 2005, including four times after May 18. The members' rate of attendance at the Committee meetings was 86%.

Director	Meetings attended/total meetings
Claude Garcia	4 / 4
Claudette Carbonneau	4 / 6
A. Michel Lavigne	4 / 4
Pierre Prémont	4 / 4
Duc Vu	4 / 6

Accounting or financial expertise
The members of the Audit Committee all have the requisite experience and knowledge to understand the Committee's mandate and to properly fulfill their role.

Committee Reports (cont.)

They have the financial skills to understand the accounting principles used by the Caisse for its financial statements and to evaluate the general application of those principles. They also have relevant experience and the ability to read and understand financial statements presenting a degree of complexity generally comparable to that of the Caisse's financial statements. The Committee members have the necessary skills to ensure that the internal control mechanisms are put in place and that they are sufficient and effective.

The Audit Committee has two accounting and financial experts, Claude Garcia and A. Michel Lavigne.

Mr. Garcia has completed the course requirements for a doctorate from the London School of Economics and Political Science. He is a Fellow of the Canadian Institute of Actuaries and the Society of Actuaries. He has extensive finance and business experience.

Mr. Lavigne is a member and a Fellow of the Ordre des comptables agréés du Québec. He has extensive accounting and business experience.

Committee mandate
The Audit Committee has a mandate to assure the Board of Directors that the annual financial statements accurately reflect the Caisse's financial situation, that the internal controls are sufficient and effective, and that the quality and functioning of the systems or processes implemented ensure resources are acquired and utilized with appropriate emphasis on economy, efficiency and effectiveness.

The Committee sees that internal control mechanisms are put in place and that they are sufficient and effective. It also ensures that a risk management process is put in place for the Caisse's operations and that resources are managed in an optimal manner. The Committee reviews any activity that is likely to be detrimental to the Caisse's financial health.

The Audit Committee appoints the Internal Auditor and ensures that the organizational structure in place gives him the requisite independence in respect of Caisse senior management to fulfill his role effectively. The Committee approves the internal audit plan and oversees the related work.

The Audit Committee reviews the Caisse's annual financial statements with the Auditor General of Québec, submits them to the Board of Directors and recommends their approval. It must notify the Board of Directors in writing on finding operations or management practices that are unsound or not in compliance with laws, regulations or the policies of the Caisse.

Report of the Audit Committee on the performance of its mandate
The Audit Committee carried out the following activities during the past year:

- During the year, the Committee reviewed the quarterly financial statements and the budgetary monitoring of operating expenses.
- The Committee oversaw an independent valuation of the private equity investments made by the Caisse. It approved the private equity valuation policy for 2005. It also approved the 2005 list of valuation committee members. During the year, the Committee ensured that the valuation process functioned smoothly.
- The Committee reviewed the annual financial statements with the Auditor General and recommended that the Board of Directors approve them.
- The Committee discussed with the Auditor General his audit plan regarding the Caisse's financial statements. It also had the opportunity to meet with the Auditor General without members of senior management being present.
- The Committee met with the members of the internal audit team. It discussed the team's structural organization, its experience in the area, the matter of staffing and all aspects of its mandate.
- The Committee reviewed and approved the internal audit plan. It discussed with the Internal Auditor application of the internal control mechanisms and the risk management process as well as preparation and implementation of a resource optimization plan. It regularly familiarized itself with the Internal Auditor's main findings and recommendations as well as follow-up on these recommendations.

- In line with its mandate to ensure that the Caisse has frameworks for internal control, risk management and resource optimization, the Audit Committee reviewed a management framework and recommended that the Board of Directors implement it and adopt documentation principles. It also endorsed the creation of a new business unit, reporting to the Executive Vice-President, Finance, Treasury and Strategic Initiatives, to co-ordinate implementation of the proposed management framework. This framework will foster co-ordination, documentation, control and evaluation of all operations with a view to achieving the Caisse's objectives.
- The Committee reviewed a financial certification policy and recommended that the Board of Directors approve it. This policy governs the process enabling the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, to publicly certify the reliability of the annual filings and the financial statements, implementation and application of controls and procedures for information disclosure, as well as internal controls. It also adopted a financial certification schedule for the 2005 results.
- The Committee reviewed an information disclosure policy and recommended that the Board of Directors approve it. This policy covers all information disclosed by the Caisse to the media and the public, regardless of its nature or the means of disclosure.
- At each meeting of the Board of Directors, the Audit Committee took note of the report of the Risk Management Committee.
- Each quarter, the Audit Committee received reports on compliance with the investment limits specified by the *Act respecting the Caisse*. It also monitored the policy applicable to investments negotiated by the Private Equity unit involving holdings that exceed 30% of the common shares of a company.
- The Committee received copies of the certificates of compliance with the depositors' investment policies and the investment policies of the Caisse's specialized portfolios, which were submitted to the Risk Management Committee.
- After each of its meetings, the Committee reported on its activities to the Board of Directors.
- The Committee worked with the Governance and Ethics Committee to ensure its mandate statement complied with the new provisions of the *Act respecting the Caisse*.
- No activity likely to affect the Caisse's sound financial situation was brought to the Committee's attention by the Internal Auditor or an officer in 2005.

Report of the Human Resources Committee

The *Act to amend the Act respecting the Caisse de dépôt et placement du Québec* provides for the creation of a Human Resources Committee. This Committee, formed on May 18, 2005, partially replaces the Human Resources, Ethics and Corporate Governance Committee.

Composition of the Committee

The Human Resources Committee consists of three independent members:

Chairman: Pierre Brunet
Members: Steven M. Cummings and John T. Wall

The Committee has one guest member, Sylvie Dillard, who attends the meetings and takes part in the discussions but may not constitute a quorum or vote.

Number of meetings and attendance

The Human Resources Committee met 11 times in 2005, including seven times after May 18. The members' rate of attendance at the Committee meetings was 92%.

Director	Meetings attended/total meetings
Pierre Brunet	7 / 7
Steven M. Cummings	6 / 7
John T. Wall	10 / 11
Sylvie Dillard	11 / 11

Committee Reports (cont.)

Committee mandate

The Human Resources Committee has a mandate to review the guidelines and strategies for human resources management, including those concerning remuneration and manpower planning, particularly for senior management.

The Committee reviews human resources policies, submits them to the Board for approval and ensures they are put in place.

The Committee develops and submits to the Board, for approval, the expertise and experience profile for the appointment of the President and Chief Executive Officer. Using this profile, the Committee reviews and recommends to the Board the appointment of the President and Chief Executive Officer and evaluates him.

On the recommendation of the President and Chief Executive Officer, the Committee reviews and submits to the Board, for approval, the appointment and remuneration of the Caisse's senior officers. The Committee also reviews the responsibilities of the members of senior management and ensures succession-planning mechanisms are in place. It reviews the evaluation of the senior officers' performance by the President and Chief Executive Officer.

With respect to remuneration, the Committee receives information each year on remuneration on the Caisse's reference market. It reviews and submits to the Board the appropriate recommendations to determine the remuneration and other employment conditions of the President and Chief Executive Officer, as well as the other officers and employees of the Caisse.

Lastly, in co-operation with the Governance and Ethics Committee, the Committee develops expertise and experience profiles for the appointment of the Board's independent members and submits the profiles to the Board for approval.

Activity report of the Human Resources Committee

The Human Resources Committee carried out the following activities over the past year:

- The Committee examined the salary reviews of the Caisse's employees for 2005 and recommended that the Board approve them. It carried out the same procedure to determine employee bonuses for the previous year.
- The Committee evaluated the performance of the Caisse's most senior officer. It also reviewed the performance evaluations for members of senior management done by the most senior officer. On the basis of its review, the Committee recommended that the Board approve the salary increases and bonuses of each member of senior management.
- The Committee closely monitored the progress of the Caisse's staffing plan and considered the matter of retention of human resources so that the institution can meet its needs in this area.
- The Committee met several times with an independent external consultant to obtain expertise and a perspective on trends and practices on the Caisse's reference market with respect to remuneration programs and the remuneration of the President and Chief Executive Officer.
- The Committee reviewed the market data in the study prepared by the independent external consultant regarding the remuneration of the President and Chief Executive Officer. Pursuant to the new provisions of the *Act respecting the Caisse*, it recommended to the Board of Directors, for recommendation to the government, the parameters enabling the Board to set the remuneration and other employment conditions of the President and Chief Executive Officer.
- The Committee considered the proposed modifications to the variable remuneration program for the Caisse's employees, taking into account practices in the reference market. The Committee suggested continued analysis of these changes in 2006. It reported on its work to the Board of Directors.

- The Committee reviewed the human resources forecast for the period from 2006 to 2008. It considered the challenges facing the Caisse, specifically staffing, succession, remuneration, skills development, contribution to performance. The forecast was submitted to the Board of Directors for approval.
- In co-operation with the Governance and Ethics Committee, the Committee drafted the experience and expertise profile for the Board's independent members and submitted it to the Board for approval.
- The Committee reviewed and approved or, as the case may be, recommended that the Board approve, the hiring and salary conditions of employees whose hiring is a matter for the Committee or the Board.
- The Committee supported the restructuring of certain business units of the Caisse and redefinition of certain positions and, as necessary, recommended that the Board of Directors approve such changes.
- After each of its meetings, the Committee reported on its activities to the Board of Directors.
- The Committee worked with the Governance and Ethics Committee on the review of its mandate statement.

Report of the Human Resources Committee on the remuneration of the President and Chief Executive Officer and the five most highly remunerated officers reporting directly to him

The Caisse is a financial institution whose performance depends essentially on the talent of its employees. Its officers are responsible for putting in place and carrying out business plans in line with the Caisse's mission, which is "to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development."

The Caisse must rely on highly competent employees, whom it recruits on markets for occupations similar to its own. To attract such people, it must adopt a remuneration policy aligned with that of its reference market. This is the only way it can hope to attract, retain and motivate employees whose talent will enable it to achieve its business objectives in an environment where competition for talent is intense.

Long perceived as Québec's investment school, the Caisse has often lost talented employees recruited by other Canadian and foreign investment firms that can offer more advantageous compensation conditions than those in effect at the Caisse. To contain this trend, the Caisse has had to define programs enabling it to offer total remuneration that is competitive in its reference market while respecting the remuneration parameters included in its internal management regulation since 1996.

Total remuneration is comprised of all aspects of an officer's remuneration and includes normally base salary, annual bonus, long-term incentive plan, benefits programs, pension plans and other remuneration.

The reference market for investment positions is defined as the Canadian institutional investment market and includes a representative sample of institutions, insurance companies, trust companies, pension funds, investment advisers, brokerage firms and fund managers or managers in similar industries. Reference may be made to the North American market for positions related to international investment. The reference market for non-investment positions is Québec, and includes the public sector.

The parameters incorporated into the internal management regulation specify that the maximum level of total remuneration for investment positions must fall within the upper decile (90th centile) of the reference market. It should be noted that these maximums are in fact rarely reached. The total remuneration for other positions must be at the third quartile (75th centile) of the reference market.

Committee Reports (cont.)

Although the internal management regulation enables the Caisse to pay up to those limits, the approach to total remuneration is generally to offer remuneration near the median when the Caisse's performance is itself at the median in relation to Canadian pension fund managers. The Caisse offers 75th-centile remuneration and, in certain exceptional cases, remuneration approaching the upper limit established by the internal management regulation when its performance is in the first quartile.

To ensure that its remuneration programs are competitive and respect the parameters of the internal management regulation, the Caisse asks recognized firms to advise it on the analysis of its remuneration programs. An analysis is done regularly for more than 40 strategic positions in a data bank covering the reference market. The results are used to compare the total remuneration offered at the Caisse for each matching job. The latest market analysis, completed early in 2006, shows that the total remuneration offered to the Caisse's officers is within the parameters of the internal management regulation and the policy followed by the Caisse.

Remuneration of the President and Chief Executive Officer

As then stipulated in the Act respecting the Caisse de dépôt et placement du Québec, the remuneration and other employment conditions of Henri-Paul Rousseau were determined by the Québec government when he was hired in September 2002. Mr. Rousseau's remuneration included a base salary increased by $75,000 for his duties as Chairman of the Board of Directors.

After the amendments to the *Act respecting the Caisse* came into force on January 15, 2005, the position of Chairman and Chief Executive Officer was divided into two separate positions. When the new Chairman took up his position on May 16, 2005, Mr. Rousseau's annual salary was decreased, at his request, by $75,000 because he was no longer acting as Chairman.

Mr. Rousseau's salary was therefore paid on the basis of $460,000 from January 1 to May 15, and $385,000 for the remainder of the year. The total amount paid to him in 2005 was $412,404. Perquisites in the annual amount of $40,000 were also paid to him.

The *Act respecting the Caisse* also provides that the Board of Directors shall determine the remuneration and other employment conditions of the President and Chief Executive Officer in keeping with parameters set by the government after consultation with the Board. This consultation is currently in progress.

Officers' remuneration

Officers' remuneration consists of the following components: base salary, annual bonus program, long-term incentive plan, other compensation and pension plans.

Base salary

An officer's base salary falls within a salary structure aligned with the reference market. It is determined on the basis of the level of responsibility related to the position as well as the officer's experience, expertise and performance.

Variable remuneration

The variable remuneration programs in effect at the Caisse, described hereunder, are based on Canadian practices in this area. They represent a large portion of officers' total remuneration and link their remuneration to achievement of performance objectives and value added by the various investment groups and to those of the Caisse generally. These are the annual bonus program and the long-term incentive plan. To align officers' interests with depositors' expectations, the Caisse gives considerable weight to variable remuneration, which may range from 0% to 80% of remuneration depending on the results obtained.

Annual bonus program

At the beginning of each year, the Board of Directors approves budgets, business plans and performance objectives in terms of value added for each specialized portfolio in relation to predetermined thresholds and market indexes. At the end of the year, as a function of the results obtained, it approves the annual bonus for each Caisse officer reporting to the President and Chief Executive Officer.

The amount of the bonus depends on the performance of the investment groups and the performance of the Caisse.

The performance is based on achievement of value-added objectives over and above predetermined thresholds aligned with depositors' expectations. The performance of the specialized portfolios and that of the Caisse are measured over a moving three-year period (five years for the Private Equity and Real Estate portfolios) to evaluate the results on a horizon corresponding to a longer-term investment philosophy.

The bonuses for the officers in the investment groups are calculated on the basis of the performance of their specialized portfolios as well as their personal evaluation. The bonuses of officers in the general services groups are calculated on the basis of the Caisse's overall performance as well as their personal evaluation. Allowing for exceptions, that portion of the bonus tied to performance remains by far the largest.

<u>Long-term incentive plan</u>
The long-term incentive plan represents a large portion of officers' remuneration and aligns their total remuneration with the Caisse's long-term value-added objectives. The performance is based on achievement of value-added objectives over and above a pre-determined index aligned with depositors' expectations. The Caisse's performance is measured on a moving five-year period so as to evaluate the results on a horizon that corresponds to a longer-term investment philosophy. In the case of Fernand Perreault, Executive Vice-President, Real Estate, the performance used is that of the Real Estate group, taking into account his many years of service with the group's subsidiaries before he joined Caisse senior management.

Under this plan, an officer is given an annual grant that corresponds to a percentage of his base salary and is vested gradually during each five-year period. The value of the grant at the end of the period varies according to the Caisse's performance, which is measured over the duration of each five-year period.

The value of benefits accrued but not vested as at December 31, 2005, corresponds to the various grants provided to an officer, increased or decreased according to the Caisse's performance during the years between the start date for each grant and December 31, 2005.

Value of benefits accrued but not vested under the long-term incentive plan

table 76

	Long-term incentive plan	
Officer's name and position	Value of benefits accrued but not vested	Payment for 2005
Fernand Perreault President, Real Estate Group and Executive Vice-President, Real Estate	$903,827	$0
Normand Provost Executive Vice-President, Private Equity	$397,701	$0
Christian Pestre Executive Vice-President, Absolute Return	$396,412	$0
François Grenier Executive Vice-President, Equity Markets	$437,195	$0
Richard Guay Executive Vice-President, Risk Management and Depositors' Accounts Management	$345,069	$0

Committee Reports (cont.)

Other compensation

Other compensation refers to perquisites (a car and the related operating expenses, parking, health care and professional consulting fees), the value of the employer's contribution to the group insurance plan in effect for Caisse employees and any other amount paid to an officer under a special agreement.

Pension plans

The Caisse's pension plan for officers has two separate components, namely the basic plan and the Supplemental Pension Plan for Designated Officers. The benefits under the supplemental plan vary according to be annual pension ceilings imposed by Revenue Canada as well as the Caisse's performance.

Mr. Perreault is a member of SITQ's basic pension plan and the Supplemental plan for designated Caisse officers. The total benefits are essentially the same as those in effect at the Caisse.

The present value of the pension plans from all sources (basic plan and supplemental pension plan) was $ 4,461,501 as at December 31, 2005, for the named officers.

Examples of the annual amount of pension payable, at normal retirement age, for an officer's years of membership in the supplemental pension plan[1]

table 77

	Years of membership				
Pensionable earnings	10 years	15 years	20 years	25 years	30 years
$150,000	$30,000	$45,000	$60,000	$75,000	$90,000
$200,000	$40,000	$60,000	$80,000	$100,000	$120,000
$250,000	$50,000	$75,000	$100,000	$125,000	$150,000
$300,000	$60,000	$90,000	$120,000	$150,000	$180,000
$350,000	$70,000	$105,000	$140,000	$175,000	$210,000

1 These pension amounts may be increased depending on the Caisse's performance during the years in which the officer is a member of the Supplemental Pension Plan for Designated Officers.

Summary of officers' direct remuneration for 2005

table 78

Officers' name and position	Base salary	Annual bonus program	Long-term incentive plan	Other compensation[1]	Total remuneration
Fernand Perreault President, Real Estate Group and Executive Vice-President, Real Estate	$370,800	$660,024	$0	$38,810	$1,069,634
Normand Provost Executive Vice-President, Private Equity	$290,000	$510,000	$0	$32,698	$832,698
Christian Pestre Executive Vice-President, Absolute Return	$309,000	$430,846	$0	$33,087	$772,933
François Grenier Executive Vice-President, Equity Markets	$334,750	$0	$0	$334,881[2]	$669,631
Richard Guay Executive Vice-President, Risk Management and Depositors' Accounts Management	$250,000	$320,000	$0	$31,882	$601,882

1 Includes perquisites as well as the portion of group insurance premiums paid by the Caisse.
2 Under an agreement made in 2002 and ending in 2005, Mr. Grenier has been paid a retention bonus in the amount of $301,275.

Remuneration of Caisse officers for 2005 in relation to that of the reference market for a superior performance

table 79

	Remuneration 2005 (base salary, annual bonus and other remuneration)		
Officer's name and position	Actual 2005 (A)	Reference-market (B)	Ratio (A) / (B)
Fernand Perreault President, Real Estate Group and Executive Vice-President, Real Estate	$1,069,634	$1,114,000 $	0.96
Normand Provost Executive Vice-President, Private Equity	$832,698	$1,132,000 $	0.74
Christian Pestre Executive Vice-President, Absolute Return	$772,933	$918,000 $	0.84
François Grenier Executive Vice-President, Equity Markets	$669,631	$1,145,000 $	0.58
Richard Guay Executive Vice-President, Risk Management and Depositors' Accounts Management	$601,882	$697,000 $	0.86

Source : Towers Perrin, Direct Remuneration Study, Caisse de dépôt et placement du Québec, 2006.

Analysis of the reference market for senior management positions

The analysis of the reference market for senior management positions is based on a comparative group of about 60 companies operating in Canada's investment sector, specifically insurance companies, pension funds and investment advisers.

The Caisse's internal management regulation specifies that the data reflecting the reference-market profile be computed by means of a survey, conducted by a recognized firm, administered and analyzed according to a methodology and rules generally recognized in this field.

Table 79 compares the remuneration paid to the officers for 2005 to that of the reference market for a superior performance. Remuneration of the Caisse's officers is below the reference-market maximum.

Report of the Governance and Ethics Committee

The *Act to amend the Act respecting the Caisse de dépôt et placement du Québec* provides for the creation of a Governance and Ethics Committee. This Committee, formed on May 18, 2005, partially replaces the Human Resources, Ethics and Corporate Governance Committee.

Composition of the Committee

The Governance and Ethics Committee consists of four independent members:

Chairman: Yvan Allaire
Members: Bernard Bonin, Pierre Brunet and John T. Wall

Number of meetings and attendance

The Governance and Ethics Committee met six times in 2005 between the months of May and December. The members' rate of attendance at the Committee meetings was 96%.

Director	Meetings attended /total meetings
Yvan Allaire	6 / 6
Bernard Bonin	6 / 6
Pierre Brunet	6 / 6
John T. Wall	5 / 6

Committee Reports (cont.)

Committee mandate

The Governance and Ethics Committee has a mandate to assure the Board of Directors that the Caisse maintains the highest standards of governance and ethics.

According to its mandate, the Committee drafts and submits to the Board, for adoption, governance rules as well as structures and procedures to ensure that the Board of Directors acts independently from management. It develops the process for orienting new members as well as the continuing training program for Board members.

It proposes to the Board of Directors the composition and mandates of its committees, as well as the constitution and mandate of other committees that may be formed to study specific matters or to facilitate the proper functioning of the Caisse. The Committee also proposes the procedure for dismissal of a Board member as well as the number of missed meetings that constitutes a vacancy.

The Committee reviews and submits to the Board of Directors, for approval, the status of independent member in respect of the criteria established by the Act and government regulations, as well as the expertise and experience profile for the selection of independent members. It also develops a procedure for evaluating the performance of the Board members and of the Board as a whole, and recommends that the Board approve it.

The Committee drafts and submits to the Board of Directors, for adoption, rules of ethics and professional conduct applicable to the directors, officers and employees of the Caisse. In this respect it shall review any contravention and any sanction imposed as a result of such contravention.

The Committee reviews and submits to the Board of Directors for adoption regulations and policies concerning the following matters:

- Socially responsible investment;
- The governance principles that the Caisse intends to promote to the companies regarding which it exercises voting rights;
- Control measures regarding the personal use of information received respecting the operations of the Caisse;
- Instances in which officers of the Caisse are obliged to declare their interests.

Activity report of the Governance and Ethics Committee

The Governance and Ethics Committee carried out the following main activities during the year:

- The Committee drafted the mandate statements for the Board's four committees pursuant to the new provisions of the *Act respecting the Caisse*. It submitted them for comments to the committees concerned and then recommended that the Board of Directors approve them.
- The Committee designed a procedure for yearly performance evaluations of the Board and its committees. It recommended that the Board adopt it. This process will be carried out for the first time in 2006 under the Committee's supervision.
- The Committee prepared the expertise and experience profile for the selection of independent Board members, in co-operation with the Human Resources Committee. This profile specifies the areas of expertise and experience that will enable a director to contribute fully to the work of the Caisse's Board of Directors. The Committee submitted the profile to the Board for approval.
- The Committee proposed a procedure for evaluation of the directors. The procedure is designed to evaluate the contribution made by each and to enable the Board to derive maximum benefit from each director's experience and skills. The evaluation procedure was submitted to the Board for approval and implemented for the first time in 2006. The Chairman of the Board is responsible for its application.
- The Committee reviewed the Code of Ethics and Professional Conduct for Directors to ensure it complies with the new provisions of the *Act respecting the Caisse* and to bring it into line with the best corporate governance practices. The Committee recommended that the Board adopt this code. The Committee also reviewed the code applicable to officers and employees. This code was submitted to the Board for adoption in February 2006. These codes, which maintain and strengthen public confidence in the integrity of the Caisse's administration, promote transparency within the Caisse and ensure its directors, officers and employees are accountable. Both codes can be consulted on the Caisse's Web site.

- The Committee reviewed all the legal obligations of the Caisse's directors with respect to their personal transactions. It recommended that the Board of Directors implement a preauthorization system aligned with the system in effect for Caisse employees.
- On behalf of the Board of Directors, the Committee received and reviewed the directors' declarations of interest. It also forwarded the declarations to the competent authorities.
- The Committee received a legal opinion regarding the interpretation of the concept of interests referred to in section 42 of the *Act respecting the Caisse*. Using this opinion, it prepared a form for the declaration of interests by directors. It also proposed a procedure to formalize forwarding of directors' declarations of interest to the competent authorities. The Committee submitted the form and the disclosure procedure to the Board for approval.
- The Committee proposed to the Board, for adoption, a resolution regarding the circumstances in which a director's repeated absence from meetings constitutes a vacancy.
- After each of its meetings, the Committee reported on its work to the Board of Directors.

The Committee continually evaluated the structures and procedures designed to ensure the Board's independence. In this respect:

- It recommended that each Board meeting include a discussion period without the members of senior management being present.
- The Committee reviewed the presentation of the documents sent to the Board of Directors for investment authorization. It proposed that an executive summary be prepared for each file submitted. To allow the Board to make the right decisions regarding proposed projects, the Committee also ensured that the information provided is of high quality, is submitted in a timely fashion, is adapted to the directors' needs and, lastly, is not excessively detailed. The Committee also ensured that the minutes of Board and committee meetings comply with good governance practices.
- The Committee organized a seminar for Board members on depositor relations and risk management at the Caisse. The Committee ensured that key members of senior management were available to address the various subjects on the agenda and that the time allocated to this training was sufficient to enable a full and complete discussion.
- During the strategic planning exercise, the Committee ensured that the Board had all the relevant information and time necessary to analyze the issues facing the Caisse.

The Board of Directors and its committees may, in order to exercise their functions, use the services of external experts. The Governance and Ethics Committee did not use such services in 2005.

Report of the Risk Management Committee

The Board of Directors created the Risk Management Committee to facilitate the proper functioning of the Caisse with respect to the establishment of risk management guidelines and policies.

Composition of the Committee

The composition of the Risk Management Committee was changed on May 18, 2005. The Committee, which previously had five members, now has six members:

Chairman: Bernard Bonin
Members: Louise Charette, Yvan Allaire, Alban D'Amours, Henri Massé and Henri-Paul Rousseau.

Number of meetings and attendance

The Risk Management Committee met 12 times in 2005, including seven times after May 18. The members' attendance rate at the Committee meetings was 94%.

Director	Meeting attended / Total meetings
Bernard Bonin	12 / 12
Yvan Allaire	7 / 7
Louise Charette	6 / 7
Alban D'Amours	11 / 12
Henri Massé	11 / 12
Henri-Paul Rousseau	11 / 12

Committee Reports (cont.)

Committee mandate
The Committee establishes the risk management guidelines and policies, which it submits to the Board of Directors for adoption. These guidelines and policies aim to maintain an appropriate level of strategic and operational risks, including legal, reputation, market and credit risks, including counterparty and liquidity risks. Moreover, it must ensure that the Caisse fulfills its obligations to depositors. In this regard, it monitors compliance with the investment policy of each specialized portfolio as well as the investment policy of each depositor.

In addition, the Committee reviews and submits to the Board for approval any transaction, investment or investment matter and any deviation from policies that come under the jurisdiction of the Board of Directors, notably with respect to their impact on the Caisse's overall portfolio or asset allocation.

In carrying out its mandate, the Committee ensures that risks are clearly identified and that a process is put in place to manage them. To that end, it reviews the measures taken by management and reviews the risk management structure, the delegations of authority and the approval limits.

The Committee provides to the Audit Committee the information required to put in place a risk management process.

Activity report of the Risk Management Committee
The Risk Management Committee carried out the following activities during the past year:

- The Committee reviewed the integrated risk management policy setting out the main risks to which the Caisse is exposed.
- The Committee reviewed and recommended to the Board of Directors changes to the integrated risk management policy regarding approval limits for the various levels of investment authority.
- The Committee considered and, as appropriate, recommended to the Board of Directors for approval changes to the investment policies of the Caisse's specialized portfolios, notably in order to revise certain limits.
- The Committee reviewed the overruns specified in the investment policies of the specialized portfolios and, as necessary, brought them to the attention of the Board of Directors for approval.
- The Committee reviewed and recommended to the Board of Directors the creation of a new specialized long-term bond portfolio and the adoption of new risk management policies.
- Each quarter, the Committee received reports monitoring changes in the Caisse's risks. The Committee also received the annual risk monitoring report.
- The Committee closely monitored the Caisse's specialized portfolios and in particular considered changes in the market and credit risks of these portfolios.
- At each meeting, the Committee conferred with the Executive Vice-President responsible for risk management to ensure that the Caisse has an adequate, effective process to manage significant risks.
- The Committee reviewed the certificates of compliance with the depositors' investment policies and the investment policies of the specialized portfolios. In this way, it ensured that the Caisse's operations comply with the agreed-on policies and the agreements concluded with the depositors. The Committee forwarded the certificates to the Audit Committee.
- The Committee reviewed and, as appropriate, recommended to the Board, for approval, 26 investment files under the authority of the Board of Directors. For each of these files, in addition to the analysis submitted by the unit proposing the transaction, the Committee reviewed the analysis of the project's risks, in particular its impact on the degree and concentration of the risk of the specialized portfolio and of the Caisse's overall portfolio.
- The Committee received the monitoring report on investment files that are not under the jurisdiction of the Board and were authorized by Caisse senior management.
- After each of its meetings, the Committee reported on its activities to the Board of Directors and at the same time to the Audit Committee.
- The Committee worked with the Governance and Ethics Committee to revise its mandate statement.

The Board of Directors and its committees may, in order to exercise their functions, use the services of external experts. The Risk Management Committee did not use such services in 2005.

Governance and management operations

Governance and management operations

140 Governance
142 Internal governance
143 Integrated risk management
146 Compliance
148 Financial governance
149 Internal and external communications
151 Internal audit

152 Management operations: The Caisse's operational levers
154 Lever: Human resources excellence
155 Lever: Rigorous and dynamic risk management
156 Lever: Leading-edge research
157 Lever: Leading-edge technology and operational efficiency

For many years, the Caisse has been constantly striving to improve its governance and management to comply with industry best practices and to become a benchmark organization. This section provides a summary of the Caisse's governance activities, many of which have been implemented or improved. It also presents the operational levers on which the Caisse bases its development: human resources, risk management, research, and technology and operational efficiency.

Governance

The Caisse's directors and officers consider the rigorous conduct of the institution's business to depend on the effectiveness of the Board of Directors and its committees, the Executive Committee and its committees, and the compliance, financial governance, communications and internal audit functions.

Internal governance

The Board of Directors and its committees ensure that the Caisse's management complies with the provisions of the *Act respecting the Caisse* and its regulations, and that the institution adopts the measures required to achieve the objectives set out in its mission (see the section "Board of Directors and Board committees" in this Annual Report). Caisse senior management has created five committees responsible for management of the institution. The mandate of each is described briefly below.

Executive Committee
The Executive Committee has a mandate to advise the President and Chief Executive Officer regarding major decisions concerning the overall management of the organization. The Committee therefore oversees and monitors all the institution's operations. As necessary, it implements appropriate action plans to ensure the organization meets transparency and performance requirements.

Asset Allocation Management Committee
The Asset Allocation Management Committee has a mandate to review and to approve asset allocation for liquid markets. More specifically, the Committee approves monthly rebalancing and the foreign currency hedging percentage for the specialized portfolios that invest in liquid markets.

Information Technology and Capital Budget Committee
The Information Technology and Capital Budget Committee has a mandate to maintain a technology platform adapted to the Caisse's operations, to approve major technology management policies and to ensure that projects are in keeping with the Caisse's strategic orientations. The Committee approves the annual plan for information technology projects and the related capital budget, which it submits to the Executive Committee. It also regularly monitors progress on various computer-related projects.

Depositor-Client Account Management and Integrated Risk Management Committee
The Depositor-Client Account Management and Integrated Risk Management Committee (DRC) has a mandate to oversee and implement policies and systems designed to maintain an acceptable level of risk for the Caisse's operations. The DRC's responsibilities include interpreting depositors' investment policies, particularly in terms of market, liquidity and credit risk. It monitors and controls risks and reports regularly to the Executive Committee and the Board's Risk Management Committee. The DRC also examines measures to be taken to manage risks adequately. It approves risk policies and limits to maintain the best possible balance between assumed risk and expected return.

DRC-Transactions
Depending on the level of authorization required, the DRC-Transactions approves investment proposals submitted to it by the Private Equity and Real Estate groups, or refers them for approval to the President and Chief Executive Officer or to the Risk Management Committee and to the Board.

Integrated risk management

Risk management is governed by an integrated risk management policy, as well as investment policies for the specialized portfolios and management mandates.

Integrated Risk Management Policy

The objective of the integrated risk management policy is to promote a culture of risk management with rigorous practices that ensure the Caisse can fulfill its mission on behalf of its depositors. More specifically, the policy serves to define risk management governance within the organization, to guard against excessive losses by determining the acceptable level of risk, to relate this level of risk to value-added objectives and to promote effective risk allocation.

The policy specifies reporting mechanisms for each level of risk management responsibility: the managers of the specialized portfolios, the DRC, the Risk Management Committee and the Caisse's Board of Directors.

The policy also specifies the process for recommendation of investments according to the size of real estate and private equity transactions. This process is structured from the bottom to the top of the hierarchy: the investment committee of the investment group or the board of directors of a real estate subsidiary, the DRC-Transactions, the President and Chief Executive Officer of the Caisse, the Risk Management Committee and the Board of Directors of the Caisse.

To ensure the objectivity and rigour required for risk management, teams that are independent from the portfolio managers are responsible for defining and monitoring the integrated risk management policy as well as the investment policies that apply to the specialized portfolios.

Investment policies

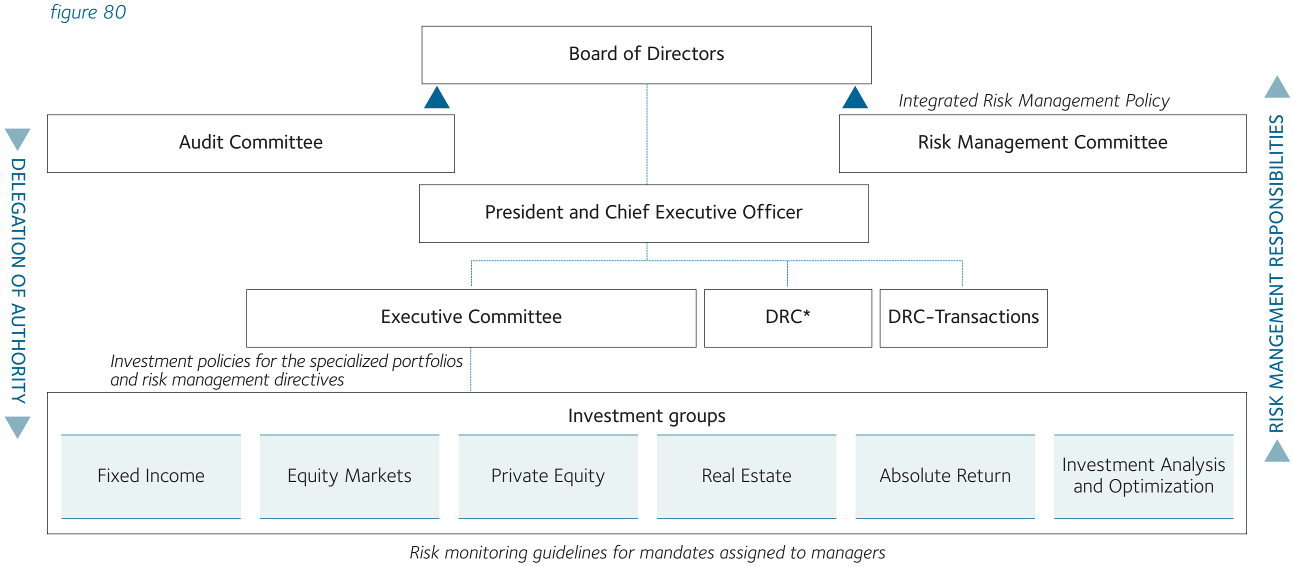
The risk limits for the specialized portfolios are defined by investment policies that specify the portfolios' investment philosophy, management style, structure, investment universe, return thresholds in terms of value added or absolute return, risk budget, allocation criteria and currency risk hedging.

Management mandates

The managers responsible for the investment groups must allocate the risk budget for the specialized portfolio under their responsibility among the various mandates they assign to the managers. They develop a portfolio risk framework and set risk limits for the management mandates. They must inform the DRC of their decisions.

Financial risk management structure at the Caisse

figure 80



** Depositor-Client Account Management and Integrated Risk Management Committee*

Integrated risk management (cont.)

Risks related to the Caisse's operations

The main risks related to the Caisse's operations are described briefly below.

Strategic risk
The Caisse is exposed to strategic risk when an event related to its practices or relations, or those of its subsidiaries or its employees, does not comply with its mission, culture and fundamental values. Strategic risk is also related to the inadequacy of business strategies or deficiencies in the implementation of the organization's strategic orientations. Finally, the Caisse will be exposed to a strategic risk if its resources are not allocated as a function of established priorities.

Reputation risk
Reputation risk is the possibility that an event related to the business practices or relations of the Caisse, its subsidiaries or its employees will adversely affect the Caisse's image, cause the public to lose confidence in the institution and detract from its ability to achieve its objectives.

Market risk
Market risk represents the risk of financial loss resulting from fluctuations in the price of financial instruments. The value of a financial instrument may be affected by variations in certain market parameters, such as interest rates, foreign exchange rates, share prices and commodity prices as well as their volatility. The risk of a loss of value corresponds to absolute risk. In the context of active management, active risk, in other words the possibility that managers' returns will be different from those of their benchmark indexes, is added to absolute risk.

Credit and counterparty risk
Credit risk is the possibility of a loss of market value in the event that a borrower, an endorser, a guarantor or a counterparty does not honour its obligation to repay a loan or to fulfill any other financial obligation, or sees its financial situation deteriorate. Counterparty risk corresponds to the credit risk from current or potential exposure related to operations involving over-the-counter derivative financial instruments.

Liquidity risk
Liquidity risk is the possibility that the Caisse may not always be able to fulfill its undertakings without having to obtain funds at abnormally high prices or that it may be obliged to sell assets. It also corresponds to the risk that it may not be possible to sell investments rapidly or to invest without having a significant adverse impact on the price of the investment in question.

Operational risk
Operational risk corresponds to the possibility of direct or indirect financial loss arising from the deficiency of operations.

<u>Human resources management risk</u>
The risk related to human resources management includes such elements as recruiting (recruiting competent, honest and motivated personnel), training (maintaining and developing employee competencies) and evaluating performance and compensation (ensuring fair, equitable and competitive compensation).

<u>Process management risk</u>
The risk related to management of the Caisse's processes applies to processes for input, settlement and tracking of orders, and errors that may arise in the execution of the processes in place. In addition to internal causes specific to the Caisse, this risk may arise from the poor quality of services rendered by its subcontractors, external suppliers and business partners.

<u>System management risk</u>
The Caisse is exposed to a risk in the event of deficiency of its information technology infrastructures or computer systems. This deficiency may result from a breakdown or other malfunction that may cause delays or an interruption in operations that is not caused by a disaster.

<u>Theft and fraud risk</u>
This is the risk of losses arising from intentional acts to defraud, to embezzle funds or to appropriate the assets of the Caisse or its depositors.

Disaster risk

The risk of disaster represents the risk of losses arising from interruption of business as a result of a natural or other disaster.

Compliance risk

Compliance risk corresponds to the risk of losses as a result of a deficiency that is unintentional or due to negligence, to policies and directives, and to professional and ethical standards and practices specific to the Caisse's operations. It occurs in the event that the Caisse fails to fulfill its duties.

Legal risk

Legal risk is related to the rights and obligations associated with the Caisse's operations and the legislative framework in which they are carried out. Important aspects of legal risk are related to compliance with the laws and regulations governing the Caisse and its management teams, as well as assurance that the agreements concluded by the institution properly reflect the planned operations and contain the appropriate provisions. Legal risk also refers to the risk of lawsuits that may affect the Caisse.

Risk oversight and measurement

The Executive Committee, with the assistance of teams that are independent from the portfolio managers, monitors strategic and reputation risks. It oversees the Depositor-Client Account Management and Integrated Risk Management Committee (DRC), which monitors and measures the Caisse's other risks.

Although each of the risks is distinctive, the DRC aims to integrate them into a single analytical process. To ensure that monitoring and practice of the Caisse's integrated risk management complies with the investment industry's best practices, the risk management policies are revised regularly with a view to their constant improvement. The DRC and the portfolio managers are assisted by internal and external experts whose role is to improve the risk evaluation methods.

Strategic risk

The Caisse manages this risk with a structured strategic-planning process that involves all units of the organization. Strategic orientations are proposed by the Executive Committee, approved by the Board of Directors and communicated to all employees. The members of the Board of Directors and the Executive Committee receive a monthly summary of the Caisse's operations. The President and Chief Executive Officer monitors the business plans of all units on a quarterly basis.

Reputation risk

All directors, members of management and employees are responsible for carrying out their activities in such a way as to minimize reputation risk.

The Caisse manages and controls this risk by means of codes of ethics and professional conduct for directors and employees, training programs, good internal management and governance practices and various policies and procedures, such as the information disclosure policy and the financial certification policy. It also ensures that the information it provides internally and externally is truthful and has been checked. It strives to ensure the public and the media gain a better understanding of its operations. The Caisse also rigorously monitors communications concerning it and responds by taking public positions as required.

Market risk

The market risk to which the specialized portfolios are exposed is assessed regularly. 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 correlation.

Integrated risk management (cont.)

Credit and counterparty risk

The Caisse constantly monitors matters that are sensitive to credit risk:

- 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 (regions, sectors, credit categories);
- Analysis of credit 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;
- Analysis of counterparty risk measures the current credit exposure of the Caisse's counterparties for over-the-counter derivatives;
- Analysis of delivery risk measures default risk and liquidity risk in the settlement of transactions. This risk arises mainly from foreign exchange forward contracts.

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

Liquidity risk

Compliance with established rules is monitored on a daily basis, and the liquidity status is submitted to the DRC on a monthly basis. The Caisse evaluates the impact of unfavourable financial market scenarios on the liquidity situation.

Operational risk

Operational risk is managed and measured through self-assessment of risks, a listing of incidents, the use of indicators and maintenance of rigorous processes. The Caisse continues to introduce methods to assess and manage this risk.

Compliance

Investment policies

In 2004, the Caisse put in place compliance programs pertaining to the investment policies of the specialized portfolios. Since then it has issued certificates of compliance with the investment policies twice a year.

In 2005, to develop an optimal process for order compliance, the Caisse created a compliance module within the automated order management system of the Equity Markets group. This module rigorously monitors the compliance of each investment order (pre-transaction compliance) and the portfolio positions (post-transaction compliance).The Caisse intends to implement this module for the Fixed Income group in 2006.

During the year, the Caisse also applied control processes to ensure compliance with depositors' investment policies. Certificates of compliance with these policies are issued twice a year.

Internal policies

To defend its fundamental values, the Caisse ensures that various internal policies are applied. These policies concern such matters as award of contracts and acquisition and leasing of goods and services. The policies, which are posted on the Caisse's Web site, stipulate the award of contracts by tender, set limits and specify exception parameters. Their application is verified each year.

The Caisse also applies other types of policy, such as the policy on harassment at the workplace and the policy on air quality and smoking at the workplace. Lastly, the Caisse complies with the *Charter of the French Language* and has therefore adopted a language policy.

Ethics and professional conduct
The Caisse complies with high standards and criteria applicable to business behaviour and practices, just as it promotes the adoption of appropriate rules of conduct for relations between employees and with suppliers and partners. Each year, all employees are obliged to confirm that they endorse the Code of Ethics and Professional Conduct. Employees must also report any situation where it is reasonable to believe that a conflict of interest exists.

The Caisse ensures that the personal transactions of its employees comply with the standards established in the applicable policy, which is an integral part of the Code of Ethics and Professional Conduct. To that end, an automated preauthorization process for personal transactions as well as a compliance program for portfolio declarations has been put in place.

Proxy voting
Since 1994, the Caisse has exercised its right to vote on all proposals submitted to shareholder meetings of the companies in which it invests, according to the principles set out in its proxy voting policy.

In 2005, the Caisse processed 2,425 proxy files in involving 10,306 proposals. The Caisse analyzed each proposal and exercised its right to vote.

The main matters on which the Caisse voted were:

- Compensation of officers and directors;
- Programs to protect shareholder rights;
- Questions submitted to meetings by shareholders;
- Disclosure of details of officer compensation;
- Environmental compliance reports;
- Employment diversity and financial contributions to political parties;
- Shareholder proposals related to governance, such as independence of boards of directors and board committees.

Socially responsible investment
The Caisse's policy on socially responsible investment (SRI) took effect on January 1, 2005. This policy promotes the inclusion of ethical, social and environmental considerations in the Caisse's investment decisions. It is based on principles of respect for fundamental rights and freedoms, environmental protection and respect for the rights of workers and local communities in which companies operate.

The SRI policy also stipulates that the Caisse, in analyzing and investing, must take into account such matters as the governance principles in place at companies and disclosure of information, particularly environmental information.

To apply the principles it espouses, the Caisse uses the three following means:

- A process to incorporate social, ethical and environmental criteria into portfolio management;
- Dialogue and co-operation with officers of companies regarding SRI issues;
- Exercise of proxy voting rights.

In this way it helps improve governance and management practices, which has a positive effect for shareholders.

Complaint management
The Caisse de dépôt et de placement du Québec has designated Ginette Depelteau, Senior Vice-President, Policies and Compliance, as the person responsible for receiving and examining complaints with all due attention.

Telephone: (514) 847-5901
Fax: (514) 847-5445
E-mail: gestiondesplaintes@lacaisse.com

Financial governance

The Caisse's financial certification policy took effect on November 25, 2005. This policy oversees and specifies the financial information disclosure process of the Caisse and its subsidiaries. It is based on the principles in Multilateral Instrument 52-109 of the Canadian Securities Administrators, with which the Caisse is not obliged to comply.

The Caisse is well aware of the importance of the information that it provides to its various stakeholders. Its policy covers financial certification of the following annual filings:

- The combined financial statements;
- The Schedules (tables of returns) in Annual Report 2005 – Additional Information;
- The press release announcing the annual results;
- The Annual Report.

The policy is also intended to consolidate the general and specific control processes for financial reporting so as to maintain a high degree of assurance regarding the quality of financial information produced in a context of constant change.

As part of a financial certification project (FCP), which coordinates implementation of the financial certification policy, the following initiatives had been taken as at December 31, 2005:

- Creation of a Disclosure Committee responsible for implementation of the policy;
- Signature of internal financial certificates;
- Use of a recognized control framework for financial reporting;
- Documentation of controls and procedures for disclosure of information in annual filings;
- Evaluation of the effectiveness of disclosure controls for annual filings;
- Documentation of about 100 processes and related internal financial controls, including:
  - Transaction initiation, recording and settlement;
  - Securities administration and valuation and currency hedging;
  - Cash management and administration;
  - Issuance of short- and medium-term debt securities;
  - Employee hiring and compensation;
  - Control environment for key computer applications.

In the years to come, the Caisse will complete the documentation of its general control environment and the internal financial controls. It will then evaluate the effectiveness of the internal financial controls using a self-assessment process.

Internal and external communications

Internal communications

The Caisse takes care to communicate effectively with its employees through open, sustained and transparent communication. Each year it implements an internal communications master plan to ensure employees endorse its mission, ambition and strategic orientations, and to promote their cohesion within the institution.

The Caisse also ensures that corporate information is made available to all employees in a uniform and timely fashion. Lastly, it encourages transparent discussions within and between its teams, and promotes person-to-person interaction through various communication channels.

The Caisse improved communications in 2005 through:

- Development of an employee portal (intranet) to optimize information sharing and create a one-stop source for access to all corporate information and applications;
- A webcast on the Caisse's intranet, for all employees, of the press conference held to announce the annual results;
- The President's tours involving meetings with all employees to communicate the Caisse's strategic orientations as well as the business plans of its various groups;
- Activities for employees to celebrate the Caisse's 40th anniversary;
- New employee training regarding the Caisse;
- Distribution of a glossary of financial terms used by the Caisse;
- The annual Centraide fund-raising campaign for Caisse employees.

External communications

As a public-sector institutional fund manager, the Caisse reports not only to its depositors but also to the general public. It is therefore important that it maintain the trust of all its stakeholders by demonstrating transparency. It has therefore adopted a policy that defines the way it processes and discloses information regarding it.

With its information disclosure policy, which took effect on January 1, 2006, the Caisse strives to achieve a balance between its desire for transparency and its obligation to protect depositors' interests, while complying with the law, contractual undertakings toward its suppliers and third-party rights. To achieve this balance, the Caisse endorses the following principles;

- Compliance with the laws governing it;
- Compliance with its contractual obligations to maintain confidentiality;
- Processing of requests for access to documents concerning it pursuant to the *Act respecting access to documents held by public bodies and the protection of personal information* (the *Access Act*);
- Full disclosure of information regarding any material fact concerning the institution as a whole.

The Caisse is obliged to disclose information to comply with certain laws governing it, including its constituting statute, the *Access Act* and securities legislation. Although it is not subject to the disclosure requirements and recommendations applicable to publicly traded companies, it nevertheless strives to comply with the best practices of its industry for disclosure of information.

Internal and external communications (cont.)

The many types of information disclosed include:

- Insider trading transactions in accordance with the requirements of securities legislation;
- Material facts, such as decisions affecting the institution as a whole or an investment, and various positions taken by the Caisse;
- Its audited combined annual financial statements, the Schedules (tables of returns) presented in Annual Report 2005 – Additional Information, and the press release announcing its results.

The Caisse discloses information pertaining to it mainly by means of press releases, press conferences and its Annual Report.

To ensure that all requests from the media and the public are processed in accordance with the information disclosure policy, such requests must be sent to External Communications:

By E-mail: info@lacaisse.com
By telephone: 514 842-3261
By fax: 514 847-2498

By mail to the following address:
External Communications
Caisse de dépôt et placement du Québec
1000, place Jean-Paul-Riopelle
Montréal (Québec) H2Z 2B3

Internal audit

Internal Audit[1] at the Caisse reported to the President and Chief Executive Officer until May 2005. As a result of the changes to the governance and composition of the Board of Directors begun in April 2005, the Board resolved that Internal Audit would report to the Chairman of the Audit Committee of the Board of Directors.

With this organizational change designed to give it complete independence in the exercise of its functions, Internal Audit has a mission to provide objective assurance and consultation services in order to add value and to increase the efficiency of the Caisse's operations. It contributes to the Caisse's objectives by systematically and methodically evaluating the processes and systems used for risk management, internal control and corporate governance, and helps improve them by making proposals to increase their effectiveness.

The scope of the work done by Internal Audit must make it possible to determine whether the Caisse's processes and systems for risk management, internal control and corporate governance, as they have been developed and as they are represented by senior management, are adequate and are applied in such a way as to ensure that:

- Risks are defined, evaluated and managed adequately;
- Financial and operational information is authorized, exhaustive, accurate, reliable and available in a timely fashion;
- The directives, policies, laws, regulations and statutory requirements in effect are respected;
- Human, material and financial resources and information sources are acquired in an economic fashion, used efficiently and protected adequately;
- Business programs, plans and objectives are carried out effectively, in accordance with the Caisse's mission.

Internal Audit may also contribute to development and execution of special projects by contributing its internal control and risk management expertise, while maintaining its independence and objectivity.

During the year, Internal Audit developed a strategic audit plan in accordance with the Caisse's priorities and the main risks it must deal with.

[1] Jacques Lavallée, Vice-President, Internal Audit, since January 31, 2005.

Management operations:

The Caisse's operational levers

To offer its depositors a sustained return, the Caisse has made it a priority to invest in four levers deemed essential to the success of its mission: human resources excellence, rigorous and dynamic risk management, leading-edge research, and leading-edge technology and operational efficiency.

Lever: Human resources excellence

The Caisse relies on the talent and commitment of its employees. Their expertise and desire to excel are the cornerstone of its success in serving depositors' interests.

The Caisse is faced with a scarcity of qualified professionals in an environment characterized by highly specialized, mobile manpower. Talent development therefore has to be a key component of its performance plan. The human resources highlights of 2005 and the range of projects for 2006 demonstrate the importance of this lever.

Snapshot of the Caisse

The Caisse is proud of its solid teams of seasoned professionals who ensure high-quality succession. In fact, although 65% of the Caisse's 824 employees have less than five years of service, more than 45% have more than 15 years of experience in the investment industry.

The Caisse is an employer of choice in its industry. In 2005, 266 positions were filled, 171 of them by new full-time employees. In addition, 49 positions were filled internally as a result of promotions or new challenges offered.

Moreover, 79% of the Caisse's employees have university degrees, and of that number 33% have a master's degree and 2% a doctorate. Many employees hold a designation awarded by a recognized organization. In 2005, a total of 108 employees held the designation of Chartered Financial Analyst (CFA) and 14 others held that of Financial Risk Manager (FRM).

Lastly, the finance professionals are backed by multidisciplinary teams whose members have various types of expertise, with many belonging to professional orders (accountants, actuaries, engineers, lawyers, notaries, etc.).

Organizational development activities in 2005 focused on team management, with training designed for team leaders. The purpose of this program, which was taken by 121 people, was to prepare them more effectively for the challenges of leading talented people.

Highlights 2005

- Creation of a program to orient and integrate new employees.
- Revision of the annual bonus programs.
- Survey of key positions in certain units and development of succession mapping.
- Training for team leaders to improve their management competencies with a view to talent development.
- Participation by team leaders and a large number of employees in training on the new program to manage performance contribution.
- Compliance with regulation on employment, psychological harassment, pay equity, etc.
- Development of programs for employee recognition and well-being.

Outlook 2006

- Survey the Caisse's employees to evaluate the climate within the organization.
- Revise the salary structure.
- Initiate personalized succession development plans as a result of the survey of key positions.
- Develop and implement a structured internship program to ensure talent suited to the Caisse's needs.
- Promote enhanced management competencies on the part of team leaders through a leadership program.
- Set strict governance rules regarding ethics, compliance and management of human capital risks, and incorporate them into management practices.
- Introduce a workplace health program for all employees of the Caisse and its subsidiaries.

Lever: Rigorous and dynamic risk management

Fund managers who post superior returns year after year are characterized by advanced risk management.

In recent years, the Caisse has made substantial investments in integrated risk management and oversight by revising its policies on the basis of the industry's best practices. It intends to continue in the same vein while emphasizing active management of market risk within each of its investment groups.

Highlights 2005	Outlook 2006
Risk oversight	
• Merging of the performance analysis and risk analysis teams. • Merging of Legal Affairs and Corporate Secretariat to ensure comprehensive management of the Caisse's legal risk. • Coming into effect of the outsourcing risk management policy in May 2005. • Work to manage legal risk associated with the Caisse's operations on the financial markets.	• Revise the integrated risk management policy. • Continue the data-improvement project. • Deploy the risk self-evaluation process. • Revise several regulations adopted under the *Act respecting the Caisse de dépôt et placement du Québec* as well as the delegation of powers regarding persons authorized to make undertakings for the Caisse.
Integrated risk management	
• Development and implementation of the new method to measure and monitor market risk for private equity. • Preliminary work on methods to measure and monitor market risk for real estate. • Start of implementation of an efficient tool to evaluate and simulate market risk. • Development of a model to assess the likelihood of default for small businesses. • Acquisition of a technological tool to manage operational risk.	• Select a tool to measure credit risk. • Develop methods to measure and monitor market risk for hedge funds. • Complete implementation of the tool to evaluate and simulate market risk. • Introduce the new method to measure and monitor market risk for real estate. • Improve the procedures, tools and methods used to assess and control risks. • Implement the technological tool for management of operational risk.

Lever: Leading-edge research

In the investment industry, creation of value added depends essentially on original, independent research whether produced internally or externally. The Caisse already devotes considerable resources to research, considering it a performance lever that is vital for active management of depositors' holdings. It intends to develop proprietary research suited to the changes and requirements of portfolio management. In this way the Caisse will continue to offer its depositors advisory expertise and leading-edge research on market trends.

Highlights 2005	Outlook 2006
• Alignment with best research practices, such as abolition of the soft-dollar commission program. • Greater emphasis on proprietary research with selective use of external research. • Assignment of analysts to research on real estate and private equity. • Greater sharing and dissemination of research within the Caisse through forums, discussion groups and internal publications. • Publication of various articles in academic and professional journals in Canada and abroad,[1] including two articles published in *CFA Digest*.[2]	• Improve the visibility of proprietary research. • Develop a collective research plan and share available information among the investment groups. • Develop expertise in alpha strategies as well as their risk and return characteristics.

1 *BOUBAKRI, Narjess, Maher KOOLI and Jean-François L'HER. "Is There Any Life after Going Public? Evidence from the Canadian Market," Journal of Private Equity, vol. 8, no. 3, summer 2005, 30-40.*

CARPENTIER, Cécile, Jean-François L'HER and Jean-Marc SURET. "PIPEs: A Canadian Perspective," Journal of Private Equity, vol. 8, no. 4, fall 2005, 41-49.

CARPENTIER, Cécile, Jean-François L'HER and Jean-Marc SURET. "Le placement privé dans les sociétés ouvertes : Dimensions réglementaires, économiques et financiers," L'Actualité Économique, 2005.

COËN, Alain, Aurélie DESFLEURS, Jean-François L'HER and Jean-Marc SURET. "The Relative Importance of Country-, Industry-, and Firm-Specific Factors in Explaining the Quality of Financial Analysts' Forecasts," Journal of Multinational Financial Management, vol. 15, no. 4-5, 2005, 414-434.

LE MOIGNE, Cécile and Mathieu ROBERGE. "A Multivariate Dichotomic Approach for Tactical Asset Allocation," Journal of Asset Management, vol. 6, no. 3, October 2005, 206-218.

DESROSIERS, Stéphanie, Mohamed KORTAS, Jean-François L'HER, Jean-François PLANTE and Mathieu ROBERGE. "Style Timing in Emerging Markets," Journal of Investing, 2005.

2 *DESROSIERS, Stéphanie, Jean-François L'HER and Jean-François PLANTE. "Style Management in Global Equity Country Allocation," Financial Analysts Journal, CFA Digest, vol. 35, no. 1, February 2005, 70-72.*

L'HER, Jean-François, Tarek MASMOUDI and Jean-Marc SURET. "Evidence to Support the Four-Factor Pricing Model from the Canadian Stock Market," Journal of International Financial Markets, Institutions & Money, CFA Digest, vol. 35, no. 1, February 2005, 37-38.

Lever: Leading-edge technology and operational efficiency

The rate of change in the investment world requires highly flexible operating systems and processes. Information technology is therefore playing an increasingly important role in decision making and efficient execution of transactions. The Caisse implemented its three-year information technology plan in 2005. Expertise in this area was enhanced with the hiring of personnel with a high degree of specialization in portfolio management and information technology. At the same time, various key projects began in 2005 and will continue over three years. In terms of operational efficiency, the Caisse maintained strict budgetary control and reviewed its service agreements, which once again enabled it to reduce its operating expenses per $100 of average net assets.

Highlights 2005	Outlook 2006
• Start of the review of the operational chain to simplify processes and systems, and to clarify roles and responsibilities.	• Optimize investment-support activities to increase efficiency and effectiveness by improving the scope of internal control. • Simplify the technology application chain by consolidating various platforms to increase their robustness. • Consolidate the services of securities custodians to simplify the operational chain and improve the quality of securities-settlement services. • Optimize processing of transactions between the Caisse and brokers with the long-term objective of straight-through processing (STP).
• Application of new systems for the Equity Markets group: order management, compliance management, allocation of returns and monitoring of external managers.	• Extend the new systems to the other investment groups.
• Development of a strategy to implement a corporate information factory so as to improve data quality.	• Implement a data infrastructure that emphasizes benchmark data, securities data and a data warehouse.
• Implementation of phase one of the Caisse portal to facilitate access to information and work tools.	• Introduce the concept of a customized work screen, based on the employee's profile, in the Caisse portal.
• Review and upgrading of the information technology infrastructure to increase operational resilience and ensure continuity of services.	• Consolidate and allocate critical servers on two separate sites. • Update IT disaster recovery plans and co-ordinate them with business continuity plans.
• Revision of service agreements with various suppliers.	• Review service agreements with suppliers of financial services.
• Introduction of a consolidated process to track internal and external management fees.	

Strategic plan 2006–2008

Context

As part of the 2006-2008 strategic planning exercise carried out in 2005, the Caisse analyzed its external environment and the forecast returns for the asset classes in which it invests. It also assessed the progress accomplished over the past three years from the organizational standpoint to obtain a picture of its internal environment.

From these analyses and findings, the Caisse established strategic priorities and an action plan that should enable it to continue adapting to its rapidly changing environment and to produce sustained long-term returns from diversified sources. The following headings summarize this process.

External environment and forecast returns

The Caisse operates in a market undergoing considerable change:

- Profound structural changes to the global economy;
- Greater complexity of the investment universe and investment strategies;
- Increased correlation between markets;
- Lower returns on bonds;
- Lower equity risk premium;
- Abundance of capital and intense competition between investors;
- Growth of the hedge fund industry;
- Financial burden of pension funds;
- New legislative and regulatory provisions;
- Increased importance of social, ethical and environmental criteria in investment decisions;
- Preponderant role of information technology and operational efficiency in portfolio management.

It appears that the markets will provide lower returns in the years to come. Still, with a balanced portfolio and successful implementation of its strategies, the Caisse is aiming for an overall 7% return over a 10-year period, which should allow it to meet its depositors' long-term expectations.

Internal environment

In the past three years, the Caisse has taken various measures to position itself for the future. More specifically, it modified certain methods in 2005 to adapt to the new provisions of its constituting statute regarding such matters as the responsibilities of the Board of Directors.

Here is a brief description of the main measures taken in recent years.

Depositor relations

- Signing of service agreements.
- Revision of investment policies in co-operation with depositors.
- Development of portfolio-simulation and -analysis tools for depositors.
- Revision of documentation for the specialized-portfolio investment policies.
- Additional training activities on finance and the economy.

Products offered to depositors

- Creation of new investment products.
- Increase in the weight of the less liquid specialized portfolios in the benchmark portfolio.
- Development of absolute return operations within the investment groups.

Governance

- Coming into force of the policy on socially responsible investment.
- Adoption of new codes of ethics and professional conduct.
- Improved compliance and internal audit functions.

Context (cont.)

Business model

- Changes to the Caisse's management structure and specialized portfolios as a function of the asset classes in the overall portfolio.
- Cessation of the development of external clienteles, except for the Real Estate group according to targeted business strategies. Closure of Caisse offices outside Canada.
- Greater use of external management to diversify value-creation sources and to acquire new expertise.
- Reorganization of the Private Equity teams and adoption of a new position geared to the most profitable niches.
- Monitoring and assessment of the best practices used by institutional fund managers.

Operational levers

Human resources excellence

- Consolidation of human resources management by recruiting talented personnel, developing competencies and succession, reviewing policies and developing programs for compensation, performance management and employee recognition.

Rigorous, dynamic risk management

- Reinforcement of risk management with an integrated risk management policy to refine risk measurement methods and to improve market risk management tools.

Leading-edge research

- Development of leading-edge research through work on investment policy, a reassessment of internal research and optimization of external research.

Leading-edge technology and operational efficiency

- Improved technology and operational efficiency through implementation of a strategic information technology plan, improved operational and project-management capabilities and implementation of several new management systems. Financial controls and reporting were also improved.

Ambition

The Caisse's ambition

The Caisse's clarified mission and the determination of its employees and management enable it to operate in a rapidly changing environment. The rate of change has accelerated considerably in recent years and this phenomenon will continue.

The prospect of limited returns, difficulty in taking advantage of value-creation sources and a shortage of investment talent mean that fund managers both large and small must change their approach. The success of institutional fund managers, long associated only with investment and disinvestment decisions, now depends on embracing and striving for excellence in all aspects of the organization.

To put it plainly, to succeed in creating value, the Caisse must rely on its employees' expertise, its investment strategies and its ability to adapt to accelerated change.

The Caisse's ambition is therefore to become a benchmark organization for its depositors, employees, partners, peers and the public. To that end, it will achieve a sustained financial performance, draw inspiration from a team culture and common values, provide leadership in governance and integrated management, rely on talented employees, ensure it is regarded as an employer of choice and equip itself with robust operational levers.

The table on the following page presents the characteristics of the Caisse's ambition.

Achieve recognition as a benchmark organization for institutional fund managers

Characteristics of a benchmark organization sought by the Caisse	Ambition
Sustained performance, backed by quality advisory services The Caisse's performance is based on a common investment philosophy. The Caisse provides quality advisory services to its depositors. It demonstrates leadership, innovation and creativity in its investment strategies.	The Caisse's return will be sustained, will come from diversified sources and will meet depositors' long-term expectations.
Team culture and common values The Caisse's culture is based on teamwork and shared values. It promotes frank, open communication on all levels of the institution.	The teams will collaborate actively to achieve the Caisse's objectives.
Leadership in governance and integrated management The Caisse encloses the following main principles: • Maintain prudent, effective corporate governance; • Optimize resources; • Conduct regular self-evaluations based on best practices; • Provide the necessary mechanisms to comply with laws, regulations and policies; • Act as a socially responsible investor and business; • Contribute to the sound governance of public and private organizations.	The Caisse will promote a sound, dynamic, wealth-creating environment that complies with laws, regulations and policies.
Talented employees and employer of choice The Caisse is stepping up measures to attract, motivate and retain talented employees. It is developing strategies to enhance the diversity and quality of the jobs offered.	The Caisse will be an employer of choice.
Robust operational levers The Caisse constantly optimizes its four levers: • Human resources excellence • Rigorous, dynamic risk management • Leading-edge research • Leading-edge technology and operational efficiency	The Caisse's management practices, systems, tools and operational processes will be efficient and will be benchmarked regularly.

Strategic priorities 2006-2008

During the period from 2006 to 2008, the Caisse intends to emphasize the four following strategic priorities to guide its action and to fulfill its mission.

Priority – Return
Generate a return that meets depositors' long-term expectations by optimizing investment strategies.

Challenges
Depositors are faced with an increasingly complex economic and financial context. The increasing costs of paying benefits to an aging population will place a heavy financial burden on pension plans. A few years from now, a number of depositors will be withdrawing more funds than they deposit. To cover the increase in the cost of future benefits, they may have to assume greater risk to achieve a higher long-term return.

Action plan
Optimize beta with quality advisory services
Working closely with depositors, the Caisse intends to maintain the high quality of its investment-policy advisory services. It will propose investment operations where it has a comparative advantage and will position itself in promising new markets.

Promote partnerships
In recent years, the Caisse has created productive external partnerships, particularly in real estate and private equity. The Caisse will continue to emphasize this type of business relationship while strongly encouraging all its investment groups to create internal partnerships to seek out lucrative investment opportunities.

Develop and exploit "alpha factories"
To achieve depositors' objectives, the Caisse will have to develop innovative investment strategies that create high value added and are less correlated with the behaviour of the stock and bond markets.

Alpha (α) and beta (β)
In portfolio management, the portion of the return attributable to the market and to the depositors' benchmark portfolio is called "beta," whereas the return attributable to active management, i.e. asset allocation, selection of countries, sectors, securities or partners and the use of other value-added strategies, is called "alpha."

Priority – Management framework
Implement a management framework based on the characteristics of a benchmark organization, strategic priorities and legal requirements, particularly in internal control, risk management and resource optimization.

Challenges
Over the past three years, considerable progress has been made in governance and risk management. But additional improvements will have to be made to integrate, systematize and adapt the Caisse's environment to the new requirements of its constituting statute.

Action plan

The Caisse will put in place a modern management framework adapted to its highly specific operations. It will oversee the various aspects of its management (strategies, operations, compliance and information) while incorporating the requirements of its Act with respect to internal control, risk management and resource optimization.

Priority – Operational levers

Strengthen operational levers to optimize resources.

Challenges

Continual improvement of the four operational levers is vital if the Caisse is to maintain and renew its ability to produce returns that meet depositors' expectations year in and year out.

Action plan

Lever: human resources excellence

Actively manage talent and succession to ensure a stable performance and the organization's sustainability.

Lever: rigorous, dynamic risk management

Improve measurement, tools and oversight to optimize risk management.

Lever: leading-edge research

Develop high-value-added convictions by conducting and sharing internal proprietary research and optimizing external research.

Lever: leading-edge technology and operational efficiency

Maintain effective processes and give the Caisse's teams reliable technology tools and platforms for decision-making support, transaction execution and investment management and administration, within a responsible budgetary framework.

Priority – Economic development

Contribute to Québec's economic development.

Challenges

The Caisse contributes to Québec's economic development by producing optimal returns for its depositors and by investing in publicly traded and privately held companies selected above all on the basis of their risk-return ratio.

Action plan

The Caisse will continue to be very active in Québec and will publicize its contribution to the province's economic development.

Glossary

ABSOLUTE RETURN
Return as measured by accounting records. Absolute return can be used to measure any set of investments, including a depositor's portfolio or the Caisse's overall portfolio.

ABSOLUTE RISK
Expression of a portfolio's market volatility. This risk is used to measure, on the basis of the securities in the portfolio, the magnitude of a potential return deficit in comparison with the portfolio's expected return.

ACCUMULATION INVESTMENTS
Investments in the form of shares of a publicly traded company in a traditional sector. The purpose of this activity is to take advantage of exceptional market opportunities in the sectors concerned which fulfill the long-term return objectives of the portfolio.

ACTIVE MANAGEMENT
Portfolio management that differs from the benchmark index as a function of the manager's opinion regarding the market's future behaviour. The manager selects certain securities or sectors to create added value.

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

ACTUARIAL LIABILITIES
Total financial obligations that a pension or insurance plan must meet, given the nature of the plan and its commitments to participants.

AIMR®
Association for Investment Management and Research®. The association changed its name in 2004. See CFA Institute.

ANALYTICAL APPROACH
Data analysis method carried out in advance of an investment decision, and taking into account quantitative or qualitative factors.

ARBITRAGE
Transactions carried out to profit from a real or apparent imbalance between two securities or two baskets of securities. Arbitrage involves the purchase of a security or a basket of securities that appears to be undervalued and the sale of another that appears overvalued. Depending on the products available, transactions may be conducted in cash or on the futures market.

ASSET ALLOCATION (TOTAL)
Percentage of each asset class in a portfolio. It may refer to the portfolio's targeted or real asset allocation. The Caisse's total asset allocation results from the sum of the weighted asset allocation of each depositor.

ASSET-LIABILITY MATCHING
Development of a portfolio that takes into account the requirements of actuarial liabilities, such as current income, sensitivity to certain variables, etc. For example, if a plan must pay out a total of $10 million a month in benefits, the portfolio can be built with a suitable proportion of fixed income securities to provide the revenues necessary to pay for these benefits. This is an example of the matching of assets and liabilities on the basis of cash flows.

ASSETS UNDER ADMINISTRATION
Assets for which the Caisse's subsidiaries and affiliates provide administrative services on behalf of the clients that own them. The companies that administer the assets are not involved in investment or disinvestment decisions and receive payment in the form of fees.

ASSETS UNDER MANAGEMENT
Assets that are owned by partner companies or clients and managed by a subsidiary or an affiliate of the Caisse. The units that manage the assets are involved in investment and disinvestment decisions and receive fees as payment for services rendered.

AUTHORIZED INVESTMENT
Investment whose parameters (financial vehicle, financing terms, cost, expected returns, etc.) have been examined and accepted by the competent authority. Such an investment becomes a concluded investment when all the conditions set by the Caisse have been met and a realized investment once it is sold.

BENCHMARKING
Ongoing process that a company uses to compare and evaluate itself against companies that have adopted exemplary business practices, in order to obtain information confirming its business practices or to adopt measures to improve them.

BOTTOM-UP AND TOP-DOWN ANALYSIS
Bottom-up analysis examines the most specific elements before considering more general elements. For example, a company is analyzed before the impact of sector concentration, national concentration and foreign currency exposure are examined. Top-down analysis functions in the opposite direction.

CAISSE'S BENCHMARK PORTFOLIO
Allocation of the Caisse's net assets resulting from the sum of the depositors' benchmark portfolios multiplied by their respective weights.

CAISSE'S OVERALL PORTFOLIO
Combination of the depositors' individual portfolios in proportion to their weighting at the Caisse. The performance of the Caisse's overall portfolio corresponds to the weighted average return on depositors' funds.

CAPITALIZATION RATE
Standardized and annualized net income of a property at a specific date, divided by the estimated value or selling price. This rate can be used to compare real estate property values.

CASH OPERATIONS
Cash operations allowing for the immediate purchase or sale of assets at a defined price according to market conditions.

CDO
See Collateralized Debt Obligation.

CFA INSTITUTE
Formally AIMR®. Association of investment professionals headquartered in Charlottesville, Virginia. Its mission is to serve investment professionals by providing training to its members and establishing high ethical standards for portfolio management.

CLIENT
Company to which the Caisse or one of its subsidiaries provides portfolio management or property administration services in consideration of fees.

CMBS
See Commercial Mortgage-backed Securities.

COLLATERALIZED DEBT OBLIGATION (CDO)
Securities issued on the market and guaranteed by financial assets. The issuer of a collateralized debt obligation issues securities with various maturity dates, often referred to as tranches, using the funds generated by the underlying financial assets to reimburse the end investors, hence the notion of structured cash flows. The cash flows of the underlying financial assets are used to guarantee the various tranches.

COMMERCIAL MORTGAGE-BACKED SECURITIES (CMBS)
Securities issued in tranches, for which credit ratings are provided by a recognized rating agency. Each tranche has a different credit rating depending on the guarantee associated with it. The guarantee is based on a group of mortgages granted to borrowers and on the guarantee provided by the issuer of the security.

COMMERCIAL PAPER
Debt security issued by a corporation with a maturity usually shorter than or equal to one year. Commercial paper is to corporations as treasury bills are to governments.

COMMODITIES
Products that trade in the form of futures contracts on the various exchanges. Examples: crude oil, gold, etc.

COMPLIANCE CERTIFICATE
Document certifying compliance with the laws, regulations, and policies governing the operations of the Caisse.

COMPOSITE
Predetermined set of securities that have shared investment objectives or strategies. A composite may be based on one or more of the following criteria: currency, country, company size, product type, etc.

CONCLUDED INVESTMENT
Investment that has been wholly or partially realized. For example, an investment in a fund is paid for gradually, as the fund makes investments in companies or ventures.

CONVENTIONAL INVESTMENT STRATEGY (REAL ESTATE)
Investment method used for high-quality real estate occupying a dominant position in its market and an exceptional location in active markets. This type of real estate asset presents an attractive financial picture over the long term (five to 10 years) owing to its high level of stability and potential to weather a downturn in the real estate cycle. This type of property also has the following characteristics: a strategic location, a stable cash flow, a high current return similar to the return on fixed-income investments such as bonds and quality tenants.

CORE MANAGEMENT STYLE
Traditional management style that has no bias based on growth, value, etc.

CORRELATION
Relation between two phenomena that vary as a function of each other. The correlation coefficient measures the degree of dependence between two variables. This measurement is often used to determine whether the returns on a mutual fund fluctuate as a function of the market or other categories of funds. Selection of funds with a low degree of correlation ensures effective portfolio diversification.

CREDIT SPREAD
Difference in yields to maturity associated with issuers other than the government of the country concerned. In this sense, the spread between corporate bonds and Government of Canada bonds is a form of credit spread, as is the difference in yields to maturity between Ontario bonds and Government of Canada bonds, Québec bonds and Government of Canada bonds, etc.

DEPOSITOR
Public- or private-sector pension or insurance plan that entrusts the management of its funds to the Caisse.

DEPOSITOR'S BENCHMARK PORTFOLIO
Net asset allocation among the specialized portfolios, established by the depositor with advice from the Caisse. This asset allocation must correspond to the depositor's needs and risk tolerance.

DEPOSITORS' NET ASSETS OR HOLDINGS
Fair market value of depositors' assets managed by the Caisse as at December 31, 2005.

DEPOSITORS' TOTAL ASSETS
Depositors' net assets plus assets financed by borrowing as well as transactions being settled, other liabilities and non-controlling interests.

DERIVATIVE PRODUCTS
Contracts, commitments or agreements for the sale or purchase of assets or the exchange of returns at a future date. These financial instruments are called derivatives because their value depends on an underlying asset. There are three types of derivative products: futures and forward contracts, options and swaps. A futures and forward contract is a commitment to take delivery of or to deliver an underlying value, while an option is a conditional commitment that enables the holder to buy or sell an underlying value at the price stipulated in the contract (strike price). These two types of derivative products involve many assets: shares, indexes, interest rates, currencies, etc. Swaps involve exchanging returns between assets. Derivative products are included in a portfolio primarily to protect its value against a drop in prices or to diversify investment strategies, to manage risks effectively and achieve investment objectives.

DEVELOPMENT CAPITAL
A development capital investment takes the form of a purchase of stocks or bonds of an established, privately or publicly held company that is looking to expand through internal growth or through an acquisition. Also includes a partial or total buyback of shares from a shareholder allowing for the transfer of ownership.

DIRECTIONAL INVESTMENT STRATEGY
Portfolio strategy based on the manager's ability to predict the direction of the price of a security or a group of securities.

DISCRETIONARY APPROACH
A portfolio manager who adopts a discretionary approach analyzes various parameters of the market and uses quantitative models to develop a measure of certainty regarding what appears to be a market imbalance. The decision is discretionary in that the transaction is carried out only if the manager believes the expected return compensates for the risk associated with the transaction.

Glossary (cont.)

DUE DILIGENCE
Complete review of a company, real estate asset, loan or equity, in order to certify accuracy and assure a level of confidence to the investor. This process includes business, financial, technical, legal and environmental audits.

DURATION
Average maturity of cash flows (coupon or face value). The maturity of each cash flow is weighted by its present value. This duration is also known as Macaulay Duration.

EQUITY INTEREST
Private investment made with the intention of holding it over the long term. This type of investment usually takes the form of capital stock in a company, and often gives the investor some degree of influence on the direction of the company through a board seat or specified management rights. In the context of the specialized Investments and Infrastructures portfolio, equity interest refers to a portion of the capital stock of a listed company.

EVENT-DRIVEN INVESTMENT STRATEGY
Portfolio management strategy designed to take advantage of an event that may take place on the market. For example, buying shares of a company after determining they have fallen too much in response to a lawsuit brought against the company.

EXPECTED RETURN
Benchmark return to which is added the target value added, in accordance with the depositor's investment policy.

EXTERNAL MANAGEMENT
External management is performed by managers who are not employees of the Caisse, but who have been given a management mandate in consideration of fees.

EXTERNAL MEMBER
Member of a committee or of the Board of Directors who is not an employee of the Caisse.

FAIR VALUE
Value of an investment that reflects all fluctuations resulting from market behaviour or from any event that makes it possible to consider appreciation or depreciation.

FOREIGN EXCHANGE OR CURRENCY 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
Fund whose component securities are hedge funds. This approach generally ensures diversification of styles, philosophies, risks, etc.

FUNDAMENTAL ANALYSIS
Analysis based on the intrinsic value of a company and its more or less long-term outlook. It evaluates the company's qualitative and quantitative elements to determine whether, at the current share price, it appears undervalued, overvalued or fully valued. This method is based solely on calculation of ratios, returns and other quantitative data.

GLOBAL MACRO
Investment operations based on an analysis of macroeconomic and political factors. The fund manager invests on the basis of the expected direction a market will take or the returns expected from one market compared with another. The manager can trade on interest rates, shares, currencies and commodities.

HEDGE FUND
Fund that primarily includes long and short positions on securities, markets, etc. that reflect the fund manager's opinion as to the probable trend in the value of such securities or markets.

INDEPENDENT MEMBER
Under the Act respecting the Caisse de dépôt et placement du Québec, an independent member is a member of the Board of Directors who has not had any ties with Caisse management, the government or the depositors for at least three years.

INDEXED MANAGEMENT
Management that consists of obtaining the same return as the benchmark index by an identical matching of the portfolio.

INDIVIDUAL FUND
Fund attributed to a single depositor. An individual fund buys units from the Caisse's various specialized portfolios.

INFORMATION RATIO
Value added generated by a portfolio manager divided by active risk. By industry standards an information ratio greater than 0.5 for a given period is considered excellent.

INFRASTRUCTURE
Infrastructure investments take the form of the purchase of stocks or bonds of a company created to manage a specific project. The financing is characterized by less risk than other private equity investments owing to the stable and predictable nature of the long-term revenues.

INITIAL PUBLIC OFFERING (IPO)
The process of taking a privately owned company public by listing its shares on a stock exchange.

INVESTMENT HORIZON
Foreseeable period, accepted by the investor, that an investment may require before returning a profit. For example, the Private Equity group has an investment horizon of three to seven years.

INVESTMENT POLICY (DEPOSITOR)
All elements to be considered in the relationship with a depositor, with respect to the management of funds entrusted to the Caisse. The investment policy includes a description of the particular plan and its characteristics, the benchmark portfolio, the market indexes, the expectations for valued added and other technical aspects, such as the frequency of meetings and reporting requirements.

INVESTMENT POLICY (SPECIALIZED PORTFOLIO)
All elements that make up the rationale for a specialized portfolio or management mandate. These elements include management philosophy, portfolio structure, investment universe, market index, return and valued added objectives, as well as risk elements and their limits.

JOINT INVESTMENT
Investment made jointly with a fund. The management of the investment is done by the fund.

LEVERAGE
Situation where a portfolio is partly funded by the investor's equity and partly through borrowing. The classic example is the purchase of a property on which there is a mortgage.

LEVERAGED BUYOUT
High-yield investment in a company that wants to acquire a majority position in a third company that is usually well established and profitable. The acquisition is financed by an issue of high-yield bonds.

LIABILITIES
Primarily undertakings related to investments, such as mortgage loans, securities sold under repurchase agreements and securities sold short.

LIQUID INVESTMENTS
Refers to financial assets and securities that can be easily turned into cash through a sale.

LONG/SHORT MANAGEMENT
Absolute return operation based on the opportunity for portfolio managers to buy or sell a security short on the basis of their opinion regarding the direction of its price. A long/short management mandate is not necessarily funded. In other words, the manager does not always benefit from start-up capital, but still has to generate profits while respecting the assigned risk limits.

LONG/SHORT POSITION
Long: The overweighting of a security, a sector or an asset class in comparison with the portfolio's benchmark index. Short: The underweighting of a security, a sector or an asset class in comparison with the portfolio's benchmark index.

MANAGEMENT MANDATE
Smallest measurable group of securities managed by a portfolio manager.

MARKET INDEX (BENCHMARK INDEX)
Index used to measure the effect of all investors' decisions. Accordingly, it allows comparison with the Caisse's portfolio management result for each specialized portfolio or management mandate. The market index may vary depending on the investment horizon and mandate. It can be a stock market index for an entire portfolio or a subindex that corresponds to a chosen investment universe for a management mandate.

MEZZANINE DEBT
Expression used in the context of private equity and real estate.

A hybrid financial vehicle whose return consists of a fixed portion of either cash or additional bonds and a variable portion consisting of warrants of a company. There is generally no repayment of capital during the term of the loan.

Financing that bridges the gap between traditional financing and equity capital required for a real estate development.

There are many types of mezzanine loans based on the risks and barriers to investment. The two main types are called high-yield mezzanine and low-yield mezzanine. The former resembles bank equity while the latter is closer to traditional real estate financing.

NOMINAL RETURN
Return obtained by a portfolio (see Real Return).

NON-CAPITALIZED MANDATE
Management mandate given to a portfolio manager who must generate profits without any start-up capital. In this context, all cash investments must be made through borrowing.

OPPORTUNISTIC INVESTMENT STRATEGY (REAL ESTATE)
Investment method used for a real estate asset with attractive short- and medium-term growth potential, and with the prospect of a sale in the medium term. Investments can take the form of debt or equity. Given the generally low current return, the return expected from this type of investment derives largely from the expected increase in the value of the real estate asset.

OVERWEIGHTING
Situation in which the actual weight is greater than the benchmark weighting.

PARTNERSHIP
Co-operation agreement between two or more investors that provides for pooling of their expertise and sharing of the risk inherent to joint investors.

POSITIONING ON THE YIELD CURVE
Allocation of a bond portfolio according to the final maturity date of all of its component securities. The curve is then generally divided into three segments: the short term with maturities in one to five years, the medium term from five to 10 years and the long term with a maturity of 10 years or more.

PRIVATE EQUITY
Investment made in a company on a private basis. Such transactions do not involve the usual mechanisms of the organized market.

PROPRIETARY RESEARCH
Exclusive research conducted by Caisse employees for the Caisse's sole use as opposed to research purchased from an external supplier.

QUARTILE
The investment industry uses quartiles to rank the performance of managers. After the results of the managers in a sample have been ranked in descending order, they are divided into four equal groups. The first quartile corresponds to the best results in the sample, and the fourth quartile corresponds to the poorest results. The median is the mid-point of the sample and separates the top two quartiles from the bottom two.

REAL ESTATE INVESTMENT TRUST (REIT)
Corporation that manages a real estate portfolio whose units are traded on an organized market. By investing in a REIT, an investor gains exposure to the real estate market without assuming day-to-day management of properties.

REAL RETURN
Return obtained by a portfolio over and above inflation. If an investment generates 6% per annum (nominal return) and inflation is 2%, then the real return is 4%. This return is used particularly in actuarial studies.

REALIZED INCOME
Income actually earned from various sources (interest, dividends, capital gains).

Glossary (cont.)

REBALANCING
Form of asset allocation with the goal of returning each asset category to its target percentage. These percentages can go off-target because of changes in the market, new expectations for returns, etc.

RELATIVE RETURN
Spread between a portfolio's absolute return and the reference index's market return. "Value added" is often used to describe this spread.

RELATIVE VALUE STRATEGY
Strategy that consists of evaluating the price of a security by comparing its past price behaviour with recent changes or by comparing its price with other comparable securities. Relative value strategies seek to benefit from the price anomalies of financial instruments. These strategies use quantitative and qualitative analyses to identify securities and margins on securities which deviate from their intrinsic or historical value.

REPO
Short for repurchase agreement. Refers to borrowing money against the temporary transfer of a guaranteed bond. If demand for the bond is high, the lending rate is low; if the demand for the bond is low, the lending rate is higher. In either case, the lending rate is lower than that for an overnight loan because of the bond guarantee.

RISK PREMIUM
Additional return required in comparison with the return obtained on an investment considered risk free, such as Government of Canada Treasury bills or bonds.

S&P/TSX CAPPED INDEX
Index consisting of the same securities as the S&P/TSX Composite Index, with one additional restriction: no security can represent more than 10% of the market capitalization of the index.

SECURITIES BORROWING AND LENDING
For the lending of bonds, see REPO. Securities can be lent or borrowed in exchange for a fee. The lending of securities is generally backed by government bonds or by money. This type of loan is done under an agreement.

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

SENIOR DEBT
Security that entitles the holder to be reimbursed ahead of other holders of securities from the same issuer. For example, the debt may be associated with specific collateral such as a building, machinery, etc. The debt may take the form of a bond, loan, etc.

SHORT POSITION
See Long/Short Position.

SOFT-DOLLAR COMMISSION
Fee paid to a full-service broker on top of brokerage fees, in exchange for which the client usually receives research services and financial information.

SPECIALIZED PORTFOLIO
Group of securities with a common set of characteristics (currency, product type, market behaviour, etc.). Specialized portfolios are similar to mutual funds.

STRUCTURED FINANCING (REAL ESTATE)
Process associated with real estate financing which involves grouping debt assets, dividing them into tranches according to the associated risk level and then reselling the tranches to investors. On completion of this operation, the risk depends solely on the assets and is no longer related to the quality of the original underwriter.

SUBORDINATED DEBT
Debt that ranks below another debt claim. Security that entitles the holder to be reimbursed after other debt holders.

SUBSIDIARIES AND AFFILIATES
Operational management company, specializing in one or more niche markets, that is part of the Real Estate group's network. Its mandate primarily involves asset management and real estate investment (investments in equity ownership or financing products) on behalf of the Caisse, its main real estate subsidiaries and third-party investors. The Caisse or one of its real estate subsidiaries normally holds a minimum 50% interest, which entitles it to appoint representatives to the company's board of directors and to exercise control, under a unanimous shareholder agreement.

SYNDICATION
Entrusting a group of financial institutions to carry out an investment or a financing operation.

SYSTEMATIC APPROACH
Approach based on mathematical models incorporating several variables that a portfolio manager has defined according to their degree of reliability and relevance. By adopting a systematic approach, managers follow a set of decision-making rules and try not to be influenced by their current opinion.

TECHNICAL ANALYSIS
Analysis based on charts that map out the past behaviour of the market in an attempt to project its future behaviour. Technical analysis is used primarily to identify inflection points in the market, to determine whether a recently observed trend is likely to continue in the longer term and to determine other trend indicators.

TIME-WEIGHTED RATE OF RETURN
Return based on the initial fair value for the period, the contributions weighted by the time of contribution and the final fair value. The return alone is considered without regard to the decision as to when to call sums of money or to entrust sums to be managed.

TOTAL ASSET
See Depositors' Total Assets.

TOTAL ASSET ALLOCATION
See Asset Allocation

TOTAL ASSETS UNDER MANAGEMENT
All assets managed by the Caisse, namely all depositors' assets as well as assets under management and assets under administration on behalf of clients.

UNDERLYING
Refers to a security or product to which another security, usually a derivative, is linked. For example, the barrel of oil is the product that underlies oil futures contracts. Similarly, the price of an ounce of gold affects the price of gold futures contracts.

UNDERWEIGHTING
Situation in which the actual weight is lower than the benchmark weighting.

UNDERWRITING (REAL ESTATE)
Process whereby a lender evaluates a project according to cash flows and the value of the property, the quality of the borrower, the local market, the available security interest and any other relevant risk factors.

UNREALIZED INCOME
Change in the fair value of an investment between two dates.

VALUE ADDED
See Relative Return.

VALUE AT RISK (VaR)
See Active Risk.

VENTURE CAPITAL
Investment in the form of a stock purchase, generally of an unlisted company, either a start-up or an early-stage firm. The expected high return makes this type of investment, usually done in stages, attractive. Any additional financing is provided only if the company achieves agreed-on objectives. The Private Equity group may elect not to reinvest.

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.

Tables and figures

1 Caisse organization chart as at December 31, 2005 – figure 1
3 Composition of total assets under management – figure 2
4 Results and changes in total assets under management – table 3
5 Changes in assets – figure 4
6 Returns for the Caisse and its depositors – table 5
6 Contributions and returns of the investment groups – table 6
7 Detailed breakdown of depositors' net assets by investment type – table 7
7 General breakdown of depositors' net assets by investment type – figure 8
9 Caisse depositors – table 9
23 Energy and industrial metals price indexes – figure 10
24 United States housing price index – figure 11
25 Value of the Canadian dollar in relation to the U.S. dollar, the yen, the euro and the pound sterling in 2005 – figure 12
26 Real GDP: United States, Japan, euro zone, Canada – figure 13
32 Weighted average return on depositors' funds – table 14
33 Depositors' net assets – 2001 to 2005 – figure 15
33 Total contribution of investment activities – 2001 to 2005 – figure 16
33 Analysis of changes in depositors' net assets – 2003 to 2005 – table 17
34 Breakdown of contribution by investment group – table 18
35 Returns earned by the investment groups in relation to indexes – table 19
37 Returns earned by the investment groups in relation to return thresholds – table 20
39 Composition of the benchmark portfolio and changes in the Caisse's overall portfolio – table 21
40 Active management and active risk – figure 22
41 Change in risk – figure 23
43 Specialized portfolios by investment group – table 24
45 Specialized portfolio management by the Fixed Income group – table 25
46 Depositors' net assets by specialized portfolio – figure 26
46 Return on Short Term Investments – table 27
47 Return on Real Return Bonds – table 28
47 Return on Bonds – table 29
47 Return on Long Term Bonds – table 30
49 Specialized portfolio management by the Equity Markets group – table 31
50 Depositors' net assets by specialized Equity Markets portfolio – figure 32
51 Active risk breakdown by sector – figure 33
51 Active risk breakdown by country – figure 34
52 Return on Canadian Equity – table 35
52 Return on U.S. Equity (hedged) – table 36
53 Return on Foreign Equity (hedged) – table 37
53 Return on Emerging Markets Equity – table 38
54 Return on Québec International – table 39
56 Specialized portfolio management by the Private Equity group – table 40
57 Authorized investments – table 41
58 Summary of authorized investments – table 42
59 Total assets under management by the Private Equity group – table 43
60 Changes in the value of the Private Equity group's investments – figure 44
60 Return on Investments and Infrastructures – table 45
61 Geographic breakdown of the specialized Investments and Infrastructures portfolio – figure 46
61 Breakdown of the specialized Investments and Infrastructures portfolio by investment category – figure 47
61 Sector breakdown of the specialized Investments and Infrastructures portfolio – figure 48
61 Return on Private Equity – table 49
62 Breakdown of the specialized Private Equity portfolio by investment category – figure 50
62 Geographic breakdown of the specialized Private Equity portfolio – figure 51
62 Sector breakdown of the specialized Private Equity portfolio – figure 52
64 Specialized portfolio management by the Real Estate group – table 53
66 Organizational chart of Real Estate group – figure 54
68 Regional distribution within the global commercial real estate cycle (at the end of 2005) – figure 55
69 Breakdown of total assets under management – Real Estate group – table 56
69 Sector breakdown of the specialized Real Estate Debt portfolio – figure 57
70 Geographic breakdown of the specialized Real Estate Debt portfolio – figure 58
70 Return on Real Estate Debt – table 59
70 Top 10 Real Estate portfolio investments – table 60
71 Sector breakdown of the specialized Real Estate portfolio – figure 61
71 Geographic breakdown of the specialized Real Estate portfolio – figure 62
71 Return on Real Estate – table 63
73 Specialized portfolio management by the Absolute Return group – table 64
74 Depositors' net assets by specialized portfolio – figure 65
75 Return on Hedge Funds – table 66
75 Return on Commodities – table 67
77 Specialized portfolio management by the Investment Analysis and Optimization group – table 68
78 Return on Asset Allocation – table 69
85 Changes in total assets under management – figure 70
87 Changes in combined earnings – figure 71
88 Recurring operating expenses expressed in cents per $100 of depositors' average net assets – figure 72
88 Recurring operating expenses expressed in cents per $100 of average total assets under management – figure 73
89 Regional breakdown of commercial paper sales – figure 74
89 CDP Financial's credit ratings – table 75
131 Value of benefits accrued under the long-term incentive plan – table 76
132 Examples of the annual amount of pension payable, at normal retirement age, for an officer's years of membership in the supplemental pension plan – table 77
132 Summary of officers' direct remuneration for 2005 – table 78
133 Remuneration in 2005 of Caisse officers in relation to that of the reference market for a superior performance – table 79
143 Financial risk management structure at the Caisse – figure 80

The *Annual Report 2005* and the publication
Annual Report 2005 – Additional Information are available
on the website: www.lacaisse.com

Information:
514 842-3261
info@lacaisse.com

Ce rapport annuel est aussi disponible en français dans notre site Internet.

Legal Deposit 2006 – Bibliothèque nationale du Québec
ISSN 1705-6462
ISSN online 1705-6470

Thanks are due to the Caisse employees who agreed to be photographed for the Annual Report 2005.

The Caisse de dépôt et placement du Québec is proud to help save our environment
by using Forest Stewardship Council (FSC) paper.

FSC Mixed Sources
Product group from well-managed forests and recycled wood or fiber
www.fsc.org Cert no. SW-COC-1353
© 1996 Forest Stewardship Council

30% Solutions
20% Via

Completely recyclable – the responsible choice

CG3 inc. | Communications | Graphisme

Caisse de dépôt et placement du Québec

Business Office

Centre CDP Capital
1000, place Jean-Paul-Riopelle
Montréal (Québec) H2Z 2B3
Tel.: 514 842-3261
Fax: 514 847-2498

Head Office

Édifice Price
65, rue Sainte-Anne, 14e étage
Québec (Québec) G1R 3X5
Tel.: 418 684-2334
Fax: 418 684-2335

www.lacaisse.com