2014

ANNUAL REPORT

ROOTED IN QUÉBEC, OPEN TO THE WORLD

Caisse de dépôt et placement du Québec

WE ARE MORE ACTIVE THAN EVER IN THE WORLD AND WE PLAY A LEADING ROLE IN QUÉBEC

We are a long-term investor serving 32 clients – mainly Québec public and parapublic pension and insurance plans.

With investments worldwide, we are a key player in financial markets, private equity, infrastructure and real estate.

2014 highlights

9.6%

FOUR-YEAR ANNUALIZED RETURN

$67.2 B

NET INVESTMENT RESULTS OVER FOUR YEARS

12.0%

2014 RETURN

$23.8 B

NET INVESTMENT RESULTS IN 2014

AAA

HIGHEST CREDIT RATINGS REAFFIRMED

DBRS, Moody's and Standard & Poor's reaffirm the credit ratings of la Caisse and CDP Financial with a stable outlook.

16.0¢

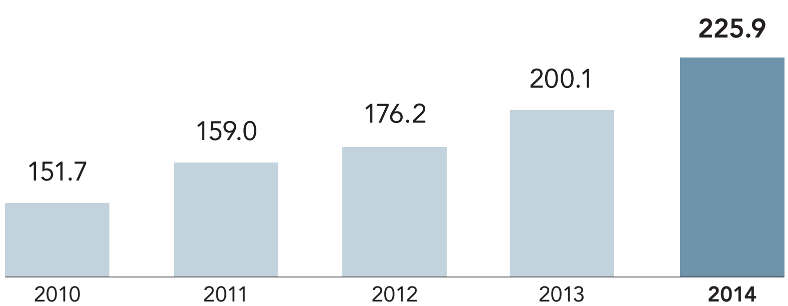
PER $100 OF AVERAGE NET ASSETS IN 2014

An operating expense ratio that positions la Caisse among the leaders in its category.

$225.9 B

NET ASSETS AS AT DECEMBER 31, 2014

CAISSE NET ASSETS FROM 2010 TO 2014 (in billions of dollars)



Global reach

WE INVEST STRATEGICALLY IN PROMISING MARKETS

by deploying our teams on the ground and by working with leading partners

OUR OFFICES AROUND THE WORLD

- Head office and business office
- International offices (Washington and Singapore were opened in 2014)
- Scheduled to open in 2015 and 2016

$117 B

CAISSE EXPOSURE TO GLOBAL MARKETS,
UP $45 BILLION SINCE THE END OF 2010.

SOME OF OUR 2014 INVESTMENTS

£644 M

LONDON ARRAY

Located off the coast of the United Kingdom, this offshore wind farm has 177 turbines with a combined capacity of 630 MW.

US$2.2 B

THREE BRYANT PARK, MANHATTAN

One of New York's most prestigious office buildings, acquired by Ivanhoé Cambridge and its partner, Callahan Capital Properties.

24.7%

INVENERGY WIND, UNITED STATES

Acquisition of a 24.7% stake in this North American wind industry leader.

US$244 M

INDIANAPOLIS POWER & LIGHT, UNITED STATES

Acquisition of 15% of this energy company: the first stage of a long-term partnership with AES Corporation.

US$100 M

MIRA, MEXICO

Creation of a partnership with Black Creek Group resulted in an initial investment by Ivanhoé Cambridge in a residential construction project in Mexico City.

Rooted in Québec

WE PLAY A TANGIBLE ROLE IN THE GROWTH OF QUÉBEC COMPANIES

in Québec and internationally

LONG-TERM GROWTH

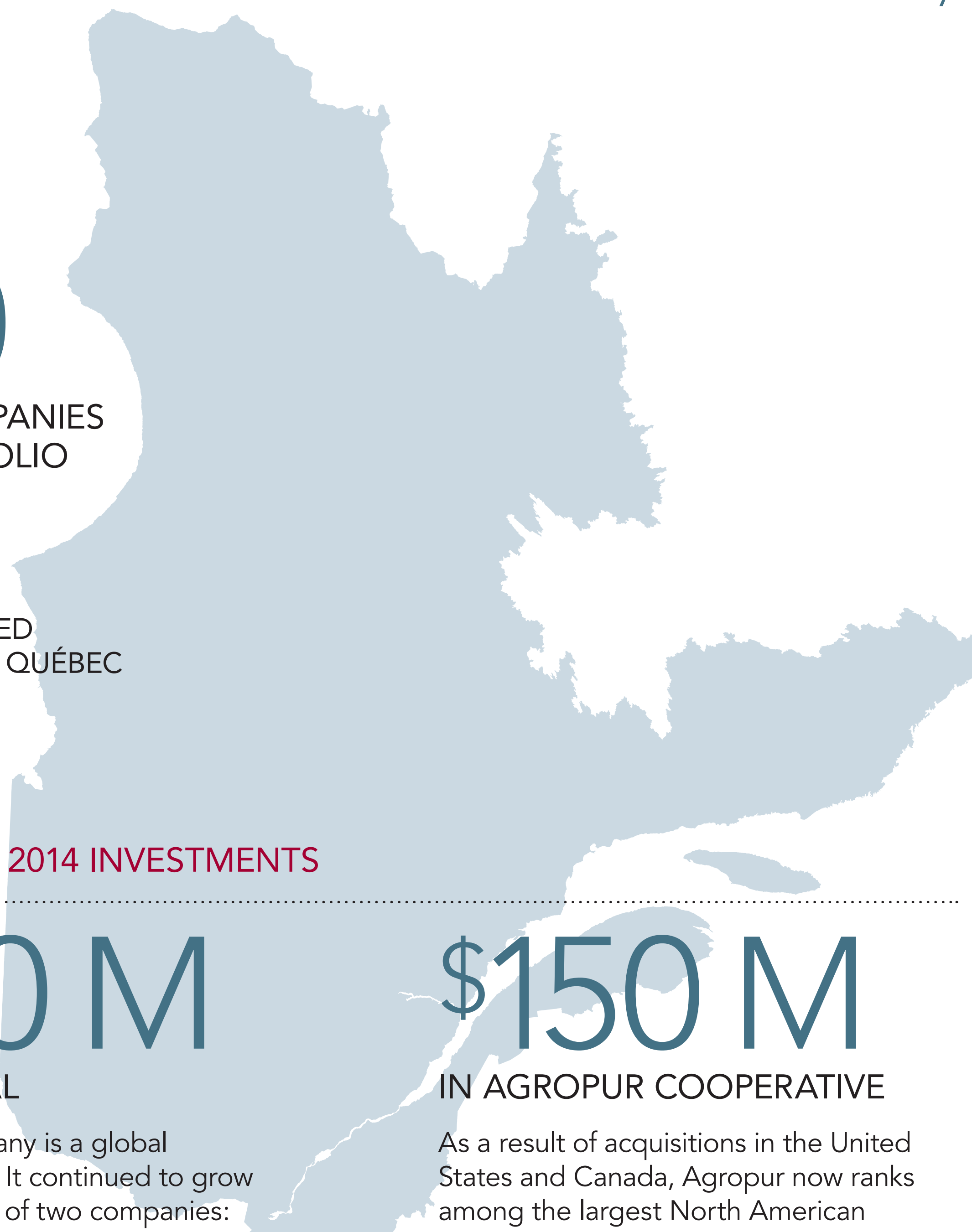
Contribute to the efforts of small, medium-sized and large companies with growth, acquisition and innovation projects

A BRIDGE TO GLOBAL MARKETS

Play an active role in the growth of companies, which have the capacity to become global players

ENTREPRENEURSHIP

Foster the emergence of a new generation of entrepreneurs who will make tomorrow's companies successful



600

QUÉBEC COMPANIES IN THE PORTFOLIO

350

BUILDINGS OWNED OR FINANCED IN QUÉBEC

SOME OF OUR 2014 INVESTMENTS

$240 M

IN WSP GLOBAL

This Québec company is a global engineering leader. It continued to grow with the acquisition of two companies: one in Canada and the other in the United States.

$150 M

IN AGROPUR COOPERATIVE

As a result of acquisitions in the United States and Canada, Agropur now ranks among the largest North American dairy processors.

$15 M

ALT HOTELS

Investment to further the development of this hotel chain in the Ottawa, Winnipeg and Calgary markets.

$10 M

CREVIER GROUP

Investment to ensure a smooth transfer of the company's management to the family's third generation.

$78 M

KDC

Participation in a $165-million investment enabling this health and beauty product company to make an acquisition in the United States.

Behind our clients are Quebecers

WE GROW OUR CLIENTS' MONEY

We offer them a diverse array of investment portfolios

We provide our expertise to assist them with their investment decisions

32

DEPOSITORS ENTRUST THEIR FUNDS TO LA CAISSE

8.9% to 10.2%

Over four years, la Caisse generated returns ranging from 8.9% to 10.2% on the eight main depositors' funds.

In 2014, the returns on these funds ranged from 11.0% to 12.5%.

Our 32 depositors – such as the RRQ, the SAAQ, the CSST and the RREGOP – have a connection to the majority of Quebecers.

TOGETHER, EACH YEAR
THEY PAY OUT
MORE THAN

$20 B

IN PENSION AND INSURANCE BENEFITS

TO ALMOST

2 million

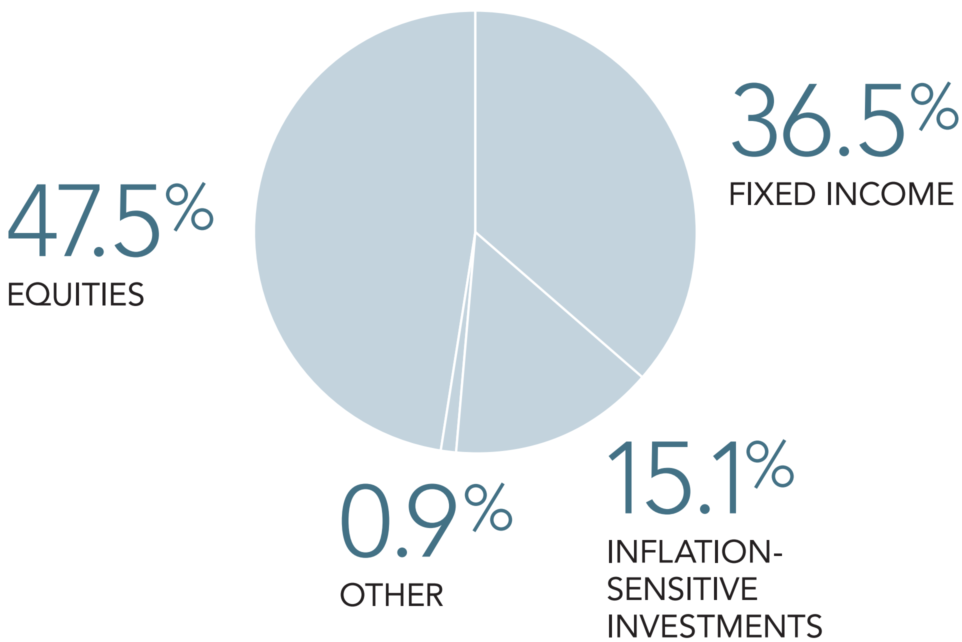
QUEBECERS

For the complete list of la Caisse's depositors, see page 28.

Results by asset class

WE FOCUS ON QUALITY ASSETS IN ALL ASSET CLASSES

COMPOSITION OF THE OVERALL PORTFOLIO
As at December 31, 2014



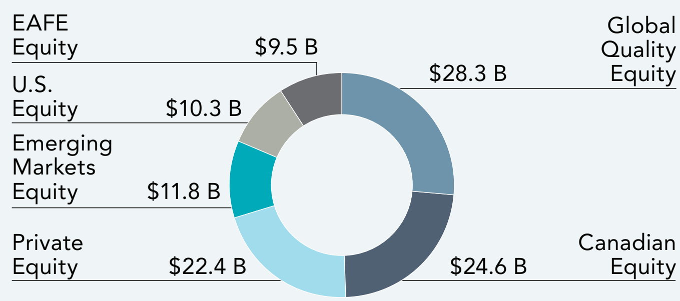
EQUITIES

$106.9 B
NET ASSETS

10.7% FOUR-YEAR RETURN

13.9% 2014 RETURN

EQUITIES – NET ASSETS BY PORTFOLIO
As at December 31, 2014



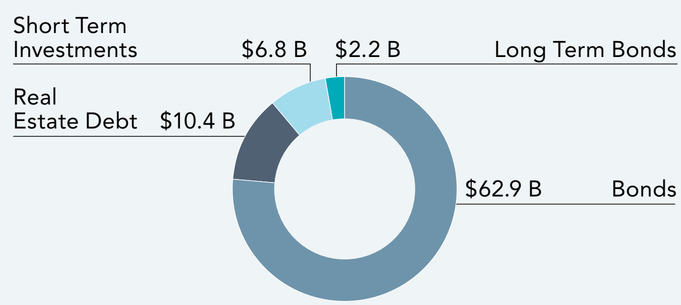
FIXED INCOME

$82.3 B
NET ASSETS

5.6% FOUR-YEAR RETURN

8.4% 2014 RETURN

FIXED INCOME – NET ASSETS BY PORTFOLIO
As at December 31, 2014



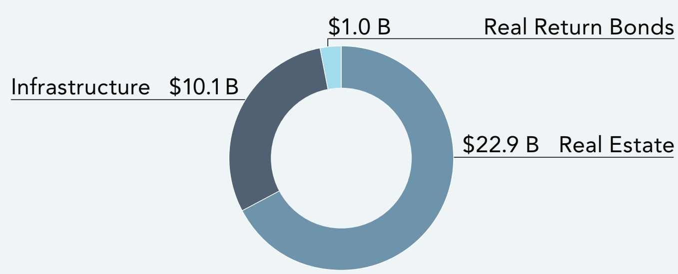
INFLATION-SENSITIVE INVESTMENTS

$34.0 B
NET ASSETS

12.1% FOUR-YEAR RETURN

11.0% 2014 RETURN

INFLATION-SENSITIVE INVESTMENTS
NET ASSETS BY PORTFOLIO
As at December 31, 2014



Our 2014 achievements

	ABSOLUTE-RETURN MANAGEMENT	LESS-LIQUID ASSETS
OUR STRATEGIC DIRECTIONS	**Focus on quality** > Build investment portfolios based on strong convictions, irrespective of the major stock indexes > Invest in quality assets whose value is directly connected to the real economy > Develop long-term relationships with promising companies	**Target tangible assets** > Increase investments in private equity, infrastructure and real estate: tangible assets that generate more stable and predictable current returns > Invest by targeting long-term strategic and financial partnerships
2014 ACHIEVEMENTS	> Monitoring of la Caisse's market risk, based entirely on an absolute risk measurement of the overall portfolio > Substantial growth of the Global Quality Equity portfolio, whose net assets increased from $17.2 billion as at December 31, 2013, to $28.3 billion at year-end 2014 > Repositioning of the Canadian Equity portfolio to focus on security selection based on strong investment convictions > Integration of various absolute-return management operations into the Active Overlay Strategies portfolio	> Consolidation of all private equity and infrastructure investment operations outside Québec, under the leadership of a new Executive Vice-President > Update to the private equity and infrastructure investment strategy > Investments totalling $10.6 billion in the Private Equity, Infrastructure and Real Estate portfolios > Record transaction volume by Ivanhoé Cambridge, with $5.1 billion of acquisitions, construction projects and capital expenditures and $8.6 billion of property sales, as it continued the strategic repositioning of its portfolio > Greater diversification of the Infrastructure portfolio with further investments in the United States and Australia

GLOBAL FOOTPRINT

Capitalize on global market growth

- Increase la Caisse's exposure outside Canada to diversify the portfolio and further benefit from global growth
- Gain a better understanding of growth markets by drawing on the in-depth knowledge and expertise of local partners
- Ensure a local presence in high-potential regions to capitalize on the best investment opportunities

- Increase of la Caisse's exposure to global markets to 47% as at December 31, 2014
- Assigned a team and committee dedicated to growth markets
- Increase in active management of the Emerging Markets Equity portfolio from 6% to 15%
- Creation of an interdisciplinary team to co-ordinate the various aspects of la Caisse's globalization activities
- Opening of offices in Washington and Singapore

QUÉBEC

Play a meaningful role on a sustained basis for Québec's economy

- Seek out and seize the best business and investment opportunities
- Serve as a bridge between Québec companies and global markets
- Stimulate entrepreneurship and strengthen the vitality of businesses

- Implementation of an integrated approach to all Caisse operations in Québec under the direction of an Executive Vice-President, Québec
- New commitments and investments totalling $2.5 billion
- Several transactions related to acquisition and expansion projects of Québec companies, notably outside Québec
- Sustained contribution to the initiatives of entrepreneurs from all regions of Québec and development of the entrepreneurial culture, in particular with the launch of the *Innover. Agir.* initiative
- Investments in several Québec SMEs (see examples, p. 66 and 67)

IN-DEPTH EXPERTISE, PROCESSES AND TALENT

Focus on agility and organizational health

- Continue to improve the integration of investment and risk management decisions
- Continue strengthening its ability to study and analyze economic and financial trends
- Improve operational efficiency
- Focus on developing and mobilizing employees

- Important research on transversal themes, such as interest rates, currencies, capital flows, risk premiums and exposure to Canada
- Implementation of a strategic investment planning approach incorporating a process for transversal review of various strategies
- Revision and optimization of the technological infrastructure program
- Improved data management with standardized calculation of exposure by issuer and currency
- Deployment of an influential leadership program for professionals
- Mobilization survey followed by adoption of an action plan

Our 2015-2018 priorities

BE A WORLD-CLASS INVESTOR

to better meet our clients' needs

INVESTMENT STRATEGY

We will deploy a set of strategies to generate more stable and predictable long-term returns

ABSOLUTE-RETURN MANAGEMENT

Invest with conviction for the long term using in-depth analysis

NEW SOURCES OF RETURNS

Diversify our types of investments while staying focused on quality assets

GLOBAL FOOTPRINT

Capitalize further on the growth of international markets by moving closer to targeted regions

IMPACT IN QUÉBEC

Maximize our real impact on the economy and on companies

ORGANIZATIONAL STRATEGY

We will raise our game to optimally execute our strategies

COLLABORATION WITH OUR DEPOSITORS
Strengthen our reputation as a trusted partner

AGILE AND HIGH-PERFORMING ORGANIZATION
Focus on talent and efficiency

WORLD-CLASS PARTNER
Be a partner of choice for long-term investors

INNOVATION
Seek new avenues to stand out from the competition

MESSAGES FROM THE CHAIRMAN OF THE BOARD AND THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Message from the Chairman of the Board

The Board of Directors of la Caisse is pleased with the solid returns obtained during the year and also with the returns from the period from 2011 to 2014, which are even more important because la Caisse is a long-term investor. These convincing results are due to the constant efforts of senior management and all employees to meet depositors' needs.

PROGRESSION OF STRATEGIC ORIENTATIONS

The Board noted that important initiatives stemming from strategic orientations adopted in 2011 were executed successfully in 2014. They include:

- the continued deployment of absolute-return management for equity investments, a strategy that aims to construct investment portfolios based on strong convictions, irrespective of the benchmark indices;
- the appointment of an Executive Vice-President, Private Equity and Infrastructure, responsible for all investments outside Québec in the less-liquid asset classes;
- the appointment of an Executive Vice-President, Québec, responsible for implementing la Caisse's investment strategy in Québec; and
- the development of a team dedicated to growth markets and to the opening of offices internationally, notably in Washington and Singapore, to strengthen la Caisse's global footprint.

Moreover, in 2014, Caisse senior management carried out an in-depth strategic planning exercise in order to identify the best sources of returns in the years to come. The Board is especially satisfied with the results of this initiative, which led to the establishment of priorities for the 2015-2018 period.

This planning exercise was also an opportunity to review the governance applicable to collaborative processes, decision making and accountability in the implementation of investment strategies. In this way, the Board will be even better equipped to monitor strategies and major transactions, at each stage of their deployment.

CONTINUED IMPROVEMENT OF RISK MANAGEMENT

The Board recognizes the progress made in 2014 to improve risk management. In particular, it would like to point out the work carried out to refine market-risk measurement for the overall portfolio so as to increase the acuity of the transversal vision of the portfolio's concentrations and to improve the monitoring of all strategic risks. To round out a year of continued improvement, the Board adopted a formal statement of la Caisse's 12 guiding principles overseeing risk tolerance.

ACKNOWLEDGMENTS

Throughout the year, the Board was able to carry out its administration of la Caisse's business as a result of the dedication and commitment of all its members, particularly in the context of the special meetings on strategic planning and its committees' work sessions.

I would like to thank Louise Charrette and Denys Jean, who left the Board in 2014, for their excellent work throughout their mandates. I would also like to point out the commitment of Ms. Charrette, who was a Board member for 10 years and sat on three committees: Audit; Governance and Ethics; and Investment and Risk Management.

In addition, I would like to welcome Diane Lemieux, President and Chief Executive Officer of the Commission de la construction du Québec, who was appointed to the Board as a non-independent member in December 2014, with a four-year mandate. Ouma Sananikone and François R. Roy, both independent Board members, had their mandates renewed until 2017.

I would like to thank the Québec government, which did me the honour of renewing my mandate as Chairman of the Board for three years.

On behalf of the Board, I would also like to thank senior management and all employees for the excellent work they accomplished in 2014. Lastly, 2015 marks the 50th anniversary of the founding of la Caisse, and I would like to acknowledge the contributions made by the men and women who have built this great organization over the decades. We have a solid and promising organization that does all Quebecers proud.

ROBERT TESSIER
Chairman of the Board

Message from the President and Chief Executive Officer

La Caisse de dépôt et placement du Québec is celebrating its 50th anniversary in 2015. But for me, this isn't so much about a celebration as an opportunity to look back at everything the institution has accomplished on its extraordinary journey.

La Caisse was born from Premier Jean Lesage's will to give Québec a new financial institution. A public organization that would carefully manage our collective savings. And an independent institution that would act as a lever so that Quebecers could take their economic destiny into their own hands. A Caisse that would become, in sum, "the most important and powerful financial instrument Québec had ever known."

In 1965, this was an innovative and ambitious idea. An idea that would be carried out over the next five decades by great builders such as Jacques Parizeau, Claude Prieur and Jean Campeau.

In 2015, as la Caisse now turns toward the future, it's worth taking a moment to look back and draw inspiration from the ambition and innovation that drove our institution's founders.

AMBITION

Since 2009, la Caisse has rebuilt itself on solid ground. But as crucial as this first step was, our ambitions extend much further.

La Caisse must measure itself against the most sophisticated institutional investors in the world. It is not the size that matters. Our long-term performance must be one of the best.

La Caisse must seize the most attractive investment opportunities, wherever they may be in the world. In Asia, the United States or right here in Québec, where our in-depth knowledge of the market gives us a comparative advantage.

In 2014, we leveraged this home-field advantage by creating a new executive position dedicated to Québec. In parallel, we are refining our capabilities internationally by opening offices in Washington and Singapore, soon to be followed by offices in Mexico City, Sydney and Mumbai. Having feet on the ground in promising markets will give la Caisse a better, deeper knowledge of opportunities as they arise. We will be well placed to team up with the best local partners and have access to the best transactions.

INNOVATION

Fifty years after la Caisse was created, our business model continues to evolve. For instance, la Caisse intends to play a larger role in infrastructure development, in a way similar to what has already been accomplished by Ivanhoé Cambridge, one of the world's 10 top real estate developers and operators.

But it would be oversimplifying things to suggest that innovation at la Caisse comes down to a few rare "eureka" moments. It can be better understood as an almost daily reflex to always look for better ways to work and invest, so that our 32 clients can keep their promises to all Quebecers.

Innovation is part of a constant search for ways to do better. In this sense, it's more evolution than revolution. Because we have no intention to change la Caisse's investment strategy, which has proven its robustness in the volatile financial markets that have become the new normal.

We will maintain our investment discipline. And we will continue to focus on quality assets – irrespective of stock indices – all the while maintaining rigorous risk management and strict control of our operating costs.

We've set the bar high. But I have no doubt that our teams have both the talent and determination to rise to the challenge. And I believe it is this unwavering commitment to success that will carry la Caisse through the next 50 years.

MICHAEL SABIA
President and Chief Executive Officer

OUR CLIENTS, THE DEPOSITORS

Our Clients, the Depositors

The strategic planning exercise carried out in 2014 to set priorities for 2015-2018 involved an in-depth examination of the investment strategies and portfolios offered to depositors. This reflection was based on la Caisse's main orientations and focused on the best ways to provide depositors with the long-term returns they need, in line with their risk tolerance.

CLOSE COLLABORATION

La Caisse's depositors have been central to its actions since 2009, when it adopted a collaborative model based on listening, transparency and clearly defined roles and responsibilities. This model has given rise to such initiatives as the creation of an investment-policy expertise group and consultation forums enabling Caisse teams and depositor representatives to pursue in-depth discussions.

With the growing complexity of the markets and the rapid changes taking place in its business environment today, la Caisse intends to further enhance its client interaction. By ensuring it has the agility required to make timely investment decisions, la Caisse will strive to offer advisory services and investment vehicles tailored ever more effectively to the nature and needs of each depositor.

CHANGES IN THE PORTFOLIO OFFERING

The analysis of the current investment environment that was carried out during the year highlights underlying trends that la Caisse and its depositors need to address, such as:

- considerable divergence in the growth rates of various economies and in market trends;
- increasingly globalized companies;
- more intense competition between large investors in several investment sectors, especially for less-liquid assets;
- generally lower expectations of long-term returns, particularly from fixed-income securities; and
- an increased disparity in the outlook for various growth markets.

La Caisse considered these trends when it was establishing its 2015-2018 priorities. Announced in 2014, changes to the investment strategies of the following portfolios are aligned with the implementation of these priorities.

Canadian Equity

Launched in 2013 with the creation of the Global Quality Equity portfolio, the absolute-return management approach for equity markets was extended to the Canadian Equity portfolio in 2014. Securities are now selected on the basis of well-defined quality criteria and appropriate absolute risk, while the benchmark index is used afterwards only to measure the portfolio's performance. The portfolio's investment policy was adjusted accordingly, most notably to establish an absolute return target, an absolute risk limit and concentration limits by issuer and by sector.

Bonds

The prevailing bond market environment indicates that absolute returns will be lower than those of recent years. Thus, to continue offering depositors a portfolio with an attractive risk-return profile, la Caisse proposed to diversify its sources of value added, notably:

- by focusing more on corporate securities and on strategies based on yield spreads between government securities; and
- by increasing the portfolio's weighting of securities issued by foreign companies and government securities of growth countries.

Infrastructure

In a highly competitive market environment, the strategy used for the Infrastructure portfolio continued to evolve. While continuing to emphasize transactions negotiated directly with strategic partners, it focuses on the following areas:

- grouping the portfolio's activities into two management mandates: Quality and Value Added; and
- further business development and capital deployment in the United States, Canada and Australia, as well as execution of the strategy for growth markets.

2015 Outlook

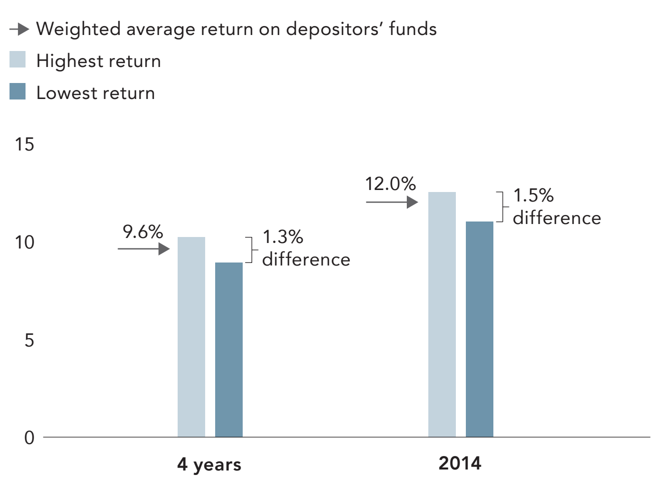
La Caisse will continue to enhance its portfolio offering in 2015. Further to the discussions that began at the end of 2014, its meetings with depositors will focus on ways to optimize the risk-return profiles of the equity portfolios.

DEPOSITORS' INDIVIDUAL RETURNS

Asset allocation decisions, particularly in the Fixed Income, Inflation-Sensitive Investments and Equity asset classes, have a major impact on each depositor's returns. These choices are based on such considerations as their target returns, risk tolerance and investment horizon. Over four years, the annualized returns on the eight main depositors' funds ranged from 8.9% to 10.2%. In 2014, the returns on these funds ranged from 11.0% to 12.5%.

FIGURE 1

DIFFERENCES IN RETURNS ON THE EIGHT MAIN DEPOSITORS' FUNDS



Our Clients, the Depositors

PORTFOLIOS OFFERED TO DEPOSITORS

La Caisse enables its depositors to allocate their funds to specialized portfolios that hold securities from the same asset class (see Table 2). Most of these portfolios, representing more than 85% of net assets, are managed actively. Each portfolio is managed according to a set of rules provided in an investment policy. This document specifies:

- the management approach used in the portfolio;
- its investment universe and benchmark index;
- its target returns; and
- its risk oversight.

In addition to its specialized portfolios, la Caisse offers customized overlay strategies so that each depositor can tailor its exposure to foreign currencies and interest rates.

CUSTOMIZED ADVISORY SERVICES

La Caisse offers advisory services to assist its depositors with their investment decisions. The services include:

- analyses of financial markets and economic outlook;
- risk and return forecasts for the main asset classes and specialized portfolios; and
- simulated allocation of depositors' assets to various specialized portfolios in order to determine the optimal composition of their benchmark portfolios, in line with their needs and risk tolerance.

In recent years, la Caisse has improved the advisory services it offers by enhancing its ability to analyze its clients' long-term financial commitments.

Several projects to analyze assets and liabilities were carried out in 2014 in collaboration with some of the depositors. These analyses check the relevance of existing and proposed asset allocations in terms of potential impacts on the level of capitalization and the contributions required over the long term by the plan in question.

TABLE 2

SPECIALIZED PORTFOLIO OFFERING
(as at December 31, 2014)

	ACTIVELY MANAGED	INDEXED	OBJECTIVES
FIXED INCOME	Bonds Real Estate Debt	Short Term Investments Long Term Bonds	Reduce the portfolio's overall risk level Match depositors' assets and liabilities
INFLATION-SENSITIVE INVESTMENTS	Real Estate Infrastructure	Real Return Bonds	Have exposure to markets for which investment income is indexed to inflation Partially hedge the inflation risk associated with the liabilities of several depositors
EQUITIES	Global Quality Equity Canadian Equity Emerging Markets Equity Private Equity	U.S. Equity EAFE Equity	Increase depositors' long-term target returns
OTHER INVESTMENTS	Active Overlay Strategies Asset Allocation ABTN		Achieve diversification and complementarity of la Caisse's overall portfolio

THE EIGHT MAIN DEPOSITORS' FUNDS

Representing 97.3% of net assets as at December 31, 2014

1 GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

$55.7 B

NET ASSETS

> 540,000 contributors
> 220,000 retirees and 15,000 surviving spouses and orphans
> $4.5 billion in retirement benefits paid annually

2 RETIREMENT PLANS SINKING FUND

$53.4 B

NET ASSETS

> Fund used by the Government of Québec to capitalize the employer's portion of retirement benefits of employees in the public and parapublic sectors

3 RÉGIE DES RENTES DU QUÉBEC

$51.9 B

NET ASSETS

> 4 million contributors
> 1.8 million beneficiaries
> $12 billion in benefits paid annually

4 SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY

$18.0 B

NET ASSETS

> 170,000 contributors
> 86,000 retirees or surviving spouses
> $700 million in benefits paid annually

5 COMMISSION DE LA SANTÉ ET DE LA SÉCURITÉ DU TRAVAIL

$13.7 B

NET ASSETS

> 230,000 contributing employers
> 3.8 million workers covered
> $1.9 billion in benefits paid annually

6 SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

$10.0 B

NET ASSETS

> 5.2 million driver's licence holders
> 6.2 million registered vehicles
> $1 billion paid in compensation annually

7 PENSION PLAN OF MANAGEMENT PERSONNEL

$9.6 B

NET ASSETS

> 29,000 contributors
> 25,500 retirees and 2,000 surviving spouses and orphans
> $1 billion in benefits paid annually

8 GENERATIONS FUND

$7.5 B

NET ASSETS

> Fund used to repay Québec's debt

TABLE 3

LA CAISSE'S 32 DEPOSITORS – Comparison of net assets as at December 31, 2013, and as at December 31, 2014

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

	First deposit	Depositors' net assets 2014 $	2014 %	2013 $	2013 %
PENSION PLANS					
Régie des rentes du Québec	1966	**51,865**	**22.8**	45,871	22.9
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	**18,000**	**8.0**	15,943	8.0
Government and Public Employees Retirement Plan	1973	**55,744**	**24.8**	50,442	25.2
Pension Plan of Management Personnel	1973	**9,567**	**4.2**	8,689	4.3
Individual Plans	1977	**227**	**0.1**	208	0.1
Pension Plan of Elected Municipal Officers	1989	**216**	**0.1**	196	0.1
Régime complémentaire de rentes des techniciens ambulanciers/ paramédics et des services préhospitaliers d'urgence	1990	**451**	**0.2**	389	0.2
Ministère des Finances, Government of Québec[1]					
Retirement Plans Sinking Fund	1994	**53,433**	**23.8**	46,863	23.4
Superannuation Plan for the Members of the Sûreté du Québec – employers' fund	2009	**376**	**0.2**	338	0.2
Régime de retraite de l'Université du Québec	2004	**318**	**0.2**	297	0.2
Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	2005	**203**	**0.1**	182	0.1
Régime de retraite pour certains employés de la Commission scolaire de la Capitale	2006	**36**	**–**	36	–
Pension Plan of the Non-Teaching Staff of the Commission des écoles catholiques de Montréal	2007	**216**	**0.1**	216	0.1
Superannuation Plan for the Members of the Sûreté du Québec – participants' fund	2007	**290**	**0.1**	229	0.1
Régime de retraite des employés de la Ville de Laval	2007	**159**	**0.1**	143	0.1
Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges	2010	**78**	**–**	72	–
Fonds commun de placement des régimes de retraite de l'Université Laval	2012	**135**	**0.1**	134	0.1
Fiducie globale Ville de Magog	2012	**54**	**–**	48	–
Régime de retraite des employées et employés de la Ville de Sherbrooke	2012	**33**	**–**	26	–
Régime de retraite des agents de la paix en services correctionnels	2013	**303**	**0.2**	145	0.1
Régime complémentaire de retraite des employés réguliers de la Société de transport de Sherbrooke	2013	**65**	**–**	56	–
Régime de retraite de la Corporation de l'École Polytechnique	2014	**12**	**–**	–	–
INSURANCE PLANS					
Régie des marchés agricoles et alimentaires du Québec	1967	**9**	**–**	8	–
La Financière agricole du Québec	1968	**373**	**0.2**	345	0.2
Autorité des marchés financiers	1969	**675**	**0.3**	631	0.3
Commission de la santé et de la sécurité du travail	1973	**13,697**	**6.1**	12,181	6.1
Société de l'assurance automobile du Québec	1978	**9,987**	**4.3**	8,948	4.5
Fédération des producteurs de bovins du Québec	1989	**5**	**–**	5	–
Survivor's Pension Plan	1997	**411**	**0.2**	387	0.2
Conseil de gestion de l'assurance parentale	2005	**1**	**–**	3	–
OTHER DEPOSITORS					
Office de la protection du consommateur	1992	**120**	**–**	105	0.1
Société des alcools du Québec	1994	**193**	**0.1**	87	–
Ministère des Finances, Government of Québec[1]					
Generations Fund	2007	**7,462**	**3.3**	5,908	3.0
Accumulated Sick Leave Fund	2008	**942**	**0.4**	843	0.4
Territorial Information Fund	2011	**92**	**–**	83	–
Agence du revenu du Québec	2012	**103**	**–**	92	–
Total		**225,851**	**100.0**	200,149	100.0

1. The Ministère des Finances entrusts la Caisse with a total of five funds.

MANAGEMENT REPORT

Macroeconomic Environment

THE GLOBAL ECONOMY: LARGE DIVERGENCES BETWEEN COUNTRIES AND CHALLENGES

The economic record of the past four years is mixed. On average, the global economy grew at only a modest pace (see Figure 4). A few countries, most notably the United States, took measures to correct their imbalances and improve their growth prospects. A number of others, including both advanced and emerging market economies, such as France, Italy and Brazil, did not take such measures and now face serious economic and social challenges. The sharp divergences in economic conditions and policies from one country to another are creating tension and a high level of uncertainty in the global economy.

From 2011 to 2014, the United States implemented a series of unprecedented monetary policy measures that dramatically lowered long-term interest rates (see Figure 5, p. 31) and significantly raised the prices of risky assets. In 2014, economic growth finally accelerated and unemployment fell substantially. In this context, the Federal Reserve (Fed) terminated its latest program of bond purchases and signalled at the end of 2014 a possible increase in the key rate toward mid-2015. In the meantime, Europe pursued a strategy of fiscal austerity, with the European Central Bank (ECB) merely supplying liquidity to the financial system. Clearly, this strategy has failed, with several countries still experiencing weak real GDP growth and low, or even negative, inflation. In addition, weak nominal GDP growth makes it more difficult to reduce the debt burden, which is constantly increasing.

In the growth economies, economic activity has slowed down but differs significantly from one country to another. China's new leaders began ambitious structural reforms, with emphasis on the financial sector. They also initiated the economy's vital shift to greater domestic demand, while successfully managing the deceleration of credit and growth. In contrast, several large growth economies slowed significantly from 2011 to 2014 on account of inadequate policies. A lack of structural reforms exacerbated their capacity constraints, resulting in slower growth.

In sum, even though some progress has been made in recent years, the global economy is characterized by deep divergences, and substantial challenges remain.

FIGURE 4

MODEST GLOBAL GROWTH FROM 2011 TO 2014

Slowing of real GDP in growth economies
(as a percentage)

Growth economies
World
Advanced economies

Source: IMF

Three themes will shape the global economy in the coming years:

1. The stance of monetary policy, exchange rate fluctuations and structural reforms in developed countries;
2. The prices of oil and other commodities; and
3. Implementation of reforms in growth markets

1. The stance of monetary policy, exchange rate fluctuations and structural reforms in developed countries

Divergences in economic conditions around the world are causing the main central banks to take different approaches to monetary policy (see Figure 6, p. 32).

In the United States, after several years of difficult economic adjustments, supported in large measure by unprecedented monetary stimulus, the economy is much healthier and is moving toward full employment. Moreover, its strong underlying dynamic will be bolstered by the collapse of oil prices, which will put $100 billion more in the pockets of U.S. consumers in 2015. The Fed ended its quantitative easing program in October 2014 and signalled that it could start to raise its key rate cautiously toward mid-2015. The unemployment rate, which was 5.6% in December 2014, was close to its target and, even though lower energy prices are reducing inflation, the Fed considers this effect temporary. The Fed's key consideration is that the inflation rate shows signs of returning to its 2.0% target over the medium term. In this regard, the employment cost index, which is arguably the best measure of workers' total compensation, has been rising gradually in recent quarters.

In contrast, the economic situation in the euro zone has deteriorated and become increasingly complex. The euro zone has made some improvements to its institutional framework, most notably the creation of a banking union, and certain countries – Spain, Ireland and Portugal – have implemented significant structural reforms. Even so, the strategy of fiscal austerity and injection of liquidity by the ECB has led to weak growth, substantial unused capacity and worryingly low levels of inflation. In December 2014, headline inflation, which the ECB targets, was -0.2%, while core inflation, excluding food and energy, was 0.7%. These developments prompted a more forceful response from the ECB: in January 2015, it announced a substantial, and possibly open-ended, program of quantitative easing, including the purchase of sovereign bonds. Given the limited role of financial markets and wealth effects in the euro zone, one of the main ways by which this program will affect the economy is through depreciation of the euro. Indeed, in anticipation of diverging monetary policy in Europe and the United States, the euro fell 13% against the U.S. dollar from May 2014 to December 2014.

FIGURE 5

LONG-TERM INTEREST RATES AT RECORD LOWS

U.S. 10-year bond yields

Sources: Global Financial Data and CDPQ

Macroeconomic Environment

The Bank of Japan took a similar approach. In April 2013, it announced a substantial program of quantitative easing, which it expanded in October 2014, causing the yen to fall by 22% against the U.S. dollar between September 2012 (when a possible change in monetary policy was first mooted) and May 2013, and by another 16% between July and December 2014. More recently, other central banks, including those of Canada, Australia, India and Singapore, surprised the financial markets by lowering their key rates, moves that were clearly aimed at weakening their currencies.

Increased reliance on unconventional monetary policy and currency depreciation is raising important questions. Central banks have all but eliminated the risk premiums associated with credit markets, making it more difficult for financial institutions and individual investors to assess and manage risks. At the same time, the widespread use of competitive depreciations means they are at least partially cancelling one another out. Should this phenomenon continue, causing central banks to pursue this strategy even more aggressively, it could accentuate instability in the global economy. That being said, most of the problems besetting these economies are structural and cannot be resolved by easy monetary policy. A more effective strategy would be for countries to implement fiscal stimulus, especially more infrastructure investment, and more vigorous structural reforms. This approach would increase growth in both the short and medium terms.

With the increased liquidity provided by quantitative easing (both actual and expected) as well as concerns in financial markets about deflation caused by the weakness in the euro zone and the decline in commodity prices, particularly the price of oil, long-term interest rates have fallen to record lows in a number of countries.

2. The prices of oil and other commodities

From June 2014 to the end of December 2014, oil prices dropped by roughly 50% (see Figure 7, p. 33) as the significant increase in global supply, especially from the United States and Iraq, outstripped demand, and Saudi Arabia declined to play the role of market stabilizer.

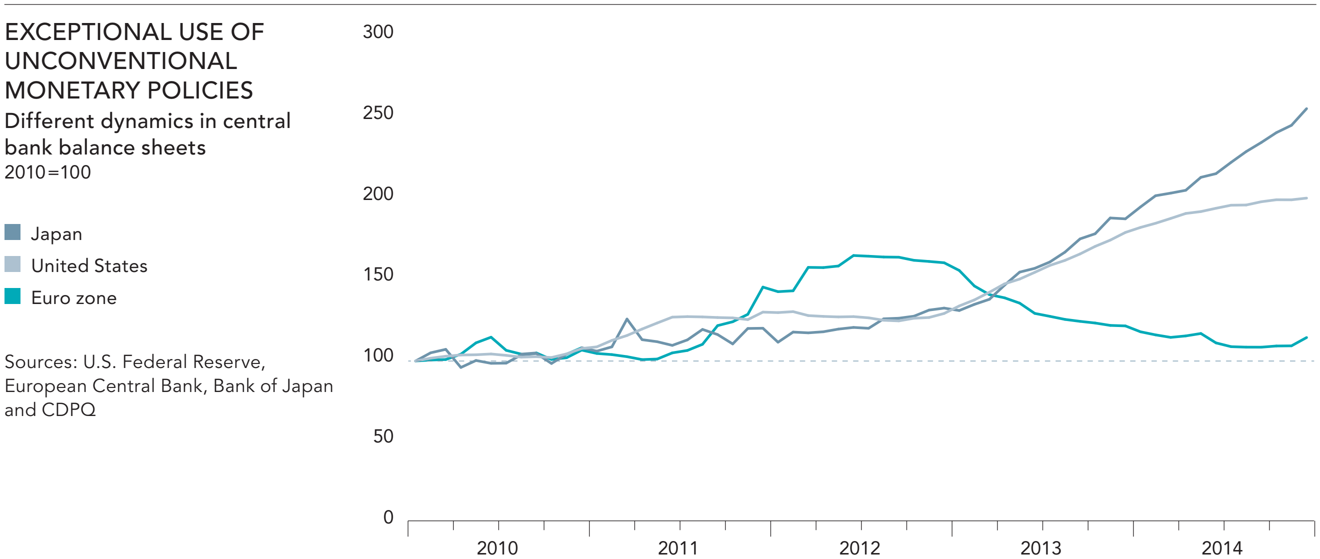
That the price of oil has fallen mainly because of a positive supply shock bodes well for the global economy. The low oil price will transfer around US$500 billion from oil-exporting nations to oil importers in 2015 and will boost global growth (between 0.3% to 0.7%, according to the International Monetary Fund), because oil importers have a higher propensity to consume. The United States, Europe, China and India, in particular, will benefit from this situation. In contrast, producing countries, such as Canada, will be adversely affected. Sectors related to consumer spending will benefit, while the energy sector will be penalized.

FIGURE 6

EXCEPTIONAL USE OF UNCONVENTIONAL MONETARY POLICIES

Different dynamics in central bank balance sheets

2010=100



Sources: U.S. Federal Reserve, European Central Bank, Bank of Japan and CDPQ

The price of oil is unlikely to remain at current levels for long. For many oil producers, it is no longer economically viable to invest in new oil wells as those in operation deplete. It should be noted that shale oil wells deplete more quickly than conventional wells. Furthermore, some oil producers have already reduced their capital budgets, which will eventually reduce the supply of oil. In this context, uncertainty over the future price of oil remains high.

Furthermore, geopolitical risks could quickly change things, and supply disruptions are frequent in the oil industry. A negative supply shock could cause oil prices to spike, forcing central banks to reconsider their ultra-accommodative monetary policies.

The prices of the other commodities have also fallen a great deal over the past four years. China's demand for metals and other materials has slowed since it began rebalancing its economy. Moreover, supply has increased considerably because of high investment rates in the resource sectors of some countries in response to the prolonged period of high prices. In this context, low prices for non-energy commodities are likely to persist until global investment in infrastructure rises significantly.

3. Implementation of reforms in growth markets

Most growth economies experienced a significant slowdown from 2011 to 2014, with their real GDP growth falling from 6.2% to 4.4% as the effects of the considerable fiscal stimulus they put in place in 2009, especially in China, dissipated, and demand from advanced economies remained weak. Even so, some countries fared better than others because they demonstrated greater monetary and fiscal discipline and introduced structural reforms (see Figure 8, p. 34). This divergence underscores the importance of considering each country individually, with emphasis on the governance and quality of institutions. China, India and Mexico are fine examples of countries where institutions are effective and authorities have begun to implement significant structural reforms.

In the case of China, growth slowed over the past four years, but the 9.3% growth rate recorded in 2011 was clearly unsustainable, being artificially generated by extraordinary fiscal stimulus. Since then, growth has averaged about 7.5% a year, which is a remarkably rapid rate given the size of the Chinese economy. Moreover, this growth was achieved with less reliance on fixed investment of businesses, which has often proven inefficient, and a greater contribution from

FIGURE 7

CONSIDERABLE DROP IN THE PRICES OF OIL AND OTHER COMMODITIES, EXCLUDING ENERGY

- Bank of Canada commodity price index, excluding energy
- Price of oil (WTI, US$)

WTI peak price = 100

Sources: Datastream, Bank of Canada and CDPQ

Macroeconomic Environment

the services sector. In addition, the authorities who came into power in the spring of 2013 have begun to reform the Hoku system, which facilitates the population's internal mobility, and to implement measures for enhanced financial stability and better resource allocation. These measures include the liberalization of lending rates, a strengthening of regulation and supervisory oversight and an improved resolution framework in the event of failure of financial institutions. This progress notwithstanding, the scale of the challenges facing the Chinese authorities is significant, and the situation should be monitored closely.

In India, the economy has improved significantly over the past four years. The central bank has regained credibility, inflation has decelerated, the current account deficit has improved and growth has resumed. Moreover, the government of Narendra Modi, who was elected in May 2014, is making substantial structural reforms. A broad range of measures covering virtually all sectors of the economy has been implemented in a short period. The emphasis has shifted to promoting the role of the private sector and to growth rather than redistribution.

In Mexico, the government of Enrique Peña Nieto has also made progress with an ambitious reform program, including a major historic overhaul of the energy sector.

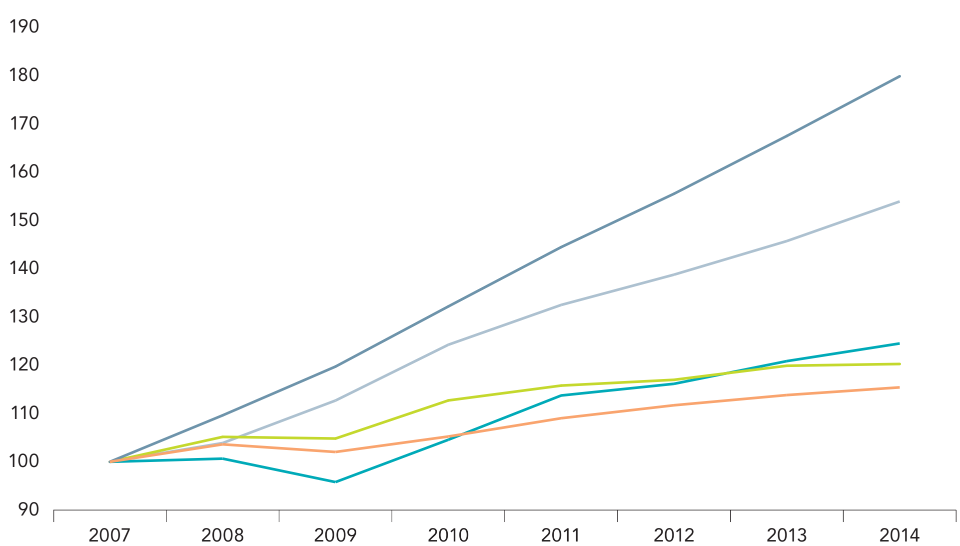
In Brazil, however, despite the country's enormous potential, the rate of growth fell from an already low 2.7% in 2011 to almost nil in 2014. At the same time, the fiscal and current account deficits worsened, mainly because the government failed to adopt necessary structural reforms, choosing instead to stimulate the economy with subsidies and tax incentives. One outcome of this approach was that inflation remained high, often higher than the central bank's target. Eventually, consumers and businesses lost confidence and considerably reduced their spending, plunging the economy into a recession in 2014. After Brazil's President Dilma Rousseff was re-elected in October 2014, she appointed a Minister of Finance with a reputation for fiscal discipline. The appointment bodes well, but the key will be to implement significant reforms of the goods, labour and financial markets, which will be a daunting task.

FIGURE 8

SIGNIFICANT DIFFERENCES BETWEEN GROWTH ECONOMIES
Real GDP
2007 = 100

China
India
Turkey
Brazil
South Africa

Sources: IMF and CDPQ



Analysis of Overall Performance

For the period from 2011 to 2014, la Caisse produced results that exceeded the long-term needs of its clients. To do so, it engaged in absolute-return management, selected high-quality publicly traded securities and real assets, and increased its exposure to growth markets and Québec's best business and investment opportunities. In 2014, heightened market volatility enabled it to assess the soundness of its strategy and to demonstrate the resilience of its overall portfolio.

FOUR-YEAR RETURN

La Caisse's overall portfolio had a 9.6% weighted average return on depositors' funds for the four-year period ended December 31, 2014. This overall return exceeds the 9.3% return on the benchmark portfolio (see Table 9). In each asset class, all the portfolios contributed to the four-year return.

The Fixed Income asset class generated a 5.6% return, outperforming its benchmark index. All the portfolios in this asset class added value in relation to their benchmarks, with the exception of the Long Term Bond portfolio, which is indexed. With a 5.6% return, the Bond portfolio alone generated $10.4 billion of net investment results.

In the Inflation-Sensitive Investments asset class, the Real Estate portfolio and the Infrastructure portfolio had annualized returns of 12.1% and 13.8%, respectively, and generated $12.2 billion of net investment results (see Table 20, p. 48).

Finally, with $36.5 billion of net investment results, the portfolios in the Equity asset class contributed the most to the results over four years. With a 13.0% return, the Private Equity portfolio alone generated $9.1 billion of net investment results (see Table 20, p. 48).

2014 RETURN

Over one year, the 12.0% weighted average return on depositors' funds exceeds the 11.4% return on la Caisse's benchmark portfolio (see Table 9).

In 2014, la Caisse's investment teams performed well in liquid markets, despite the volatility caused by falling oil prices, a further decrease in interest rates and the surging U.S. dollar. They also continued to generate high returns with less-liquid assets, such as real estate, infrastructure and private equity.

TABLE 9

NET ASSETS AND RETURNS IN RELATION TO BENCHMARK INDEXES
(for periods ended December 31, 2014)

		4 years			1 year		
Asset class	Net assets $B	Net investment results $M	Return %	Index %	Net investment results $M	Return %	Index %
Fixed Income	82.3	14,015	5.6	4.9	6,095	8.4	8.5
Inflation-Sensitive Investments	34.0	12,350	12.1	14.5	3,388	11.0	13.9
Equities	106.9	36,507	10.7	10.5	12,866	13.9	12.0
Active Overlay Strategies	0.5	230	N/A	N/A	230	N/A	N/A
Asset Allocation	1.5	913	N/A	N/A	1,033	N/A	N/A
ABTN	0.0	2,644	N/A	N/A	137	N/A	N/A
Total[1,2]	**225.9**	**67,226**	**9.6**	**9.3**	23,775	12.0	11.4

1. The total includes customized overlay operations, cash activities and completed activities.
2. See General Notes 3 and 6 at the end of the Annual Report.

Analysis of Overall Performance

Similar to 2013, the institution's asset allocation was adjusted during the year to increase its exposure to equity markets and reduce its exposure to bond markets. Moreover, an environment of strong competition and steep prices for quality assets continued to justify disciplined deployment of capital to less-liquid portfolios.

GEOGRAPHIC DIVERSIFICATION

In addition to investing in Québec and Canada, la Caisse is active on global markets with investments in a variety of asset classes. Over the past four years, it has shifted 5% of its Canadian exposure to other markets so as to diversify its portfolio and gain further exposure to global growth. Thus, as at December 31, 2014, more than 47% of its exposure was outside the country (see Table 11). Most of la Caisse's investments outside Canada are in developed countries, primarily the United States and Europe.

CURRENCY EXPOSURE AND FOREIGN EXCHANGE HEDGING

With the exception of certain investments in growth markets, most of the foreign investments in the less-liquid portfolios, such as Infrastructure, Real Estate and Private Equity, are hedged against currency fluctuations. All liquid investments, however, are exposed to foreign exchange fluctuations. This approach stems from a decision made by la Caisse in 2010, in co-operation with its depositors, to increase its currency exposure by no longer hedging the liquid portfolios and by creating customized overlay operations.

Net exposure to foreign currencies amounted to 30% of net assets as at December 31, 2014. This exposure had a positive impact on the overall return during the four-year period, mainly because of the U.S. dollar's appreciation against the Canadian dollar.

BENCHMARK PORTFOLIO

La Caisse's benchmark portfolio corresponds to the weighted average of the asset allocation decisions made by the individual depositors when their investment policies are established. For example, in 2014, the depositors had to adjust their benchmark portfolios when the Hedge Fund portfolio was closed out. Thus, as at December 31, 2014, within la Caisse's benchmark portfolio, the Bond portfolio had a higher weighting in the Fixed Income class as did the Real Estate portfolio in the Inflation-Sensitive Investments class. In the Equity asset class, the weighting of the Global Quality Equity portfolio and of the Private Equity portfolio increased significantly on a year-over-year basis, whereas that of the Canadian Equity portfolio decreased (see Table 12, p. 37).

TABLE 10

CAISSE RETURNS
(for periods ended December 31 – as a percentage)

	Caisse overall return[1]
4 years (2011-2014)	**9.6**
2014	12.0
2013	13.1
2012	9.6
2011	4.0

1. Weighted average return on depositors' funds.

TABLE 11

GEOGRAPHIC EXPOSURE OF THE OVERALL PORTFOLIO[1]
(as at December 31 – as a percentage)

	2014	2013
Canada	**52.6**	53.4
United States	**21.8**	21.1
Europe	**14.1**	14.0
Growth markets	**6.7**	6.9
Other regions	**4.8**	4.6
Total	**100.0**	100.0

1. Based on the country where the main place of business of the company or issuer is located or, in the case of real estate, the geographic location of properties.

OVERALL PORTFOLIO

The composition of the overall portfolio is the result of decisions made by the depositors concerning their benchmark portfolios and by la Caisse in relation to the upper and lower limits it is given for each specialized portfolio (see Table 12). As at December 31, 2014, the weighting of the Fixed Income portfolios was up versus year-end 2013, mainly because of the increase in the Short Term Investment portfolio.

In the Inflation-Sensitive Investments asset class, the weighting of the Infrastructure portfolio increased whereas that of the Real Estate portfolio decreased. Lastly, the weighting of the Equity asset class was up, mainly because of the increase in the weight of the Global Quality Equity portfolio.

TABLE 12

COMPOSITION OF THE BENCHMARK PORTFOLIO AND CHANGES IN THE OVERALL PORTFOLIO

(percentage of depositors' net assets)

	Benchmark portfolio				Overall portfolio	
	as at December 31, 2014[1]			as at December 31, 2013[1]		
	Lower limit %	Benchmark portfolio %	Upper limit %	Benchmark portfolio %	as at December 31, 2014 %	as at December 31, 2013 %
Fixed Income						
Bonds	**22.2**	**27.2**	**33.9**	27.0	**27.9**	27.6
Real Estate Debt	**2.6**	**5.5**	**8.2**	5.5	**4.6**	4.4
Short Term Investments	**0.2**	**1.1**	**8.9**	1.1	**3.0**	1.8
Long Term Bonds	**0.7**	**1.0**	**2.8**	1.0	**1.0**	0.9
Total		**34.8**		34.6	**36.5**	34.7
Inflation-Sensitive Investments						
Real Estate	**8.0**	**11.7**	**15.0**	11.4	**10.2**	11.3
Infrastructure	**2.0**	**4.9**	**8.0**	4.9	**4.5**	4.0
Real Return Bonds	**0.0**	**0.5**	**2.1**	0.6	**0.4**	0.6
Total		**17.1**		16.9	**15.1**	15.9
Equities						
Global Quality Equity	**5.3**	**9.9**	**14.2**	6.6	**12.6**	8.6
Canadian Equity	**6.6**	**11.1**	**15.6**	11.4	**10.9**	11.6
Global Equity	**N/A**	**N/A**	**N/A**	2.0	**N/A**	1.8
Emerging Markets Equity	**2.0**	**5.2**	**8.3**	5.0	**5.3**	5.1
U.S. Equity	**1.3**	**5.4**	**9.6**	5.5	**4.6**	4.9
EAFE Equity	**1.2**	**5.1**	**9.4**	5.3	**4.2**	4.9
Private Equity	**8.1**	**11.4**	**14.8**	10.7	**9.9**	10.1
Total		**48.1**		46.5	**47.5**	47.0
Other Investments						
Hedge Funds	**N/A**	**N/A**	**N/A**	2.0	**N/A**	1.8
Active Overlay Strategies	**0.0**	**0.0**	**0.5**	N/A	**0.2**	N/A
Asset Allocation	**0.0**	**0.0**	**0.9**	0.0	**0.7**	0.7
ABTN	**N/A**	**N/A**	**N/A**	N/A	**0.0**	(0.1)
Total		**100.0**		100.0	**100.0**	100.0

1. The benchmark portfolio and its upper and lower limits are the result of the weighted average of the depositors' respective benchmark portfolios.

Analysis of Performance by Asset Class

For the four-year period, all portfolios in la Caisse's overall portfolio have generated positive returns. Similarly, in 2014 the three main asset classes – Fixed Income, Inflation-Sensitive Investments and Equities – contributed significantly to the overall return.

FIXED INCOME

PORTFOLIOS

Bonds
Real Estate Debt
Short Term Investments
Long Term Bonds

$82.3 B

NET ASSETS

36.5%

OF LA CAISSE'S OVERALL PORTFOLIO

5.6%

FOUR-YEAR RETURN

BONDS

Four-year return

For the four-year period ended December 31, 2014, the portfolio had an annualized return of 5.6%, outperforming its benchmark index by 0.5% (see Table 20, p. 48). This result is due to an overall strategy designed to take advantage of the economic upturn and the gradual normalization of interest rates over the long term. The strategy has two components:

- An overweight position in securities of provinces, especially Québec bonds and bonds issued by public and private companies, to benefit from narrower rate spreads and a superior current yield; and
- A positioning to reduce the impact of a potential increase in interest rates in developed countries over the long term.

2014 return

The portfolio returned 8.2% in 2014, underperforming its benchmark index (see Table 20, p. 48). This return was earned in the context of a significant decrease in bond yields. The underperformance in relation to the index is due to positions taken to hedge against a possible increase in interest rates.

Table 13 gives the FTSE TMX Canada bond index returns according to maturity and issuer. The FTSE TMX Canada Universe Bond Index returned 8.8% in 2014 because Canadian government bond yields fell across the curve. In this context of falling yields, bonds of provinces outperformed the index as a result of their longer maturities.

TABLE 13

FTSE TMX CANADA BOND INDEX RETURNS
(as a percentage)

				2014				2013				4 years
FTSE TMX Canada bond indexes	**Short-term**	**Medium-term**	**Long-term**	**Total**	Short-term	Medium-term	Long-term	Total	Short-term	Medium-term	Long-term	Total
Federal	**2.5**	**8.7**	**17.5**	**6.9**	1.3	(2.2)	(8.9)	(1.5)	2.3	5.1	7.6	3.9
Provincial	**3.5**	**9.5**	**18.0**	**12.2**	1.8	(0.4)	(6.0)	(2.7)	3.0	6.0	8.0	6.3
Québec	**3.5**	**9.5**	**18.9**	**12.4**	1.7	(0.1)	(6.2)	(2.6)	3.0	6.1	8.1	6.5
Corporate	**3.6**	**9.2**	**16.1**	**7.6**	2.4	1.1	(3.2)	0.8	3.7	6.8	9.3	5.7
Universe	**3.1**	**9.2**	**17.5**	**8.8**	1.7	(0.6)	(6.2)	(1.2)	2.9	5.9	8.2	5.1

REAL ESTATE DEBT

Four-year return

Over four years, the portfolio has an annualized return of 7.9%, outperforming its benchmark index by 2.8% (see Table 20, p. 48). More than half of this absolute return is due to the portfolio's current return. The value added is attributable mainly to a current return exceeding that of the index and a more significant narrowing of credit spreads.

2014 return

The portfolio returned 11.9% in 2014, outperforming the benchmark index (see Table 20, p. 48). Almost half of the absolute return is due to lowering bond yields. A large portion of the portfolio's value added is attributable to the same factors as for the four-year period.

As in previous years, the portfolio's managers maintained their leading position in Québec and continued their operations in Ontario and Western Canada. Transaction volume was in line with objectives and the credit quality of the underwritten assets was maintained, in accordance with a strategy designed to protect returns over the long term. Credit performance continued to be excellent, with none of the portfolio's loans in default on interest payments (90 days or more).

SHORT TERM INVESTMENTS

This indexed portfolio has an annualized return of 1.1% over four years and 1.0% in 2014 (see Table 20, p. 48). These results are due to the low short-term interest rates that have prevailed in recent years.

LONG TERM BONDS

This portfolio, which is also indexed, has a 7.9% annualized return over four years. The 18.2% return recorded in 2014 is due to lower long-term interest rates.

BOND PORTFOLIO

COMPOSITION

- Bonds:
  - Government of Canada and governments of other countries
  - Governments of Canadian provinces
  - Public and private companies

ADVANTAGES

- Source of current yield and liquidity
- Low risk level
- Diversification
- Protection of the overall portfolio
- Matching of depositors' assets with their long-term financial commitments

REAL ESTATE DEBT PORTFOLIO

COMPOSITION

- Canadian commercial mortgage loans, primarily senior, on office buildings, shopping centres, industrial buildings and multiresidential properties

ADVANTAGES

- Returns exceeding that of bonds
- High and relatively stable current yield
- Low credit risk as a result of prudent underwriting and high asset quality
- Matching of depositors' assets with their long-term financial commitments

Analysis of Performance by Asset Class

INFLATION-SENSITIVE INVESTMENTS

PORTFOLIOS
Real Estate
Infrastructure
Real Return Bonds

$34.0 B
NET ASSETS

15.1%
OF LA CAISSE'S OVERALL PORTFOLIO

12.1%
FOUR-YEAR RETURN

REAL ESTATE

Four-year return

For the four-year period ended December 31, 2014, the portfolio has a 12.1% annualized return (see Table 20, p. 48). This result is due to substantial increases in the value of shopping centres and office buildings in North America, as well as strong leasing revenues as a result of properties' high occupancy rates. The benchmark index has a 13.8% return over four years. The difference with respect to the index is due mainly to the fact that the index does not include hotels and therefore is not affected by the hotel sector's weak performance.

2014 return

The portfolio returned 9.9% in 2014. Like the four-year return, this result exceeds the long-term target. During the year, managers at la Caisse's real estate subsidiary Ivanhoé Cambridge continued their strategic repositioning of the portfolio, carrying out a record volume of transactions, with $5.1 billion in acquisitions, construction projects and capital expenditures and $8.6 billion in property sales. All the transactions had the same objective: to sell non-strategic assets so as to focus the portfolio on high-quality assets and to build critical mass in certain sectors and key markets.

In the United States, the acquisitions included the following properties:

- High-quality office buildings in New York, Seattle and Denver for a total of more than US$630 million; and
- 580 apartments in multiresidential buildings in San Francisco, in partnership with Veritas.

REAL ESTATE PORTFOLIO

COMPOSITION
- Direct investments in shopping centres, office buildings and multiresidential properties, held within various geographic and sectoral platforms
- Quality buildings located mainly in large, promising markets

ADVANTAGES
- Higher current yield than that of fixed income
- Diversification
- Protection against inflation over the long term as a result of indexed leases

INFRASTRUCTURE PORTFOLIO

COMPOSITION
- Interests in companies that operate ports, airports, wind farms, water distribution systems, oil, gas and electricity transmission and distribution systems, and passenger transportation systems
- Quality companies that have low risk profiles and are less sensitive to economic fluctuations

ADVANTAGES
- Stable and predictable income over the long term
- Protection against inflation over the long term

In Europe, several transactions were carried out. For example:

- Ivanhoé Cambridge, along with Blackstone, became the largest shareholder of Gecina, the third-largest publicly traded real estate company in France; and
- Five acquisitions in key markets doubled the value of P3 Logistics Parks, a logistics real estate company owned in partnership with TPG.

In Mexico, the creation of a partnership with Black Creek Group gave rise to an initial US$100-million commitment to a residential project in Mexico City. In Québec, Ivanhoé Cambridge acquired a $250-million stake in Cominar, the third-largest real estate investment fund in Canada. It also concluded a co-ownership agreement with Manulife to build, own and operate an office building at 900 de Maisonneuve Ouest in downtown Montréal.

Ivanhoé Cambridge also sold buildings that no longer corresponded to its quality criteria and were not part of its target sectors and markets.

The sales carried out in 2014 include 21 hotels, of which 18 are in Europe, as well as buildings in Munich and Frankfurt. It also sold a portfolio of retail and office buildings in Canada for a total of $1.5 billion.

Figures 14 and 15 show the results of the repositioning strategy applied to the Real Estate portfolio in recent years.

INFRASTRUCTURE

Four-year return

For the four-year period ended December 31, 2014, the portfolio has a 13.8% annualized return (see Table 20, p. 48). More than 60% of this result is due to the current yield, as a result of the solid results recorded by the portfolio's operating companies. The high return is also attributable to increases in value, which testify to the quality of the portfolio's assets as well as sustained investor interest in this asset class.

FIGURE 14

GEOGRAPHIC EXPOSURE – REAL ESTATE
(as a percentage of fair value)

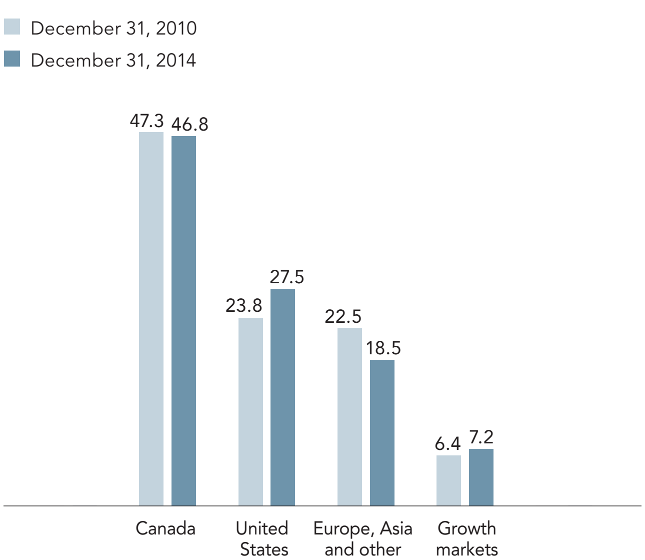
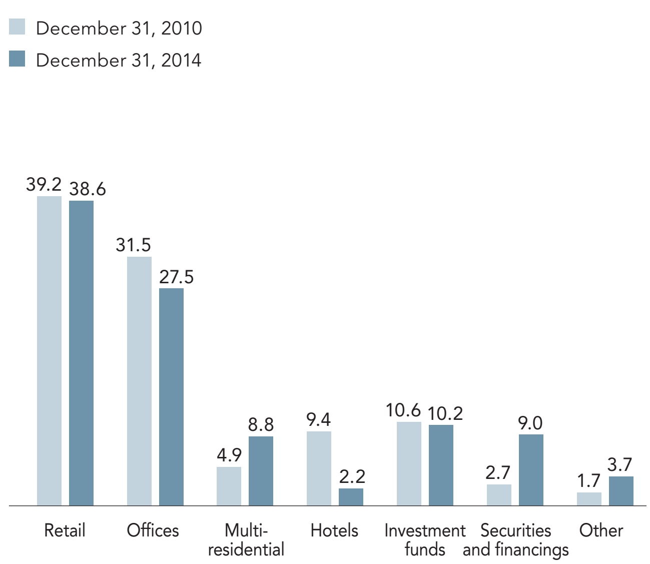


FIGURE 15

SECTORAL EXPOSURE – REAL ESTATE
(as a percentage of fair value)



Analysis of Performance by Asset Class

During the period, the size of the Infrastructure portfolio more than doubled, with its assets going from $4.3 billion as at December 31, 2010, to more than $10 billion at the end of 2014. This strong growth has enhanced the portfolio's regional and sectoral diversification (see Figures 16 and 17).

Over four years, the 17.9% return on the benchmark index, consisting of 60 securities, reflects the exceptional performance of the international stock markets. Only 25% of this result is due to companies' current yield. Close to 75% of the return is due to increases in stock market prices and the value of infrastructure as a result of investor interest.

2014 return

The portfolio returned 13.2% in 2014 (see Table 20, p. 48). Like the four-year return, this return exceeds the long-term target. During the year, managers made acquisitions totalling $1.3 billion, including the following stakes:

- 15% in the electricity generation, transmission and distribution company Indianapolis Power & Light;
- 24.7% in Invenergy Wind, a North American wind power leader; and
- 25% in London Array, the world's largest offshore wind farm, in the United Kingdom.

In the years to come, la Caisse will continue to make substantial investments in infrastructure, emphasizing Québec, the United States, Australia and growth markets.

REAL RETURN BONDS

This indexed portfolio has a 4.6% annualized four-year return (see Table 20, p. 48). The 13.2% return recorded in 2014 is due to lower real rates, which significantly increased the price of long-term bonds.

FIGURE 16

GEOGRAPHIC EXPOSURE – INFRASTRUCTURE
(as a percentage of fair value)

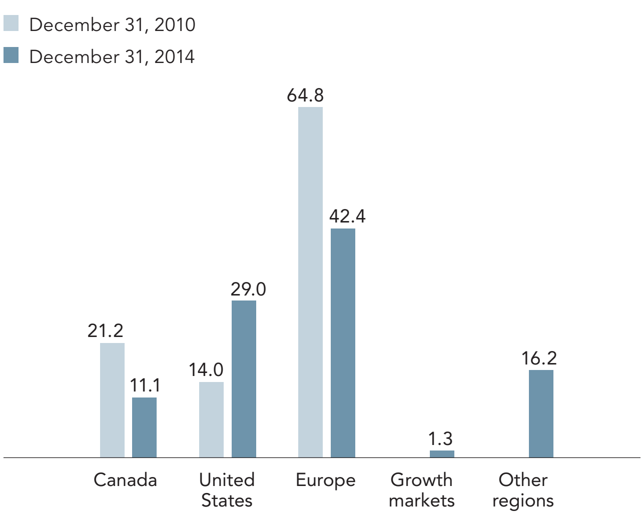
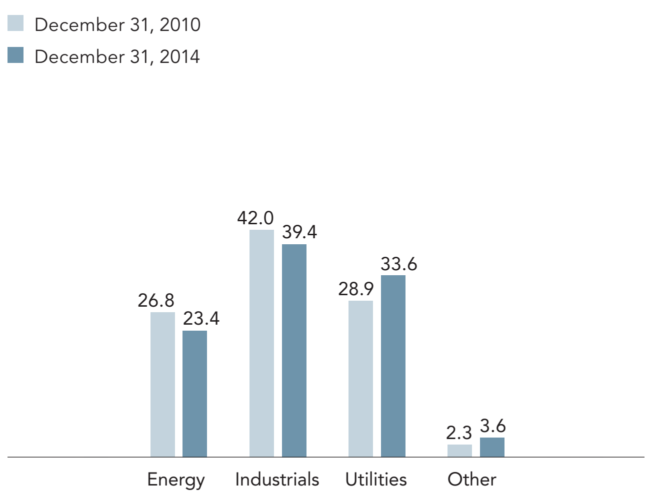


FIGURE 17

SECTORAL EXPOSURE – INFRASTRUCTURE
(as a percentage of fair value)



EQUITIES

PORTFOLIOS

Global Quality Equity
Canadian Equity
Emerging Markets Equity
U.S. Equity
EAFE Equity
Private Equity

$106.9 B
NET ASSETS

47.5%
OF LA CAISSE'S OVERALL PORTFOLIO

10.7%
FOUR-YEAR RETURN

GLOBAL QUALITY EQUITY

Four-year return

The Global Quality Equity portfolio, which was created in January 2013, is based on absolute-return management, a benchmark-agnostic approach that relies on strong convictions and in-depth fundamental analysis of potential investments. With net assets totalling $28.3 billion as at December 31, 2014, it is invested in established, well-managed companies with stable earnings.

Since its inception in January 2013, the portfolio has a 25.2% annualized return. Even though this is too short a period to draw conclusions, the result has exceeded the expectations of a portfolio for which the risk level is lower than that of overall equity markets.

2014 return

The portfolio took advantage of the U.S. stock market's strong performance in 2014 to generate an 18.5% return (see Table 20, p. 48). This strong return is due in large part to its significant exposure to major international companies established in the United States, including a number of companies in the health care, consumer products and industrial sectors.

CANADIAN EQUITY

Four-year return

For the four-year period ended December 31, 2014, the portfolio returned 5.9%, 0.3% below its benchmark index (see Table 20, p. 48). Since it was repositioned in 2012, the portfolio's return has improved considerably. Overweighting the technology and consumer products sectors, combined with judicious security selection in those sectors, made a positive contribution to the portfolio's relative return over four years. However, the portfolio's positioning in industrials, as well as the selection of securities in materials, subtracted value.

During the period, the portfolio's substantial weighting of Québec companies made a positive contribution to the results. As at December 31, 2014, they represented 34% versus 17% for the S&P/TSX Index. Over four years, the Morningstar National Bank Québec Index, which accounts for 10% of the portfolio's benchmark, returned 14.1%, whereas the S&P/TSX Index returned 5.1%.

Analysis of Performance by Asset Class

2014 return

The portfolio returned 13.4% in 2014, outperforming its benchmark index. During the year, managers began the shift to absolute-return management, constructing a portfolio that is more concentrated and emphasizing companies that have significant exposure to the U.S. market. This approach proved to be profitable, as did security selection in the consumer staples sector, combined with that sector's overweight position.

Since January 1, 2015, the Canadian Equity portfolio has been managed on an absolute-return basis, according to an approach similar to that used for the Global Quality Equity portfolio (see "Our Clients, the Depositors," p. 25).

EMERGING MARKETS EQUITY

Four-year return

Over four years, the portfolio returned 2.4% (see Table 20, p. 48). This portfolio, which has been managed actively since July 2013, outperformed its index by 0.2%.

Emerging markets underperformed developed markets during the period (see Figure 19, p. 47) because of slowing growth in the main markets.

2014 return

Over one year, the portfolio returned 9.2%, surpassing its benchmark index (see Table 20, p. 48) in a context in which the falling oil price accentuated the disparities between the countries.

The shift to active management, begun in 2013, continued in 2014 with investments of more than $1.3 billion entrusted to fund managers established in growth markets, notably China, Brazil and India. Managers were selected for their in-depth knowledge of the target markets as well as their absolute-return management approach, aligned with that of la Caisse. To date, more than US$500 million has been invested in securities traded on the Shanghai and Shenzhen stock exchanges.

U.S. EQUITY

This indexed portfolio has a 20.1% annualized return over four years and a 24.0% return in 2014 (see Table 20, p. 48). During these years, the strength of the U.S. dollar against the Canadian dollar increased the portfolio's return considerably.

EAFE EQUITY

This indexed portfolio has a 9.2% annualized return over four years (see Table 20, p. 48). Its 4.0% return in 2014 is due partially to negative returns on the French and German stock markets.

GLOBAL QUALITY EQUITY PORTFOLIO

COMPOSITION

- Securities of large companies traded on the stock exchanges of countries in the MSCI ACWI Index (United States, Canada, Europe, Australasia, Far East and emerging markets)

ADVANTAGES

- Risk-adjusted returns exceeding that of the equity markets on a long-term horizon
- Geographic diversification
- Protection against inflation over the long term

CANADIAN EQUITY PORTFOLIO

COMPOSITION

- Securities of publicly traded companies in all sectors of the economy

ADVANTAGES

- Long-term returns exceeding that of fixed income
- Protection against inflation over the long term

PRIVATE EQUITY

Four-year return

For the four years ended December 31, 2014, the return on the Private Equity portfolio is 13.0% (see Table 20, p. 48). The increase in valuation multiples, improved operational performance, reduced debt levels and higher earnings for the companies in the portfolio contributed to its solid absolute return. In addition, many of the companies in the portfolio refinanced their debt to take advantage of lower interest rates.

Over four years, the portfolio's benchmark index returned 14.0% as a result of its considerable exposure to the U.S. market, which has had an exceptional performance since 2011.

In recent years, the portfolio's composition has changed significantly as a result of the decision to decrease the proportion of funds in favour of direct investments. The portfolio's weighting of funds therefore went from 68% in 2009 to 44% at year-end 2014. This decision was profitable because direct investments have outperformed funds since the end of 2010.

The portfolio has also changed from the geographical standpoint, as shown by Figure 18 on page 46.

2014 return

In 2014, the portfolio returned 12.1% (see Table 20, p. 48). Like its four-year return, this result exceeds the long-term target return.

During the year, managers were especially active in Québec with transactions related to acquisition and expansion projects outside the province, especially those of WSP, KDC and Lemay. Other transactions assisted medium-sized companies, such as Group Germain Hotels, with their acquisition or expansion projects, or with the transfer of company ownership, as was the case for Crevier Group and Tornatech.

La Caisse continues to refine the portfolio's investment strategy on the basis of new development thrusts, which involve:

- Positioning itself as a leading global private equity investor in terms of size, institutional capability and performance;
- Investing with a long-term philosophy, staying the course despite market volatility and adjusting the portfolio's construction to the investment cycle; and
- Contributing to the development of Québec's growth companies, notably with the deployment of la Caisse's teams internationally.

EMERGING MARKETS EQUITY PORTFOLIO

COMPOSITION
- Securities listed on the stock exchanges of countries in the MSCI EM Index
- A-shares listed on the Shanghai and Shenzhen stock exchanges

ADVANTAGES
- Returns exceeding that of the equity markets in developed countries over the long term
- Geographic diversification

PRIVATE EQUITY PORTFOLIO

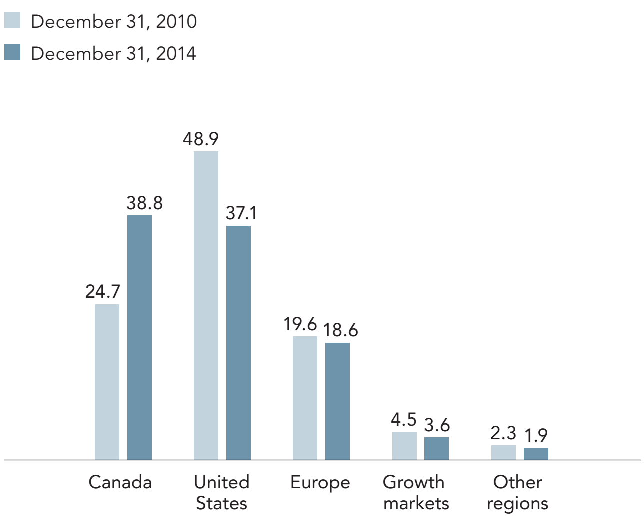
COMPOSITION
- Direct investments in companies in all sectors of the economy, especially defensive sectors and quality companies with stable, predictable earnings
- Stakes in high-performing investment funds

ADVANTAGES
- Returns exceeding that of the equity markets over the long term

Analysis of Performance by Asset Class

FIGURE 18

GEOGRAPHIC EXPOSURE – PRIVATE EQUITY
(as a percentage of fair value)



OTHER INVESTMENTS

ACTIVE OVERLAY STRATEGIES

The Active Overlay Strategies portfolio, created on January 1, 2014, consists of non-capitalized investment activities with an absolute-return objective.

In 2014, the portfolio contributed $230 million to the net investment results (see Table 20, p. 48). The portfolio's external funds, notably the futures contract management strategy, the market-neutral strategy for equities and the tactical management operations, contributed positively to the result.

ASSET ALLOCATION

Four-year return

Over four years, the portfolio's net investment results associated with asset allocation operations represent $913 million (see Table 20, p. 48). The main contribution to these results comes from positions taken on liquid markets to reduce the opportunity cost associated with slower than expected deployment of capital in the less-liquid portfolios. Generally speaking, the asset allocation operations related to the liquid portfolios were positive during the period.

ACTIVE OVERLAY STRATEGIES PORTFOLIO

COMPOSITION
- Investments in external funds
- Internally managed positions on financial markets, mainly in the form of financial instruments that are liquid and transparent

ADVANTAGES
- Moderate risk-return profile
- Possibility of generating returns that outperform bonds but with less risk than with equity markets
- Diversification
- Low correlation with equity markets

ASSET ALLOCATION PORTFOLIO

COMPOSITION
- Positions on financial markets, mainly in the form of financial instruments that are liquid and transparent

ADVANTAGES
- Calibration of the risk-return profile of la Caisse's overall portfolio
- Protection against extreme fluctuation risks
- Enhancement of the overall portfolio's return

2014 results

The net investment results associated with these activities totalled $1.0 billion in 2014 (see Table 20, p. 48). Positions taken to mitigate the opportunity cost related to underweighting the less-liquid portfolios generated most of the gains. Positions on equity markets as well as currencies, particularly the U.S. dollar, also contributed positively to the results. Even so, positions taken to hedge the portfolio against a possible increase in interest rates during the year subtracted value.

ABTN

Four-year return

Over four years, this portfolio contributed $2.6 billion to net investment results (see Table 20, p. 48), mainly because the market value of positions rose with the shorter average maturities of securities in the portfolio and improved market conditions. These results made it possible to reduce the provision for unrealized losses on ABTNs from $4.1 billion to $1.3 billion.

2014 return

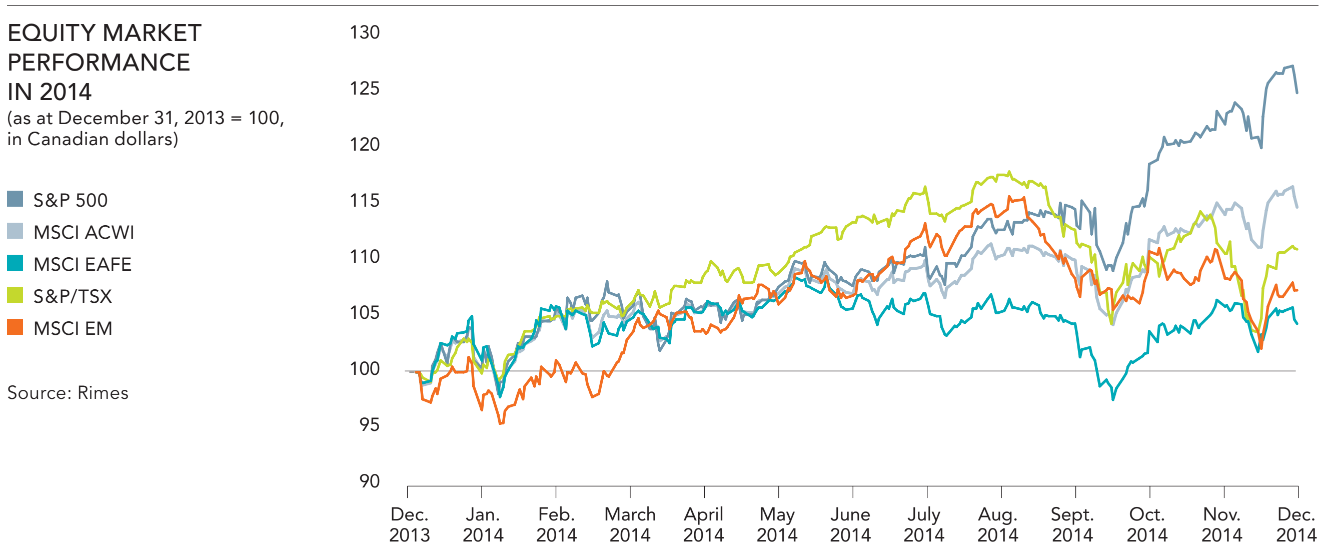
The portfolio's 2014 contribution to the net investment results is $137 million (see Table 20, p. 48). These results are attributable to the same factors that prevailed in the three preceding years and reduced the provision for ABTNs from $1.5 billion to $1.3 billion. The ABTN operations are gradually winding down. An important aspect of the management strategy is risk reduction. Since 2012, the strategy has focused on transactions that facilitate certain positions to be closed out. The end of the portfolio's operations is expected for 2016-2017.

RETURNS BY SPECIALIZED PORTFOLIO

Table 20 (p. 48) gives the returns on specialized portfolios in relation to their benchmark indexes for the four-year and one-year periods ending December 31, 2014.

FIGURE 19

EQUITY MARKET PERFORMANCE IN 2014
(as at December 31, 2013 = 100, in Canadian dollars)



Source: Rimes

TABLE 20

SPECIALIZED PORTFOLIO RETURNS IN RELATION TO BENCHMARK INDEXES

(for periods ended December 31, 2014)

			4 years				1 year		
Specialized portfolio	2014 Index	Net assets $B	Net investment results $M	Return %	Index %	Net investment results $M	Return %	Index %
Fixed Income								
Bonds	FTSE TMX Canada Universe Bond, adjusted to increase the proportion of Québec bonds in the index	62.9	10,385	5.6	5.2	4,626	8.2	8.9
Real Estate Debt	FTSE TMX Canada Universe Bond	10.4	2,433	7.9	5.1	1,068	11.9	8.8
Short Term Investments	FTSE TMX Canada 91 Day T-Bill	6.8	259	1.1	1.0	59	1.0	0.9
Long Term Bonds	FTSE TMX Government of Canada long-term bonds, adjusted to increase the proportion of provincial bonds in the index	2.2	938	7.9	8.1	342	18.2	18.4
Total		82.3	14,015	5.6	4.9	6,095	8.4	8.5
Inflation-Sensitive Investments								
Real Estate	Aon Hewitt – Real Estate, adjusted	22.9	8,814	12.1	13.8	2,114	9.9	11.1
Infrastructure	Index consisting of a basket of publicly traded securities related to infrastructure, partially hedged	10.1	3,344	13.8	17.9	1,149	13.2	21.5
Real Return Bonds	FTSE TMX Canada Real Return Bonds	1.0	192	4.6	4.6	125	13.2	13.2
Total		34.0	12,350	12.1	14.5	3,388	11.0	13.9
Equities								
Global Quality Equity	Index consisting of 85% MSCI ACWI Index, unhedged, and 15% FTSE TMX Canada 91 Day T-Bill Index	28.3	6,516	N/A	N/A	3,929	18.5	11.6
Canadian Equity	Index consisting of 90% S&P/TSX Capped Composite Index and 10% Morningstar National Bank Québec Index	24.6	5,359	5.9	6.2	2,845	13.4	11.8
Emerging Markets Equity[1]	MSCI EM, unhedged and adjusted	11.8	1,317	2.4	2.2	949	9.2	9.0
U.S. Equity	S&P 500, unhedged	10.3	7,265	20.1	20.1	2,232	24.0	23.9
EAFE Equity	MSCI EAFE, unhedged	9.5	3,396	9.2	8.8	379	4.0	3.7
Equity Markets[2]		84.5	27,451	10.1	9.5	10,482	14.4	11.9
Private Equity	Index, hedged, consisting of 50% MSCI World and 50% State Street Private Equity Index, adjusted to reflect the investment areas of the specialized portfolio	22.4	9,056	13.0	14.0	2,384	12.1	12.5
Total		106.9	36,507	10.7	10.5	12,866	13.9	12.0
Other Investments								
Active Overlay Strategies		0.5	230	N/A	N/A	230	N/A	N/A
Asset Allocation[3]		1.5	913	N/A	N/A	1,033	N/A	N/A
ABTN		0.0	2,644	N/A	N/A	137	N/A	N/A
Total[4]		225.9	67,226	9.6	9.3	23,775	12.0	11.4

1. This portfolio was indexed until June 30, 2013.
2. The contributions of the Global Equity portfolio and the Québec International portfolio are included in this line.
3. This line includes the specialized portfolio and the overlay operations.
4. The total includes customized overlay operations, cash activities and completed activities.

Risk Management

RISK MANAGEMENT AT LA CAISSE

In 2014, la Caisse continued to strengthen its risk monitoring and oversight, in addition to refining its methodologies and analytical tools, so as to support its shift to absolute-return management and to manage its transversal risks more effectively. The risk management teams work with all the business units on a daily basis, and their collaboration forms the cornerstone of the organization's risk culture.

HIGHLIGHTS

1

During 2014, la Caisse generally kept its financial risk level similar to that of the previous year.

2

Financial risk monitoring at la Caisse was strengthened as part of an extensive strategic investment planning exercise.

3

All risk measurement methodologies were enhanced during the year.

CHANGES IN RISK MEASUREMENT

Throughout the year, la Caisse implemented its investment strategies along with proactive risk management, taking into account such factors as the global economic context, changing financial markets and sectoral and geographic concentrations of its portfolio. As such, it generally kept its financial risks at the same level as in 2013.

Market risk

In recent years, la Caisse has deployed an absolute-management approach to a larger portion of its overall portfolio, while keeping risk at a level similar to that of its benchmark portfolio. This prompted la Caisse, beginning in 2013, to manage market risk by limiting absolute risk, on the basis of the ratio of the overall portfolio's absolute risk relative to that of its benchmark portfolio.

In 2014, the absolute risk of the overall portfolio was kept at a moderate level, without any major changes during the year. At year-end, it totalled 23.9% of net assets, a slight decrease from December 31, 2013, when it represented 24.3% of net assets. For its part, the absolute risk of the benchmark portfolio totalled 24.0% of net assets, versus 23.6% at the end of 2013.

The changes in the level of absolute risk of la Caisse's overall portfolio and of the benchmark portfolio since 2010 are shown in Figure 21 on page 50.

As shown in Table 23 on page 51, the absolute risk of the overall portfolio was kept at much the same level in 2014, despite the increased weighting of equities, mainly because of the reduced risk of this asset class and diversification of the Infrastructure portfolio.

In the Equity asset class, the lower market risk is due to an increase in the net assets in the Global Quality Equity portfolio, which reached $28.3 billion at year-end, versus $17.2 billion at the end of 2013 (see Figure 22, p. 50). With less volatility than the other portfolios in the asset class, this portfolio generated a return that exceeded expectations in 2013 and in 2014, with a level of risk below its target.

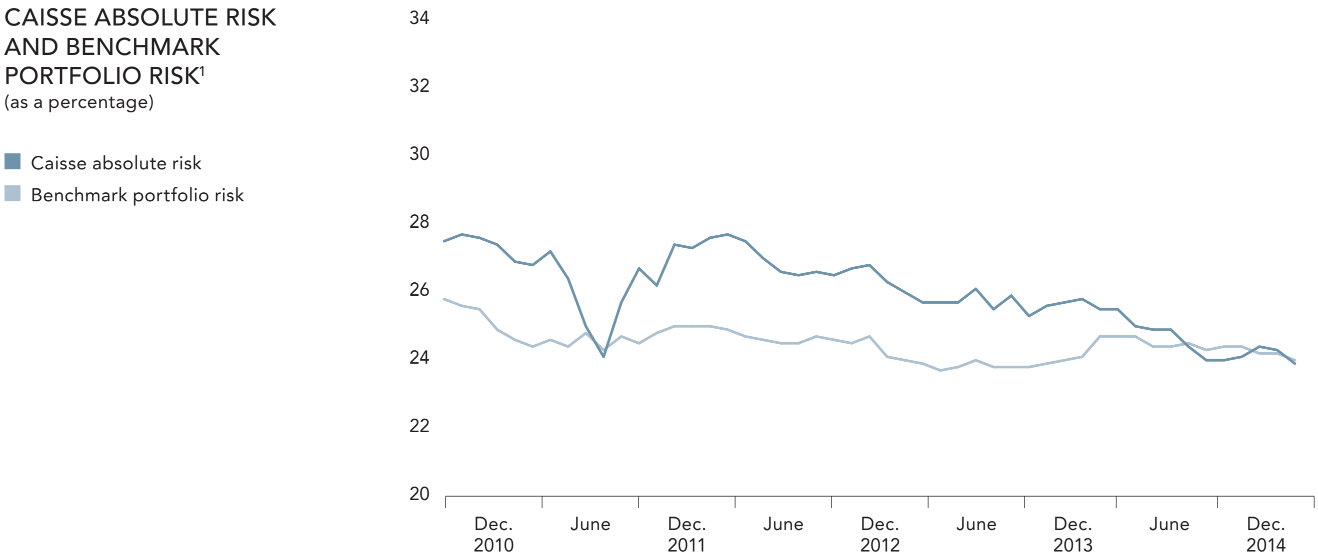
Risk Management

In 2014, special attention was paid to the behaviour of the Global Quality Equity portfolio during market downturns. In all instances, its value decreased less than that of the market. The portfolio's defensive nature was apparent during these brief down periods.

Furthermore, la Caisse continued to diversify its Infrastructure portfolio in 2014 by making new investments that helped reduce the portfolio's market risk.

FIGURE 21

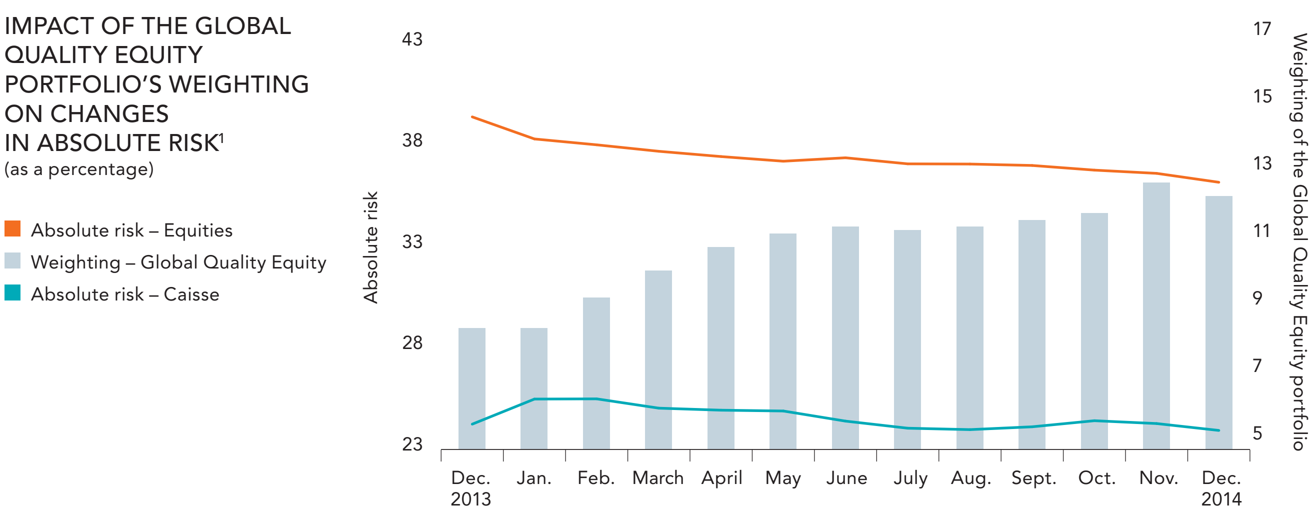
CAISSE ABSOLUTE RISK AND BENCHMARK PORTFOLIO RISK[1]
(as a percentage)



1. The figures from June 30, 2014, to December 31, 2014, reflect the changes made to the risk calculation methodology (see p. 53). The figures preceding June 30, 2014 were estimated from the results obtained before the methodological changes.

FIGURE 22

IMPACT OF THE GLOBAL QUALITY EQUITY PORTFOLIO'S WEIGHTING ON CHANGES IN ABSOLUTE RISK[1]
(as a percentage)



1. The historical risk figures were recalculated to reflect the changes in the risk calculation methodology (see p. 53).

Other factors also contributed to the slight variation in the absolute risk of the overall portfolio, such as:

- positions taken to protect the portfolio from an eventual increase in interest rates. With 2014 having been characterized by lower rates, the specialized portfolios most sensitive to interest rate fluctuations – Bonds, Infrastructure and Real Estate – had a significant rise in their absolute value; and
- continuation of a large long position in the U.S. dollar, which proved favourable.

As for the slight increase in the absolute risk of the benchmark portfolio in 2014, it is due to changes made to the benchmark weightings after the operations of the Hedge Fund portfolio were transferred to the Active Overlay Strategies portfolio on January 1, 2014. Because this portfolio is not capitalized, its operations are not included in la Caisse's benchmark portfolio.

On the whole, the ratio of the absolute risk of the overall portfolio to the absolute risk of the benchmark portfolio remained low and stable throughout 2014, hovering around 1.0 (see Figure 24). This means that, over all, la Caisse generated value added without assuming more risk than that of the benchmark portfolio.

Credit risk

The credit risk of the Bond portfolio rose in 2014 along with its increased weighting of corporate securities.

TABLE 23

MARKET RISK – ABSOLUTE

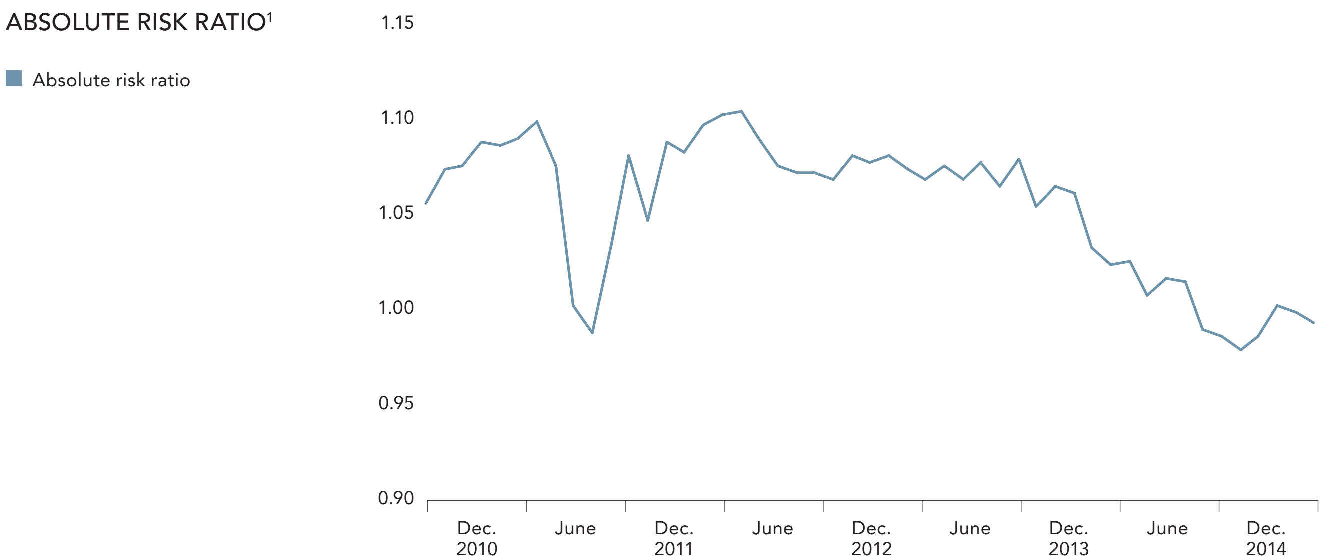
(as a percentage of total net value of the asset class as at December 31)

Asset class	**2014**	2013[1]
Fixed Income	**8.4**	8.3
Inflation-Sensitive Investments	**31.7**	31.9
Equities	**36.2**	38.2
Other investments	**1.5**	1.1
Overall	**23.9**	24.3

1. The risk figures as at December 31, 2013 were recalculated to reflect the changes in the risk calculation methodology (see p. 53).

FIGURE 24

ABSOLUTE RISK RATIO[1]



1. The figures from June 30, 2014, to December 31, 2014, reflect the changes made to the risk calculation methodology (see p. 53). The figures preceding June 30, 2014 were estimated from the results obtained before the methodological changes.

Risk Management

In managing its credit risk, la Caisse performs fundamental analysis of all large financings and establishes internal ratings for them. Moreover, it frequently monitors the ratings assigned by credit rating agencies and compares them with the ratings established in house. To measure and monitor this risk, it also uses credit VaR (value at risk), a statistical measure that incorporates information on the current and potential credit quality of the issuers in the portfolio, their interrelationships and the level of loss in the event of default.

Concentration risk

The absolute-return management approach favoured by la Caisse is conducive to positions that depart from the market indexes yet maintain sound diversification of the portfolio's holdings. This approach results in larger positions being taken in those issuers for which la Caisse has an in-depth understanding of the risks. In 2014, the continued geographic and sectoral diversification of the Infrastructure portfolio reduced the overall portfolio's concentration risk.

Counterparty risk

La Caisse's counterparty risk remained low in 2014. The increased net exposure under ISDA agreements, as shown in Table 25, is due mainly to the adoption of International Financial Reporting Standards (IFRS). As in 2013, uncertainty over the situation in the euro zone prompted la Caisse to limit its exposure to this risk and to monitor it actively.

For each of its counterparties, la Caisse tracks a series of financial indicators on a daily basis. Its finance and risk management specialists also periodically review counterparties' financial health. Throughout the year, la Caisse actively managed changes in the credit quality of its counterparties while keeping this risk at a low level (see Table 25). Directing an increasingly large volume of transactions to clearing brokers also helps mitigate counterparty risk.

Liquidity risk

As in recent years, la Caisse maintained an adequate level of liquidity in 2014. At year-end, its portfolios had $52 billion in liquidity, versus $44 billion at the end of 2013, which allowed la Caisse to fully respect potential commitments, even in the event of a major market correction (see Note 12 to the Consolidated Financial Statements on page 174).

TABLE 25

EXPOSURE TO COUNTERPARTY RISK[1,2]
(as at December 31 – in millions of dollars)

	2014	2013	2012	2011
Gross exposure without offsetting effect	**1,314.9**	1,951.4	2,464.7	4,145.3
Net exposure under ISDA agreements[3]	**317.0**	97.5	51.5	396.3

1. The figures have been restated to conform with the 2014 presentation.
2. Cleared over-the-counter derivatives are not included.
3. Net exposure under ISDA agreements is gross exposure less offsetting of amounts at risk and exchange of collateral.

REVIEW OF OVERSIGHT AND PROCESSES

La Caisse carried out various initiatives during the year to strengthen its risk management oversight and processes.

Strategic planning of investments and monitoring of strategic risks

La Caisse undertook a strategic investment planning exercise to:

- establish the future orientations of its portfolio;
- strengthen the collaborative and information-sharing processes required for strategic investment selections; and
- ensure better alignment between orientations and strategies, as well as more cohesiveness within the overall portfolio.

The risk management teams took part in this exercise by conducting numerous analyses to identify the issues and assess the risks associated with the orientations and strategies under consideration. This strategic planning exercise gave rise to harmonized governance of risk management, with a view to placing even greater importance on transversal management of the different exposures of la Caisse's overall portfolio.

Statement of risk tolerance principles

La Caisse's guiding principles overseeing risk tolerance were also summarized and formalized during the strategic planning exercise carried out in 2014 (see box on page 54). These principles serve as a framework, notably for: the roles of the Board of Directors and of senior management, the client-focused approach, independence of functions and accountability, collaboration for overall management and responsible investment.

New oversight and monitoring for four portfolios

Canadian Equity: The oversight and monitoring of this portfolio's risk were revised when the approach shifted from relative active management to absolute-return management. Since January 2015, management of the portfolio has been based on an absolute risk ratio.

Active Overlay Strategies: During the first year of this portfolio's existence, work was carried out to improve risk monitoring of all its absolute-return operations.

Bonds and Infrastructure: La Caisse amended the investment policies of these two portfolios to reflect the guidelines adopted as part of its strategic investment planning initiative. The new policies take effect on April 1, 2015.

New internal credit ratings

The Internal Credit Rating Review Committee, created in 2013, continued its mandate. Its work included establishing ratings for corporate-bond positions of more than $50 million held by the Bond portfolio.

Operational risk map

During the year, the Operational Risk Committee updated the map established in 2013 for this type of risk. The exercise involved drawing up a list of priority risks and the teams responsible for them, then developing action plans to mitigate the risks.

IMPROVED RISK MANAGEMENT METHODOLOGIES AND TOOLS

Changes to market risk calculation

In 2014, la Caisse made significant changes to its market risk calculation methodology based on value at risk (VaR). Two types of change were involved:

1. It increased the sample of historical data that it analyzes from 1,500 to 2,500 days, namely from 6 to 10 years, to obtain a more stable measurement over time. The new sample includes a larger number of separate events to avoid the procyclical nature of a measurement based on a short period; and
2. It lengthened the measurement horizon by considering data on a weekly, rather than daily, basis. This change minimizes the effects of the asynchronicity of markets and statutory holidays, which, for example, improves the correlations between the securities of a company traded on more than one market.

Risk Management

By improving the stability and quality of market risk measurement, these methodological changes will lead to measurement better adapted to la Caisse's strategic orientations.

Transversal vision of concentrations

La Caisse has improved the transversal vision of overall portfolio concentrations by standardizing the criteria used to categorize the concentrations of each specialized portfolio.

Modelling of the Real Estate portfolio's market risk

La Caisse continued its work to obtain a better estimate of the market risk of portfolios holding less-liquid assets. Modelling by risk factor, similar to that implemented in 2013 for the Infrastructure portfolio, was developed for the Real Estate portfolio in collaboration with Ivanhoé Cambridge. This approach makes it possible to analyze market risk as a function of factors shared by all the investments in the portfolio. It will be implemented in 2015.

New stress tests

Risk management teams conducted various stress tests to quantify the potential repercussions of certain market events on the overall portfolio. These tests enhanced the array of scenarios developed to support investment decision making.

Strengthened capabilities in quantitative analysis

New tools for quantitative analysis were developed to offer better risk monitoring and more in-depth analysis:

Equity markets: New cluster analysis to study the reactions of securities in different markets and to determine whether they react to the same risk factors.

Derivative financial instruments: Simulation of the extreme behaviours of these instruments on the markets led to the implementation of risk frameworks for each type of product, in various portfolios.

FOUNDATIONS OF RISK MANAGEMENT

GOVERNANCE AND RISK MANAGEMENT AT LA CAISSE ARE BASED ON THE FOLLOWING ELEMENTS:

- Risk tolerance framework
- Roles of the Board of Directors and of senior management
- Client-focused approach
- Long-term investment strategy
- Liquidity and financing management
- In-depth knowledge
- Independence of functions and accountability
- Collaboration to achieve overall management
- Operational excellence
- Derivative financial instruments and counterparty risk
- New investment activities and new financial instruments
- Responsible investment

Compliance

The compliance activities of la Caisse include oversight to ensure adherence to the depositors' investment policies and the portfolios' investment policies, the Code of Ethics and Professional Conduct, the Language Policy and the Information Disclosure Policy.

HIGHLIGHTS

1

La Caisse adopted a new approach to information disclosure.

2

Various activities continued to raise employee awareness of the Code of Ethics and Professional Conduct.

INVESTMENT POLICIES

Compliance programs are in place to certify compliance with the depositors' investment policies and the investment policies of la Caisse's portfolios. Certificates of compliance with these policies were issued to depositors twice in 2014, as of June 30 and December 31.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

It is essential that Caisse employees and officers comply with its Code of Ethics and Professional Conduct. The Code stresses the importance of appropriate conduct, taking into account the organization's practices, respect for individuals and groups, and compliance with applicable laws, regulations and policies. It also specifies a pre-approval process for employees' personal transactions.

At the beginning of each year, all employees must complete declarations on compliance with the Code and the holdings in their personal portfolios. They are also obliged to report any situation they have reason to consider a breach of the Code or any Caisse policy. In 2014, la Caisse put in place activities to make employees aware of the various aspects of the Code, as well as the Ethics Line, and asked them to sign their annual declarations. In addition, articles on ethics were published in the employee newsletter throughout the year to remind them of appropriate behaviour in situations involving ethics and professional conduct.

The Code of Ethics and Professional Conduct for Officers and Employees is available on the institution's website (www.lacaisse.com) in the Governance section.

Compliance

ACCESS TO INFORMATION

La Caisse processes requests for access to documents under the Act respecting access to documents held by public bodies and the protection of personal information (Access Act). In 2014, la Caisse processed 19 requests for document access. All requests were handled within the legally prescribed time limit. Of the 19 requests, five were accepted, 10 were accepted in part, one involved information for which la Caisse had no documents, one concerned an entity not subject to the Access Act and one was referred to another organization. One request was refused. The refusal to provide documents was justified because of the strategic and confidential information they contained, as well as investment information concerning or provided by third parties. Two requests received in previous years are subject to an application for review by the Commission d'accès à l'information.

In 2014 la Caisse also adopted a new disclosure approach for the information requests it receives. To ensure transparency and to comply with the spirit of the Québec regulation that will take effect in 2015 (Regulation respecting the distribution of information), la Caisse publicly posts on its website the information it has disclosed in response to requests for access to information since December 18, 2014.

LANGUAGE POLICY

La Caisse complies with the requirements of the Charter of the French Language and its Language Policy, which stipulates French as the daily language of work for all employees. It considers the quality and use of French in its spoken and written communication to be of paramount importance.

To that end, it provides its employees with various tools that contribute to correct French usage, as well as a number of reference works, including a lexicon that it compiled to define terms specific to its own operations.

In 2014, the employee newsletter regularly published articles on the proper use of expressions and idioms. The articles also encouraged employees to use the tools and references available on the website of the Office québécois de la langue française, as well as the other language tools available to them.

During the year, La Caisse again took part in the *Francofête* festivities held by the Office québécois de la langue française from March 10 to 23. The event featured initiatives such as quizzes and articles on correct French usage. La Caisse also continued to disseminate its quarterly electronic bulletin *La pause linguistique* to all administrative assistants. The first edition of the *Dictée de la Caisse* took place in 2014, as part of the initiatives to make employees aware of the quality of French in the workplace. Finally, after the Language Policy was updated, several presentations were made to various committees to reiterate la Caisse's obligations in this area.

La Caisse's committee on language consists of key persons from various units of the institution.

COMPLAINT MANAGEMENT

La Caisse has designated Me Ginette Depelteau, Senior Vice-President, Compliance and Responsible Investment, to receive complaints and analyze them with all due attention. Complaints can be conveyed to her by phone (514 847-5901), fax (514 281-9334) or e-mail (gestiondesplaintes@lacaisse.com).

LA CAISSE IN QUÉBEC

A MEANINGFUL ROLE IN QUÉBEC'S COMPANIES AND ECONOMY

$60.0 B

CAISSE TOTAL ASSETS IN QUÉBEC AS AT DECEMBER 31, 2014

$11.1 B

NEW INVESTMENTS AND COMMITMENTS IN THE PAST FOUR YEARS

600

QUÉBEC COMPANIES IN THE PORTFOLIO

500

QUÉBEC SMEs SUPPORTED OVER THE PAST FOUR YEARS

350

BUILDINGS OWNED OR FINANCED IN QUÉBEC

PRESENT IN EVERY REGION OF QUÉBEC

Bécancour
Boucherville
Brossard
Châteauguay
Drummondville
Gaspé
Gatineau
Granby
Joliette
Kingsey Falls
L'Assomption
Laval
Les Cèdres
Lévis
Longueuil
Matane
Montmagny
Montréal
Mont-Tremblant
Québec City
Repentigny
Rimouski
Rivière-du-Loup
Rouyn-Noranda
Saguenay
Sainte-Adèle
Sainte-Julie
Saint-Georges
Saint-Jean-sur-Richelieu
Shawinigan
Sherbrooke
Sorel
Thetford Mines
Trois-Rivières
Valcourt
Val-d'Or
Vaudreuil-Dorion
Victoriaville

Examples of cities where la Caisse has investments

INVESTMENTS

PARTNERSHIPS

DISCUSSION FORUMS

SHARED EXPERTISE

BUSINESS NETWORKS

CONNECTIONS

LA CAISSE IN QUÉBEC AN IMPACT FAR BEYOND INVESTMENTS

La Caisse plays a leading role in Québec, the market it knows best. This role is closely tied to its mandate of which the two components go hand in hand: generating a return for its clients, the depositors, and contributing to Québec's economic development.

Over the past four years, la Caisse continued to enhance the financing and expertise it offers Québec companies at every stage of their growth. In 2014, it emphasized Québec companies with expansion projects in Canada and abroad, making $2.5 billion in new investments and commitments, for a total of $11.1 billion over four years.

La Caisse also adopted a globalization strategy whereby it will deploy teams in several regions of the world in the years to come. As a first step, it opened offices outside Canada. In this way, it can expand its global footprint and at the same time ensure greater access to international markets for Québec businesses with global ambitions.

La Caisse's actions will benefit Québec in ways that go far beyond numbers because it seeks, above all, to play a meaningful and sustained role in the economy. Through various initiatives, la Caisse fosters the development of small and medium-sized businesses, strengthens Québec's entrepreneurial culture and advances projects that make a real difference for Québec. Examples include the *Innover. Agir.* program, the draft agreement to introduce a model for carrying out public infrastructure projects (subject to approval by the Québec National Assembly) and an investment that will allow Manulife to develop its presence in the Québec market.

A NEW EXECUTIVE DEDICATED TO QUÉBEC

In 2014, la Caisse entered a new phase of its Québec strategy by creating a dedicated team under the leadership of an Executive Vice-President, Québec.

This team has a dual mandate: to manage the institution's portfolio of private investments in Québec and, more generally, to play a leadership role by providing integrated and transversal co-ordination and planning of all Caisse activities in Québec.

In this way, la Caisse intends to ramp up its initiatives involving Québec businesses and enhance its real impact in Québec. To reach this objective, the team will offer value-added services that make the most of la Caisse's expertise and agility as well as its comparative advantages:

- local market expertise
- critical mass
- long-term investment role
- global reach

CAISSE TOTAL ASSETS IN QUÉBEC

As at December 31, 2014, la Caisse's total assets in Québec stood at $60.0 billion, up $23.5 billion since the end of 2010. Almost 60% of the assets, worth $35.0 billion, were in private-sector investments.

TABLE 26

CAISSE TOTAL ASSETS IN QUÉBEC BY INVESTMENT TYPE
(as at December 31 – in billions of dollars)

	2014	2013
Bonds	**34.0**	30.1
Real Estate	**10.1**	10.4
Equity Markets	**8.3**	7.0
Private Equity group	**7.6**	6.3
Total	**60.0**	53.8
Private sector	**35.0**	32.5
Public sector	**25.0**	21.3
Total	**60.0**	53.8

La Caisse's achievements in Québec

LONG-TERM PARTNER OF QUÉBEC COMPANIES

La Caisse encourages Québec firms in several ways. Regardless of a company's size or stage of development, la Caisse can offer not only financing but also value-added services, including access to its business networks at home and abroad, as well as high-level financial and operational expertise.

STANDING ALONGSIDE MEDIUM-SIZED AND LARGE BUSINESSES

La Caisse has all the resources and expertise required to further the growth projects of medium-sized and large businesses, whether through private equity, publicly traded stocks or direct financing. Its approach is to develop long-term partnerships and to have a tangible impact on their growth.

Over the years, la Caisse has taken part in many successful projects for acquisitions, modernizations, business-transfers and R&D. For example, in 2014, it played a major role in business projects carried out by WSP Global, KDC, Agropur Cooperative and Alt Hotels.

TABLE 27

PRIVATE EQUITY GROUP ASSETS AND COMMITMENTS IN QUÉBEC
(as at December 31 – in millions of dollars)

			2014			2013
	Assets	**Undisbursed commitments**	**Assets and undisbursed commitments**	Assets	Undisbursed commitments	Assets and undisbursed commitments
Venture capital	**97**	**322**	**419**	89	306	395
Small and medium-sized businesses	**780**	**595**	**1,375**	729	387	1,116
Large businesses	**6,736**	**303**	**7,039**	5,506	370	5,876
Total	**7,613**	**1,220**	**8,833**	6,324	1,063	7,387

INVESTMENT ACTIVITIES IN 2014

La Caisse's new private equity investments and commitments in Québec totalled $985 million in 2014. Total assets reached $7.6 billion (see Table 27, p. 62). Table 28 presents the top 10 private equity investments in Québec. Several transactions closed in 2014 are presented on page 66.

As at December 31, 2014, assets in Québec equities totalled $8.3 billion, up $1.3 billion from the year-earlier figure. Table 29 presents the top 10 positions in this category.

The weight of Québec securities continued to rise, reaching 34% of la Caisse's Canadian Equity portfolio. This weighting, which far exceeds the 17% weighting of Québec companies in the S&P/TSX Index, had a positive impact on the portfolio's return. The Morningstar National Bank Québec Index, which measures the stock market performance of Québec companies, ended 2014 with a 22.6% return, versus a 10.6% return for the S&P/TSX Index during the same period.

La Caisse also grants loans – in addition to the financing activities of Otéra Capital – and purchases Québec corporate bonds. In 2014, such new investments and commitments totalled $470 million. A few examples are given on page 66.

TABLE 28

TOP 10 QUÉBEC INVESTMENTS – PRIVATE EQUITY GROUP
(as at December 31, 2014)

BRP (Bombardier Recreational Products)
Camoplast Solideal
CGI Group
Industrial Alliance, Insurance and Financial Services
Quebecor
Quebecor Media
SNC-Lavalin Group
TAD Canco (Kruger)
Trencap (Gaz Métro)
WSP Global Group

TABLE 29

TOP 10 QUÉBEC POSITIONS – EQUITY MARKETS
(as at December 31, 2014)

Alimentation Couche-Tard
Canadian National Railway Company
CGI Group
Dollarama
Gildan Activewear
Industrial Alliance, Insurance and Financial Services
National Bank of Canada
Power Corporation of Canada
SNC-Lavalin Group
Valeant Pharmaceuticals International

La Caisse's achievements
in Québec

FOSTERING THE GROWTH OF SMALL AND MEDIUM-SIZED BUSINESSES

SMEs contribute to the health of the economy in all regions of Québec. Whether alone or in partnership with other key actors, la Caisse takes concrete action every year to participate in their development and growth. In this way, it has played an instrumental role in the successful projects of more than 500 SMEs in the past four years.

SMALL CAPS

La Caisse invests in publicly traded Québec companies with market capitalizations of less than $400 million. Its $200-million initiative serves to stimulate Québec's equity market and helps these businesses thrive. A few examples of transactions that closed in 2014 are given on page 67.

CAPITAL CROISSANCE PME FUND

The Capital croissance PME fund was created in 2010 in partnership with Desjardins Group. It provides capital and strategic advice to Québec SMEs for projects involving expansion, acquisition, research and development, and productivity enhancement. La Caisse's involvement in this fund helps it reach businesses in all regions of Québec.

Since its inception, the Capital Croissance PME fund has authorized investments totalling $260 million in 250 businesses. In 2014, it made $74 million in commitments to 65 SMEs. A few examples are given on page 67.

VENTURE CAPITAL

La Caisse contributes to the vitality of the venture capital sector through well-established funds. It strives to ensure new businesses can successfully navigate the initial stages of their development. The following new commitments were concluded in 2014:

- $25 million to recapitalize the Anges Québec Capital fund, which finances innovative start-ups throughout Québec; and
- $80 million for Nocavap Industries IV, a new fund that invests in companies in the industrial and manufacturing sectors as well as in services, distribution and retail sales.

La Caisse also serves as a catalyst for the venture capital sector. In 2014, it continued to attract new venture capital to Québec by agreeing to invest $75 million in Callisto Capital Fund IV, an Ontario private equity fund looking to make investments in Québec. Callisto Capital invests in businesses in a variety of sectors, including health, retail trade and business services.

La Caisse has also continued to encourage Teralys Capital since it was established in 2009. Teralys invests in and develops specialized venture capital funds in the information technology, health sciences and green technology sectors. In 2014, Teralys launched a new fund, Teralys Capital Innovation Fund, and through its various funds completed investments totalling $44 million in 27 Québec businesses.

CAPITAL AND EXPERTISE FOR PROMISING SECTORS

Some sectors of economic activity present growth opportunities and play a special role in Québec's economy, such as the manufacturing and natural resources sectors. To meet the needs of businesses in these sectors, la Caisse has developed a value-added offering by creating funds that provide both capital and expertise.

Québec Manufacturing Fund

La Caisse has committed $200 million to the Québec Manufacturing Fund (QMF). Since 2006, the QMF has been helping Québec manufacturers expand their operations. These contributions are more than just financial; the QMF's managers work alongside the management teams of the investee companies.

In 2014, for example, this close collaboration led to the opening of a second Mexican plant by Liberty Spring, a Montmagny company that manufactures high-precision springs for the automotive and recreational products industry. This partnership, formed in 2012, initially sought to assist the company's efforts to expand its plant and develop a succession plan. Over the years, Liberty Spring has also drawn on the QMF's expertise to analyze several other initiatives, including expansion projects. Today, this Québec company is well positioned to take advantage of the growth in some markets and the resurgence of the automotive industry.

Sodémex

The $75-million Sodémex Exploration fund and the $250-million Sodémex Développement fund help meet the needs of Québec companies in the natural resources sector at every stage of their growth. La Caisse has been the sole investor in the Sodémex Exploration fund since 1997 and it launched the Sodémex Développement fund in 2013.

As at December 31, 2014, the two Sodémex funds held interests in approximately 60 Québec businesses active in the natural resources sector.

La Caisse's achievements
in Québec

SOME INVESTMENTS MADE IN 2014

La Caisse made many investments during the year, in companies of all sizes and at different stages of growth. Here are a few examples.

MEDIUM-SIZED AND LARGE BUSINESSES

CREVIER GROUP
Fuel distribution
Montréal
> $10-million investment
> For a business transfer to the new executives

TORNATECH
Design and manufacturing of fire-pump controllers
Montréal
> $12-million investment
> For a partial transfer of ownership to the next generation

ENGLOBE
Integrated environmental services
Québec City
> $40-million investment
> For a consolidation project

AGROPUR COOPERATIVE
Agroprocessing
Longueuil
> $150 million in financing
> Contribution to the financing of acquisitions in the U.S. and Canada

KDC
Health and beauty product manufacturer
Knowlton
> $78-million commitment
> For acquisitions in North America

BFL CANADA (FIRST LION)
Insurance
Montréal
> $8-million financing agreement
> For a growth project in Canada

FINLOC 2000
Financing for rolling equipment
Saint-Georges
> $8-million commitment
> For continued expansion

TAFISA CANADA
Manufacturer of particleboard and decorative panels for furniture and interior decoration
Lac-Mégantic
> $19.5-million investment
> For further growth

SMALL AND MEDIUM-SIZED BUSINESSES

OPSENS
Manufacture and marketing of fibre-optic sensors for the medical and industrial sectors
Québec City
> Purchase of shares worth $1.6 million
> To contribute to the company's growth and development

LUMENPULSE
Design and manufacture of LED lighting
Montréal
> Acquisition of shares worth $5 million
> Initial public offering

TECHNOFLEX
Manufacture of products from recycled tires
Bois-des-Filion
> $2-million investment
> For refinancing and capital expenditures

SIPROMAC
Manufacture of food-packaging equipment
Saint-Germain-de-Grantham
> $900,000 investment
> For an acquisition and refinancing

SHERLIC
Manufacture of acrylic showers as well as whirlpool and therapeutic bathtubs
Sherbrooke
> $700,000 investment
> For an ownership transfer

AUTOBUS MAHEUX
School, city and intercity bus transportation
Rouyn-Noranda
> $2.7-million investment
> For refinancing and growth through an acquisition

NAUTIC & ART
Manufacture of professional and search-and-rescue boats
Windsor
> $850,000 investment
> For growth and refinancing

ATTRACTION MÉDIA
Film, television, advertising and event production
Montréal
> $3-million investment
> For growth through an acquisition and refinancing

INNOTEX
Design and manufacture of protective clothing for firefighters
Richmond
> $750,000 investment
> For growth

DISTRIBUTION FROMAGERIE BOIVIN
Distribution of cheddar cheese
Saguenay
> $1-million investment
> For growth

Examples of investments made through the Capital croissance PME fund (except for Opsens and Lumenpulse).

La Caisse's achievements in Québec

ENCOURAGE EXPANSION INTO NEW MARKETS

As a global investor, la Caisse plays a leading role in furthering the efforts of Québec businesses intent on becoming players in new markets. In 2014, la Caisse completed several transactions to help local companies expand outside Québec.

WSP GLOBAL

WSP Global, a global engineering leader, was formed when WSP was acquired by Genivar, a Québec company founded in Québec City in 1959. The company first partnered with la Caisse in 2011.

INVESTMENTS BY LA CAISSE

2011: $80 MILLION
To expand Canadian operations and develop a plan for international growth

2012: $98 MILLION
To acquire WSP Group (a London firm active in more than 30 countries)

2014: $40 MILLION AND $200 MILLION
To acquire Focus (a Calgary firm) and Parsons Brinckerhoff (a New York firm with 170 offices around the world)

EXPANSION SINCE 2011

FROM 5,000 TO 32,000 EMPLOYEES

Acquisition of global firms based in **London** and **New York City**
Acquisition of a Canadian firm based in **Calgary**
Other smaller acquisitions elsewhere in the world

ALT HOTELS

Alt Hotels is owned and operated by the Germain Group, a family business that opened its first hotel in Québec City in 1988. La Caisse has partnered with the company since 1998.

INVESTMENTS BY LA CAISSE

2011: $10 MILLION
For expansion into new markets in Canada

2014: $15 MILLION
For continued expansion in Canada

EXPANSION SINCE 2011

FROM 110 TO 250 EMPLOYEES

New Alt hotels:
Toronto (2012), **Halifax** (2013) and **Montréal** (2014)

Under construction:
Winnipeg (2015), **Ottawa** (2016) and **Calgary** (2017)

LEMAY

Lemay is an architectural firm founded in 1957 and a leading Canadian provider of integrated design services for the built environment. The firm has received many awards. La Caisse partnered with Lemay in 2014.

FINANCING FROM LA CAISSE

2014: $6 MILLION
To acquire three Québec architectural firms and an interest in a firm in China

EXPANSION IN 2014

FROM 160 TO 500 EMPLOYEES

Offices in **Shanghai** and **Beijing**

INNOVER. AGIR.
TAKING ACTION TO STIMULATE ENTREPRENEURSHIP IN QUÉBEC

A dynamic entrepreneurial ecosystem is one of la Caisse's top priorities. It seeks to promote the role of entrepreneurs in society and to encourage the emergence of a new generation of entrepreneurs who will make tomorrow's companies successful. La Caisse also aims to spur the international growth and expansion of Québec's small and medium-sized businesses. In 2014, it launched *Innover. Agir.*, a one-of-a-kind initiative that will be undertaken in three phases in the years to come.

2014: STIMULATE ENTREPRENEURIAL CULTURE

In the first phase of *Innover. Agir.*, la Caisse brought together about 40 key members of the business community from different regions, including around 30 entrepreneurs. The purpose of the meetings was to identify and prioritize concrete actions that will stimulate and strengthen Québec's entrepreneurial culture. These brainstorming and analytical exercises culminated in about 10 projects based on three themes: develop awareness, promote and accelerate development. Certain targeted actions have been prioritized, including:

> a campaign to raise awareness and interest in entrepreneurship among young people, especially Québec's school community;
> the creation of the Cercle des grands entrepreneurs du Québec to promote entrepreneurship as a career choice; and
> a program designed to encourage participation by new entrepreneurs on the boards of directors of medium-sized and large businesses.

2015 AND **2016**: TWO PHASES FOCUSED ON INTERNATIONAL GROWTH AND BUSINESS TRANSFERS

Beginning in 2015, two more phases of *Innover. Agir.* will be launched, focusing on:

> growth of small and medium-sized businesses, in Québec and internationally; and
> business ownership transfers and succession.

OPTIMIZED IMPLEMENTATION

Actions taken under *Innover. Agir.* will take shape in a structured and coherent manner, in co-operation with key players in entrepreneurship. Various partners will be brought on board to optimize the initiative.

La Caisse has also continued to stand behind initiatives and organizations that promote entrepreneurship and facilitate the emergence of new entrepreneurs.

PRÊT À ENTREPRENDRE

La Caisse is a founding partner of the *Prêt à entreprendre* program, along with the Ministère de l'Économie, de l'Innovation et des Exportations, Desjardins Group and Capital régional et coopératif Desjardins, the Fédération des chambres de commerce du Québec (FCCQ), the Fondation de l'entrepreneurship and Quebecor. The goal is to stimulate a new wave of entrepreneurs. In 2014, the program backed 57 entrepreneurs, who received mentoring, technical advice from experts and financing. Since it was founded in 2012, *Prêt à entreprendre* has helped 109 entrepreneurs operating 72 businesses and has granted loans totalling $2.1 million.

WOMEN ENTREPRENEURS

The Capital croissance PME fund has assisted Femmessor, a group of regional organizations created in 2012, to back start-up and growth projects of women entrepreneurs. For every dollar invested by Femmessor, Capital croissance PME will increase the amount fivefold, to a maximum investment of $5 million.

La Caisse is also a partner of the Réseau des femmes d'affaires du Québec, in particular the *Développement économique féminin* program. This organization has been identifying, advising and promoting women leaders in business, the community, and political and economic spheres for more than 30 years.

Lastly, la Caisse assisted the Association des femmes entrepreneures de Québec, whose mission is to promote, develop and support women entrepreneurs as a lever of sustainable economic development in the Québec City region.

PARTNERSHIPS WITH KEY PLAYERS

La Caisse has partnered with several organizations and groups that support and equip Québec businesses to become leaders in their sectors. The list includes:

- the **École d'Entrepreneurship de Beauce**, a school created to strengthen business leadership;
- the **Groupement des chefs d'entreprise du Québec**, a development forum for heads of Québec SMEs; and
- **Réseau Capital**, whose mission is to contribute to the development and efficient operation of the private equity industry.

La Caisse is also involved in organizations that encourage the international expansion initiatives of Québec businesses, including:

- **QG100 Network**, a group of business leaders who support the development of global leaders in their fields and promote the sustainability of their positions in the context of international competition; and
- **Passeport PME**, a training and advisory program for SMEs with strong potential for international development. It was created through a partnership between the Board of Trade of Metropolitan Montreal, Québec International, la Caisse, National Bank, the Ministère de l'Économie, de l'Innovation et des Exportations and its Export Québec unit.

La Caisse's achievements in Québec

A LEADER IN QUÉBEC REAL ESTATE

Investments in real estate have a major impact on the economies of Québec and its cities. Through its two real estate subsidiaries, Ivanhoé Cambridge and Otéra Capital, la Caisse plays a leading role in this crucial sector.

As at December 31, 2014, la Caisse's real estate assets in Québec totalled $10.1 billion, as detailed in Table 30. New investments and financings over the past four years totalled $3.7 billion. The top 10 real estate investments in Québec are presented in Table 31 on page 73.

IVANHOÉ CAMBRIDGE

Ivanhoé Cambridge, a world-class real estate company, is a major property owner and manager in Québec. As at December 31, 2014, it owned 23 properties in Québec with a total value of $6.1 billion. Its holdings include nine shopping centres and nine office buildings, including several landmark properties in downtown Montréal and high-quality shopping centres in Montréal, Québec City and Sherbrooke.

In 2014, Ivanhoé Cambridge carried out transactions in Québec totalling more than $1.7 billion. For example, it acquired a $250-million interest in Cominar, Canada's third-largest real estate investment trust, making it the largest unitholder. The $1.2-billion transaction also involved the sale to Cominar of 13 buildings in Québec to refocus the retail portfolio on super-regional shopping centres.

Ivanhoé Cambridge also announced a new project as part of its plan for downtown Montréal. Under a joint development agreement with Manulife, it began construction of Maison Manuvie, a 27-storey building in the heart of the city. Under a lease signed in 2014, Manulife will occupy more than half of the prestigious skyscraper.

Ivanhoé Cambridge also announced an initial investment of more than $50 million in Québec City's Projet QB, a residential real estate complex that will have a retail component. Construction of phase 1 began in the summer of 2014. The completed project will have more than 400 rental apartments and almost 200 condominiums.

OTÉRA CAPITAL

Otéra Capital, one of Canada's leading mortgage lenders, is very active in Québec, where it had assets totalling $4.0 billion as at December 31, 2014. Otéra's Québec portfolio comprises about 300 mortgages on commercial buildings across Québec. In 2014, the Company granted about 40 loans totalling more than $550 million.

TABLE 30

REAL ESTATE ASSETS AND COMMITMENTS IN QUÉBEC
(as at December 31 - in millions of dollars)

	2014			2013		
	Assets	**Undisbursed commitments**	**Assets and undisbursed commitments**	Assets	Undisbursed commitments	Assets and undisbursed commitments
Shopping centres	**3,499**	**53**	**3,552**	4,438	19	4,457
Offices	**4,276**	**185**	**4,461**	4,216	456	4,672
Other	**2,275**	**164**	**2,439**	1,731	263	1,994
Total	**10,050**	**402**	**10,452**	10,385	738	11,123

A KEY ROLE IN PUBLIC AND PRIVATE FINANCING

La Caisse is one of the largest buyers of Québec bonds, including those issued by the Government of Québec, public corporations, municipalities, paragovernmental corporations and privately owned businesses. It also grants loans to finance the growth of many Québec businesses.

Through ongoing activities on the Québec bond market, la Caisse helps expand the resources available to Québec's public bodies and privately owned companies and enhances the liquidity of their securities. The result is better access to financing, which helps them generate economic activity.

A long-standing partner of many private Québec companies, la Caisse is also a major player in the financing market. Over the years it has helped underwrite many projects that have enabled Québec companies to grow in local and international markets.

As at December 31, 2014, la Caisse's total assets in bonds issued by Québec's public and private sectors stood at $34.0 billion, up $3.9 billion from the end of 2013. Table 32 shows la Caisse's Québec bond holdings.

TABLE 31

TOP 10 QUÉBEC INVESTMENTS – REAL ESTATE
(as at December 31, 2014)

Carrefour de l'Estrie, Sherbrooke
Centre CDP Capital, Montréal
Centre Eaton de Montréal, Montréal
Cominar Real Estate Investment Trust, Québec City
Fairview Pointe-Claire, Pointe-Claire
Galeries d'Anjou, Montréal
Laurier Québec, Québec City
Le 1000 De La Gauchetière, Montréal
Place Ste-Foy, Québec City
Place Ville Marie, Montréal

TABLE 32

ASSETS IN QUÉBEC – BONDS
(as at December 31 – in billions of dollars)

	2014	2013
Québec public sector		
Government of Québec	**17.8**	14.1
Hydro-Québec	**4.4**	4.0
Other crown corporations	**1.8**	2.1
Municipalities and para-governmental corporations	**1.0**	1.1
Subtotal	**25.0**	21.3
Private sector: corporate securities	**9.0**	8.8
Total	**34.0**	30.1

La Caisse's achievements
in Québec

A KEY PLAYER IN QUÉBEC'S FINANCIAL INDUSTRY

Given the nature of its operations, la Caisse plays a major role in Québec's financial industry. It also ensures the emergence of new financial leadership by developing a pool of qualified professionals.

Over the years, la Caisse has developed partnerships with Québec's largest universities to meet the specific needs of the financial sector. This collaboration involves support for research chairs and the creation of training programs. A number of examples follow:

- The Caisse de dépôt et placement du Québec Research Chair in Portfolio Management at Université du Québec à Montréal (UQAM);
- The Caisse de dépôt et placement du Québec Education Leadership Chair in Actuarial Management of Asset Risks at Université Laval;
- The Entrepreneurship and Innovation Chair at Université Laval;
- Intensive training program for executives of fast-growing SMEs that want to expand internationally, offered by HEC Montréal;
- Short Master's Program in Financial Engineering for holders of technical degrees, offered by the École de technologie supérieure (ÉTS);
- Study on responsible investment at the Université de Sherbrooke;
- Study on responsible investment at Concordia University;
- Contribution to the Fonds Guynemer Giguère of the Fondation HEC Montréal; and
- Sustainable Investment Professional Certification Program at Concordia University.

FINANCE MONTRÉAL

La Caisse plays a very active role in Finance Montréal, an organization that seeks to strengthen Québec's financial sector. For example, it helped establish the International Pension Conference of Montréal, whose second edition was held in 2014. La Caisse was also involved in setting up a program of structured, supervised internships for finance students. In 2014, la Caisse hired 16 interns under this program, which offers practical training to meet market needs.

STRENGTHENING THE VITALITY OF MANY SECTORS

As a world-class investor, la Caisse uses the services of many Québec companies in the financial sector as well as various other areas. Most of la Caisse's daily banking transactions are handled by banks and brokers in Québec. The operations of la Caisse and its real estate subsidiaries require almost 2,000 Québec suppliers. It spent a total of $775 million in Québec in 2014. The renewal of its agreement with State Street and Desjardins also led to significant savings for la Caisse and the creation of about 100 jobs.

With its Policy on Contracts for the Acquisition or Leasing of Goods and Services, the institution favours Québec suppliers, provided that they satisfy its cost and quality criteria.

STATEMENT OF LA CAISSE'S CONTRIBUTION TO QUÉBEC'S ECONOMIC DEVELOPMENT

The mission of la Caisse de dépôt et placement du Québec is to receive moneys on deposit as provided by law and manage them with a view to achieving an optimal return on depositors' capital within the framework of their investment policies, while contributing to Québec's economic development.

Returns and economic development go hand in hand. La Caisse intends to use all its abilities to advance Québec's economic development. It seeks to play a leadership role by making investments in well-managed companies that can generate attractive returns for its depositors. It also aims to foster the growth of promising companies, in Québec and internationally. La Caisse wants to play an active role in successful entrepreneurship and business succession. It also wants to help strengthen Québec as a financial centre.

With in-depth knowledge of Québec's business environment and market, a long-term investment horizon, critical mass, global reach and value-added services, la Caisse has comparative advantages that enable it to renew its commitment to Québec's economy by focusing on three main priorities.

SEEK OUT AND SEIZE THE BEST BUSINESS AND INVESTMENT OPPORTUNITIES

Invest funds with a view to long-term economic development, while generating a return that allows depositors to fulfill their obligations.

> Invest in Québec SMEs so that they can become more innovative, stand out in their markets and achieve high productivity.

> Make profitable, long-term investments in areas that we know well.

> Invest in projects that are commercially profitable and that have an impact on Québec's economy, such as major infrastructure projects.

SERVE AS A BRIDGE BETWEEN QUÉBEC COMPANIES AND GLOBAL MARKETS

Offer our diverse expertise, networks and investments to Québec companies capable of seizing international business opportunities, to heighten their presence and accelerate their growth.

> Maximize our presence, networks and expertise in all major markets.

> Invest in Québec companies and further their efforts to develop new products, accelerate their growth and expand international operations.

> Strengthen strategic partnerships with globally active institutional investors, while integrating their financial expertise into that of la Caisse.

STIMULATE ENTREPRENEURSHIP AND STRENGTHEN THE VITALITY OF BUSINESSES

Foster the creation and expansion of Québec businesses, ensure their transition to the next generation of leaders, while strengthening their vitality and developing Québec's financial expertise.

> Encourage the emergence and growth of entrepreneurs in all regions of Québec.

> Foster the growth of small and medium-sized Québec businesses to increase their critical mass.

> Facilitate business ownership transfers to the next generation.

RESPONSIBLE INVESTMENT

Responsible Investment Report

HIGHLIGHTS

1

During 2014, la Caisse voted on 47,859 proposals in connection with 4,679 shareholder meetings.

2

La Caisse's shareholder engagement involving Canadian businesses focused on themes such as compensation programs, environmental and social issues, and governance.

3

La Caisse organized a conference on academic research concerning responsible investment in Québec, as part of the international conference held in Montréal by the Principles for Responsible Investment Initiative.

RESPONSIBLE INVESTMENT APPROACH

In its investment activities, la Caisse is guided by its mission, its depositors' investment policies, the investment policies of its specialized portfolios and its clients' challenges, particularly in connection with risk factors and responsible investment.

La Caisse takes an active or an indexed approach to investment management. Given that it is a long-term investor, its actively managed investments are generally made from that perspective, giving it the flexibility to foster responsible investment practices. La Caisse believes that if companies manage environmental, social and governance factors (ESG factors) proactively and effectively, they are more likely to achieve sustainability and create value over the long term.

The decision to invest in a security or to exclude it from the portfolio is based on a rigorous analysis of a set of criteria that go beyond financial considerations to include ESG factors. La Caisse occasionally invests in sectors that may be regarded as controversial and, in such cases, applies the approach set forth in its Policy on Responsible Investment. The policy is available on the institution's website (www.lacaisse.com) under the Investments tab in the Responsible Investment section.

La Caisse takes a three-pronged approach: it includes ESG factors in its analysis of actively managed investments, it practices shareholder engagement and it occasionally excludes specific securities (see Table 33).

TABLE 33

LA CAISSE'S RESPONSIBLE INVESTMENT APPROACH

VISION	La Caisse is a responsible shareholder and acts in a fiduciary spirit to provide risk-adjusted, long-term returns.	
POLICIES	Policy on Responsible Investment Policy on Principles Governing the Exercise of Voting Rights of Public Companies	
APPROACH	Integration of ESG criteria Shareholder engagement Exclusion	
ACTIVITIES	• Exercise of voting rights • Direct dialogue • Collaborative initiatives • Dialogue between stakeholders and industry	• Risk analysis • Research • Review of individual cases

2014 RESPONSIBLE INVESTMENT REPORT

La Caisse's three-pronged Policy on Responsible Investment involved various initiatives in 2014. The following is a brief overview of these activities.

1. INTEGRATION OF ESG CRITERIA

Consideration of ESG criteria for the various asset classes is important because la Caisse is a long-term investor that emphasizes active management. When la Caisse makes an active-management decision, these factors are reviewed as part of a comprehensive analysis of the investment. Table 34 explains the ESG criteria.

Examples of action taken by la Caisse in 2014:

- Continued the database project to provide a comparative analysis of the compensation programs of the 100 largest companies in Canada's S&P/TSX Index, as ranked by stock market capitalization.
- Developed an ESG profile for each proposed investment in publicly traded companies, for equity and debt securities alike.
- Organized a conference on academic research as part of the international conference held by the Principles for Responsible Investment Initiative in Montréal from September 22 to 24, 2014. At the conference, academics from various universities discussed their research projects or findings.
- Took part, as a sponsor, in the competition organized by the Finance and Sustainability Initiative (FSI) to promote excellence in sustainable development reporting.

TABLE 34

WHAT ARE ESG CRITERIA?

The degree to which la Caisse takes environmental, social and governance criteria into account depends on the company, the type of industry and the investment vehicle selected. These criteria are reviewed during the analysis that precedes an investment decision and at meetings with company executives as issues arise.

→ **Environmental criteria**
include, for example, the impact of company activities on climate and greenhouse gas emissions, pollution, scarcity of resources and site rehabilitation.

→ **Social criteria**
include, for example, human rights, consent of local communities, working conditions, and health and safety.

→ **Governance criteria**
include, for example, executive compensation, election and mandate of directors.

Responsible Investment Report

2. SHAREHOLDER ENGAGEMENT

La Caisse's shareholder engagement takes different forms, such as advocacy involving businesses, alone or in collaboration with other investors, and exercising voting rights at shareholder meetings. La Caisse also routinely comments on the consultations of Canadian securities authorities and legislation concerning governance issues and investment activities.

In applying its responsible investment approach, la Caisse contacts companies to obtain information that may be of benefit to all shareholders or to discuss specific issues and ways to improve practices. Such communications with companies are generally private. Barring exceptional circumstances, la Caisse does not disclose the names of companies it contacts in this way.

In 2014, la Caisse carried out a total of 76 shareholder engagement initiatives, of which one-half involved Canadian companies. In most cases, the discussions concerned executive compensation programs and the composition of the board of directors.

Shareholder engagement with Canadian companies

Shareholder engagement – Compensation programs

Objectives under this theme:

La Caisse believes executive compensation should be aligned with a company's results, so it reviews compensation programs as a function of such factors as the link between compensation and the company's performance.

Examples of action taken by la Caisse in 2014:

- Participation in meetings organized by the Canadian Coalition for Good Governance with board members of certain Canadian companies.
- Meetings with officers and directors to discuss compensation programs, comparisons of such programs with those of peers in the same industry, advisory votes and special bonuses.
- Involvement in consultations conducted by compensation experts on best practices.

Shareholder engagement – Environmental and social issues

Objectives under this theme:

Environmental and social issues are important because they may have financial consequences for a company and its shareholders and may also affect its reputation. Furthermore, such issues routinely create social-acceptability risks for the company's stakeholders, including employees, shareholders, local citizens and non-governmental organizations (NGOs).

Examples of action taken by la Caisse in 2014:

- Several field visits to meet with various stakeholders, observe and verify the status of certain projects, review various operating activities and discuss specific issues. For example, textile plants were visited in Myanmar and Bangladesh to check whether working conditions and safety had improved after the tragic events of recent years. In addition, the facilities of a multinational oil company in China were visited to gain a better understanding of how it manages hydraulic fracturing.

- Meetings and discussions with officers of companies on environmental risks, risks related to supply chains and those related to water use and management.
- Support for the Carbon Disclosure Project (CDP), which sends companies a questionnaire so that they can disclose information on their approach to managing climate change and greenhouse gas emissions.
- Participation in CDP's Water Disclosure Project, an initiative that underscores the importance of water and addresses the issue through dialogue with companies.
- Support for several shareholder proposals designed to obtain more information on environmental risks and the measures that companies have taken to address them.
- Support for the Extractive Industries Transparency Initiative (EITI), an organization that fights corruption by encouraging countries at risk to implement measures that ensure openness and accountable management of revenues from natural resources.

Shareholder engagement – Governance

Objectives under this theme:

La Caisse carefully reviews governance issues so that it can take action when companies fail to adopt best practices, whether such practices involve the composition of the board of directors and its committees, diversity, the annual election of directors or the share capital structure. The institution also works to improve Canada's proxy voting system.

Examples of action taken by la Caisse in 2014:

- Participated in the Public Policy Committee of the Canadian Coalition for Good Governance, which develops the organization's public positions.
- A Caisse representative took part in the Corporate Governance Committee of the Pension Investment Association of Canada (PIAC), which reviews governance issues that are important to such investors.
- Submitted comments to the regulatory authorities for consultations on the following matters: proxy advisory firms, amendments to the Canada Business Corporations Act and regulation of the representation of women on boards of directors and in senior management.
- Took part in the regulatory authorities' review of the proxy voting infrastructure.
- Supported the initiatives of the Canadian Board Diversity Council.

Shareholder engagement – Growth markets

Shareholder engagement in growth markets presents challenges, especially because of geography and cultural differences. La Caisse has therefore given a mandate to a specialized firm to help it carry out shareholder engagement activities. In 2014, a dialogue was established with more than 67 companies in growth markets. Environmental and social issues were regularly raised with the companies, but governance matters proved to be more important, given the noticeable discrepancy vis-à-vis internationally recognized governance best practices.

Responsible Investment Report

Proxy voting

The exercise of voting rights at shareholder meetings of portfolio companies is an important activity. The institution exercises this right in respect of all investee companies, whether they are managed actively or on an indexed basis.

An internal team exercises voting rights for the shareholder meetings of Canadian and U.S. companies. For companies outside North America, voting rights are exercised with assistance from an external firm, according to Caisse policies and directives. In such cases, la Caisse reviews the firm's voting recommendations and takes any action it deems necessary.

Other engagement activities

La Caisse also conducts engagement activities of greater scope than those involving specific themes or dialogue with companies. It collaborates on responsible-investment matters with various stakeholders and in this way promotes and advances responsible investment.

Examples of action taken by la Caisse in 2014:

- Membership in a group of Québec PRI signatories. The group holds informal meetings on a regular basis to discuss responsible investment issues and PRI implementation at various organizations.
- Participation in several meetings with various stakeholders, primarily pension committees and universities interested in understanding la Caisse's approach to responsible investing.
- Participation in many discussions with Canadian peers on various matters involving issuing companies. The discussions concerned mainly governance at specific companies, compensation programs, operations in risky countries and working conditions.

3. EXCLUSION

In some circumstances, la Caisse takes the exceptional measure of excluding securities from its portfolio. If the circumstances so justify, it may exclude the securities of companies in violation of local or international law. Such matters are reviewed by an internal committee composed of managers from various units, including the investment teams.

La Caisse excludes from its portfolio companies that manufacture weapons banned by the Ottawa Convention Banning Landmines and the Oslo Convention on Cluster Munitions. Such securities may be reinstated in the portfolio if the companies in question stop manufacturing such weapons.

RESPONSIBLE INVESTMENT COMMITTEE

The role of the Responsible Investment Committee is to examine key issues associated with this subject, in particular shareholder-engagement issues, to determine whether specific securities should be excluded from or reintroduced in the portfolio.

For more information on la Caisse's responsible investment actions, refer to its website at www.lacaisse.com.

La Caisse voted on 47,859 proposals in 2014 in connection with 4,679 shareholder meetings:

Canada: 153 meetings
United States: 709 meetings
International: 3,817 meetings

Out of all votes, 12.3% were against management proposals[1]:

Canada: 5.2%
United States: 9.1%
International: 13.2%

1. Votes against management tended to concern compensation programs that did not meet Caisse criteria and the election of directors to boards without a majority of independent members.

Sustainable Development Report

The Sustainable Development Action Plan presented in this section shows the emphasis la Caisse places on the sustainability and continuity of its operations. It also reflects the institution's commitment to the government strategy implemented since the Sustainable Development Act came into force. Since the Plan was adopted, many activities have been undertaken to reduce la Caisse's ecological footprint, raise awareness of sustainable development, showcase Québec's cultural heritage and share knowledge of sustainable development with its peers and clients, the depositors.

2012-2015 ACTION PLAN

The Plan sets out 11 actions from 2012 to March 2015. This section presents a progress report on the actions taken in 2014 and serves as a formal accounting of the institution's achievements.

OBJECTIVE
PROMOTE THE CONCEPT AND PRINCIPLES OF SUSTAINABLE DEVELOPMENT

ACTION 1

Provide Caisse employees with sustainable development information and training

- An interactive online training session on the principles of sustainable development, deployed to 200 employees of la Caisse in 2013, is now offered to all new employees. In 2014, 86% of them took the training.
- Almost 40 articles on various sustainable development subjects and activities appeared in la Caisse's employee newsletter. Posters were used to publicize various environmental and social topics, including initiatives at the Centre CDP Capital.
- For a third year in a row, la Caisse held a conference on a theme related to responsible investment. The conference, which took place in September 2014, focused on academic research under way in Québec on the inclusion of environmental, social and governance issues in investment decisions. It was part of the international conference held in Montréal by the Principles for Responsible Investment Initiative. La Caisse took part in the conference in several ways: it was a sponsor of the event, provided speakers and helped organize side events. Its responsible investment team was present throughout the event.
- Over the past three years, a working committee made up of employees from various units has developed and initiated activities directly aligned with certain objectives of the Government Sustainable Development Strategy. In 2014, these activities dealt mainly with improving the work environment to encourage better productivity and collaboration among employees.
- In 2014, Ivanhoé Cambridge organized a corporate social responsibility (CSR) week, offering activities and presentations to raise awareness among employees and inform them about its CSR initiatives.

OBJECTIVE
DEVELOP A PREVENTION CULTURE AND CONDITIONS FAVOURABLE TO HEALTH, SAFETY AND THE ENVIRONMENT

ACTION 2

Continue to improve working conditions that foster employee health and safety

- In 2014, la Caisse implemented a major component of its Global Health Strategy for employees: an overhaul of its group insurance plan.
- Further measures were taken to ensure that employees travelling on business can be located and contacted quickly. Employees are informed of any event that may occur during their trip and any action that should be taken. A more specific procedure was developed to deal with situations in which their safety could become an issue.

Sustainable Development Report

ACTION 3

Take measures to encourage employees to use green transport

- In 2014, Ivanhoé Cambridge followed up on a 2013 study on employee mobility by deploying an action plan favouring active transportation, such as public transit, cycling and walking. A communication campaign encouraged employees to carpool, and several parking spaces were set aside at Centre CDP Capital for carpooling.

OBJECTIVE
ENCOURAGE RESPONSIBLE PROCUREMENT AND SOUND ENVIRONMENTAL MANAGEMENT

ACTION 4

Strengthen practices and activities designed to encourage responsible consumption

- After reviewing its procurement policy in 2013, la Caisse continued to evaluate sustainable development opportunities. New requirements were taken into account in all new contracts awarded through competitive bidding.
- Under this policy, la Caisse also continued its strategy of giving priority to suppliers of goods and services that have a place of business in Québec.

ACTION 5

Continue environmental management

In 2014, Ivanhoé Cambridge continued to pursue environmental management initiatives at its properties:

- After major upgrades, Place Ville Marie and the World Trade Centre Montréal obtained LEED certifications, joining Centre CDP Capital and Le 1000 De La Gauchetière.
- An inventory of greenhouse gas emissions was prepared for properties managed in Canada.
- All the properties in Québec are certified BOMA BESt.

OBJECTIVE
CONSERVE AND SHOWCASE QUÉBEC'S HERITAGE

ACTION 6

Continue to promote cultural heritage

- In 2014, a new section was created on the Intranet so that employees can become more familiar with the Caisse art collection. The works in the collection exemplify the foremost trends in Québec contemporary art since 1965.
- Six guided tours of the collection were given to employees and external groups, including students.
- A meeting with an art collector was held for employees at la Caisse.

ACTION 7

Continue to enhance architectural heritage

- Ivanhoé Cambridge formed a partnership with the McCord Museum to introduce a mobile application featuring buildings in urban settings.
- In 2014, Ivanhoé Cambridge continued its partnership with Heritage Montreal to raise awareness of Montréal's architectural heritage and organize related activities.

OBJECTIVE
FIGHT SOCIAL INEQUALITY

ACTION 8

Encourage employees to support philanthropic causes

- A successful program designed to encourage employees to engage in community action was continued in 2014. The program has three components: it encourages employees to get involved in community organizations, to volunteer with Bénévoles d'affaires to share professional skills and expertise, and to support corporate causes.
- Various volunteer activities took place during the year. For example, employees collected winter clothing and food for six organizations in Montréal's Ville-Marie borough. A team of nine Caisse employees helped Herstreet with spring cleaning at the organization's premises.

- In collaboration with Bénévoles d'affaires, 13 twinning arrangements were put in place for employees willing to serve on boards of directors or working committees. Twenty-two employees are registered in the program.
- In the fall, about 250 employees took part in the Ride for Juvenile Diabetes Research and raised $130,000 for the Juvenile Diabetes Research Foundation.
- Ivanhoé Cambridge carried out a program to raise employees' awareness of four programs it has set up to encourage them to get involved in their communities, whether by making donations or by volunteering. Employees' participation rates in community engagement programs were up in relation to 2013.
- La Caisse and Ivanhoé Cambridge also took part in the annual fundraising campaign of United Way Centraide Canada.

OBJECTIVE
RESPOND TO CHANGING DEMOGRAPHICS AND FOSTER WORK-LIFE BALANCE

ACTION 9

Optimize the work environment

- After a pilot project carried out in 2013, the framework for managing teleworking was expanded in 2014 to include all Caisse units. This initiative is designed to enhance employees' efficiency and flexibility, with benefits for la Caisse and its employees alike.

OBJECTIVE
NURTURE A NEW GENERATION OF FINANCE PROFESSIONALS

ACTION 10

Develop the next generation of financial leaders

- La Caisse continued to collaborate with Finance Montréal to nurture a new generation of finance professionals in Québec.
- During the year, la Caisse hired 16 interns as part of its internship program.
- La Caisse participates in various committees of the Association des femmes en finance du Québec (AFFQ), which highlights, among other things, the Relève awards given to three women studying finance.
- A competition was launched in September 2014 to award the new FSI-PRI Scholarship for Best Research on Responsible Investment to a master's or doctoral student. La Caisse is one of the main partners in this new initiative.

ACTION 11

Promote the visibility and representation of women in finance

- La Caisse continued to partner with the Association des femmes en finance du Québec (AFFQ) on its mentoring program: 11 Caisse employees are participating as mentors or mentorees in the 2014-2015 cohorts.
- La Caisse makes a point of drawing on the professional networks of its women employees when it has job openings in finance.
- In 2014, a clause was added to la Caisse's contracts with recruiting firms to require them to propose qualified female candidates.
- La Caisse entered into a partnership with the Association des femmes entrepreneures de Québec (AFEQ) to support women entrepreneurs.
- La Caisse supported various networking activities and conferences to foster the development of women in finance and business.

REPORTS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

Board of Directors' Report

HIGHLIGHTS

1

Supported senior management in strategic investment planning initiative and approved each investment group's priorities for 2015-2018.

2

Reviewed and approved changes in la Caisse's governance strategy by adopting a decision-making process and levels of responsibility, promoting greater efficiency in the execution of strategies.

3

Approved the draft agreement to implement a model for the execution of public infrastructure projects, subject to approval by Québec's National Assembly.

THE BOARD OF DIRECTORS

MANDATE

The mandate of the Board of Directors includes ensuring that la Caisse is managed in compliance with the provisions of its incorporating Act and regulations and that it takes the necessary steps to attain the objectives stated in its mission.

For a full description of the Board of Directors' mandate, please consult the Governance section of the Caisse website at www.lacaisse.com.

COMPOSITION

As at December 31, 2014, the Board consisted of 12 members out of a maximum of 15. During the year, after consulting with the Board, the Government of Québec renewed the mandate of Ouma Sananikone and François R. Roy as independent Board directors, and appointed Diane Lemieux, President and Chief Executive Officer of the Commission de la construction du Québec, as a non-independent member. Louise Charette and Denys Jean resigned from the Board during the year.

DIRECTOR COMPENSATION

The compensation of la Caisse's directors, other than the Chairman and the President and Chief Executive Officer, is determined by an order in council of the Government of Québec. Their compensation for 2014 is provided in Table 36 on page 89. The directors are also entitled to be reimbursed for their travel and living expenses, where applicable.

COMPENSATION OF THE CHAIRMAN OF THE BOARD

The annual compensation of the Chairman of the Board is set at $195,000 by an order-in-council of the Government of Québec. The Chairman is also entitled to be reimbursed for representation expenses related to the duties of his position, to a maximum of $15,000 a year.

TABLE 35

DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2014[1]

Directors	Board of Directors		Audit Committee	Investment and Risk Management Committee		Human Resources Committee		Governance and Ethics Committee
	7 reg.	6 spec.	6 reg.	6 reg.	3 spec.	7 reg.	2 spec.	5 reg.
Elisabetta Bigsby	7	1	–	6	1	7	1	–
Louise Charette	3/3	2/2	4/4	–	–	–	–	2/2
Patricia Curadeau-Grou	7	6	–	5	3	–	–	–
Michèle Desjardins	6	6	–	–	–	6	2	4
Rita Dionne-Marsolais	7	6	6	–	–	–	–	5
Gilles Godbout	7	6	6	6	3	–	–	–
Denys Jean	3	4	–	–	–	–	–	–
François Joly	7	6	6	6	3	7	2	–
Jean La Couture	7	6	–	6	3	–	–	–
François R. Roy	7	6	6	6	3	–	–	–
Michael Sabia	7	6	–	–	–	–	–	–
Ouma Sananikone	7	5	–	–	–	7	2	4
Robert Tessier	7	6	–	–	–	7	2	5

1. Directors justify their absences from regular meetings of a Committee or the Board to la Caisse's Secretariat. During 2014, directors were not able to attend certain meetings, due mainly to health reasons or to obligations related to family or work commitments.

TABLE 36

COMPENSATION PAID TO INDEPENDENT DIRECTORS UNDER ORDER-IN-COUNCIL[1]

(in dollars)

Directors	Annual compensation	Compensation as Committee Chair	Attendance fees	Total compensation
Elisabetta Bigsby	18,021	5,631	18,177	41,829
Louise Charette	10,777	–	8,422	19,199
Patricia Curadeau-Grou	18,021	–	13,975	31,996
Michèle Desjardins	18,021	–	16,904	34,925
Rita Dionne-Marsolais	18,021	–	15,028	33,049
Gilles Godbout	18,021	–	12,969	30,990
François Joly[2]	18,021	5,631	31,660	55,312
Jean La Couture	18,021	5,631	14,824	38,476
François R. Roy	18,021	–	19,884	37,905
Ouma Sananikone	18,021	5,631	17,328	40,980
Total				**364,661**

1. In accordance with the terms of the Order-in-Council:
   a. A 2% increase was applied on April 1, 2014 to the annual compensation, the Committee Chairs' compensation and the attendance fees.
   b. The attendance fee for each special or short Board or Committee meeting, held by conference call, is half of the attendance fee allowed for a regular meeting.
   c. Members who are retired from the public sector receive total reduced compensation.
2. This director received attendance fees for attending an Audit Committee meeting of la Caisse's real estate subsidiaries.

Board of Directors' Report

ACTIVITY REPORT

Strategic directions

The year 2014 provided an opportunity for la Caisse to push even further each of the strategic orientations previously adopted by the Board. These orientations, intended most notably to obtain less volatility in the returns, are focused, among other things, on the increased importance of absolute-return management, investing in assets whose value is directly rooted in the real economy, investing in Québec, and la Caisse's increased presence in growth markets. Accordingly, the Board did the following:

- supported senior management throughout the strategic investment planning initiative and approved the priorities of each investment group for 2015-2018;
- reviewed and approved changes in la Caisse's governance strategy by adopting a decision-making process and levels of responsibility promoting more efficient execution of strategies;
- approved a new reporting procedure facilitating more methodological monitoring of results and the risks associated by investment strategies, at each step of their deployment;
- supported management and approved the draft agreement to implement a model for the execution of public infrastructure projects, subject to approval by Québec's National Assembly;
- approved the appointment of an Executive Vice-President, Private Equity and Infrastructure, overseeing all investments outside Québec in these less-liquid asset classes;
- approved the appointment of an Executive Vice-President, Québec, in charge of co-ordinating and planning, in an integrated manner, all of la Caisse's operations in Québec;
- approved the development of a team dedicated to growth markets and the opening of international offices in an effort to strengthen la Caisse's global footprint; and
- monitored the deployment of absolute-return management of equity investments.

Business plan

The Board adopted la Caisse's business plan and the annual budget and received regular progress reports from senior management.

Financial results, internal controls and management systems

With assistance from the Audit Committee, the Board fulfilled its responsibilities with respect to financial results and internal controls, notably by:

- reviewing the quarterly financial statements and approving the consolidated financial statements as at June 30 and December 31;
- evaluating the integrity of all controls applied to data used to prepare the financial statements and related notes;
- reviewing the returns of the investment units and approved the press release announcing the annual and interim financial results, as well as the Annual Report;
- monitored activities to optimize Caisse resources; and
- approved la Caisse's treasury policy.

See the Report of the Audit Committee on page 92 for more information on the responsibilities discharged by the Committee and the Board.

Investment and Risk Management

Assisted by the Investment and Risk Management Committee, the Board ensured that an effective and rigorous risk management framework and the related processes were applied during the year. As such, the Board:

- monitored and assessed the work intended to adapt the risk management framework and processes to the changes stemming from strategic priorities and approved 12 Caisse guidelines relating to risk tolerance;
- approved investment proposals under its authority and recommended by the Committee, taking into account the impact of each one on the level and concentration of risk of the specialized portfolio in question and of la Caisse's overall portfolio; and
- approved necessary changes to the investment policies of certain specialized portfolios and to the integrated risk management policy recommended by the Committee.

For all the activities of the Board and the Investment and Risk Management Committee, see the Report of the Investment and Risk Management Committee on page 113.

Corporate governance

At each meeting, the committees reported on their activities to the Board so that it could review and express an opinion on their recommendations. Committee members and Board members alike also met regularly without the presence of senior management. The Board also held discussions with the President and Chief Executive Officer in the absence of other members of senior management.

See the Report of the Governance and Ethics Committee on page 95 for more information on the responsibilities discharged by the Committee and the Board regarding governance and ethics.

Supervision of senior management and human resources management

With assistance from the Human Resources Committee, the Board approved the President and Chief Executive Officer's detailed objectives for 2014. The Board also reviewed the performance of the President and Chief Executive Officer on the basis of the objectives set at the beginning of the year.

The Board also reviewed the President and Chief Executive Officer's performance evaluations of senior management and reviewed the succession plans for them and for the President and Chief Executive Officer. It approved the salary conditions and the level of incentive compensation to be paid to senior management. It also authorized the appointment of Mr. Beroutsos and Mr. Dubé to the position of Executive Vice-President as well as their compensation.

See the Report of the Human Resources Committee on page 97 for more information on the responsibilities discharged by the Committee and the Board.

Report of the Audit Committee

HIGHLIGHTS

1

Reviewed and monitored preparation of the financial statements.

2

Reviewed the implementation of International Financial Reporting Standards (IFRS).

3

Recommended that the Board adopt la Caisse's treasury policy.

THE AUDIT COMMITTEE

MANDATE

The Audit Committee sees that the financial statements accurately reflect la Caisse's financial position. It also ensures that the institution has adequate and effective internal control mechanisms and a risk management process.

For a full description of the Audit Committee's mandate, please refer to the Governance section of the Caisse website (www.lacaisse.com).

COMPOSITION (as at December 31, 2014)

The Committee consisted of four independent members, including professionals with accounting or financial expertise as well as the experience and knowledge required to read and understand financial statements and to fulfill their roles properly.

- Chair: François Joly (guest member at meetings of the Investment and Risk Management Committee)
- Members: Rita Dionne-Marsolais, Gilles Godbout and François R. Roy.

The Chairman of the Board attends the Committee's meetings.

ACTIVITY REPORT

Number of meetings held in 2014: 6

The following report was approved by the Committee members.

Financial reporting

In 2014, the Committee fulfilled its financial reporting responsibilities which included the following:

- Reviewed various aspects of the financial statements with the Finance group and the co-auditors: the Auditor General of Québec and Ernst & Young, including:
  - the process used to prepare the financial statements;
  - the valuation of over-the-counter liquid investments, less-liquid investments and ABTNs;
  - the validation of the notional amount of derivative financial instruments by an external firm; and

- the audit of returns by an external firm to ensure their calculation and presentation complied with industry standards;

- Reviewed the report on the financial certification process that enables the President and Chief Executive Officer and the Chief Financial Officer to certify publicly that the disclosure controls and procedures and the internal financial reporting controls are adequate and effective;
- Recommended that the Board adopt the annual financial statements;
- Reviewed preparatory work on the Annual Report and the press releases announcing la Caisse's financial results;
- Arranged for the Chair of the Audit Committee to attend meetings of the real estate subsidiaries' audit committees and reviewed the committees' annual activity reports;
- Received the co-auditors' report submitted to Caisse senior management after their year-end audit;
- Reviewed the quarterly financial statements, budget monitoring reports, operating expenses and year-end budget estimates;
- Discussed with the co-auditors their plan for auditing la Caisse's financial statements;
- Discussed with Ernst & Young its internal quality-control procedures;
- Reviewed and monitored the External Auditor Independence Policy and submitted a recommendation to the Board regarding Ernst & Young's audit fees;
- Reviewed the main accounting positions and elections recommended by the Finance group that have an impact on la Caisse's financial statements in anticipation of the implementation of International Financial Reporting Standards (IFRS) and monitored the preparatory work for such implementation;
- Held regular discussions with the Executive Vice-President and Chief Financial Officer in the absence of other members of senior management; and
- Met regularly with the co-auditors to discuss various aspects of their mandate without the presence of senior management.

Internal audit

In 2014 the Committee participated in the hiring of a Vice-President responsible for all internal audit activities. The Committee also carried out the following activities with the Internal Audit group:

- Reviewed and approved the 2014-2015 Internal Audit Plan;
- Reviewed Internal Audit's progress reports prepared under the Internal Audit Plan to address such matters as internal control mechanisms, risk management processes and optimal use of resources;
- Monitored the implementation of Internal Audit's recommendations by Caisse senior management;
- Reviewed status reports on internal audits of the real estate subsidiaries;
- Reviewed reports under the institution's continuous audit program;
- Ensured that the Internal Audit team was able to act independently from Caisse senior management; and
- Held periodic discussions with the Vice-President, Internal Audit, without the presence of senior management.

Report of the Audit Committee

Internal controls and plan for the optimal use of resources

The Committee reviewed many aspects of internal controls and optimal use of resources in 2014. It carried out the following activities:

- Reviewed the findings of senior management and Internal Audit on processes and controls related to the general control environment and information technology (IT), and regularly monitored the IT supplier's implementation of the controls;
- Reviewed la Caisse's use of cloud-computing technologies;
- Reviewed la Caisse's treasury policy and recommended it to the Board for approval;
- Reviewed tax considerations related to la Caisse's status with respect to its foreign investments;
- Reviewed the Regulation respecting the terms and conditions of deposits, funds and portfolios; and
- Monitored and analyzed the effects of all activities to promote optimal use of resources.

Risk management

The Board of Directors established the Investment and Risk Management Committee to help the Audit Committee fulfill its duty to implement a risk management process. The Committee therefore carried out the following activities to monitor all investment and risk management work:

- Received copies of the certificates of compliance with the depositors' investment policies and the specialized portfolios' investment policies;
- Received reports on compliance with the Act respecting the Caisse, in particular the monitoring of investments under the last paragraph of section 37.1;
- Received reports on legal proceedings involving la Caisse or its real estate subsidiaries;
- Received copies of the Investment and Risk Management Committee's minutes of meetings; and
- Arranged for the Chair of the Audit Committee to attend the meetings of the Investment and Risk Management Committee.

USE OF EXTERNAL EXPERTS

The Audit Committee did not use the services of external experts in 2014. Even so, it endorsed senior management's use of external firms for internal audit work and an independent review of the fair value of private equity, some liquid securities, real estate, real estate debt and ABTNs.

EXTERNAL AUDITOR

In February 2014, the Government of Québec adopted an order-in-council appointing Ernst & Young to work jointly with the Auditor General as the external auditor of la Caisse's books and accounts for the fiscal years ending December 31, 2015 and 2016.

Report of the Governance and Ethics Committee

HIGHLIGHTS

1

Reviewed the expertise and experience profiles of the independent directors with the Human Resources Committee and made recommendations to the Board concerning its composition.

2

Reviewed the process used to evaluate the performance of the Board, its Chairman, the committees and their chairs.

3

Reviewed the rules for the management of privileged information and the establishment of ethical walls.

GOVERNANCE AND ETHICS COMMITTEE

MANDATE

The Governance and Ethics Committee ensures that la Caisse adheres to the highest standards of governance and ethics. For a full description of the Governance and Ethics Committee's mandate, please consult the Governance section of the Caisse website (www.lacaisse.com).

COMPOSITION (as at December 31, 2014)

Four independent members:

- Chair: Ouma Sananikone
- Members: Michèle Desjardins, Rita Dionne-Marsolais and Robert Tessier

ACTIVITY REPORT

Number of meetings in 2014: 5

The following report was approved by the Committee members.

Composition of the Board and its committees

The Committee conducted a review to ensure the composition of the Board and its committees is optimal. To that end, the Committee:

- Worked with the Human Resources Committee to review the expertise and experience profiles of the independent directors;
- Analyzed the Board's composition, each director's term of office and the Board's overall skills and expertise;
- Recommended that the Board renew the mandates of independent directors and appoint a non-independent member; and
- Reviewed the orientation program for new Board members.

Report of the Governance and Ethics Committee

Activities of the Board and its committees

- Reviewed the performance evaluation process of the Board, its Chairman, the committees and their chairs, including directors' self-assessments; analyzed the results and made recommendations to improve certain processes, as necessary.
- Discussed the efficiency of the evaluation process applicable to the Board and its committees and the governance practices associated with this matter.
- Ensured that key individuals – whether Caisse senior managers or external specialists – were available to explain various items on the agendas of Board meetings, and that the time allotted was sufficient for a full discussion.
- Obtained assurance that the Board had all the information and time required to analyze issues affecting la Caisse.

Rules of ethics and professional conduct

Regarding rules of ethics and professional conduct, the Committee's activities included the following:

- Reviewed the rules on declarations of interests, verified that the declarations complied with the provisions in effect and transmitted the declarations to the authorities designated under the Act respecting the Caisse.
- Reviewed management practices and identified potential conflicts of interest for investment proposals made to the Board.
- Reviewed the report on the implementation of the rules of ethics and professional conduct at la Caisse.
- Reviewed transactions involving securities of companies having ties with Caisse directors.

La Caisse

- Reviewed the report on the exercise of the institution's right to vote the shares of its portfolio companies.
- Reviewed the report on the donations and sponsorships provided by la Caisse during the year and reviewed the annual budget for such activities.
- Reviewed all provisions of the Act respecting the Caisse, particularly the provisions relating to governance and conflicts of interest, as part of the revision of the Act carried out every 10 years.
- Reviewed the rules for the management of privileged information and the establishment of ethical walls.
- Reviewed the process for appointing members to the boards of certain private companies in which la Caisse invests.

USE OF EXTERNAL EXPERTS

The Governance and Ethics Committee did not use the services of external experts in 2014.

Report of the Human Resources Committee

HIGHLIGHTS

1

Approved the appointment of an Executive Vice-President, Québec, responsible for integrated, cross-sectoral coordination and planning of la Caisse's activities in Québec.

2

Approved the appointment of an Executive Vice-President, Private Equity and Infrastructure, responsible for all investment activities outside Québec in these less-liquid asset classes.

3

Reviewed and discussed engagement survey results, the resulting action plan and changes in employee engagement.

HUMAN RESOURCES COMMITTEE

MANDATE

The mandate of the Human Resources Committee is to review the orientations and strategies used by la Caisse to manage its human resources, including performance evaluation, succession planning and executive compensation as well as its general human resources practices.

For a full description of the mandate of the Human Resources Committee, please consult the Governance section of la Caisse's website (www.lacaisse.com).

COMPOSITION (as at December 31, 2014)

The Committee is composed of five independent members:

- Chair: Elisabetta Bigsby
- Members: Michèle Desjardins, François Joly, Ouma Sananikone and Robert Tessier

ACTIVITY REPORT

Number of meetings in 2014: 9

The following report was approved by Committee members.

President and Chief Executive Officer

The Committee considered Mr. Sabia's objectives for 2014 as President and Chief Executive Officer and recommended that the Board of Directors approve them. Furthermore, the Committee reviewed the performance evaluation and total compensation conditions for the President and Chief Executive Officer and recommended them to the Board of Directors for approval.

Report of the Human Resources Committee

Senior management

The Committee examined and recommended the following items to the Board of Directors for approval:

- The performance evaluations of members of senior management and the determination of their total compensation;
- The succession plan for senior management positions and the position of President and Chief Executive Officer; and
- The appointment of an Executive Vice-President, Québec and an Executive Vice-President, Equity and Infrastructure, positions reporting directly to the President and Chief Executive Officer.

Key strategies and policies for integrated talent management

During the year, the Committee discussed several key strategies and policies for integrated talent management. To that end, among other things, the Committee:

- reviewed the employee compensation structure, including base salary and incentive compensation, and recommended it to the Board of Directors for approval;
- analyzed various management indicators, including indicators of employee productivity as well as operational risks related to human resources management and those affecting succession plans;
- reviewed and discussed initiatives taken to encourage employee engagement;
- discussed the positioning of total compensation with respect to the performance culture, the business strategy and talent management at la Caisse as well as the reference market.

Independent members of the Board of Directors

In co-operation with the Governance and Ethics Committee, the Committee reviewed the expertise and experience profile of the independent members of the Board of Directors.

Use of external experts

In exercising their functions, the Board of Directors and its committees may use external experts. In implementing the incentive compensation program, the Committee and the Board used the services of Hugessen Consulting, an independent consulting firm recognized for its expertise in the compensation of pension fund personnel. The Committee takes Hugessen Consulting's recommendations into account but makes its own decisions, which may be based on information other than the firm's recommendations.

COMPENSATION POLICY

Committee's work on compensation

During 2014, the Committee, with advice from Hugessen Consulting, ensured that the Compensation Policy adopted in 2010 would meet its strategic objectives of paying for long-term performance, offering competitive compensation and linking the interests of officers and depositors. The Committee reviewed how la Caisse's compensation policy was applied; it analyzed the proposed incentive compensation and proposals for implementation of co-investment and ensured that the proposals were aligned with compensation policy and market practices.

Accordingly, the Committee analyzed the amount of incentive compensation to be paid under the incentive compensation program and recommended it to the Board for approval.

Moreover, the Committee received an update on compensation market trends with regard to salary reviews. It also discussed the salary conditions of la Caisse's employees in 2014, recommending them to the Board for approval.

Framework

La Caisse's Compensation Policy was adopted in accordance with Schedule A of the regulation governing the internal management of la Caisse (the Internal Bylaw). This schedule was revised by an order in council in 1996 and:

- defines the maximum levels of total employee compensation and the reference markets;
- states that the data reflecting the reference-market profile must be compiled by a recognized independent firm through an annual survey and must be administered and analyzed according to a methodology and rules generally accepted in the field; and
- stipulates that la Caisse's payroll must not exceed 100% of the salary-scale midpoint.

Reference markets and compensation levels[1]

For the position of President and Chief Executive Officer, the reference market consists of a sample of eight large Canadian pension funds, as listed in Table 43 on page 108. For this position, total compensation must be between the median and third quartile (75th percentile) of the reference market, depending on whether la Caisse's performance has been average or superior.

For investment-related positions, the Canadian institutional investment market serves as the reference. A representative sample must include institutions, insurance companies, trust companies, pension funds, investment advisors, brokerage firms and fund managers or their counterparts in similar industries. The current sample comprises the 34 organizations listed in Table 41 on page 107. For these positions, total compensation must fall within the upper decile (90th percentile) of the reference market.

For non-investment positions, the Québec market serves as the reference, and must include notably public-sector jobs. It therefore contains a representative sample of large public- and private-sector Québec firms and financial-sector companies. The current sample comprises the 53 organizations listed in Table 42 on page 108. For these positions, total compensation must be within the third quartile (75th percentile) of the reference market.

In 2014, la Caisse retained the services of Towers Watson for benchmarking of its reference markets. The selection criteria used to determine the companies in the reference markets include size, industry and companies that recruit talent similar to the profiles sought by la Caisse, that offer innovative and diverse investment products, that are recognized for best practices in human resources, that have a performance-driven culture and that are included in the Towers Watson database.

Strategic objectives of the Compensation Policy

La Caisse must rely on highly skilled employees to fulfill its mission, which is to receive moneys on deposit as provided by law and manage them with a view to achieving an optimal return on capital within the framework of depositors' investment policies, while at the same time contributing to Québec's economic development.

1. For compensation purposes, the first quartile ranges from the 1st to 25th percentile, the second quartile from the 26th to 50th percentile, the third quartile from the 51st to the 75th percentile and the fourth quartile from the 76th to 100th percentile.

Report of the Human Resources Committee

The total compensation policy therefore has the following three objectives:

1. **Pay for performance:** Incentive compensation proportional to the returns delivered to depositors. This goal has four key components:
   - **Long-term focus:** compensate consistent performance over many years.
   - **Risk-return balance:** encourage measured risk-taking conducive to sustainable, long-term returns for depositors, taking into account their risk tolerance.
   - **Overall evaluation:** strike a balance between individual contribution, portfolio and Caisse performance.
   - **Emphasis on la Caisse's overall perspective:** place greater emphasis on employees' contributions to la Caisse's strategic priorities and overall performance, with more focus on leadership and desired behaviours.
2. **Offer competitive compensation:** Attract, motivate and retain employees with experience and expertise that allow la Caisse to attain its strategic objectives, within the guidelines in the Internal Bylaw, as described above.
3. **Link the interests of officers and depositors:** Ensure that their individual and team efforts are conducive to la Caisse's long-term success.

La Caisse's incentive compensation policies comply with the Principles for Sound Compensation Practices issued by the Financial Stability Forum (FSF) and endorsed by the G20 nations: effective compensation governance; alignment of compensation with long-term, measured risk-taking; and regular review of compensation practices.

Components of total compensation

La Caisse's employees receive total compensation based on four components:

1. Base salary
2. Incentive compensation
3. Pension plan
4. Benefits

Base salary

Under the Internal Bylaw, the average base salary must not exceed the salary-scale midpoint. Within these parameters, annual base salaries are set according to the salary conditions prevailing on the reference markets.

Each year, the Human Resources Committee submits the payroll budget to the Board for approval.

FIGURE 37

PERFORMANCE INCENTIVE COMPONENTS

BASED ON ACHIEVEMENT OF INDIVIDUAL OBJECTIVES	→	Individual contribution
BASED ON ACHIEVEMENT OF BUSINESS OBJECTIVES OR RETURNS ON THE SPECIALIZED PORTFOLIOS OF EACH UNIT	→	Portfolio return or business plan achievement
BASED ON ACHIEVEMENT OF LA CAISSE'S TARGET RETURNS	→	Caisse overall return

For 2014, the Board of Directors approved the following recommendations made by la Caisse's senior management:

- Maintain salary scales near the median of the benchmark markets, as measured by recognized external firms; and
- Provide a budget for merit pay increases that is below the median of the forecast market increases.

Incentive compensation

In the investment community, incentive compensation is an essential part of the total compensation package for employees working in the sector because it aligns financial incentives with clients' performance objectives.

Incentive compensation at la Caisse serves to recognize performance, attainment of objectives and contribution to the achievement of strategic orientations. Incentive compensation is an important part of total compensation, so it directly influences the total compensation level and its position relative to the reference market.

The incentive compensation program, introduced in 2010, recognizes consistent performance over a four-year period with incentive compensation and allows a portion of this incentive compensation to be deferred into a co-investment account over a three-year period (see page 104). This mechanism links the interests of officers and depositors by varying these amounts according to the absolute return generated for depositors.

Components of performance incentive compensation

Performance incentive compensation is never guaranteed; it depends on evaluations of performance criteria as established by the incentive compensation program. Accordingly, employees receive performance incentive compensation based on the three components outlined in Figure 37 (see page 100).

Regarding the second component, namely the return on the specialized portfolios, the objective of all the portfolios is to outperform their benchmark indexes.

The three less-liquid portfolios, namely Real Estate, Infrastructure and Private Equity, as well as the Global Quality Equity portfolio, also have an absolute-return target.

Achievements since 2011

In the four-year period from 2011 to 2014, la Caisse achieved a 9.6% annualized return, generating $67.2 billion in net investment results despite an uncertain and volatile economic environment.

- This return is higher than that of its benchmark portfolio, which is 9.3%. The difference represents $2.2 billion of value added.
- Over four years, each of the three asset classes contributed significantly to la Caisse's overall return.
- The Real Estate, Infrastructure, Private Equity and Global Quality Equity portfolios all exceeded their absolute-return targets.
- In this period, la Caisse surpassed its depositors' long-term objectives.

In the past four years, la Caisse increased its assets in Québec through new investments and commitments and undertook several initiatives to strengthen its involvement with entrepreneurs.

- La Caisse's had $60 billion in assets in Québec as at December 31, 2014, with $35 billion invested in the private sector.
- La Caisse's new investments and commitments with Québec companies totalled $11.1 billion.
- Close to 500 SMEs were supported throughout Québec.

In 2014, la Caisse generated a 12.0% return, representing $23.8 billion in net investment results. This return exceeded that of its benchmark portfolio, which was 11.4%, and represents $1.2 billion of value added.

- Depositors' net assets stood at $225.9 billion at year-end.
- All 16 portfolios posted positive results.

Report of the Human Resources Committee

In 2014, la Caisse continued to implement the key strategic objectives of its business plan:

La Caisse in Québec

La Caisse's strategy in Québec is built around the following key areas:

1. Seek out and seize the best business and investment opportunities
2. Serve as a bridge between Québec companies and global markets
3. Stimulate entrepreneurship and strengthen the vitality of businesses

In 2014, to implement this strategy, la Caisse:

- put in place integrated management of all its activities in Québec;
- made new investments and commitments totalling $2.5 billion;
- furthered, through its investments, the expansion of many Québec companies, including WSP, KDC, Agropur cooperative, Lemay and Alt Hotels;
- through its subsidiary Otéra Capital, granted commercial mortgage loans in a total amount of over $550 million;
- through its subsidiary Ivanhoé Cambridge, acquired a $250 million interest in Cominar, Canada's third largest real estate investment trust, and entered into a co-venture agreement with Manulife for the office tower project at 900 de Maisonneuve West in downtown Montréal; and
- took part in many activities to develop relationships with the business community and Québec companies, including *Innover. Agir.*, a forum for enhancing the entrepreneurial culture in Québec.

Implementation of the investment strategy

Absolute-return management

La Caisse's investment strategy is based in particular on an absolute-return management approach aimed at building portfolios on strong convictions, irrespective of benchmark indexes. To this end, major initiatives were undertaken in 2014:

- The Global Quality Equity portfolio continued to grow, with net assets reaching $28.3 billion as at December 31, 2014. This portfolio generated a return of 18.5% in 2014 and a return of 25.2% since its inception in January 2013; and
- The Canadian Equity portfolio was repositioned to focus on securities selected on the basis of strong investment convictions. A 13.4% return was recorded on the portfolio in 2014, which was above the market.

Less-liquid assets

La Caisse continued to pursue a strategy of investing in tangible assets, which generate more stable and predictable current yields. Investments in private equity, infrastructure and real estate totalled $10.6 billion in 2014:

- Ivanhoé Cambridge continued to strategically reposition its portfolio, investing $5.1 billion in acquisitions, construction projects and capital expenditures and selling properties worth $8.6 billion, making 2014 a record year for transactions;
- La Caisse updated its private equity and infrastructure investment strategy; and
- Acquisitions totalling $1.3 billion were carried out in infrastructure, including two transactions in the U.S. (Invenergy and Indianapolis Power & Light) and one in the United Kingdom (London Array).

Global footprint

In keeping with its investment strategies, la Caisse increased its exposure outside Canada to diversify its portfolio and capitalize further on global growth:

- At the end of 2014, exposure outside Canada represented over 47% of the institution's total exposure;
- Active management in the Emerging Markets Equity portfolio continued apace, with transfers from internal management and the addition of new external managers. Active external management represented 15% of this portfolio as at December 31, 2014, compared to 6% at the end of 2013;
- A multidisciplinary team was formed to co-ordinate various aspects of the globalization of la Caisse's operations; and
- Offices were opened in Washington and Singapore during the year.

In-depth expertise, processes and talent

In 2014, la Caisse focused on agility and organizational health, including initiatives to:

- Continue strengthening its ability to study and analyze economic and financial trends, and adapt risk management to its investment strategies:
  - work on various cross-sectoral themes, including interest rates, currencies, capital flows and risk premiums;
  - adapt governance methods to absolute risk management; and
  - maintain a robust level of liquidity.
- Deploy strategic initiatives to improve strategic and operational agility:
  - perform strategic investment planning, integrating a process for cross-sectoral reviews of various strategies;
  - simplify activities, processes and systems, including optimizing the technology infrastructure program;
  - improve data management by standardizing calculations of exposure by issuer and currency; and
  - ensure tight control of operating expenses, with an expense ratio of 16 cents per $100 of net assets, compared to 17 cents in 2013, again placing la Caisse among the leaders in its category.
- Launch or complete several organizational health projects:
  - deploy an influential leadership program for professional employees; and
  - conduct an engagement survey and follow up with an action plan.

Performance incentive compensation for 2014

Taking into account incentive compensation paid and deferred, employees' total compensation in 2014 was below the median of the reference markets, for an annualized return of 9.6% over the four-year period from 2011 to 2014. This represents $2.2 billion in value added, over and above the benchmark portfolio, equivalent to a superior performance over four years.

TABLE 38

POSITIONING OF TOTAL COMPENSATION BY POSITION TYPE

Position type	Maximum total compensation under the Bylaw[1]	Average positioning of the total compensation paid in 2014 relative to reference markets under the Bylaw
Investment positions	90th percentile	Between the 18th and 66th percentile On average, 33rd percentile
Non-investment positions	75th percentile	

1. Maximum total compensation refers to percentile positions found in Schedule A (revised by government order in council in 1996) of the Internal Bylaw.

Report of the Human Resources Committee

More specifically, a study by Towers Watson showed that the employees' total compensation ranked between the 18th and the 66th percentiles of the reference markets (where the 100th percentile represents the highest compensation in the market), depending on the position type, the specific performance of the portfolios and the compensation paid for these positions (see Table 38, page 103).

The opinion presented by Hugessen Consulting to la Caisse's Board of Directors stated:

"We reviewed la Caisse's returns and benchmark indexes for 2014, as well as the factors that contributed to its return, and we are satisfied with them. We can confirm, among other things, that the value-added calculations, the 2014 return multiples, the 2011-2014 average return multiples and the 2014 incentive compensation multiples are consistent with la Caisse's incentive compensation program. In our opinion, the total amount of incentive compensation awarded under the program in 2014 is reasonable in the prevailing market conditions and given la Caisse's performance in 2011, 2012, 2013 and 2014."

Co-investment: deferred performance incentive compensation

The purpose of co-investment is to better align the interests of those employees with the most influence on la Caisse's organizational and financial performance with the interests of depositors over the long term. The value of the deferred and co-invested performance incentive amounts will vary – upward or downward – along with la Caisse's average absolute overall return during the incentive deferral period.

At the end of each three-year period, the deferred amount, plus or minus the average return credited for the period, will be paid to each participant as a deferred incentive payment with restrictions. Figure 39 illustrates this mechanism.

Members of the Executive Committee have three years to contribute at least the equivalent of their base salary to the co-investment account.

For the President and Chief Executive Officer, as well as members of senior management, the minimum threshold of the total incentive compensation that must be deferred in a co-investment account is 55%. For all vice-presidents and senior vice-presidents, as well as for intermediate and senior investment employees, the minimum threshold is 35%. Finally, for managers and high-level professionals, the minimum threshold is 25%.

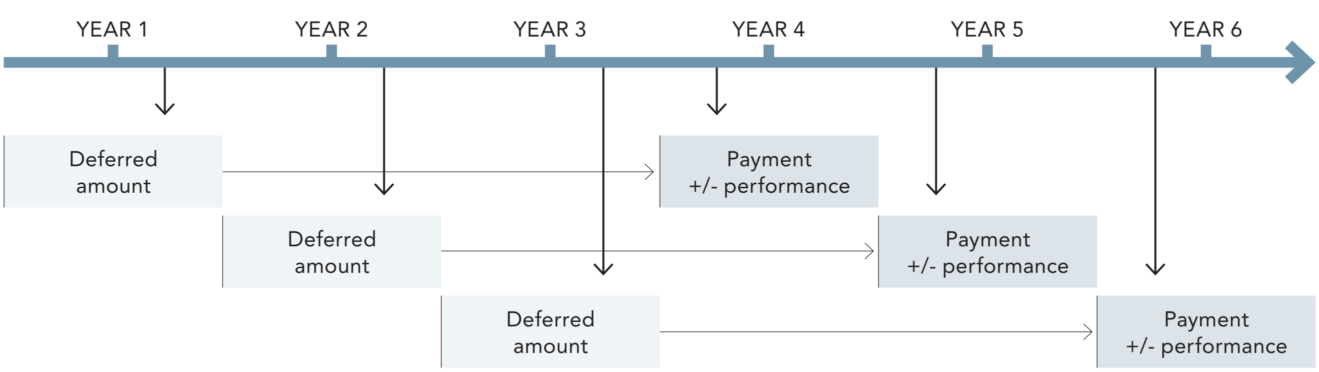
Since 2011, la Caisse has offered such employees the option of deferring and co-investing an additional portion of their incentive compensation into the co-investment account. This voluntary participation increased the deferred and co-invested amounts in 2014 by more than 10%.

Pension plan

Depending on their positions, all employees are members and contribute to one of two defined-benefit pension plans: the Government and Public Employees Retirement Plan or the Pension Plan of Management Personnel (PPMP). In addition, managers and professionals in strategic positions participate in the Régime additionnel de retraite (RAR) and members of senior management participate in the Supplemental Pension Plan for Designated Officers (SPPDO). Under both plans, they are entitled, as of the normal age of

FIGURE 39

DEFERRED AND CO-INVESTED PERFORMANCE INCENTIVES



retirement, to receive a total annual pension equal to 2% of their eligible earnings for each year or fractional year of plan membership, taking into account the annual tax limits imposed by the Canada Revenue Agency for each year they were not RAR or SPPDO members.

Some executives will have additional years of services recognized under the SPPDO, depending on the circumstances of their promotion or hiring.

Benefits

Employees enjoy a range of competitive benefits, including group insurance (such as medical, dental and life insurance). Moreover, executives benefit from perquisites that mainly cover the costs associated with car allowances. La Caisse also requires members of senior management to undergo annual health checkups.

Review of the President and Chief Executive Officer's performance and total compensation

Performance review

Early in 2014, the Committee recommended to the Board for review and approval a series of non-financial individual objectives proposed by the President and Chief Executive Officer. A series of major business objectives were established to achieve targets aligned with la Caisse's strategy and business plan.

The Committee evaluated the globalization strategy, improvements to investment decision-making processes, the simplified structure for the Equity Markets portfolios, the re-evaluation of the role played by the Fixed Income portfolio in la Caisse's future, and the migration of the management strategy for the Canadian Equity portfolio to a strategy based on absolute returns.

The Committee also received a summary of feedback provided by the members of the Executive Committee to the Chairman of the Board.

At the end of this process, a report was submitted to the Board of Directors stating that the Committee was fully satisfied with the performance of the President and Chief Executive Officer, who had not only attained the objectives he had been given but had also exceeded them by a wide margin. The Board deemed that, once again, his performance had been remarkable.

Review of total compensation

The compensation and the other employment conditions of the President and Chief Executive Officer are based on parameters set by the government after consultation with the Board of Directors.

In accordance with his request, Mr. Sabia has received no salary increase since he was appointed in 2009. In 2014, Mr. Sabia's base salary was unchanged at $500,000.

In 2014, Mr. Sabia received his first deferred incentive compensation amount for 2011. The amount of this deferred incentive compensation totalled $1,058,102 and included the return credited since 2011. No deferred incentive compensation was paid in 2013 because Mr. Sabia had voluntarily waived any incentive compensation for 2010, the year in which mandatory co-investment of a portion of performance incentive amounts was implemented.

FIGURE 40

PERFORMANCE INCENTIVE COMPONENTS OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

CAISSE OVERALL RETURN	→	Based on the level of attainment of la Caisse's return objectives
ACHIEVEMENT OF THE ORGANIZATION'S OBJECTIVES	→	Based on the level of attainment of the organization's objectives
INDIVIDUAL CONTRIBUTION	→	Based on the level of attainment of individual objectives

Report of the Human Resources Committee

The Human Resources Committee recommended that the Board of Directors review certain parameters used to calculate Mr. Sabia's incentive compensation to better align it with the reference market. The Board approved these recommendations and increased Mr. Sabia's target and maximum incentive compensation.

The President and Chief Executive Officer's annual incentive compensation was determined on the basis of the same three components as 2013, presented in Figure 40 (see page 105).

This year, the component linked to la Caisse's overall return corresponds to the return over the four-year period from 2011 to 2014. The annualized return for this period is 9.6%, with $2.2 billion of value added above the benchmark portfolio. This return represents a superior performance over four years.

As for the component based on the organization's objectives, in the past four years under Mr. Sabia's leadership, la Caisse:

- completely repositioned its investment strategy to generate solid returns that would be more closely tied to absolute return and in line with depositors' needs;
- strengthened its presence in Québec through integrated management of all its activities and by making $11.1 billion in new investments and commitments over four years;
- supported international expansion initiatives undertaken by Québec businesses;
- continued to develop and strengthen relationships with its depositors based on collaboration and trust;
- significantly enhanced la Caisse's risk management, in terms of expertise, and methodologies and tools;
- increased la Caisse's footprint in international markets by creating new entities in Singapore and Washington; and
- simplified and greatly improved operational efficiency.

In terms of his individual contribution, Mr. Sabia's strong leadership engaged and mobilized la Caisse's teams around a shared vision and objectives as well as remarkable execution.

The Committee and the Board of Directors are of the opinion that Mr. Sabia performed exceptionally well in the past four years, exceeding his objectives by a wide margin.

Like all other members of senior management covered by the incentive compensation program, the President and Chief Executive Officer is required to defer a minimum of 55% of his incentive compensation in a co-investment account. For his having achieved the annual objectives, the Board of Directors granted Mr. Sabia $600,000 of incentive compensation, and he elected to defer an amount of $1,360,000 to the co-investment account. In 2017, Mr. Sabia will be eligible to receive the deferred incentive compensation related to this amount, increased or decreased according to la Caisse's average absolute return over the three-year period, between 2015 and 2017.

The other employment conditions to which Mr. Sabia is entitled are aligned with la Caisse's policies and comply with the parameters set out in the Internal Bylaw. He receives $40,000 in annual perquisites and is a member of la Caisse's Employee Group Insurance Plan.

When he was appointed in 2009, Mr. Sabia waived membership in any pension plan. He also waived any severance pay, regardless of cause. Even so, given that membership in the basic pension plan is mandatory under the provisions of the Pension Plan of Management Personnel (under CARRA rules), Mr. Sabia is obliged to be a member despite his waiver. In 2014, contributions to the mandatory basic plan represented an annual cost to la Caisse of $19,916.

In 2014, the direct compensation paid to the President and Chief Executive Officer was 33% lower than the potential direct compensation paid for a superior performance by the reference market, which is made up of his peers at eight large Canadian pension funds. For a superior performance, there is a difference of about $1.1 million between the direct compensation paid to the President and Chief Executive Officer and the direct compensation paid in the reference market (see Table 47, p. 112). In 2013, the direct compensation paid to the President and Chief Executive Officer was 69% lower than the potential direct compensation paid for a superior performance by the same reference market.

This difference is mainly due to the fact that, based on a recommendation from the Human Resources Committee, the Board of Directors approved an increase to incentive compensation potentials for the second mandate of the President and Chief Executive Officer to achieve alignment with the reference market in accordance as required under the Internal Bylaw. For his first mandate, Mr. Sabia proposed that his potential incentive compensation be reduced. Second, the incentive compensation program provides for the application of limits on la Caisse's return recognized for the purposes of determining incentive compensation. Lastly, in 2013 no deferred incentive compensation was paid to Mr. Sabia for 2010, because he had voluntarily waived any incentive compensation for 2009 and 2010.

Compensation of the President and Chief Executive Officer and the five most highly compensated executives for 2012-2014

La Caisse's Board of Directors recognizes the importance of qualified leadership and firmly believes that the policies and programs it has endorsed make it possible to:

- offer competitive compensation in a market where competition for talent is intense and where la Caisse must compete globally to generate the expected returns; and
- achieve the strategic objectives that enable la Caisse to fulfill its mission.

Pursuant to the Act respecting the Caisse de dépôt et placement du Québec, la Caisse discloses below, for itself and its wholly owned subsidiaries, the compensation of the President and Chief Executive Officer as well as that of the five most highly compensated executives reporting directly to him (see Table 44, p. 109).

TABLE 41

REFERENCE MARKET – INVESTMENT POSITIONS

- Addenda Capital
- Air Canada
- Alberta Investment Management Corporation
- Association de bienfaisance et de retraite des policiers et policières de la Ville de Montréal
- ATB Financial
- BIMCOR
- British Columbia Investment Management Corporation
- Canada Post
- Canadian Broadcasting Corporation
- CN Investment Division
- Connor, Clark & Lunn Financial Group
- CPP Investment Board
- Desjardins Group
- Halifax Regional Municipality Pension Plan
- Healthcare of Ontario Pension Plan (HOOPP)
- Hydro-Québec
- Insurance Corporation of British Columbia
- Intact Investment Management
- Leith Wheeler Investment Council
- Lucie and André Chagnon Foundation
- MD Physician Services
- Montrusco Bolton Investments
- New Brunswick Investment Management Corporation
- Ontario Municipal Employees Retirement System (OMERS)
- OPSEU Pension Trust
- Professionals Financial
- Sun Life Financial
- Telus Communications
- The Canadian Medical Protective Association
- The Civil Service Superannuation Board
- The Great-West Life Assurance Company
- The Public Sector Pension Investments Board (PSP Investments)
- Transamerica Life Canada
- Workers' Compensation Board of Alberta

Report of the Human Resources Committee

TABLE 42

REFERENCE MARKET – NON-INVESTMENT POSITIONS

- Addenda Capital
- Agropur Cooperative
- Aimia
- Air Canada
- Alcoa Canada
- AstraZeneca Canada
- Bank of Montreal
- BCE
- Bell Aliant Regional Communications
- BIMCOR
- Bombardier
- Canadian Broadcasting Corporation
- Canadian National Railway Company
- Cirque du Soleil
- CN Investment Division
- COGECO
- Desjardins Group
- Domtar
- Ericsson Canada
- Gaz Métro
- General Electric Canada
- Gesca
- Holt Renfrew
- Hydro-Québec
- IBM Canada
- Intact Financial Corporation
- Intact Investment Management
- Kruger
- Lassonde Industries
- Loto-Québec
- McKesson Canada
- Metro
- Microsoft Canada
- Molson Coors Canada
- Montrusco Bolton Investments
- Northbridge Financial Corporation
- Power Corporation of Canada
- Quebecor
- Resolute Forest Products
- RGA Canada Reinsurance Group of America
- Rio Tinto Alcan
- Saputo
- SNC-Lavalin Group
- Telus Communications
- Tembec
- The Cadillac Fairview Corporation
- The Great-West Life Assurance Company
- The Public Sector Pension Investment Board (PSP Investments)
- TMX Group
- Transat A.T.
- Via Rail Canada
- Videotron
- Yellow Media

TABLE 43

REFERENCE MARKET – PRESIDENT AND CHIEF EXECUTIVE OFFICER

- Alberta Investment Management Corporation
- BIMCOR
- British Columbia Investment Management Corporation
- CPP Investment Board
- Healthcare of Ontario Pension Plan (HOOPP)
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- The Public Sector Pension Investment Board (PSP Investments)

TABLE 44

SUMMARY OF THE COMPENSATION OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2012-2014

Name and main position	Fiscal year	Base salary ($)	Incentive compensation[1] ($)	Other compensation ($)	Direct compensation[2] ($)	Deferred incentive compensation[3] ($)
Michael Sabia President and CEO[4]	2014	500,000	600,000	40,000	1,140,000	1,058,102
	2013	500,000	600,000	40,000	1,140,000	N/A
	2012	500,000	500,000	40,000	1,040,000	N/A
Roland Lescure Executive Vice-President and Chief Investment Officer[5]	2014	500,000	619,740	40,000	1,159,740	581,956
	2013	475,000	607,500	30,000	1,112,500	619,389
	2012	450,000	690,000	30,000	1,170,000	N/A
Andreas Beroutsos Executive Vice-President, Private Equity and Infrastructure[6]	2014	361,100	382,500	752,270	1,495,870	N/A
Bernard Morency Executive Vice-President, Depositors, Strategy and Chief Operations Officer[7]	2014	415,000	115,000	30,000	560,000	515,825
	2013	415,000	157,500	30,000	602,500	446,675
	2012	405,000	252,000	280,000	937,000	N/A
Claude Bergeron Executive Vice-President and Chief Risk Officer	2014	375,000	210,000	30,000	615,000	363,723
	2013	375,000	254,250	30,000	659,250	387,118
	2012	375,000	267,500	346,667	989,167	N/A
Maarika Paul Executive Vice-President and Chief Financial Officer[8]	2014	375,000	200,000	30,000	605,000	150,780
	2013	375,000	141,000	30,000	546,000	N/A
	2012	375,000	321,000	90,000	786,000	N/A

1. As stated on page 104 of this Annual Report, under the incentive compensation program, executives must defer a minimum of 55% of their calculated incentive compensation in a co-investment account; this threshold was 40% in 2012 and 55% in 2013. In 2014, executives were eligible to receive deferred incentive compensation, increased by the average annual return generated by la Caisse for its depositors during the three-year period. The amounts deferred and co-invested until 2015 in respect of 2012 are given on page 110 of the 2012 Annual Report. The amounts deferred and co-invested until 2016 in respect of 2013 are given on page 101 of the 2013 Annual Report. The amounts deferred and co-invested until 2017 in respect of 2014 are as follows: $1,360,000 for Mr. Sabia, $880,260 for Mr. Lescure, $467,500 for Mr. Beroutsos, $460,000 for Mr. Morency, $315,000 for Mr. Bergeron and $325,000 for Ms. Paul.
2. The value of direct compensation includes salary, annual incentive compensation paid in respect of 2014 and other compensation. It does not include the amount of incentive compensation deferred and co-invested during the year subject to disclosure, the amount of incentive compensation deferred in the past and paid during the year subject to disclosure, including the credited interest, and the value of the pension plan. The value of the pension plan is given in Table 45 of this Annual Report.
3. The amounts of incentive compensation deferred and co-invested until 2014 in respect of 2011 are given on page 122 of the 2011 Annual Report. The amounts of incentive compensation deferred and co-invested until 2013 in respect of 2010 are given on page 112 of the 2010 Annual Report. As provided under the incentive compensation program, the incentive compensation deferred and co-invested in respect of 2011, plus the average annual return generated by la Caisse for its depositors for the three-year period, was paid to executives.
4. An amount was deposited in Mr. Sabia's co-investment account in recognition of his commitment to pursuing the key business objectives in 2014. This amount totalled $100,000. He received an initial amount of deferred incentive compensation in 2014 in respect of the 2011 incentive compensation deferred and co-invested.
5. An amount was deposited in Mr. Lescure's co-investment account in recognition of his commitment to pursuing the key business objectives in 2014. This amount totalled $50,000.
6. Mr. Beroutsos was appointed Executive Vice-President, Private Equity and Infrastructure in May 2014. He began participating in the co-investment in 2014. As a result, he did not co-invest any amount in 2011 and no amount was paid to him in this respect in 2014. Mr. Beroutsos receives monetary compensation in lieu of membership in the supplemental executive retirement plan, the amount of which totalled $180,550. He is required to participate in the basic plan. He also received a lump sum spread over several years until 2017 as compensation that included amounts he had to forfeit when he was hired. This amount totalled $550,000 for 2014. Mr. Beroutsos' direct compensation, although presented in Canadian dollars, is paid in U.S. dollars based on a conversion rate provided in his contract.
7. An amount was deposited in Mr. Morency's co-investment account in recognition of his commitment to pursuing the key business objectives in 2014. This amount totalled $95,000.
8. Ms. Paul was appointed Executive Vice-President and Chief Financial Officer in June 2011. Ms. Paul began participating in the co-investment in 2011 and therefore received an initial amount of deferred incentive compensation in 2014 in respect of the 2011 incentive compensation deferred and co-invested.

Report of the Human Resources Committee

TABLE 45

PENSION SUMMARY OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Years of credited service[1]	Annual benefits[2] ($) At year-end	Annual benefits[2] ($) At age 65	Accrued obligation at start of year[3] ($)	Change due to compensatory items[4] ($)	Change due to non-compensatory items[5] ($)	Accrued obligation at year-end[3] ($)
Michael Sabia President and CEO[6]	5.8	16,100	26,500	0	0	0	0
Roland Lescure Executive Vice-President and Chief Investment Officer	5.2	204,700	500,000	1,454,200	379,300	703,000	2,536,500
Andreas Beroutsos Executive Vice-President, Private Equity and Infrastructure[7]	0.7	1,800	44,800	0	0	0	0
Bernard Morency Executive Vice-President, Depositors, Strategy and Chief Operations Officer	5.4	111,600	161,500	1,367,200	266,000	248,400	1,881,600
Claude Bergeron Executive Vice-President and Chief Risk Officer	34.2	235,900	320,400	1,616,000	58,100	407,600	2,081,700
Maarika Paul Executive Vice-President and Chief Financial Officer	3.6	78,600	211,000	544,400	179,400	239,200	963,000

1. This is the number of years of credited service in the basic plan.
2. Annual benefits equal the amount of pension payable under the basic plan and the supplemental plan at year-end or at age 65.
3. The obligations do not include those of the basic plan because employer and employee contributions are remitted to CARRA, which assumes the liability for the benefits. La Caisse's contribution was $19,916 per executive in 2014.
4. The change due to compensatory items includes the annual cost of pension benefits, base salary changes according to the salary increase assumption used, plan changes and the award of additional years of service.
5. The change due to non-compensatory items includes amounts attributable to the interest accrued on the obligation at the beginning of the year, actuarial gains and losses associated with non-compensatory items and changes in actuarial assumptions.
6. When Mr. Sabia was appointed in 2009, he waived membership in any pension plan. Under CARRA rules, however, membership in the Pension Plan of Management Personnel is mandatory, as described on its website at http://www.carra.gouv.qc.ca/ang/regime/rrpe/rrpe_s03.htm.
7. Mr. Beroutsos receives monetary compensation in lieu of membership in the supplemental executive retirement plan. He is required to be a member of the basic plan. Pensions under the basic plan are payable in Canadian dollars.

TABLE 46

SUMMARY OF SEVERANCE PAY FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Precipitating event	Theoretical amount payable ($)
Michael Sabia President and CEO[1]	Contract termination	0
Roland Lescure Executive Vice-President and Chief Investment Officer[2]	Non-voluntary termination	1,000,000
Andreas Beroutsos Executive Vice-President, Private Equity and Infrastructure[3]	Non-voluntary termination	1,051,300
Bernard Morency Executive Vice-President, Depositors, Strategy and Chief Operations Officer[4]	Non-voluntary termination	830,000
Claude Bergeron Executive Vice-President and Chief Risk Officer[5]	Non-voluntary termination	780,000
Maarika Paul Executive Vice-President and Chief Financial Officer[6]	Non-voluntary termination	937,500

1. When Mr. Sabia was appointed in 2009, he waived any severance plan, regardless of cause.
2. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to 24 months of his annual base salary.
3. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to 23 months of his annual base salary. Although presented in Canadian dollars, compensation is payable in U.S. dollars, according to a conversion rate provided in his contract.
4. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to his annual base salary, plus an amount equal to his annual target incentive compensation.
5. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to his annual base salary, increased by an amount equivalent to his annual target incentive compensation and the annual amount related to perquisites.
6. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equivalent to 15 months of her annual base salary, increased by an amount equivalent to 15 months of her annual target incentive compensation, to a maximum of $995,000. Specific retirement provisions are provided in the event of non-voluntary termination before January 29, 2017.

Report of the Human Resources Committee

TABLE 47

BENCHMARKING OF POTENTIAL MAXIMUM DIRECT COMPENSATION AND CAISSE DIRECT COMPENSATION IN 2014 FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES[1,6]

	Reference markets Direct compensation paid		Caisse
Position	Maximum compensation under the Bylaw[2] ($)	For a superior performance[3] ($)	Direct compensation paid in 2014[4] ($)
President and CEO	4,350,300	3,262,725	2,198,102
Executive Vice-President and Chief Investment Officer	4,090,800	3,068,100	1,741,696
Executive Vice-President, Private Equity and Infrastructure[5]	3,131,500	2,348,625	1,495,870
Executive Vice-President, Depositors, Strategy and Chief Operations Officer	N/A	N/A	1,075,825
Executive Vice-President and Chief Risk Officer	1,396,700	1,047,525	978,723
Executive Vice-President and Chief Financial Officer	1,294,500	970,875	755,780

1. The direct compensation paid in 2014 is aligned with the principle of "earned" compensation, as defined under the Income Tax Act as compensation that is "paid in cash and taxable."
2. As stipulated in the Internal Bylaw, potential direct compensation at the 75th percentile of the appropriate reference markets was used for the President and Chief Executive Officer and non-investment positions. The 90th percentile of the reference market was used for investment positions. These theoretical amounts exclude the value of pension plans but include the value of perquisites and long-term compensation granted in the past and payable during the year.
3. Direct compensation paid by the reference markets for a superior performance corresponds to about 75% of the maximum direct compensation under the Internal Bylaw.
4. These amounts reflect the direct compensation paid in 2014, which does not include deferred and co-invested incentive compensation (see Note 1 in Table 44) and the value of the pension plan, but which includes the value of the amounts of incentive compensation deferred in 2011 and paid in 2014 and perquisites. This compensation was paid for a 9.6% four-year annualized return (2011, 2012, 2013 and 2014), equivalent to a superior performance.
5. Mr. Beroutsos was appointed Executive Vice-President, Private Equity and Infrastructure in May 2014. Mr. Beroutsos began participating in the co-investment in 2014. As a result, he did not co-invest any amount in 2011 and no amount was paid to him in this regard in 2014. Although presented in Canadian dollars, Mr. Beroutsos' direct compensation is paid in U.S. dollars, according to a conversion rate provided in his contract.
6. Towers Watson, Compensation of the President and Chief Executive Officer Study and Compensation of Executive Committee Members Study, Caisse de dépôt et placement du Québec, 2014.

Report of the Investment and Risk Management Committee

HIGHLIGHTS

1

Made recommendations on the strategic investment planning process.

2

Reviewed and discussed the inventory of risk measurement tools, particularly stress test production process and use.

3

Reviewed the risk-return reports on each specialized portfolio and la Caisse as a whole.

THE INVESTMENT AND RISK MANAGEMENT COMMITTEE

The Board of Directors established the Investment and Risk Management Committee to help the Audit Committee fulfill its duty to implement a risk management process.

MANDATE

The Committee's mandate is to ensure that risk management policies and guidelines are in place with a view to an optimal risk-return relationship. For a complete description of the Committee's mandate, consult the Governance section of the Caisse website (www.lacaisse.com).

COMPOSITION (as at December 31, 2014)

Five independent members:

- Chair: Jean La Couture
- Members: Elisabetta Bigsby, Patricia Curadeau-Grou, Gilles Godbout and François R. Roy
- Guest member: François Joly, Chair of the Audit Committee

The Chairman of the Board attends the Committee's meetings.

ACTIVITY REPORT

Number of meetings held in 2014: 9

The Committee has introduced various mechanisms to provide the Audit Committee and the Board with the necessary assurance regarding the implementation of a risk management process. The Committee:

- provided a report on its activities to the Board after each meeting;
- made copies of its minutes available to the Audit Committee and the Board; and
- invited the Chair of the Audit Committee to attend each meeting.

The following report was approved by the Committee members.

Report of the Investment and Risk Management Committee

Risk management guidelines and policies

In 2014, the Committee fulfilled its responsibilities in ways that include the following:

- Reviewed the proposed strategic investment planning process and recommended that the Board approve changes to the investment approval and monitoring process as well as changes to the integrated risk management policy;
- Reviewed la Caisse's principles overseeing risk tolerance and recommended that the Board approve them;
- Reviewed risk-return reports for specialized portfolios or the institution as a whole, at each Committee meeting;
- Revised the specialized portfolios' investment policies to ensure optimal management of investment and risk activities, such as for absolute-return management of equity portfolios, and recommended that the Board approve the changes;
- Revised the target returns and market risk limits for la Caisse's specialized portfolios as well as its overall portfolio and recommended that the Board approve them;
- Reviewed and monitored the overall foreign exchange risk management strategy;
- Discussed the methodology used to calculate market risk to ensure risk measurement is tailored to la Caisse's strategic orientations;
- Reviewed and discussed the inventory of risk measurement tools, particularly the use and production process of stress tests;
- Reviewed the use of derivative financial instruments as well as the related management process;
- Reviewed the regulation governing the framework for the use of derivatives and the limitations on their use; recommended that the Board approve the revised regulation and the limitations;
- Discussed the process used to analyze the fundamental risk associated with sectoral, geographic and transactional concentrations as well as concentrations related to issuer credit;
- Reviewed and discussed the report of the internal Operational Risk Committee; and
- Reviewed the Risk group's business plan.

Investment proposals

- Reviewed and recommended investment proposals under the Board's authority, considering the analysis submitted by the team responsible for the transaction, the project's risk analysis and, more specifically, its impact on the risk level and concentration of the specialized portfolio concerned and the institution's overall portfolio, as well as the investment's compliance with the risk oversight policies and guidelines;
- Discussed the risk-return relationship for each investment proposal submitted to the Committee; and
- Received follow-up reports on the investment proposals authorized by the Board as well as investments that were authorized by la Caisse's senior management but did not come under the Board's purview.

Depositors

- Discussed depositors' endorsement of la Caisse's priorities and the strategies for implementing them; and
- Analyzed the certificates of compliance with the depositors' investment policies and the specialized portfolios' investment policies.

USE OF THE SERVICES OF EXTERNAL EXPERTS

The Investment and Risk Management Committee did not use the services of external experts in 2014.

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

Organizational Structure

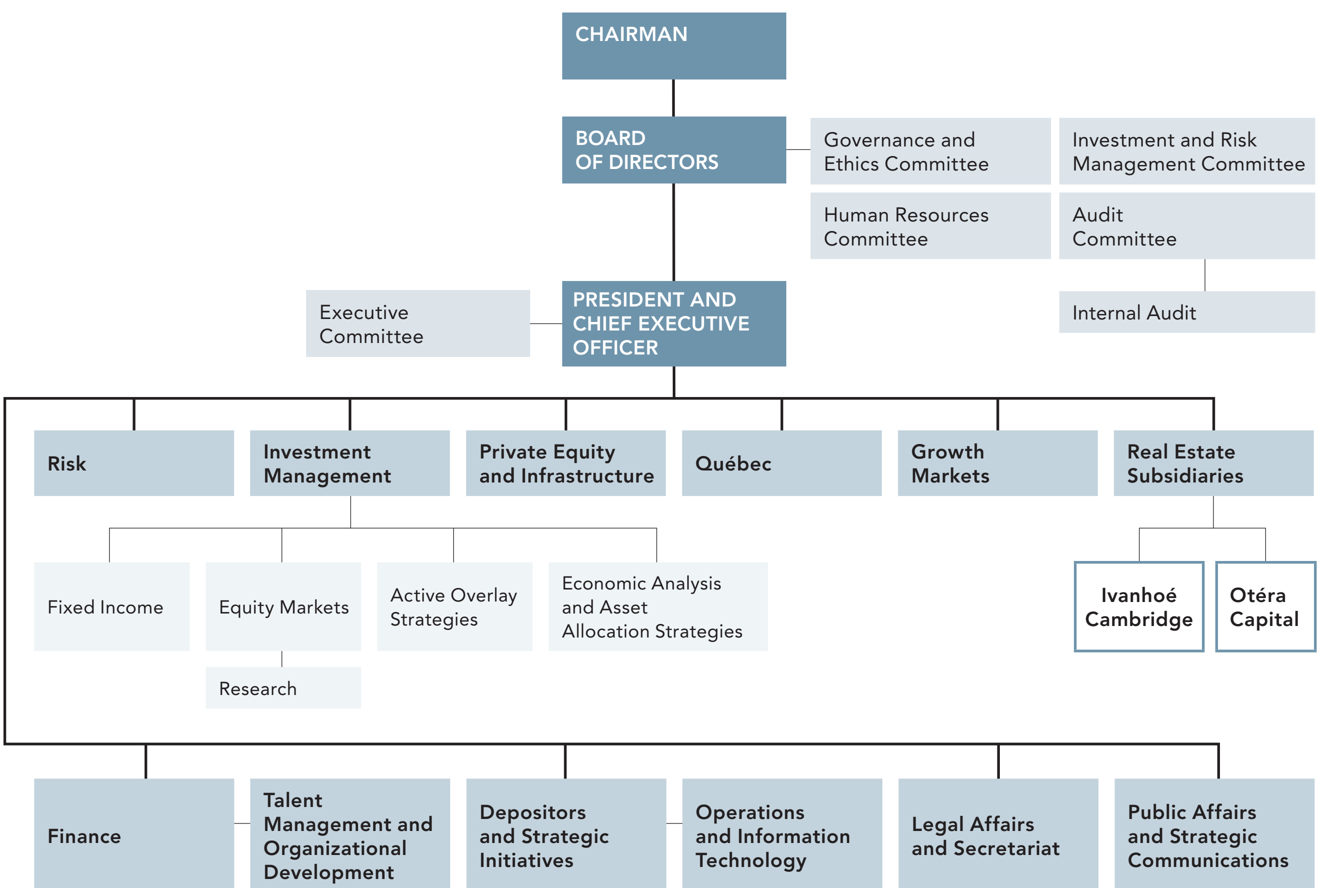
La Caisse's Board of Directors consists of the Chairman, the President and Chief Executive Officer, depositors' representatives and independent members. The Act respecting the Caisse stipulates that at least two-thirds of the directors, including the Chairman, must be independent.

The Executive Committee is composed of the President and Chief Executive Officer and senior officers from la Caisse's various units. As at December 31, 2014, la Caisse had a total of 864 employees. At that date, Ivanhoé Cambridge and Otéra Capital, the real estate subsidiaries, had a total of 1,770 employees.

These subsidiaries operate independently of la Caisse; they have their own boards of directors and are managed by separate presidents (see Figure 49, p. 117).

FIGURE 48

ORGANIZATIONAL STRUCTURE – CAISSE
(as at December 31, 2014)



REAL ESTATE

Real estate investments, which take the form of equity and debt, involve primarily shopping centres, office buildings, multiresidential properties and logistics real estate in Canada, the United States, Europe, Brazil and Asia. The holdings are divided into two specialized portfolios: Real Estate and Real Estate Debt.

The Real Estate portfolio consists of the assets of Ivanhoé Cambridge, a world-class real estate company with high-level expertise in all areas of real estate, including investment, development, leasing, asset management and operations. Ivanhoé Cambridge's real estate portfolio holds mainly shopping centres, office buildings and multiresidential properties.

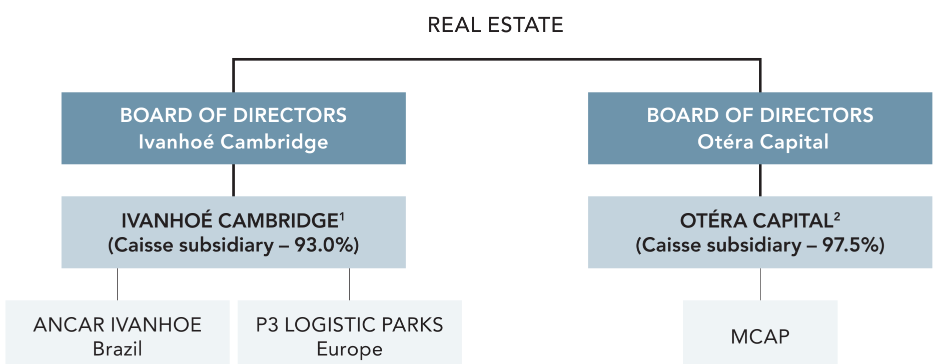
The Real Estate Debt portfolio consists of the holdings of Otéra Capital, one of the largest commercial real estate financing companies in Canada. Otéra Capital manages a portfolio comprised mainly of senior Canadian commercial mortgages.

Figure 49 presents the organizational structure of the real estate operations and la Caisse's percentage interests in the subsidiaries Ivanhoé Cambridge and Otéra Capital.

More information on the real estate subsidiaries can be found at www.ivanhoecambridge.com and www.oteracapital.com.

FIGURE 49

ORGANIZATIONAL STRUCTURE – REAL ESTATE SUBSIDIARIES
(as at December 31, 2014)



1. Daniel Fournier, Chairman and Chief Executive Officer, Ivanhoé Cambridge
2. Alfonso Graceffa, President and Chief Executive Officer, Otéra Capital
   Raymond McManus, Chairman of the Board, Otéra Capital

Board of Directors

ROBERT TESSIER
Chairman of the Board of Directors
Committees: Governance and Ethics / Human Resources
Member since March 2009

ELISABETTA BIGSBY
Corporate Director
Committees: Human Resources /
Investment and Risk Management
Member since November 2009

PATRICIA CURADEAU-GROU
Strategic Advisor to the President
and Chief Executive Officer
National Bank of Canada
Committee: Investment and Risk Management
Member since October 2013

MICHÈLE DESJARDINS
President, Koby Consulting
and Senior Associate
Lansberg Gersick & Associates LLC
Committees: Governance and Ethics / Human Resources
Member since December 2009

RITA DIONNE-MARSOLAIS
Economist and Corporate Director
Committees: Governance and Ethics / Audit
Member since January 2013

GILLES GODBOUT
Corporate Director
Committees: Investment and Risk Management / Audit
Member since January 2013

FRANÇOIS JOLY
Corporate Director
Committees: Audit / Human Resources
Member since March 2013

JEAN LA COUTURE
Corporate Director
President, Huis Clos Ltée, Gestion et médiation
Committee: Investment and Risk Management
Member since January 2013

DIANE LEMIEUX
President and Chief Executive Officer
Commission de la construction du Québec
Member since December 2014

FRANÇOIS R. ROY
Corporate Director
Committees: Investment and Risk Management / Audit
Member since December 2009

MICHAEL SABIA
President and Chief Executive Officer
Caisse de dépôt et placement du Québec
Member since March 2009

OUMA SANANIKONE
Corporate Director
Committees: Governance and Ethics / Human Resources
Member since August 2007

The biographies of the members of the Board of Directors can be found in the Governance section of the Caisse website at www.lacaisse.com.

Executive Committee

CLAUDE BERGERON
Executive Vice-President
and Chief Risk Officer

MYRIAM BLOUIN
Senior Vice-President
Talent Management and Organizational Development

MICHÈLE BOISVERT
Executive Vice-President
Public Affairs and Strategic Communications

ANDREAS BEROUTSOS
Executive Vice-President
Private Equity and Infrastructure

MARC CORMIER
Executive Vice-President
Fixed Income and Active Overlay Strategies
Investment Management

CHRISTIAN DUBÉ
Executive Vice-President
Québec

MARIE GIGUÈRE
Executive Vice-President
Legal Affairs and Secretariat

JEAN-LUC GRAVEL
Executive Vice-President
Equity Markets
Investment Management

ROLAND LESCURE
Executive Vice-President
and Chief Investment Officer

PIERRE MIRON
Executive Vice-President
Operations and Information Technology

BERNARD MORENCY
Executive Vice-President
Depositors, Strategy and Chief Operations Officer

MAARIKA PAUL
Executive Vice-President
and Chief Financial Officer

MICHAEL SABIA
President and Chief Executive Officer

The biographies of the members of the Executive Committee can be found in the Governance section of the Caisse website at www.lacaisse.com.

FINANCIAL REPORT

Change in Assets

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Net assets attributable to depositors grew from $151.7 billion as at December 31, 2010, to $225.9 billion as at December 31, 2014, increasing by $74.2 billion over four years. This growth came essentially from net investment results of $67.2 billion and depositors' net contributions of $7.0 billion (see Table 53, p. 123).

During 2014, net assets attributable to depositors were up $25.8 billion to $225.9 billion, compared to $200.1 billion as at December 31, 2013. This increase was due to $23.8 billion of net investment results, which came mainly from the Equity asset class, contributing $12.9 billion, and the Fixed Income asset class, $6.1 billion.

TOTAL ASSETS

Total assets reached $272.7 billion as at December 31, 2014, versus $240.2 billion at the end of 2013 (see Table 50). The $32.5-billion increase is due to reinvestment of investment income, net unrealized gains and depositors' deposits. La Caisse, which has a strong financial position, continued to manage its liabilities carefully while holding them steady at 17% of total assets. La Caisse's liabilities consist primarily of securities sold short, securities sold under repurchase agreements, derivative financial instruments and the financing programs of the subsidiary CDP Financial, which are used mainly to finance real estate investments.

ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION

La Caisse and its subsidiaries administer and manage assets entrusted to them by clients and on their behalf. These assets are not included in la Caisse's Consolidated Statement of Financial Position. La Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and transferred mortgages.

As at December 31, 2014, la Caisse's assets under management and administered assets totalled $60.0 billion, up $5.2 billion from one year earlier (see Table 51).

This growth came mainly from the portfolio administered by MCAP Commercial LP, a subsidiary of Otéra Capital. This company administers more than $44.9 billion of Canadian residential, commercial and construction mortgages.

TABLE 50

FINANCIAL INFORMATION – FINANCIAL POSITION
(As at December 31 – in millions of dollars)

	2014	2013
ASSETS		
Investments and cash equivalents	**268,804**	236,408
Other assets	**3,919**	3,831
Total assets	**272,723**	240,239
LIABILITIES		
Investment liabilities	**44,924**	37,161
Other liabilities	**1,948**	2,929
Total liabilities excluding net assets attributable to depositors	**46,872**	40,090
Net assets attributable to depositors	**225,851**	200,149

TABLE 51

FINANCIAL INFORMATION – TOTAL ASSETS UNDER MANAGEMENT
(As at December 31 – in millions of dollars)

	2014	2013
Total assets	**272,723**	240,239
Assets under management	**12,699**	13,080
Assets under administration	**47,264**	41,635
Assets under management and assets under administration	**59,963**	54,715
Total assets under management	**332,686**	294,954

NET INVESTMENT RESULTS

Over four years, net investment results amounted to $67.2 billion, with the Equity asset class contributing the most; it generated $36.5 billion of net investment results, including almost $9.1 billion from the Private Equity portfolio.

In 2014, la Caisse recorded net investment results of $23.8 billion, versus $22.8 billion the previous year (see Table 52). This increase is directly attributable to high returns on equity markets and private equity, which generated $12.9 billion of total results for the Equity asset class.

The favourable results for 2014 are also due to the Fixed Income asset class, whose largest contribution came from the Bond portfolio, with $4.6 billion.

NET CONTRIBUTIONS BY DEPOSITORS

Total net contributions by depositors as at December 31, 2014, were $2.0 billion, mainly because of contributions made by the Retirement Plans Sinking Fund and the Generations Fund.

TABLE 52

FINANCIAL INFORMATION – RESULTS BEFORE DISTRIBUTIONS TO DEPOSITORS
(as at December 31 – in millions of dollars)

	2014	2013
Net investment income	**6,704**	6,088
Operating expenses	**(315)**	(298)
Net income	**6,389**	5,790
Net realized gains	**5,847**	5,496
Net unrealized gains	**11,539**	11,482
Net gains on financial instruments at fair value	**17,386**	16,978
Net investment results before distributions to depositors	**23,775**	22,768

TABLE 53

FINANCIAL INFORMATION – SUMMARY OF CHANGES IN NET ASSETS ATTRIBUTABLE TO DEPOSITORS
(for the period 2011-2014 – in billions of dollars)

	2014	2013	2012	2011	**4 years**
Net assets attributable to depositors, beginning of year	**200.1**	176.2	159.0	151.7	**151.7**
Net investment results before distributions to depositors	**23.8**	22.8	14.9	5.7	**67.2**
Net contributions by depositors	**2.0**	1.2	2.3	1.5	**7.0**
Net assets attributable to depositors, end of year	**225.9**	200.1	176.2	159.0	**225.9**

Analysis of Operating Expenses and External Management Fees

Operating expenses represent la Caisse's total portfolio management and administration costs. External management fees are amounts paid to external financial institutions to manage funds on la Caisse's behalf. Expenses related to management of the Real Estate portfolio and the Real Estate Debt portfolio are included in operating expenses.

For fiscal 2014, operating expenses totalled $315 million, compared with $298 million in 2013. External management fees totalled $13 million, or $2 million more than in 2013, mainly because of an increase in the value of investments managed externally. In the consolidated financial statements, external management fees are netted from investment income.

Operating expenses and external management fees amounted to $328 million in 2014, compared with $309 million in 2013. This amount represents 16.0 cents per $100 of average net assets, placing la Caisse among the leaders in its management category (see Figure 54).

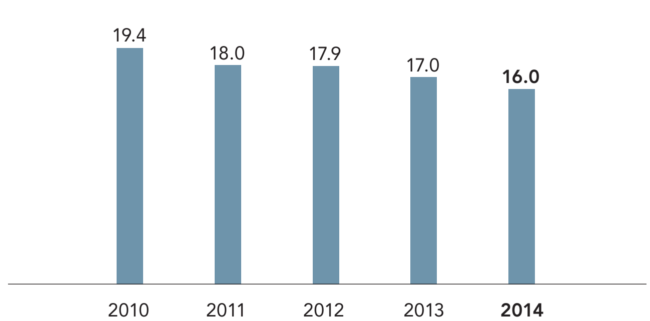
Over four years, operating expenses and external management fees fell from 19.4 cents to 16.0 cents per $100 of average net assets, a decrease of slightly more than three basis points.

OPERATIONAL EFFICIENCY

La Caisse periodically reviews its procedures to maintain strict control over its operating expenses. It aims to keep operating expenses at a level that, taking into account the composition of its investments, is comparable to that of institutional fund managers of the same size with similar operations. For many years, la Caisse has been benchmarking its costs by asset class.

FIGURE 54

OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES EXPRESSED IN CENTS PER $100 OF DEPOSITORS' AVERAGE NET ASSETS
(for periods ended December 31)



CDP Financial

CDP Financial is a wholly owned subsidiary of la Caisse. Its transactions are designed to optimize the cost of financing the operations of la Caisse and its subsidiaries, to diversify their sources of financing and to match financed assets in terms of currencies and interest rates. To achieve its objectives, it has two financing programs on the local and international institutional markets: short-term borrowing and long-term borrowing.

SHORT-TERM BORROWING

As at December 31, 2014, short-term financing totalled $3.3 billion, with $1 billion on the Canadian market and US$2 billion on the U.S. market. The average maturity of the borrowings on the Canadian market was 91 days, and transactions totalled $3.9 billion during the year. The average maturity of the borrowings on the U.S. market was 108 days, and transactions totalled US$6.6 billion in 2014.

TERM BORROWING

On July 24, 2014, CDP Financial issued on the U.S. market a term note with a face value of US$2 billion and a 10-year maturity. This issuance was made with the objective of substituting it for the note maturing in November 2014, which was redeemed early on September 2, 2014.

As at December 31, 2014, the fair value of CDP Financial's outstanding term notes totalled $9.8 billion, versus $9.0 billion at the end of 2013 (see Figure 55). The change from 2013 is due to interest rate fluctuations and the effect of depreciation of the Canadian dollar.

GEOGRAPHIC ALLOCATION

The geographic allocation of the financing is as follows: 67% of the debt instruments are outstanding on the U.S. market, 24% on the Canadian market and 9% on the European market.

CREDIT RATING AGENCIES AFFIRM LA CAISSE'S FINANCIAL STRENGTH

Dominion Bond Rating Services (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's (S&P) affirmed their investment-grade credit ratings with a stable outlook (see Table 56). Updates confirming the credit ratings of CDP Financial and la Caisse were published in November and December 2014.

FIGURE 55

BREAKDOWN OF LIABILITIES – CDP FINANCIAL
(fair market value as at December 31 – in billions of dollars)

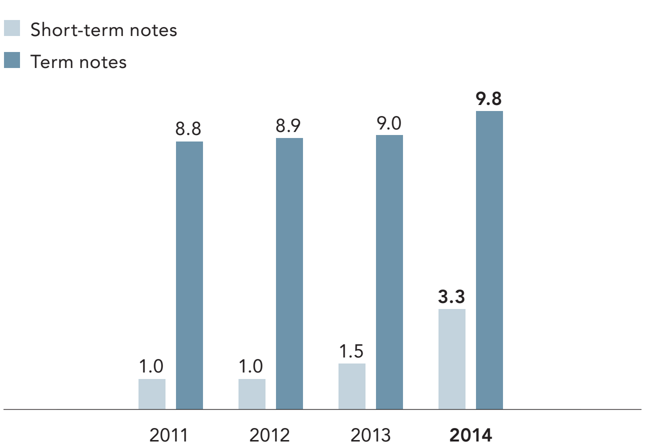


TABLE 56

CREDIT RATINGS

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

Significant Accounting Principles

The consolidated financial statements of la Caisse de dépôt et placement du Québec include the accounts of the General Fund, the Individual Funds, the specialized portfolios and the accounts of its subsidiaries exclusively offering services related to financing and management services. Net assets attributable to depositors presented in the Consolidated Statement of Financial Position reflect the consolidated net value of the accounts of each of the depositors of la Caisse. Note 2 to the audited consolidated financial statements as at December 31, 2014 describes the significant accounting policies used by la Caisse.

EXTERNAL AUDIT

The consolidated financial statements of la Caisse are prepared in accordance with the prevailing accounting standards, namely International Financial Reporting Standards (IFRS), as stipulated in the Act respecting the Caisse de dépôt et placement du Québec.

In accordance with the Act, the co-auditors issued an unqualified auditors' report for each of the 65 financial statements.

FINANCIAL REPORTING

Since January 1, 2014, investment entities are required to prepare financial statements in accordance with IFRS. Accordingly, the consolidated financial statements of December 31, 2014 of la Caisse, which is qualified as an investment entity, are its first financial statements prepared in accordance with IFRS, applied retrospectively to January 1, 2013. La Caisse had previously been applying Accounting Guideline AcG-18, Investment Companies under Canadian Generally Accepted Accounting Standards (GAAP).

Significant IFRS accounting standards applicable to the consolidated financial statements of la Caisse

Adoption of IFRS has resulted in changes to recognition, valuation, presentation and disclosure of the consolidated financial statements. The significant standards that have had an impact on the consolidated financial statements of la Caisse are as follows:

Investment entities

Under Canadian GAAP, la Caisse was consolidating the subsidiaries that it actively manages, while in accordance with IFRS, the subsidiaries that constitute an investment for an investment entity must be presented and measured at fair value. Accordingly, with the adoption of IFRS, la Caisse no longer consolidates its real estate, real estate debt, private equity and infrastructure subsidiaries. Determining the fair value of the assets and liabilities of these subsidiaries, previously consolidated in accordance with Canadian GAAP, differs from the valuation of an investment that is based on an enterprise value technique in accordance with IFRS.

Fair value measurement

IFRS 13, Fair Value Measurement, provides a single source of guidelines for all fair value measurements. Fair value is the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Adoption of IFRS 13 did not have a significant impact on the fair value of the investments of la Caisse during the transition to IFRS. The main techniques for measuring la Caisse's liquid and less-liquid investments are described in Note 7 to the consolidated financial statements, on page 152.

Reporting and disclosure

Additional information in accordance with IFRS must be presented in the notes to the consolidated financial statements. First, with regard to the fair value hierarchy, additional qualitative and quantitative information is required, particularly for financial instruments classified as Level 3. With regard to the disclosure of risk management related to investment activities, new inputs are provided regarding exposure to currencies and geographical and sectoral concentrations. Additional information on liquidity risk is also presented in the consolidated financial statements.

La Caisse is also required to disclose the names, the countries of the principal places of business and the ownership interest of its interests in other entities, such as consolidated subsidiaries, unconsolidated subsidiaries, joint ventures, associates and information on structured entities. New information concerning the offsetting of financial assets and liabilities and related parties are included in the consolidated financial statements.

Also, IFRS requires the presentation of a Consolidated Statement of Cash Flows and a Consolidated Statement of Changes in Net Assets Attributable to Depositors.

Impact of the transition to IFRS

The main impact on la Caisse of the transition to IFRS is the non-consolidation of subsidiaries, which modifies the nature of investments and investment income. Furthermore, the impact of the valuation of interests in the unconsolidated subsidiaries using an enterprise value technique was to increase investments and net assets attributable to depositors by $637 million and $702 million as at January 1, 2013 and as at December 31, 2013, respectively. However, these amounts have already been reported as additional information in the financial statements as at December 31, 2012 and 2013. In addition, non-consolidation had the effect of decreasing total assets by $5 billion, total liabilities by $3 billion and non-controlling interests by $2 billion, as at January 1, 2013 and as at December 31, 2013.

Also, upon adoption of IFRS, certain reclassifications of the presentation of cash and cash equivalents and transactions being settled were made to the Consolidated Statements of Financial Position, for amounts of $3 billion and $6 billion as at January 1, 2013 and as at December 31, 2013, respectively. Certain reclassifications for investment income and expenses, realized and unrealized net gains and distributions to depositors were made to the Consolidated Statement of Comprehensive Income for the comparative period ended December 31, 2013 to comply with the presentation required in accordance with IFRS. These reclassifications had no impact on net assets attributable to depositors. For more information, refer to Note 19 to the consolidated financial statements, on page 184.

Financial measures

As part of issuing certain information included in the Annual Report, la Caisse uses and presents both measures in accordance with IFRS and other financial measures. La Caisse is of the opinion that these other financial measures provide relevant information complementary to the analysis of its financial reporting (see General Notes 3 and 6 at the end of the Annual Report).

Fair Value Measurement

FAIR VALUE MEASUREMENT POLICY

Investment valuation is a process whereby a fair value is assigned to each of la Caisse's investments with a view to preparing the consolidated financial statements. Measurement of investments at fair value is performed periodically in accordance with the Caisse Investment Valuation Policy, which is approved by the Board of Directors. This comprehensive policy is then supported by valuation directives that indicate the valuation methodology to be applied for each type of investment. The policy and directives also dictate governance of the valuation and reporting processes. The application of this policy is the responsibility of the Valuation Committee, supported by a valuation team, which reports on its work semi-annually to the Audit Committee. This policy complies with the standards and practices of Canadian and international valuation bodies. The fair value of all of la Caisse's investments is subject to approval by the Valuation Committee, which meets periodically.

Under the policy, when fair value is determined by external valuators or third parties, the Valuation Committee verifies the qualifications, experience and independence of these parties. It also reviews the valuation techniques, the significant inputs used in calculating fair value, and the results and conclusions to ensure that they comply with recognized valuation standards. In addition, to ensure the reasonableness of the fair value determined, la Caisse may perform backtesting, compare the established fair value with values of comparable transactions, and use external valuators. Co-auditors have access to all valuation files as part of the audit of the year-end consolidated financial statements.

CONCEPTUAL FRAMEWORK

International Financial Reporting Standards (IFRS) define fair value and provide guidelines on measurement and disclosures related to fair value. Entities are required to maximize the use of relevant observable inputs and to minimize the use of unobservable inputs when measuring fair value. Fair value must be established by assuming that the investments are available for sale, that is, that the fair value of investments corresponds to an exit price at the date of the financial statements. The purpose of the accounting standards is to define a single conceptual framework that can be used in all situations requiring fair value measurement.

La Caisse considers that IFRS constitute a coherent framework for fair value measurement. Nevertheless, these restrictive standards do not take into account the fact that, in accordance with the very long-term investment horizon adopted by its main depositors, la Caisse has the means and intends to hold certain investments until their optimal value is attained.

As such, the fair value established as at December 31, 2014 for investments in less-liquid markets, such as real estate assets, real estate debt, private equity and infrastructure, reflects the general volatility of the financial markets, and this may differ from the economic value of long-term investments.

Note 7 to the consolidated financial statements, on page 152, describes fair value measurement techniques.

CONSOLIDATED FINANCIAL STATEMENTS

Management's responsibility for consolidated financial reporting

Preparation and presentation of the consolidated financial statements of la Caisse de dépôt et placement du Québec ("la Caisse") are the responsibility of management. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and incorporated into *CPA Canada Handbook*. We ensure that the financial data in the Annual Report are consistent with those in the consolidated financial statements.

The consolidated financial statements include amounts based on management's best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial data, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, financial information disclosure controls and procedures, and internal control over financial information. La Caisse's internal control mechanism is based, among other things, on a clear definition of responsibilities, effective allocation of duties, delegation of powers, competent resources, appropriate procedures, information systems, tools and practices, relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities, control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of la Caisse's objectives, and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place with regards to operations, assets and records. Moreover, la Caisse's internal audit group reviews the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the consolidated financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which la Caisse is subject, including the Act respecting the Caisse de dépôt et placement du Québec.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of la Caisse, as necessary.

The Auditor General of Québec and Ernst & Young LLP (the "co-auditors") have audited the consolidated financial statements of la Caisse as at December 31, 2014, December 31, 2013 and January 1, 2013 and for the years ended December 31, 2014 and December 31, 2013 and their report covers the nature and scope of the audits and expresses their opinion. The co-auditors have unrestricted access to the Audit Committee to discuss any matter relating to their audits.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the consolidated financial statements and the Annual Report.

The Board of Directors has approved the consolidated financial statements as at December 31, 2014, December 31, 2013 and January 1, 2013 and for the years ended December 31, 2014 and December 31, 2013. It is assisted in its responsibilities by the Audit Committee, of which all members are outside directors. This Committee meets with management and the co-auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

MICHAEL SABIA

President and Chief Executive Officer

Montréal, February 24, 2015

MAARIKA PAUL, FCPA, FCA, CBV

Executive Vice-President and
Chief Financial Officer

Independent auditors' report

To the National Assembly

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of la Caisse de dépôt et placement du Québec, which comprise the consolidated statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, and the consolidated statements of comprehensive income, changes in net assets attributable to depositors and cash flows for the years ended December 31, 2014 and December 31, 2013, as well as a summary of significant accounting policies and other explanatory information included in the notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Caisse de dépôt et placement du Québec as at December 31, 2014, December 31, 2013 and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013, in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements
As required by the *Auditor General Act* (CQLR, chapter V-5.01), we report that, in our opinion, after giving retroactive effect to the change in accounting framework explained in Note 19 to the consolidated financial statements, the accounting standards have been applied for the year ended December 31, 2014 on a basis consistent with that of the preceding year, as well as for the opening financial position as at January 1, 2013.

Acting Auditor General of Québec,

Michel Samson, CPA auditor, CA

Michel Samson, CPA auditor, CA

Montreal, February 24, 2015

Ernst & Young LLP

Ernst & Young LLP

CPA auditor, CA, permit no. A112431

Montreal, February 24, 2015

Consolidated statements of financial position

(in millions of Canadian dollars)	**December 31, 2014**	December 31, 2013	January 1, 2013
Assets			
Cash	**211**	103	54
Cash equivalents *(Note 4)*	**3,829**	5,902	3,360
Amounts receivable from transactions being settled	**1,346**	1,697	323
Advances to depositors	**1,090**	996	797
Investment income, accrued and receivable	**1,149**	898	773
Other assets	**123**	137	195
Investments *(Note 4)*	**264,975**	230,506	202,782
Total assets	**272,723**	240,239	208,284
Liabilities			
Amounts payable on transactions being settled	**1,300**	2,380	325
Other financial liabilities	**648**	549	512
Investment liabilities *(Note 4)*	**44,924**	37,161	31,237
Total liabilities excluding net assets attributable to depositors	**46,872**	40,090	32,074
Net assets attributable to depositors	**225,851**	200,149	176,210

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

On behalf of the Board of Directors,

MICHAEL SABIA

FRANÇOIS JOLY

Consolidated statements of comprehensive income

For the years ended December 31

(in millions of Canadian dollars)	**2014**	2013
Investment income *(Note 9)*	**7,520**	6,843
Investment expense *(Note 9)*	**(816)**	(755)
Net investment income *(Note 9)*	**6,704**	6,088
Operating expenses *(Note 11)*	**(315)**	(298)
Net income	**6,389**	5,790
Net realized gains *(Note 10)*	**5,847**	5,496
Net unrealized gains *(Note 10)*	**11,539**	11,482
Net gains on financial instruments at fair value	**17,386**	16,978
Net investment result before distributions to depositors *(Note 10)*	**23,775**	22,768
Distributions to depositors	**(12,445)**	(11,098)
Comprehensive income attributable to depositors	**11,330**	11,670

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

Consolidated statements of changes in net assets attributable to depositors

For the years ended December 31

(in millions of Canadian dollars)	Demand deposits	Term deposits	Distributions payable to depositors	Participation deposits	Net assets attributable to depositors
Balance as at January 1, 2013	887	134	1,612	173,577	176,210
Attributions and distributions					
Comprehensive income attributable to depositors	–	–	–	11,670	11,670
Distributions to depositors	11,382	–	(284)	–	11,098
Participation deposits					
Issuance of participation deposit units	(13,647)	–	–	13,647	–
Cancellation of participation deposit units	536	–	–	(536)	–
Net deposits					
Net change in term deposits	42	(42)	–	–	–
Net contributions by depositors	1,171	–	–	–	1,171
BALANCE AS AT DECEMBER 31, 2013	371	92	1,328	198,358	200,149
Attributions and distributions					
Comprehensive income attributable to depositors	**–**	**–**	**–**	**11,330**	**11,330**
Distributions to depositors	**12,152**	**–**	**293**	**–**	**12,445**
Participation deposits					
Issuance of participation deposit units	**(14,771)**	**–**	**–**	**14,771**	**–**
Cancellation of participation deposit units	**652**	**–**	**–**	**(652)**	**–**
Net deposits					
Net change in term deposits	**(106)**	**106**	**–**	**–**	**–**
Net contributions by depositors	**1,927**	**–**	**–**	**–**	**1,927**
BALANCE AS AT DECEMBER 31, 2014	**225**	**198**	**1,621**	**223,807**	**225,851**

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

Consolidated statements of cash flows

For the years ended December 31

(in millions of Canadian dollars)	2014	2013
Cash flows from operating activities		
Comprehensive income attributable to depositors	**11,330**	11,670
Adjustments for:		
Unrealized losses and amortization on commercial paper, loans, and term notes payable	**870**	162
Distributions to depositors	**12,445**	11,098
Net changes in operating assets and liabilities		
Amounts receivable from transactions being settled	**351**	(1,374)
Advances to depositors	**(94)**	(199)
Investment income, accrued and receivable	**(251)**	(125)
Other assets	**14**	58
Investments	**(34,469)**	(27,724)
Amounts payable on transactions being settled	**(1,080)**	2,055
Other financial liabilities	**99**	37
Investment liabilities	**5,449**	6,687
	(5,336)	2,345
Cash flows from financing activities		
Net change in commercial paper payable	**612**	186
Issuance of commercial paper payable	**1,659**	545
Repayment of commercial paper payable	**(545)**	(222)
Net change in loans payable	**(86)**	(861)
Issuance of loans payable	**8**	–
Repayment of loans payable	**(206)**	(573)
Issuance of term notes payable	**2,142**	–
Repayment of term notes payable	**(2,140)**	–
Net contributions by depositors	**1,927**	1,171
	3,371	246
Net increase (decrease) in cash and cash equivalents	**(1,965)**	2,591
Cash and cash equivalents at the beginning of the year	**6,005**	3,414
Cash and cash equivalents at the end of the year	**4,040**	6,005
Cash and cash equivalents comprise:		
Cash	**211**	103
Short-term investments	**520**	76
Securities purchased under reverse repurchase agreements	**3,309**	5,826
	4,040	6,005
Supplemental information on cash flows from operating activities		
Interest received	**3,638**	3,166
Dividends received, net of withholding taxes	**3,834**	3,802
Interest paid	**(620)**	(590)
Dividends paid on securities sold short	**(45)**	(83)
Distributions paid to depositors	**(12,152)**	(11,382)

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

Notes to the consolidated financial statements

(Tabular amounts are presented in millions of Canadian dollars, unless otherwise indicated.)

01 CONSTITUTION AND NATURE OF OPERATIONS

La Caisse de dépôt et placement du Québec ("la Caisse"), a legal person established in the public interest within the meaning of the *Civil Code of Québec*, is governed by the *Act respecting the Caisse de dépôt et placement du Québec* (CQLR, chapter C-2) (the "Act").

La Caisse is domiciled in Québec, Canada. Its head office is located at 65 Sainte-Anne, Québec City, Canada and its main office is located at 1000 Place Jean-Paul-Riopelle, Montréal, Canada.

La Caisse's mission is to receive moneys on deposit as provided by law and to manage them with a view to achieving an optimal return on capital within the framework of the depositor investment policies while also contributing to Québec's economic development.

CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared for the purposes of presenting la Caisse's financial position, financial performance and cash flows. La Caisse's consolidated financial statements include the accounts of the General Fund, of the Individual Funds, and of the Specialized Portfolios as well as the accounts of its subsidiaries that exclusively offer services related to financing activities and management services. In preparing the consolidated financial statements, all intercompany transactions and balances have been eliminated.

The investing activities of the depositors in la Caisse's various specialized portfolios are concluded through the participation deposit units of individual funds.

GENERAL FUND

The General Fund comprises cash and cash equivalent activities that include the management of demand deposits, term deposits, and the financing activities of la Caisse.

INDIVIDUAL FUNDS

The individual funds consist mainly of diversified investments in specialized portfolios. Each individual fund is dedicated to a single depositor who invests in the participation deposits of individual funds.

The individual funds of depositors are as follows:

Fund 300: Québec Pension Plan Fund, administered by the Régie des rentes du Québec

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

Fund 302: Pension Plan of Management Personnel, administered by the Commission administrative des régimes de retraite et d'assurances

Fund 303: Special Plans Fund, administered by the Commission administrative des régimes de retraite et d'assurances

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

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Volet à prestations déterminées, administered by the Comité de retraite and delegated pension manager Aon Hewitt

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

Fund 314: Deposit Insurance Fund, administered by the Autorité des marchés financiers

Fund 315: Dedicated account, administered by La Financière agricole du Québec

Fund 316: Retirement Plans Sinking Fund – RREGOP, administered by the ministère des Finances, Government of Québec

Fund 317: Retirement Plans Sinking Fund – PPMP, administered by the ministère des Finances, Government of Québec

CONSTITUTION AND NATURE OF OPERATIONS (cont.)

Fund 318: Retirement Plans Sinking Fund, administered by the ministère des Finances, Government of Québec

Fund 326: Crop Insurance Fund, administered by La Financière agricole du Québec

Fund 328: Survivor's Pension Plan, administered by the Secrétariat du 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: Compensation Fund for Customers of Travel Agents, administered by the Office de la protection du consommateur

Fund 335: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2020, administered by the Comité de retraite and delegated pension manager Aon Hewitt (created October 1, 2014)

Fund 336: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2030, administered by the Comité de retraite and delegated pension manager Aon Hewitt (created October 1, 2014)

Fund 337: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2040, administered by the Comité de retraite and delegated pension manager Aon Hewitt (created October 1, 2014)

Fund 338: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2050, administered by the Comité de retraite and delegated pension manager Aon Hewitt (created October 1, 2014)

Fund 341: Education and Good Governance Fund – Treasury Fund, administered by the Autorité des marchés financiers

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: Parental Insurance Fund, administered by the Conseil de gestion de l'assurance parentale

Fund 347: Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec, administered by Aon Hewitt

Fund 351: Generations Fund, administered by the ministère des Finances, Government of Québec

Fund 353: Superannuation Plan for the Members of the Sûreté du Québec – participants' fund, administered by the Commission administrative des régimes de retraite et d'assurances

Fund 354: Superannuation Plan for the Members of the Sûreté du Québec – employers' fund, administered by the ministère des Finances, Government of Québec

Fund 361: Pension Plan of the Non-Teaching Staff of the Commission des écoles catholiques de Montréal, administered by the Commission administrative des régimes de retraite et d'assurances

Fund 362: Régime de retraite pour certains employés de la Commission scolaire de la Capitale, administered by the Commission administrative des régimes de retraite et d'assurances

Fund 363: Régime de retraite des employés de la Ville de Laval, administered by the Comité du Régime de retraite des employés de la Ville de Laval

Fund 367: Territorial Information Fund, administered by the ministère des Finances, Government of Québec

Fund 368: Education and Good Governance Fund – Capitalized Fund, administered by the Autorité des marchés financiers

Fund 369: Accumulated Sick Leave Fund, administered by the ministère des Finances, Government of Québec

Fund 371: Accumulated Sick Leave Fund – ARQ, administered by the Agence du revenu du Québec

Fund 372: Fonds commun de placement des régimes de retraite de l'Université Laval, administered by the Comités de retraite

Fund 373: Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges, administered by the Commission administrative des régimes de retraite et d'assurances

Fund 374: Fiducie globale Ville de Magog, administered by the Comité de retraite mixte

Fund 376: Régime de retraite des employées et employés de la Ville de Sherbrooke, administered by the Comité de retraite des employées et employés de la Ville de Sherbrooke (created January 1, 2013)

Fund 378: Pension Plan of Peace Officers in Correctional Services – Employee's Contribution Fund administered by the Commission administrative des régimes de retraite et d'assurances (created July 1, 2013)

Fund 383: Régime complémentaire de retraite des employés réguliers de la Société de transport de Sherbrooke, administered by the Comité de retraite and delegated pension manager Aon Hewitt (created January 1, 2014)

Fund 393: Régime de retraite de la Corporation de l'École Polytechnique, administered by the Comité de retraite (created July 1, 2014)

CONSTITUTION AND NATURE OF OPERATIONS (cont.)

SPECIALIZED PORTFOLIOS

The specialized portfolios consist of common funds in which the individual funds may invest in the form of participation deposits. La Caisse's specialized portfolios are as follows:

- Real Estate (710)
- Canadian Equity (720)
- EAFE Equity (Europe, Australasia and Far East) (730)
- U.S. Equity (731)
- Emerging Markets Equity (732)
- Global Equity (735) (dissolved April 1, 2014)
- Global Quality Equity (736) (created January 1, 2013)
- Short Term Investments (740)
- Real Estate Debt (750)
- Bonds (760)
- Real Return Bonds (762)
- Long Term Bonds (764)
- Hedge Funds (770) (dissolved January 1, 2014)
- Asset Allocation (771)
- ABTN (772)
- Active Overlay Strategies (773) (created January 1, 2014)
- Private Equity (780)
- Infrastructure (782)

02
SIGNIFICANT ACCOUNTING POLICIES

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As of January 1, 2011, in accordance with a decision by the Accounting Standards Board of Canada (AcSB), publicly accountable entities are required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS). For companies applying *Accounting Guideline AcG-18, Investment Companies* of Part V of the *CPA Canada Handbook – Accounting*, the AcSB had authorized a deferral of IFRS adoption to fiscal years beginning on or after January 1, 2014.

In 2012, the International Accounting Standards Board (IASB) issued *Investment Entities* (amendments to IFRS 10 – *Consolidated Financial Statements*, IFRS 12 – *Disclosure of Interests in Other Entities* and IAS 27 – *Separate Financial Statements*) requiring a company that qualifies as an investment entity to measure each of its controlled entities at fair value. The AcSB incorporated these amendments into Part I of the *CPA Canada Handbook – Accounting*, and they are effective for fiscal years beginning on or after January 1, 2014.

These consolidated financial statements of la Caisse are the first financial statements prepared in accordance with IFRS applied retrospectively to January 1, 2013, except for the mandatory exemptions set out in IFRS 1 – *First-Time Adoption of International Financial Reporting Standards*. La Caisse had previously been applying Canadian Generally Accepted Accounting Principles (GAAP) in accordance with Part V of the *CPA Canada Handbook – Accounting*. Note 19 presents the effects of the change in accounting framework on the consolidated financial statements.

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. The accounting policies described below have been applied consistently to all reporting periods presented.

PRESENTATION AND MEASUREMENT BASIS

La Caisse measures financial instruments, including investments in unconsolidated subsidiaries, joint ventures, associates and structured entities at fair value through profit or loss. Subsidiaries that solely provide services related to financing activities and administrative services are consolidated in accordance with the guidance set out in IFRS 10.

La Caisse's consolidated statements of financial position are presented based on liquidity.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements of la Caisse were approved by the Board of Directors on February 24, 2015.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

FUNCTIONAL AND PRESENTATION CURRENCY

La Caisse's consolidated financial statements are presented in Canadian dollars, which is the functional currency.

FOREIGN CURRENCY TRANSLATION

Financial assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the reporting date. Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date.

Translation differences on investments and investment liabilities are presented under "Net unrealized gains" in the Consolidated Statements of Comprehensive Income. When an investment is sold or investment liability settled, the gain or loss on foreign currency translation is presented under "Net realized gains" in the Consolidated Statements of Comprehensive Income. Translation differences on monetary items are included under "Net gains on financial instruments at fair value" in the Consolidated Statements of Comprehensive Income.

USE OF JUDGMENTS AND ESTIMATES

In preparing la Caisse's Consolidated Financial Statements in accordance with IFRS, management must make judgments, estimates and assumptions that affect the application of the significant accounting policies described below and the amounts reported in the Consolidated Statements of Financial Position and Consolidated Statements of Comprehensive Income.

JUDGMENT

Qualification as an investment entity
Judgment is required when qualifying la Caisse as an investment entity. La Caisse meets the three mandatory criteria of the IFRS 10 definition: 1) Obtain funds from one or more depositors; 2) Commit to its depositors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and 3) Measure and evaluate the performance of its investments on a fair value basis.

IFRS 10 also suggests four typical characteristics be considered in assessing whether an entity qualifies as an investment entity: 1) Have more than one investment; 2) Have more than one depositor; 3) Have investors that are not related parties; and 4) Have ownership interests in the form of equity or similar interests. Although la Caisse does not meet the third typical characteristic of an investment entity because la Caisse and the depositors are related, la Caisse nonetheless qualifies as an investment entity, as management believes that having depositors that are related to the investment entity does not compromise la Caisse's mission of investing for returns from capital appreciation, investment income, or both, for its depositors.

Fair value hierarchy of financial instruments
Management must use judgment in determining the significance of each input used when establishing the classification into the fair value hierarchy, as explained in Note 7.

Interests in entities
Management must use judgment in determining whether la Caisse has control, joint control or significant influence over certain entities, as explained in Note 17. Judgment on the relationship between la Caisse and any entity in which la Caisse holds an interest is exercised upon initial investment and must be reassessed when facts and circumstances indicate that there are one or more changes to the elements of control.

La Caisse controls an entity only if all three of the following elements exist: 1) It has decision-making authority regarding the entity's relevant activities; 2) It has exposure or rights to variable returns from its involvement with the entity; and 3) It has the ability to use its power to affect the amount of the returns. When management determines decision-making authority, several factors are taken into account, including the existence and effect of actual and potential voting rights held by la Caisse that are exercisable, the holding of instruments that are convertible into voting shares as well as other circumstances that affect decision-making.

La Caisse has significant influence over an entity when it has the power to participate in the financial and operating policy decisions of the investee, whereas it has joint control over an entity when there is a contractual or implicit arrangement whereby decisions about relevant activities require the unanimous consent of the parties sharing control.

ESTIMATES AND ASSUMPTIONS

The main estimates and assumptions, which are presented in Note 7, involve the fair value measurement of investments and investment liabilities classified in Level 3 of the fair value hierarchy. Actual values may differ from the estimated values.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

FINANCIAL INSTRUMENTS

La Caisse's financial instruments include cash, cash equivalents, amounts receivable from transactions being settled, advances to depositors, accrued and receivable investment income, investments, amounts payable on transactions being settled, other financial liabilities, investment liabilities and net assets attributable to depositors.

CLASSIFICATION AND MEASUREMENT

Financial instruments are classified by category based on the nature and characteristics of the instruments. Management determines classification upon initial recognition, which is the acquisition date. All of la Caisse's financial instruments are designated at fair value through profit or loss and measured at fair value, except for derivative financial instruments and securities sold short, which must be classified as held for trading and are measured at fair value. Management elected to designate all other financial instruments at fair value through profit or loss, given that the management and performance of these instruments are based on a fair value model.

Financial instruments are initially and subsequently recognized at fair value. Changes in the fair value of financial instruments are presented under "Net unrealized gains" in the Consolidated Statements of Comprehensive Income. Investment income and investment expense are presented under "Net investment income" in the Consolidated Statements of Comprehensive Income.

FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Upon initial recognition, the best evidence of the fair value of a financial instrument is the transaction price, which is the fair value of the consideration given or received. Subsequently, the fair value of financial instruments is obtained using quoted prices in active markets. If there are no quoted prices, fair value is determined using valuation techniques based on observable and unobservable inputs. La Caisse applies appropriate valuation techniques based on a financial instrument's characteristics, the availability of inputs, and the assumptions that would be used by market participants, focusing on maximizing the use of relevant observable inputs while minimizing the use of unobservable inputs. The valuation techniques are applied consistently. Fair value information is provided in Note 7.

Cash
Cash is the cash deposited with recognized financial institutions and bears interest at market rates.

Investments and cash equivalents
Cash equivalents include certain short-term investments and certain securities purchased under reverse repurchase agreements. These securities meet the definition of cash equivalents because they are used for cash management purposes, are readily convertible into a known amount of cash, have negligible risk of fair value changes and have initial maturities of three months or less. These financial instruments bear interest at market rates.

Investments include fixed-income securities, variable-income securities, interests in unconsolidated subsidiaries and derivative financial instruments.

Fixed-income securities include short-term investments, securities purchased under reverse repurchase agreements, bonds and asset-backed term notes (ABTNs). Purchases and sales of fixed-income securities are recorded at the transaction date.

Variable-income securities include the equities and convertible securities of public companies, private companies, including private investment funds, infrastructure funds, and hedge funds. Purchases and sales of equities and convertible securities are recorded at the transaction date, whereas purchases and sales of private investment funds, infrastructure funds and hedge funds are recorded at the settlement date.

Interests in unconsolidated subsidiaries represent la Caisse's investment in controlled entities that are not consolidated under IFRS 10. La Caisse's investment in these investees may be in the form of equities or debt instruments.

Investment liabilities
Investment liabilities include securities sold under repurchase agreements, securities sold short, commercial paper payable, loans payable, term notes payable and derivative financial instruments.

Securities sold short are commitments made by la Caisse to purchase securities from third parties to cover its positions. La Caisse may short-sell equities, short-term investments and bonds.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

Derivative financial instruments
In managing its investments, la Caisse conducts transactions involving various derivative financial instruments to manage the risks associated with exchange rate, interest rate and market fluctuations. Derivative financial instruments whose fair value is favourable are presented under "Investments" in the Consolidated Statements of Financial Position, while those whose fair value is unfavourable are presented under "Investment liabilities" in the Consolidated Statements of Financial Position.

La Caisse does not use hedge accounting but may use derivative financial instruments to economically hedge certain financial risks. When la Caisse identifies a hedging relationship, the realized gains or losses on the derivative financial instrument corresponding to the hedging relationship are reclassified as investment income or expense arising from the economically hedged instrument.

Transactions being settled
Transactions with brokers for the sale or purchase of securities that have not yet been settled at the reporting date are presented under "Amounts receivable from transactions being settled" and "Amounts payable on transactions being settled," respectively, in the Consolidated Statements of Financial Position.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

La Caisse derecognizes financial assets when all of the contractual rights to the assets have expired or when the contractual rights to receive the cash flows from the financial assets have been transferred and when la Caisse has transferred substantially all of the risks and rewards of the financial asset such that it no longer retains control over the asset. If la Caisse considers that it retains substantially all of the risks and rewards of a transferred financial asset, that asset is not derecognized from the Consolidated Statements of Financial Position and, if appropriate, a corresponding financial liability is recorded. Financial assets that have been transferred but not derecognized are presented in Note 14. Financial liabilities are derecognized when the related obligation is discharged, cancelled or expired.

Securities purchased under reverse repurchase agreements
La Caisse enters into transactions to purchase securities, i.e., short-term investments and bonds, that it agrees to resell to the counterparty at a future date. The purchased securities are not recognized in the Consolidated Statements of Financial Position because the counterparty retains the risks and rewards of the securities. The cash amounts disbursed are derecognized, and a corresponding asset is recorded in investments under "Securities purchased under reverse repurchase agreements." The difference between the purchase price and the resale price is recorded as interest income calculated using the effective interest method under "Investment income" in the Consolidated Statements of Comprehensive Income.

Securities sold under repurchase agreements
La Caisse enters into transactions to sell securities, i.e., short-term investments and bonds, that it agrees to repurchase from the counterparty at a future date. The sold securities are not derecognized from the Consolidated Statements of Financial Position because la Caisse retains the risks and rewards of the securities. The cash amounts received are recognized, and a corresponding liability is recorded in investment liabilities under "Securities sold under repurchase agreements." The difference between the sale price and the repurchase price is recorded as interest expense calculated using the effective interest method under "Investment expense" in the Consolidated Statements of Comprehensive Income.

Lending and borrowing of securities
La Caisse conducts securities lending and borrowing transactions involving equities; these transactions are generally guaranteed by the securities received from the counterparties or pledged by la Caisse, respectively. Loaned securities are not derecognized from the Consolidated Statements of Financial Position because la Caisse retains the risks and rewards of the securities. Securities borrowed are not recognized in the Consolidated Statements of Financial Position because the counterparty retains the risks and rewards of the securities. Income and expenses resulting from securities lending and borrowing transactions are presented under "Investment income" and "Investment expense," respectively, in the Consolidated Statements of Comprehensive Income.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are presented on a net basis when there is a legally enforceable right of set-off and la Caisse intends to settle on a net basis or to realize the asset and settle the liability simultaneously. Information on the offsetting of financial assets and liabilities is presented in Note 8.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Net assets attributable to depositors consist of demand deposits, term deposits, distributions payable to depositors and participation deposits.

Demand deposits and term deposits
Demand deposits bear interest at a variable rate and are repayable on demand. Term deposits bear interest at a fixed or variable rate and are repayable at maturity. Demand deposits and term deposits represent la Caisse's indebtedness towards the depositors in accordance with the *Regulation respecting the terms and conditions of deposits, funds and portfolios of the Caisse de dépôt et placement du Québec* (Regulation).

Distributions payable to depositors
Under the Regulation, distributions payable to depositors represent the net income or net loss arising from the specialized portfolios as well as the net realized gains or losses upon cancellation of the participation units of specialized portfolios held by the individual funds that are recorded at the end of the month and that are paid into the demand deposit accounts of depositors at the beginning of the following month Distributions may also be made through the issuance of participation deposit units of individual funds.

Participation deposits
Participation deposits are expressed in participation units for each individual fund. Each participation unit gives the holder an interest in the fund's net assets. The per-unit value of the net assets is determined by dividing the individual fund's net assets by the number of outstanding units. Depositors can purchase or cancel participation deposit units at that value at the beginning of each month. The difference between the proceeds of cancellation and the carrying value at issuance is recovered in the depositor's demand deposit account. In addition, holders of participation deposit units are entitled to receive distributions. Participation deposit units are financial instruments and are defined as depositor's equity in the Regulation. Participation deposit units are subordinate to all other categories of financial liabilities.

NET INCOME

DIVIDEND INCOME AND EXPENSE

Dividend income is recognized when la Caisse obtains the right to the dividend, generally on the ex-dividend date. Dividend expense from equities sold short is recorded when the shareholders obtain the right to the dividend. Dividend income and expense are presented under "Investment income" and "Investment expense," respectively, in the Consolidated Statements of Comprehensive Income.

INTEREST INCOME AND EXPENSE

Interest income and expense are recorded using the effective interest method. Interest income and expense include the amortization of the premium or discount, which makes it possible to maintain a constant effective interest rate until maturity. Interest income and expense are presented, respectively, under "Investment income" and "Investment expense," in the Consolidated Statements of Comprehensive Income.

EXTERNAL MANAGEMENT FEES

External management fees are amounts paid to external financial institutions, mainly institutional fund managers active in international stock markets, for the management of Caisse funds. The base fees and performance-related fees of external managers are presented under "Investment expense" and "Net realized gains," respectively, in the Consolidated Statements of Comprehensive Income.

INCOME TAX

Under federal and provincial income tax legislation, la Caisse is exempt from income tax in Canada. Income from foreign affiliates is subject to withholding taxes in certain countries. Withholding taxes are presented under "Investment expense" in the Consolidated Statements of Comprehensive Income.

OPERATING EXPENSES

Operating expenses consist of all the expenses incurred to manage and administer la Caisse's investments and are presented separately in the Consolidated Statements of Comprehensive Income.

SIGNIFICANT ACCOUNTING POLICIES (cont.)

NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE

When investments are sold, the realized gains and losses are determined on a first in, first out basis. Gains and losses realized on investments represent the difference between the net realizable value and the acquisition cost of the investments. Gains and losses realized on investment liabilities represent the difference between the settlement value and the value at initial recognition of the liabilities. Gains and losses realized on derivative financial instruments represent the payments and receipts on these financial instruments. Realized gains and losses are presented under "Net realized gains" in the Consolidated Statements of Comprehensive Income. Transaction costs directly attributable to the acquisition, sale and issuance of a financial instrument are presented under "Net realized gains" in the Consolidated Statements of Comprehensive Income. Transaction costs include commissions, stock exchange fees and professional and legal fees related to investing and financing activities.

Unrealized gains and losses include the net changes in the fair value of investments and investment liabilities for the year as well as the reversal of prior-year unrealized gains and losses that were realized during the year. Unrealized gains and losses are presented under "Net unrealized gains" in the Consolidated Statements of Comprehensive Income.

DISTRIBUTIONS TO DEPOSITORS

Under the Regulation, distributions to depositors consist of the annual net income or loss from the specialized portfolios as well as the net gains or losses realized on the cancellation of participation units of the specialized portfolios held by the individual funds. Distributions to depositors are recorded as finance costs and presented separately in the Consolidated Statements of Comprehensive Income.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In the Consolidated Statements of Cash Flows, the operating activities are the operational activities that result from la Caisse's main investment operations that factor into the determination of the comprehensive income attributable to depositors.

In the Consolidated Statements of Cash Flows, financing activities are the activities that create changes in the amount and composition of the net assets attributable to depositors as well as activities related to la Caisse's external loans. Changes in commercial paper payable and in loans payable with initial maturities of three months or less are presented on a net basis, while issuances and repayments of commercial paper, loans and term notes payable with initial maturities of more than three months are presented on a gross basis.

03
NEW IFRS STANDARDS ISSUED AS AT DECEMBER 31, 2014 BUT NOT YET ADOPTED

IFRS 15 – Revenue from Contracts with Customers: Effective Date – January 1, 2017
In May 2014, the IASB issued a new standard, IFRS 15 – *Revenue from Contracts with Customers*, which will replace the current revenue recognition standards and interpretations. IFRS 15 provides a single comprehensive model to use when recognizing revenue arising from contracts with customers. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. This new standard is to be applied retrospectively as of its effective date. The impact of adopting this standard is currently being examined.

IFRS 9 – Financial Instruments: Effective Date – January 1, 2018
In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which will replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities as well as the impairment of financial assets and hedge accounting.

IFRS 9 provides a single model for financial asset classification and measurement that is based on contractual cash flow characteristics and on the business model for holding financial assets. With respect to measuring financial liabilities designated at fair value through profit or loss, the standard prescribes that fair value changes attributable to an entity's own credit risk be accounted for in other comprehensive income unless such a treatment would create or increase an accounting mismatch in net income. The IASB has authorized early adoption of these new requirements for recognizing changes in an entity's own credit risk.

IFRS 9 also introduces a new impairment model for financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. As for the new hedge accounting model, it provides better alignment of hedge accounting with risk management activities.

In general, this new standard is to be applied retrospectively as of its effective date. The impact of adopting this standard is currently being examined.

04
INVESTMENTS, CASH EQUIVALENTS AND INVESTMENT LIABILITIES

A) INVESTMENTS AND CASH EQUIVALENTS

The following tables present the fair values and costs of the investment and cash equivalent items. Also presented is the geographic allocation of each item, determined according to the country of the issuer's principal place of business. As for interests in unconsolidated subsidiaries, geographic allocation is determined according to the country of the underlying investments. For derivative financial instruments, geographic allocation is determined using the currency in which the instrument will be settled.

				December 31, 2014
	Canada	Foreign	**Fair value**	**Cost**
Cash equivalents				
Short-term investments	520	–	**520**	**520**
Securities purchased under reverse repurchase agreements	3,309	–	**3,309**	**3,309**
Total cash equivalents	3,829	–	**3,829**	**3,829**
Investments				
Fixed-income securities				
Short-term investments	1,479	956	**2,435**	**2,434**
Securities purchased under reverse repurchase agreements	10,998	5,064	**16,062**	**16,091**
Bonds				
Governments	48,509	2,283	**50,792**	**49,309**
Government corporations and other public administrations	6,854	736	**7,590**	**7,278**
Corporate sector	12,743	4,948	**17,691**	**16,804**
ABTNs *(Note 4c)*	9,236	–	**9,236**	**9,416**
Total fixed-income securities	89,819	13,987	**103,806**	**101,332**
Variable-income securities				
Equities and convertible securities				
Public companies	23,518	60,804	**84,322**	**65,596**
Private companies	1,805	9,859	**11,664**	**10,729**
Hedge funds	103	2,951	**3,054**	**2,545**
Total variable-income securities	25,426	73,614	**99,040**	**78,870**
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	17,441	15,191	**32,632**	**19,796**
Investments in real estate debt	10,249	–	**10,249**	**10,166**
Private equity investments	2,335	5,913	**8,248**	**5,785**
Infrastructure investments	931	6,438	**7,369**	**6,389**
Other investments	18	2,319	**2,337**	**2,152**
Total interests in unconsolidated subsidiaries	30,974	29,861	**60,835**	**44,288**
Derivative financial instruments				
Exchange markets *(Note 6)*	2	24	**26**	**31**
Over-the-counter markets *(Note 6)*	351	917	**1,268**	**1,321**
Total derivative financial instruments	353	941	**1,294**	**1,352**
Total investments	146,572	118,403	**264,975**	**225,842**
Total investments and cash equivalents	150,401	118,403	**268,804**	**229,671**

INVESTMENTS PLEDGED AS COLLATERAL

As at December 31, 2014, the total investments and cash equivalents amount includes investments with a fair value of $22,534 million that have been pledged as collateral. The counterparties are authorized to sell or repledge the securities as collateral. Information about investments pledged as collateral is provided in Note 15.

INVESTMENTS, CASH EQUIVALENTS AND INVESTMENT LIABILITIES (cont.)

				December 31, 2013
	Canada	Foreign	Fair value	Cost
Cash equivalents				
Short-term investments	16	60	76	76
Securities purchased under reverse repurchase agreements	5,826	–	5,826	5,826
Total cash equivalents	5,842	60	5,902	5,902
Investments				
Fixed-income securities				
Short-term investments	1,056	588	1,644	1,757
Securities purchased under reverse repurchase agreements	5,132	4,582	9,714	9,707
Bonds				
Governments	33,141	3,223	36,364	37,007
Government corporations and other public administrations	13,271	907	14,178	14,163
Corporate sector	12,340	3,958	16,298	16,264
ABTNs *(Note 4c)*	9,752	–	9,752	10,093
Total fixed-income securities	74,692	13,258	87,950	88,991
Variable-income securities				
Equities and convertible securities				
Public companies	19,532	52,656	72,188	57,520
Private companies	1,826	9,277	11,103	10,623
Hedge funds	101	2,887	2,988	2,798
Total variable-income securities	21,459	64,820	86,279	70,941
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	17,170	14,625	31,795	21,815
Investments in real estate debt	8,797	–	8,797	9,092
Private equity investments	2,142	5,153	7,295	6,107
Infrastructure investments	666	4,771	5,437	5,028
Other investments	127	853	980	952
Total interests in unconsolidated subsidiaries	28,902	25,402	54,304	42,994
Derivative financial instruments				
Exchange markets *(Note 6)*	2	29	31	22
Over-the-counter markets *(Note 6)*	1,327	615	1,942	1,297
Total derivative financial instruments	1,329	644	1,973	1,319
Total investments	126,382	104,124	230,506	204,245
Total investments and cash equivalents	132,224	104,184	236,408	210,147

INVESTMENTS PLEDGED AS COLLATERAL

As at December 31, 2013, the total investments and cash equivalents amount includes investments with a fair value of $17,230 million that have been pledged as collateral. The counterparties are authorized to sell or repledge the securities as collateral. Information about investments pledged as collateral is provided in Note 15.

INVESTMENTS, CASH EQUIVALENTS AND INVESTMENT LIABILITIES (cont.)

				January 1, 2013
	Canada	Foreign	Fair value	Cost
Cash equivalents				
Short-term investments	7	98	105	105
Securities purchased under reverse repurchase agreements	3,255	–	3,255	3,255
Total cash equivalents	3,262	98	3,360	3,360
Investments				
Fixed-income securities				
Short-term investments	517	600	1,117	1,367
Securities purchased under reverse repurchase agreements	5,374	2,754	8,128	8,111
Bonds				
Governments	28,972	989	29,961	28,763
Government corporations and other public administrations	14,595	777	15,372	14,879
Corporate sector	7,913	3,560	11,473	10,902
ABTNs *(Note 4c)*	9,894	–	9,894	11,203
Total fixed-income securities	67,265	8,680	75,945	75,225
Variable-income securities				
Equities and convertible securities				
Public companies	17,816	47,051	64,867	60,893
Private companies	1,884	8,652	10,536	11,135
Hedge funds	102	2,903	3,005	2,981
Total variable-income securities	19,802	58,606	78,408	75,009
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	15,067	12,231	27,298	18,452
Investments in real estate debt	7,559	–	7,559	7,846
Private equity investments	2,243	4,955	7,198	7,038
Infrastructure investments	831	2,583	3,414	3,136
Other investments	–	470	470	501
Total interests in unconsolidated subsidiaries	25,700	20,239	45,939	36,973
Derivative financial instruments				
Exchange markets *(Note 6)*	7	19	26	17
Over-the-counter markets *(Note 6)*	1,899	565	2,464	1,227
Total derivative financial instruments	1,906	584	2,490	1,244
Total investments	114,673	88,109	202,782	188,451
Total investments and cash equivalents	117,935	88,207	206,142	191,811

INVESTMENTS PLEDGED AS COLLATERAL

As at January 1, 2013, the total investments and cash equivalents amount includes investments with a fair value of $11,894 million that have been pledged as collateral. The counterparties are authorized to sell or repledge the securities as collateral. Information about investments pledged as collateral is provided in Note 15.

EQUITIES IN GROWTH MARKETS

La Caisse was granted Qualified Foreign Institutional Investor status and obtained an investment quota to access the Chinese capital markets. Although la Caisse has a long-term investment strategy, it must meet the conditions set by the regulatory authorities in the event of a repatriation of invested capital. As at December 31, 2014, the fair value of investments in securities was $983 million ($657 million as at December 31, 2013 and $291 million as at January 1, 2013).

INVESTMENTS, CASH EQUIVALENTS AND INVESTMENT LIABILITIES (cont.)

B) INVESTMENT LIABILITIES

The following tables present the fair values and costs of the investment liability items. The geographic allocation of investment liabilities is determined using the country of the issuer's principal place of business, except for the geographic allocation of derivative financial instruments, which is determined using the currency in which the instrument will be settled.

				December 31, 2014
	Canada	Foreign	**Fair value**	**Cost**
Non-derivative financial liabilities				
Securities sold under repurchase agreements	14,345	2,206	**16,551**	**16,560**
Securities sold short				
Equities	5,835	1,757	**7,592**	**5,711**
Bonds and short-term investments	1,069	4,160	**5,229**	**4,924**
Commercial paper payable	3,314	–	**3,314**	**3,253**
Loans payable	637	363	**1,000**	**989**
Term notes payable	9,814	–	**9,814**	**8,291**
Total non-derivative financial liabilities	35,014	8,486	**43,500**	**39,728**
Derivative financial instruments				
Exchange markets *(Note 6)*	–	4	**4**	**8**
Over-the-counter markets *(Note 6)*	322	1,098	**1,420**	**162**
Total derivative financial instruments	322	1,102	**1,424**	**170**
Total investment liabilities	35,336	9,588	**44,924**	**39,898**

				December 31, 2013
	Canada	Foreign	Fair value	Cost
Non-derivative financial liabilities				
Securities sold under repurchase agreements	8,571	3,679	12,250	12,245
Securities sold short				
Equities	6,112	1,414	7,526	5,938
Bonds and short-term investments	493	3,673	4,166	4,057
Commercial paper payable	1,529	–	1,529	1,527
Loans payable	824	441	1,265	1,273
Term notes payable	9,020	–	9,020	8,289
Total non-derivative financial liabilities	26,549	9,207	35,756	33,329
Derivative financial instruments				
Exchange markets *(Note 6)*	–	11	11	10
Over-the-counter markets *(Note 6)*	375	1,019	1,394	129
Total derivative financial instruments	375	1,030	1,405	139
Total investment liabilities	26,924	10,237	37,161	33,468

INVESTMENTS, CASH EQUIVALENTS AND INVESTMENT LIABILITIES (cont.)

				January 1, 2013
	Canada	Foreign	Fair value	Cost
Non-derivative financial liabilities				
Securities sold under repurchase agreements	3,762	862	4,624	4,623
Securities sold short				
Equities	6,607	1,674	8,281	7,512
Bonds and short-term investments	1,185	2,753	3,938	3,778
Commercial paper payable	1,017	–	1,017	1,018
Loans payable	2,283	398	2,681	2,707
Term notes payable	8,879	–	8,879	8,287
Total non-derivative financial liabilities	23,733	5,687	29,420	27,925
Derivative financial instruments				
Exchange markets *(Note 6)*	–	15	15	6
Over-the-counter markets *(Note 6)*	827	975	1,802	61
Total derivative financial instruments	827	990	1,817	67
Total investment liabilities	24,560	6,677	31,237	27,992

C) ABTNs AND ABTN-RELATED FINANCIAL INSTRUMENTS

ABTNs represent debt backed by a variety of financial instruments mostly structured in Master Asset Vehicles (MAVs). In the case of MAV 1 and MAV 2, the underlying assets are essentially credit default swaps as well as assets pledged as collateral, whereas MAV 3 contains traditional assets such as residential and commercial mortgage debt. The ABTNs excluded from the restructuring agreement consist essentially of credit default swaps.

La Caisse has a commitment regarding a funding facility in respect of MAV 1 totalling $6,167 million as at December 31, 2014 ($6,167 million as at December 31, 2013 and January 1, 2013) and maturing in July 2017. This funding facility represents the indemnification agreements that may eventually require la Caisse to make payments to the beneficiaries of the guarantee. As at December 31, 2014, no withdrawals had been made on the funding facility since its origination.

In addition, la Caisse uses derivative financial instruments such as interest rate swaps and credit default swaps to reduce the risk of loss inherent to fluctuations in the fair value of the ABTNs as well as potential collateral calls. These hedges have maturities that are similar to those of the ABTNs, and la Caisse intends to keep them in place until maturity.

ABTNs, derivative financial instruments and ABTN-related liabilities are presented in the following table:

	December 31, 2014			December 31, 2013			January 1, 2013		
	Fair value	**Cumulative unrealized losses**	**Cost**	Fair value	Cumulative unrealized losses	Cost	Fair value	Cumulative unrealized losses	Cost
MAV 1, 2, 3	**8,346**	**(144)**	**8,490**	8,501	(278)	8,779	8,751	(1,035)	9,786
ABTNs excluded from the restructuring agreement	**890**	**(36)**	**926**	1,251	(63)	1,314	1,143	(274)	1,417
Total ABTNs	**9,236**	**(180)**	**9,416**	9,752	(341)	10,093	9,894	(1,309)	11,203
Derivative financial instruments[1]	**–**	**(1,140)**	**1,140**	24	(1,116)	1,140	259	(881)	1,140
ABTN-related liabilities[1]	**(647)**	**(6)**	**(641)**	(842)	(3)	(839)	(1,411)	–	(1,411)
Total ABTN-related financial instruments	**8,589**	**(1,326)**	**9,915**	8,934	(1,460)	10,394	8,742	(2,190)	10,932

1. These items are included in Note 4a of Investments and in Note 4b of Investment liabilities.

05
ALLOCATION OF NET ASSETS ATTRIBUTABLE TO DEPOSITORS

The following table presents the allocation of net assets attributable to depositors according to la Caisse's total specialized portfolios offering:

	December 31, 2014	December 31, 2013	January 1, 2013
Fixed income			
Short Term Investments	**6,830**	3,512	8,916
Bonds	**62,870**	55,016	43,790
Long Term Bonds	**2,208**	1,896	3,679
Real Estate Debt	**10,441**	8,818	7,574
	82,349	69,242	63,959
Inflation-sensitive investments			
Real Return Bonds	**980**	1,188	1,228
Infrastructure	**10,133**	8,048	6,307
Real Estate	**22,878**	22,570	17,974
	33,991	31,806	25,509
Equities			
Canadian Equity	**24,564**	23,069	22,024
Global Equity	**–**	3,485	13,753
U.S. Equity	**10,263**	9,730	10,175
EAFE Equity	**9,510**	9,832	9,828
Emerging Markets Equity	**11,805**	10,256	8,718
Global Quality Equity	**28,354**	17,225	–
Private Equity	**22,396**	20,182	17,796
	106,892	93,779	82,294
Other investments			
Hedge Funds	**–**	3,667	3,185
Asset Allocation	**1,603**	1,156	1,103
ABTN	**30**	(107)	(834)
Active Overlay Strategies	**533**	–	–
	2,166	4,716	3,454
Customized strategies of individual funds[1] and cash activities	**453**	606	994
Net assets attributable to depositors	**225,851**	200,149	176,210

1. The customized strategies consist of direct holdings of derivative financial instruments by the individual funds for the customized management of the desired exposure by each depositor.

06
DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates according to an underlying item, which require very little or no initial investment and are settled at a future date. The underlying item may be of a financial nature (interest rate, foreign currency or stock market security or index) or may be a commodity (precious metal, produce or oil). Certain derivative financial instruments are settled through clearing houses. La Caisse uses, among others, the derivative financial instruments described below.

Forward contracts are commitments that enable the purchase or sale of an underlying item, the quantity and price of which are determined in the contract, which includes a predetermined maturity date. Forward contracts have customized terms and conditions negotiated directly between the parties on the over-the-counter market. Futures contracts have terms and conditions determined by an exchange market.

Swaps are derivatives traded on over-the-counter markets whereby two parties agree to exchange a series of cash flows according to predetermined conditions that include a notional amount, payment dates and a term to maturity.

Options are contracts traded on over-the-counter or exchange markets and that give 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 future date or at any time before a specified maturity date.

Warrants are contracts traded on over-the-counter or exchange markets that enable the purchase of an underlying item, the price of which is determined in the contract, which includes a predetermined maturity date.

The notional amount is the amount to which a rate or price is applied to determine the amounts of cash flows to be exchanged periodically.

The following table presents the fair values and the notional amounts of the derivative financial instruments held by la Caisse:

	December 31, 2014			December 31, 2013			January 1, 2013		
	Fair value			Fair value			Fair value		
	Assets	**Liabilities**	**Notional amount**	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Exchange markets									
Interest rate derivatives									
Futures contracts	**–**	**–**	**11,063**	–	–	7,358	–	–	4,909
Options	**6**	**(1)**	**8,591**	6	(3)	2,921	1	(1)	2,225
Equity derivatives									
Futures contracts	**–**	**–**	**6,678**	–	–	3,668	–	–	1,812
Options	**14**	**(3)**	**461**	19	(8)	452	11	(2)	769
Warrants	**5**	**–**	**32**	5	–	72	1	–	35
Commodity derivatives									
Futures contracts	**–**	**–**	**–**	–	–	–	13	(12)	16
Options	**1**	**–**	**47**	1	–	25	–	–	122
Total exchange markets	**26**	**(4)**	**26,872**	31	(11)	14,496	26	(15)	9,888

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

	December 31, 2014			December 31, 2013			January 1, 2013		
	Fair value		Notional	Fair value		Notional	Fair value		Notional
	Assets	Liabilities	amount	Assets	Liabilities	amount	Assets	Liabilities	amount
Over-the-counter markets									
Interest rate derivatives									
Swaps	**442**	**(314)**	**18,034**	1,030	(634)	30,054	1,507	(1,188)	43,088
Swaps settled through a clearing house	**–**	**–**	**41,723**	–	–	17,041	–	–	–
Options	**78**	**(70)**	**59,488**	154	(118)	18,149	39	(31)	3,784
Currency derivatives									
Swaps	**36**	**(98)**	**12,039**	161	(101)	14,332	146	(141)	6,454
Forward contracts[1]	**371**	**(830)**	**44,692**	65	(470)	39,318	54	(288)	33,350
Options	**42**	**(25)**	**1,672**	31	(23)	1,115	22	(19)	1,303
Credit default derivatives									
Swaps	**–**	**–**	**31,506**	27	(2)	32,063	267	(11)	32,829
Swaps settled through a clearing house	**–**	**–**	**2,340**	–	–	–	–	–	–
Equity derivatives									
Swaps	**290**	**(83)**	**17,136**	467	(46)	16,670	415	(122)	21,399
Options	**–**	**–**	**–**	–	–	–	2	(2)	44
Warrants	**9**	**–**	**10**	7	–	10	12	–	45
Commodity derivatives									
Swaps	**–**	**–**	**–**	–	–	–	–	–	20
Options	**–**	**–**	**–**	–	–	–	–	–	50
Total over-the-counter markets	**1,268**	**(1,420)**	**228,640**	1,942	(1,394)	168,752	2,464	(1,802)	142,366
Total derivative financial instruments	**1,294**	**(1,424)**	**255,512**	1,973	(1,405)	183,248	2,490	(1,817)	152,254

1. When foreign exchange risk management transactions involve simultaneous use of the U.S. dollar and other currencies, the notional amount is presented on a gross basis. As at December 31, 2014, contracts involving simultaneous use of the U.S. dollar and other currencies totalled $16,698 million ($12,324 million as at December 31, 2013 and $7,987 million as at January 1, 2013).

07
FAIR VALUE MEASUREMENT

A) FAIR VALUE VALUATION TECHNIQUES

The following paragraphs describe the main valuation techniques used to measure la Caisse's financial instruments.

SHORT-TERM INVESTMENTS AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

The fair value of short-term investments and securities purchased under reverse repurchase agreements is determined using a discounted cash flow technique. Discounted cash flow valuations primarily use observable inputs such as interest rate curves and credit spreads related to the issuer's credit quality that make up the discount rates.

BONDS

The fair value of bonds is determined using prices published by brokers in active markets for identical or similar instruments. The fair value of bonds that have no published prices is determined using either a discounted cash flow technique or broker quotes. Discounted cash flow valuations use observable and unobservable inputs such as interest rate curves and credit spreads related to the issuer's credit quality that make up the discount rates. When fair value is determined using broker quotes, this value represents the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

La Caisse may also use information about recent transactions carried out in the market for valuations of private company bonds. When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, la Caisse did not conduct a sensitivity analysis.

Certain bond valuations are reviewed semi-annually by an independent external firm.

ABTNs

The fair value of MAV 1 ABTNs and of certain ABTNs excluded from the restructuring agreement is determined according to a recognized financial model. The fair value of derivative financial instruments used as economic hedges for ABTNs is determined according to this same financial model. This technique uses observable and unobservable inputs such as credit spreads related to the issuer's credit quality, correlation factors and illiquidity premiums. These values are based on observable inputs for similar financial instruments but are adjusted significantly to reflect the specific characteristics of the instrument.

The fair value of the other ABTNs is determined primarily on the basis of external valuations received from the administrator of the MAV trusts and broker quotes resulting from recognized financial models. This value represents the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

The ABTN valuations are reviewed semi-annually by an independent external firm.

EQUITIES AND CONVERTIBLE SECURITIES

Public companies
The fair value of equities and convertible securities of public companies is determined based on closing prices observed on major stock exchanges, which represent the active market.

Private companies
The fair value of equities of private equity investment companies is primarily determined according to the comparable company multiples technique. La Caisse identifies comparable companies based on their industry, size, financial position and strategy and calculates an appropriate multiple for each comparable company identified. This technique uses observable and unobservable inputs such as earnings before interest, taxes, depreciation and amortization (EBITDA) multiples and price-to-book value ratios.

The fair value of equities of private infrastructure investment companies is primarily determined using discounted cash flow technique. This technique uses observable and unobservable inputs such as discount rates that take into account the risk associated with the investment as well as future cash flows.

La Caisse may also use information about recent transactions carried out in the market for valuations of private equity and infrastructure investments. When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, la Caisse did not conduct a sensitivity analysis.

The fair value of private investment funds and infrastructure funds is determined based on the fair value of the net assets in the most recent financial statements provided by the general partner. La Caisse ensures that the valuation techniques used by the general partner of the fund to determine the fair value of the net assets are in compliance with IFRS. Moreover, the fair value of net assets is adjusted to reflect the purchases and sales of fund units carried out between the fund's financial statement date and the valuation date or when other judgmental factors indicate that this value differs from the fair value provided by the general partner. The net asset value of private investment funds and infrastructure funds is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

Certain valuations of private companies are reviewed semi-annually by an independent external firm.

FAIR VALUE MEASUREMENT (cont.)

Hedge funds
The fair value of hedge funds is determined according to the net assets provided by the administrator, unless there is an indication that it differs from the value of the net assets provided. La Caisse ensures that the valuation techniques used by the fund administrator to determine the fair value of the net assets are in compliance with IFRS. The net asset value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

The fair value of la Caisse's interests in various unconsolidated subsidiaries is determined using the below-described valuation techniques.

Investments in real estate holdings
The fair value of equity interests in real estate subsidiaries is determined using an enterprise value technique. The fair value resulting from the enterprise value technique is determined using a commonly used method, i.e., the comparable company multiples method. This method is supported by observable and unobservable inputs such as the price-to-book value ratio. Fair value is determined annually by an independent external firm. Enterprise value reflects, among other things, the fair value of the assets and liabilities held directly by these subsidiaries, which include investment property, other real estate investments and liabilities associated with investment property, as well as the fair value resulting from the quality of the portfolio and the integrated management of the platform of these subsidiaries.

The fair value of interests in the form of debt instruments in real estate subsidiaries is determined using the discounted cash flow technique, which is supported mainly by observable inputs such as interest rates and credit spreads related to the issuer's credit quality.

The fair value of investment property is determined and certified semi-annually by external, recognized and independent chartered real estate appraisers. Valuations are carried out in compliance with the valuation standards in effect in each market. The valuation techniques used are based primarily on two recognized methodologies, namely, the discounted cash flow technique and the capitalization of future cash flows. These techniques use observable and unobservable inputs such as leases, operating expenses, residual value and rates of return, discount rates and capitalization rates. Values observed for comparable transactions are used to determine the representative fair value range and support the fair value determined. Investment property at fair value is measured according to the highest and best use. The fair value of real estate investment funds, included in other real estate investments, is determined based on the fair value provided by the general partner or the administrator. The fair value of financial liabilities associated with investment property is determined based on the discounted cash flow technique. This technique uses observable and unobservable inputs such as interest rates and credit spreads related to the issuer's credit quality.

Investments in real estate debt
The fair value of equity interests in real estate debt subsidiaries is determined using an enterprise value technique. Enterprise value reflects the fair value of the assets held directly by these subsidiaries, which primarily include commercial mortgages. The fair value of equity interests in real estate debt subsidiaries corresponds to the net assets in the audited financial statements of the subsidiaries. The net asset value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

The fair value of interests in the form of debt instruments in real estate debt subsidiaries is determined using the discounted cash flow technique. This valuation primarily uses observable inputs such as interest rates and credit spreads related to the issuer's credit quality.

The fair value of commercial mortgages is determined using the discounted cash flow technique and are divided into risk categories, according to the loan-to-value ratio, and for which an appropriate discount rate is determined. Commercial mortgage valuations are reviewed semi-annually by an independent external firm.

Private equity investments and infrastructure investments
The fair value of interests in private equity and infrastructure investment subsidiaries is determined using an enterprise value technique. The enterprise value reflects the fair value of the assets held directly by these subsidiaries, including equities, bonds and private equity and infrastructure funds for which the valuation techniques have been described above. When the fair value of the assets that are held directly by these subsidiaries is determined based on the net asset value of the funds, la Caisse is unable to conduct a sensitivity analysis. When the fair value is determined based on inputs observed in recent market transactions, la Caisse did not conduct a sensitivity analysis.

Other investments
Other investments include interests in subsidiaries that hold fixed-income securities and hedge funds. The fair value of the interests in these subsidiaries is determined using an enterprise value technique. The enterprise value reflects the fair value of the assets held directly by these subsidiaries, including fixed-income securities and hedge funds for which the valuation techniques have been described above.

FAIR VALUE MEASUREMENT (cont.)

SECURITIES SOLD SHORT

The fair value of short-term investments, bonds and equities that are sold short is determined using the fair value of the security that is sold short. The techniques for valuing these securities have been described above.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, COMMERCIAL PAPER PAYABLE, LOANS PAYABLE AND TERM NOTES PAYABLE

The fair value of these financial liabilities is determined using a discounted cash flow technique. This technique primarily uses observable inputs, including market interest rates for new debts whose terms and conditions are substantially the same, taking credit spreads related to the issuer's credit quality into account.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is determined according to the type of derivative financial instrument. The fair value of derivative financial instruments traded on exchange markets and settled through a clearing house is determined, respectively, using the prices on the major stock exchanges representing the active market and clearing house prices. The fair value of derivative financial instruments traded on over-the-counter markets is obtained using recognized and commonly used valuation techniques such as the discounted cash flow technique or other financial models. These techniques require the use and preparation of assumptions that take into account observable and unobservable inputs such as interest rate curves, credit spreads related to the issuer's credit quality that make up the discount rates and foreign exchange rate curves, prices of underlying securities, and volatility.

OTHER FINANCIAL INSTRUMENTS

Other financial instruments include amounts receivable from transactions being settled, advances to depositors, accrued and receivable investment income, amounts payable on transactions being settled, and other financial liabilities. The fair value of these other financial instruments is determined using the discounted cash flow technique. This technique primarily uses observable inputs such as interest rate curves and credit spreads related to the issuer's credit quality that make up the discount rates.

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Demand deposits
The fair value of demand deposits is determined based on their nominal value, as they are repayable at any time at the option of the issuer without penalty.

Term deposits and distributions payable to depositors
The fair value of term deposits and distributions payable to depositors is determined using the discounted cash flow technique. This valuation technique mainly uses observable inputs such as interest rate curves and credit spreads related to the issuer's credit quality that make up the discount rates.

Participation deposits
The fair value of depositor participation deposits stems from a valuation of all the financial assets and liabilities held by la Caisse.

FAIR VALUE MEASUREMENT (cont.)

B) POLICIES, DIRECTIVES AND PROCEDURES RELATED TO FAIR VALUE MEASUREMENT

La Caisse's valuation procedures are governed by the *Caisse Investment Valuation Policy*, which is approved by the Board of Directors. This general policy is further supported by valuation directives that stipulate the valuation methodology to be used for each type of investment held by la Caisse. The policy and directives also establish governance for the valuation and reporting process. Application of the policy is the responsibility of the Valuation Committee, which reports to the Executive Committee and is supported by a valuation team. The Valuation Committee approves directives, compliance with the policy, and the fair values determined semi-annually. It then recommends these fair values to the Audit Committee. For valuations of private equity investments and infrastructure investments, the policy provides for an external review of substantially all the fair values of these investments over a four-year period. An external review includes a valuation by independent valuators or an observation of comparable transactions in the market.

The policy also includes directives to be followed when using prices from external sources such as broker quotes and net asset values provided by external administrators of the funds or general partners.

When fair value is determined by external valuators or third parties, the Valuation Committee verifies the qualifications, experience and independence of these parties. It also reviews the valuation techniques, the significant inputs used in calculating fair value, and the results and conclusions to make sure that they are in compliance with recognized valuation standards.

In addition, to ensure the reasonableness of the fair value determined, la Caisse may conduct backtesting, compare the established fair value with values of comparable transactions, including the values of comparable public companies, and hire external valuators.

C) FAIR VALUE HIERARCHY

La Caisse's financial instruments at fair value through profit or loss are classified according to the below-described fair value hierarchy, based on the lowest level of significant input used in measuring fair value.

Level 1: The fair value calculation of the financial instrument is based on quoted prices (unadjusted) in active markets that the entity can access at the measurement date for identical assets or liabilities.

Level 2: The fair value of the financial instrument is calculated using valuation techniques for which the significant inputs are observable, either directly or indirectly.

Level 3: The fair value of the financial instrument is calculated using valuation techniques for which the significant inputs are unobservable. This level includes financial instruments whose valuation is based on prices observed for similar financial instruments, substantially adjusted to reflect the characteristics specific to the financial instrument being measured and available market data.

Classification into the fair value hierarchy levels is determined upon initial measurement of the financial instrument and is reviewed on each subsequent measurement date. Transfers between levels of the fair value hierarchy are measured at fair value at the beginning of each fiscal year.

FAIR VALUE MEASUREMENT (cont.)

The following tables present an allocation of the fair value of financial instruments into the three levels of the fair value hierarchy:

				December 31, 2014
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash equivalents	–	3,829	–	3,829
Amounts receivable from transactions being settled	–	1,346	–	1,346
Advances to depositors	–	1,090	–	1,090
Investment income, accrued and receivable	–	1,149	–	1,149
Investments				
Short-term investments	–	2,428	7	2,435
Securities purchased under reverse repurchase agreements	–	16,062	–	16,062
Bonds	–	75,033	1,040	76,073
ABTNs	–	–	9,236	9,236
Equities and convertible securities				
Public companies	84,193	129	–	84,322
Private companies	–	379	11,285	11,664
Hedge funds	–	2,555	499	3,054
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	9,776	22,856	32,632
Investments in real estate debt	–	8,072	2,177	10,249
Private equity investments	–	451	7,797	8,248
Infrastructure investments	–	–	7,369	7,369
Other investments	–	2,337	–	2,337
Derivative financial instruments	20	1,265	9	1,294
	84,213	125,901	62,275	272,389
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	1,300	–	1,300
Other financial liabilities	–	648	–	648
Investment liabilities				
Securities sold under repurchase agreements	–	16,551	–	16,551
Securities sold short	7,562	5,229	30	12,821
Commercial paper payable	–	3,314	–	3,314
Loans payable	–	1,000	–	1,000
Term notes payable	–	9,814	–	9,814
Derivative financial instruments	4	1,409	11	1,424
	7,566	39,265	41	46,872
Net assets attributable to depositors				
Demand deposits	–	225	–	225
Term deposits	–	198	–	198
Distributions payable to depositors	–	1,621	–	1,621
Participation deposits	–	223,807	–	223,807
	–	225,851	–	225,851

TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY

During the year ended December 31, 2014, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of $235 million were transferred from Level 3 to Level 2, and $109 million from Level 1 to Level 2.

FAIR VALUE MEASUREMENT (cont.)

				December 31, 2013
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash equivalents	–	5,902	–	5,902
Amounts receivable from transactions being settled	–	1,697	–	1,697
Advances to depositors	–	996	–	996
Investment income, accrued and receivable	–	898	–	898
Investments				
Short-term investments	–	1,612	32	1,644
Securities purchased under reverse repurchase agreements	–	9,714	–	9,714
Bonds	–	65,030	1,810	66,840
ABTNs	–	–	9,752	9,752
Equities and convertible securities				
Public companies	72,173	15	–	72,188
Private companies	–	801	10,302	11,103
Hedge funds	–	2,330	658	2,988
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	9,205	22,590	31,795
Investments in real estate debt	–	6,962	1,835	8,797
Private equity investments	–	281	7,014	7,295
Infrastructure investments	–	–	5,437	5,437
Other investments	–	980	–	980
Derivative financial instruments	25	1,913	35	1,973
	72,198	108,336	59,465	239,999
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	2,380	–	2,380
Other financial liabilities	–	549	–	549
Investment liabilities				
Securities sold under repurchase agreements	–	12,250	–	12,250
Securities sold short	7,483	4,166	43	11,692
Commercial paper payable	–	1,529	–	1,529
Loans payable	–	1,265	–	1,265
Term notes payable	–	9,020	–	9,020
Derivative financial instruments	11	1,347	47	1,405
	7,494	32,506	90	40,090
Net assets attributable to depositors				
Demand deposits	–	371	–	371
Term deposits	–	92	–	92
Distributions payable to depositors	–	1,328	–	1,328
Participation deposits	–	198,358	–	198,358
	–	200,149	–	200,149

TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY

During the year ended December 31, 2013, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of $83 million were transferred from Level 3 to Level 1, and $76 million from Level 3 to Level 2, as well as $31 million from Level 2 to Level 3.

FAIR VALUE MEASUREMENT (cont.)

				January 1, 2013
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash equivalents	–	3,360	–	3,360
Amounts receivable from transactions being settled	–	323	–	323
Advances to depositors	–	797	–	797
Investment income, accrued and receivable	–	773	–	773
Investments				
Short-term investments	–	967	150	1,117
Securities purchased under reverse repurchase agreements	–	8,128	–	8,128
Bonds	–	54,826	1,980	56,806
ABTNs	–	–	9,894	9,894
Equities and convertible securities				
Public companies	62,821	2,046	–	64,867
Private companies	–	514	10,022	10,536
Hedge funds	–	1,767	1,238	3,005
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	9,316	17,982	27,298
Investments in real estate debt	–	6,178	1,381	7,559
Private equity investments	–	196	7,002	7,198
Infrastructure investments	–	–	3,414	3,414
Other investments	–	470	–	470
Derivative financial instruments	23	2,187	280	2,490
	62,844	91,848	53,343	208,035
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	325	–	325
Other financial liabilities	–	512	–	512
Investment liabilities				
Securities sold under repurchase agreements	–	4,624	–	4,624
Securities sold short	8,231	3,938	50	12,219
Commercial paper payable	–	1,017	–	1,017
Loans payable	–	2,681	–	2,681
Term notes payable	–	8,879	–	8,879
Derivative financial instruments	14	1,705	98	1,817
	8,245	23,681	148	32,074
Net assets attributable to depositors				
Demand deposits	–	887	–	887
Term deposits	–	134	–	134
Distributions payable to depositors	–	1,612	–	1,612
Participation deposits	–	173,577	–	173,577
	–	176,210	–	176,210

FAIR VALUE MEASUREMENT (cont.)

D) LEVEL 3: RECONCILIATION BETWEEN OPENING AND CLOSING BALANCES

For financial instruments classified in Level 3 of the hierarchy, reconciliations between the opening and closing balances as at December 31, 2014 and as at December 31, 2013 were as follows:

									2014
	Opening balance (assets/ (liabilities))	Gains (losses) recognized in comprehensive income[2]	Purchases	Sales	Issuances	Settlements	Transfers	Closing balance (assets/ (liabilities))	Unrealized gains (losses) on financial instruments held at year-end[3]
Short-term investments	32	5	18	(28)	–	(20)	–	7	(11)
Bonds	1,810	67	134	(30)	–	(941)	–	1,040	25
ABTNs	9,752	159	–	–	–	(675)	–	9,236	161
Equities									
Private companies	10,302	526	1,952	(1,423)	–	–	(72)	11,285	391
Hedge funds	658	20	306	(322)	–	–	(163)	499	25
Interests in unconsolidated subsidiaries									
Investments in real estate holdings	22,590	2,000	432	(2,166)	–	–	–	22,856	2,188
Investments in real estate debt	1,835	342	–	–	–	–	–	2,177	342
Private equity investments	7,014	1,012	530	(759)	–	–	–	7,797	1,104
Infrastructure investments	5,437	575	1,822	(465)	–	–	–	7,369	571
Derivative financial instruments[1]	(12)	(35)	–	–	–	45	–	(2)	(17)
Securities sold short	(43)	(6)	–	–	–	19	–	(30)	4

1. The assets and liabilities related to derivative financial instruments are presented on a net basis.
2. Presented under "Net realized gains" and "Net unrealized gains" in the Consolidated Statements of Comprehensive Income.
3. Presented under "Net unrealized gains" in the Consolidated Statements of Comprehensive Income.

FAIR VALUE MEASUREMENT (cont.)

									2013
	Opening balance (assets/ (liabilities))	Gains (losses) recognized in comprehensive income[2]	Purchases	Sales	Issuances	Settlements	Transfers	Closing balance (assets/ (liabilities))	Unrealized gains (losses) on financial instruments held at year-end[3]
Short-term investments	150	108	756	(227)	–	(755)	–	32	(15)
Bonds	1,980	(9)	71	(135)	–	(125)	28	1,810	(23)
ABTNs	9,894	961	–	–	–	(1,103)	–	9,752	968
Equities									
Private companies	10,022	1,381	415	(1,433)	–	–	(83)	10,302	932
Hedge funds	1,238	45	55	(604)	–	–	(76)	658	34
Interests in unconsolidated subsidiaries									
Investments in real estate holdings	17,982	2,513	8,856	(6,761)	–	–	–	22,590	977
Investments in real estate debt	1,381	89	365	–	–	–	–	1,835	89
Private equity investments	7,002	975	66	(1,029)	–	–	–	7,014	959
Infrastructure investments	3,414	111	2,224	(312)	–	–	–	5,437	131
Derivative financial instruments[1]	182	(199)	–	–	–	2	3	(12)	(190)
Securities sold short	(50)	(6)	–	–	–	13	–	(43)	6

1. The assets and liabilities related to derivative financial instruments are presented on a net basis.
2. Presented under "Net realized gains" and "Net unrealized gains" in the Consolidated Statements of Comprehensive Income.
3. Presented under "Net unrealized gains" in the Consolidated Statements of Comprehensive Income.

E) LEVEL 3: FAIR VALUE MEASUREMENT BASED ON REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS

In certain cases, the assumptions used in the valuation techniques are based on unobservable inputs or observable inputs adjusted significantly to reflect the characteristics specific to the financial instrument being measured. While la Caisse considers its fair value measurements to be appropriate, the use of reasonably possible alternative assumptions could result in different fair values. For a given measurement date, it is possible that other market participants could measure a same financial instrument at a different fair value, with the valuation techniques and inputs used by these market participants still meeting the definition of fair value. The fact that different fair value measurements exist reflects the judgment, estimates and assumptions applied as well as the uncertainty involved in determining the fair value of these financial instruments.

FAIR VALUE MEASUREMENT (cont.)

The following tables present quantitative information on the primary valuation techniques and unobservable inputs for the main financial instruments classified in Level 3 of the fair value hierarchy that are included in the sensitivity analysis in Note 7f as well as those that are excluded from the analysis:

				December 31, 2014
	Fair value	Valuation techniques	Unobservable inputs	Range (weighted average)
Included in the sensitivity analysis				
Bonds	481	Discounted cash flows	Discount rates	9.7% to 18.0% (11.6%)
ABTNs and derivative financial instruments used as economic hedges	8,548	Financial model	Correlation factors	44.7% to 99.0% (71.1%)
			Illiquidity premium	0.4%
Equities of private companies				
Private equity investments	1,775	Comparable company multiples	EBITDA multiples	5.7 to 12.2 (9.8)
Infrastructure investments	2,247	Discounted cash flows	Discount rates	8.0% to 18.0% (9.7%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	22,856	Comparable company multiples	Price-to-book value ratios	1.07
		Discounted cash flows	Discount rates	5.5% to 14.0% (6.8%)
			Credit spreads	0.8% to 4.8% (1.8%)
		Capitalization of cash flows	Capitalization rates	3.5% to 12.5% (5.5%)
Private equity investments	2,822	Comparable company multiples	EBITDA multiples	6.0 to 10.1 (7.5)
Infrastructure investments	6,418	Discounted cash flows	Discount rates	8.0% to 12.3% (9.8%)
	45,147			
Excluded from the sensitivity analysis				
Financial instruments[1]	17,087	Recent transactions	n.a.	n.a.
		Broker quotes	n.a.	n.a.
		Net asset value	n.a.	n.a.
Net financial instruments classified in Level 3	62,234			

n.a.: not applicable

1. The fair value of the financial instruments presented in this item includes short-term investments, bonds, ABTNs, equities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.

FAIR VALUE MEASUREMENT (cont.)

	Fair value	Valuation techniques	Unobservable inputs	December 31, 2013 Range (weighted average)
Included in the sensitivity analysis				
Bonds	627	Discounted cash flows	Discount rates	12.5% to 19.0% (13.8%)
ABTNs and derivative financial instruments used as economic hedges	8,710	Financial model	Correlation factors	43.7% to 99.0% (76.1%)
			Illiquidity premium	0.4%
Equities of private companies				
Private equity investments	2,315	Comparable company multiples	EBITDA multiples	6.5 to 11.9 (10.5)
Infrastructure investments	1,200	Discounted cash flows	Discount rates	8.3% to 19.0% (9.1%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	22,590	Comparable company multiples	Price-to-book value ratios	1.05
		Discounted cash flows	Discount rates	5.5% to 14.0% (7.0%)
			Credit spreads	1.2% to 5.0% (2.1%)
		Capitalization of cash flows	Capitalization rates	3.5% to 11.0% (5.7%)
Private equity investments	2,921	Comparable company multiples	EBITDA multiples	6.0 to 10.7 (7.6)
Infrastructure investments	3,864	Discounted cash flows	Discount rates	8.3% to 11.8% (9.8%)
	42,227			
Excluded from the sensitivity analysis				
Financial instruments[1]	17,148	Recent transactions	n.a.	n.a.
		Broker quotes	n.a.	n.a.
		Net asset value	n.a.	n.a.
Net financial instruments classified in Level 3	59,375			

n.a.: not applicable

1. The fair value of the financial instruments presented in this item includes short-term investments, bonds, ABTNs, equities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.

FAIR VALUE MEASUREMENT (cont.)

				January 1, 2013
	Fair value	Valuation techniques	Unobservable inputs	Range (weighted average)
Included in the sensitivity analysis				
Bonds	395	Discounted cash flows	Discount rates	13.9% to 19.0% (14.8%)
ABTNs and derivative financial instruments used as economic hedges	9,382	Financial model	Correlation factors	37.2% to 99.0% (69.5%)
			Illiquidity premium	0.6%
Equities of private companies				
Private equity investments	1,969	Comparable company multiples	EBITDA multiples	6.4 to 11.6 (9.3)
Infrastructure investments	597	Discounted cash flows	Discount rates	8.3% to 19.0% (10.5%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	17,982	Comparable company multiples	Price-to-book value ratios	1.05
		Discounted cash flows	Discount rates	4.7% to 13.8% (7.2%)
			Credit spreads	1.7% to 6.2% (2.8%)
		Capitalization of cash flows	Capitalization rates	3.5% to 10.5% (5.9%)
Private equity investments	1,994	Comparable company multiples	EBITDA multiples	6.0 to 8.8 (6.7)
Infrastructure investments	2,497	Discounted cash flows	Discount rates	8.3% to 10.9% (8.9%)
	34,816			
Excluded from the sensitivity analysis				
Financial instruments[1]	18,379	Recent transactions	n.a.	n.a.
		Broker quotes	n.a.	n.a.
		Net asset value	n.a.	n.a.
Net financial instruments classified in Level 3	53,195			

n.a.: not applicable

1. The fair value of the financial instruments presented in this item includes short-term investments, bonds, ABTNs, equities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.

FAIR VALUE MEASUREMENT (cont.)

F) SENSITIVITY ANALYSIS OF FAIR VALUE

The following analysis shows the sensitivity of fair value measurements to reasonably possible alternative assumptions for the significant unobservable inputs presented in the preceding tables in Note 7e. La Caisse identified reasonably possible alternative assumptions using its judgment and knowledge of the markets. The following table shows the increases and decreases in fair value that would result from alternative assumptions for the main financial instruments classified in Level 3 of the fair value hierarchy that are subject to a sensitivity analysis.

	December 31, 2014		December 31, 2013		January 1, 2013	
	Increase	**Decrease**	Increase	Decrease	Increase	Decrease
Bonds	**49**	**(41)**	45	(47)	37	(49)
ABTNs and derivative financial instruments used as economic hedges	**17**	**(17)**	22	(23)	54	(53)
Equities of private companies						
Private equity investments	**216**	**(187)**	383	(366)	356	(416)
Infrastructure investments	**145**	**(138)**	67	(61)	63	(52)
Interests in unconsolidated subsidiaries						
Investments in real estate holdings	**1,520**	**(1,373)**	1,592	(1,462)	1,277	(1,180)
Private equity investments	**195**	**(191)**	282	(281)	241	(267)
Infrastructure investments	**450**	**(407)**	306	(283)	122	(98)

There is a correlation between unobservable inputs and the determination of fair value. Therefore, an increase (decrease) in discount rates, credit spreads, capitalization rates, correlation factors and illiquidity premiums would result in a decrease (increase) in fair value. Furthermore, an increase (decrease) in EBITDA multiples and price-to-book value ratios would result in an increase (decrease) in fair value. There is no predictable correlation between unobservable inputs.

08
OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset and a financial liability must be offset in the Consolidated Statements of Financial Position when la Caisse has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the financial asset and settle the financial liability simultaneously with the counterparty. La Caisse has a legally enforceable right of set-off when this right is exercisable in the normal course of business and in the event of default, insolvency or bankruptcy.

Amounts receivable from and amounts payable on transactions being settled, securities purchased under reverse repurchase agreements, and securities sold under repurchase agreements are subject to master netting agreements that do not meet the criteria for offsetting in the Consolidated Statements of Financial Position as they give a right of set-off that is enforceable only in the event of default, insolvency or bankruptcy.

Derivative financial instruments traded on over-the-counter markets in accordance with master netting agreements of the International Swaps and Derivatives Association (ISDA) do not meet the criteria for offsetting in the Consolidated Statements of Financial Position, as they give a right of set-off that is enforceable only in the event of default, insolvency or bankruptcy. Derivative financial instruments traded on exchange markets as well as those settled by clearing houses through brokers satisfy offsetting criteria.

The following tables present information about financial assets and liabilities that are offset and not offset in the Consolidated Statements of Financial Position and that are subject to master netting agreements or similar arrangements:

						December 31, 2014
	Gross amounts recognized	Amounts offset[1]	Net amounts presented in the Consolidated Statement of Financial Position[2]	Amounts subject to master netting agreements[3]	Collateral received/ pledged[4]	Net amounts
Financial assets						
Amounts receivable from transactions being settled	1,346	–	1,346	(987)	–	359
Securities purchased under reverse repurchase agreements	19,371	–	19,371	(12,055)	(7,316)	–
Derivative financial instruments[5]	1,398	(2)	1,396	(900)	(125)	371
	22,115	(2)	22,113	(13,942)	(7,441)	730
Financial liabilities						
Amounts payable on transactions being settled	1,300	–	1,300	(304)	–	996
Securities sold under repurchase agreements	16,551	–	16,551	(12,738)	(3,806)	7
Derivative financial instruments[5]	1,543	(2)	1,541	(900)	(443)	198
	19,394	(2)	19,392	(13,942)	(4,249)	1,201

1. Amounts offset in the Consolidated Statements of Financial Position, as the agreements meet the offsetting criteria.
2. Net amounts presented in the Consolidated Statements of Financial Position or in Notes 4a and 4b.
3. Amounts subject to master netting agreements that do not meet the offsetting criteria.
4. The financial collateral received or pledged cannot include a net amount per counterparty less than zero. The total amounts of financial collateral received or pledged is presented in Note 15.
5. The amounts presented in this item include the fair value of derivative financial instruments and the amounts receivable and payable related to these instruments presented under “Investment income, accrued and receivable” and “Other financial liabilities,” respectively.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont.)

December 31, 2013

	Gross amounts recognized	Amounts offset[1]	Net amounts presented in the Consolidated Statement of Financial Position[2]	Amounts subject to master netting agreements[3]	Collateral received/ pledged[4]	Net amounts
Financial assets						
Amounts receivable from transactions being settled	1,697	–	1,697	(1,030)	–	667
Securities purchased under reverse repurchase agreements	15,540	–	15,540	(9,325)	(6,201)	14
Derivative financial instruments[5]	2,047	(4)	2,043	(1,051)	(879)	113
	19,284	(4)	19,280	(11,406)	(7,080)	794
Financial liabilities						
Amounts payable on transactions being settled	2,380	–	2,380	(1,989)	–	391
Securities sold under repurchase agreements	12,250	–	12,250	(8,366)	(3,872)	12
Derivative financial instruments[5]	1,485	(4)	1,481	(1,051)	(125)	305
	16,115	(4)	16,111	(11,406)	(3,997)	708

January 1, 2013

	Gross amounts recognized	Amounts offset[1]	Net amounts presented in the Consolidated Statement of Financial Position[2]	Amounts subject to master netting agreements[3]	Collateral received/ pledged[4]	Net amounts
Financial assets						
Amounts receivable from transactions being settled	323	–	323	(170)	–	153
Securities purchased under reverse repurchase agreements	11,383	–	11,383	(2,791)	(8,461)	131
Derivative financial instruments[5]	2,573	(15)	2,558	(1,356)	(1,135)	67
	14,279	(15)	14,264	(4,317)	(9,596)	351
Financial liabilities						
Amounts payable on transactions being settled	325	–	325	(170)	–	155
Securities sold under repurchase agreements	4,624	–	4,624	(2,791)	(1,833)	–
Derivative financial instruments[5]	1,907	(15)	1,892	(1,356)	(281)	255
	6,856	(15)	6,841	(4,317)	(2,114)	410

1. Amounts offset in the Consolidated Statements of Financial Position, as the agreements meet the offsetting criteria.
2. Net amounts presented in the Consolidated Statements of Financial Position or in Notes 4a and 4b.
3. Amounts subject to master netting agreements that do not meet the offsetting criteria.
4. The financial collateral received or pledged cannot include a net amount per counterparty less than zero. The total amounts of financial collateral received or pledged is presented in Note 15.
5. The amounts presented in this item include the fair value of derivative financial instruments and the amounts receivable and payable related to these instruments presented under "Investment income, accrued and receivable" and "Other financial liabilities," respectively.

09 NET INVESTMENT INCOME

The following table presents the investment income and expense of the financial instruments at fair value through profit or loss for the years ended December 31:

	2014			2013		
	Dividend income (expense)	**Interest income (expense)**	**Net investment income**	Dividend income (expense)	Interest income (expense)	Net investement income
Cash management activities	**–**	**47**	**47**	–	30	30
Investing activities						
Short-term investments	**–**	**87**	**87**	–	62	62
Securities purchased under reverse repurchase agreements	**–**	**85**	**85**	–	59	59
Bonds	**–**	**2,151**	**2,151**	–	1,862	1,862
ABTNs	**–**	**152**	**152**	–	164	164
Equities and convertible securities	**3,557**	**22**	**3,579**	2,985	21	3,006
Interests in unconsolidated subsidiaries	**612**	**773**	**1,385**	1,031	596	1,627
	4,169	**3,317**	**7,486**	4,016	2,794	6,810
Other income			**34**			33
Total investment income			**7,520**			6,843
Investment liability activities						
Securities sold under repurchase agreements	**–**	**(88)**	**(88)**	–	(56)	(56)
Securities sold short	**(48)**	**(200)**	**(248)**	(69)	(177)	(246)
Financing activities						
Commercial paper payable	**–**	**(15)**	**(15)**	–	(11)	(11)
Loans payable	**–**	**(8)**	**(8)**	–	(15)	(15)
Term notes payable	**–**	**(342)**	**(342)**	–	(320)	(320)
	(48)	**(653)**	**(701)**	(69)	(579)	(648)
Other expenses						
External management fees			**(12)**			(8)
Withholding taxes			**(103)**			(99)
Total investment expense			**(816)**			(755)
Net investment income			**6,704**			6,088

10

NET INVESTMENT RESULT BEFORE DISTRIBUTIONS TO DEPOSITORS

The following table presents the net investment income, net realized gains (losses) and net unrealized gains (losses) on financial instruments at fair value through profit or loss for the years ended December 31:

				2014				2013
	Net investment income *(Note 9)*	**Net realized gains (losses)**	**Net unrealized gains (losses)**	**Total**	Net investment income *(Note 9)*	Net realized gains (losses)	Net unrealized gains (losses)	Total
Cash management activities	**47**	**–**	**–**	**47**	30	–	–	30
Investing activities								
Short-term investments	**87**	**57**	**114**	**258**	62	8	137	207
Securities purchased under reverse repurchase agreements	**85**	**219**	**(36)**	**268**	59	399	(10)	448
Bonds	**2,151**	**1,460**	**3,276**	**6,887**	1,862	(732)	(2,856)	(1,726)
ABTNs	**152**	**(2)**	**161**	**311**	164	(7)	968	1,125
Equities and convertible securities	**3,579**	**4,400**	**4,832**	**12,811**	3,006	4,231	11,939	19,176
Interests in unconsolidated subsidiaries	**1,385**	**(37)**	**5,237**	**6,585**	1,627	1,562	2,344	5,533
Net derivative financial instruments	**–**	**1,350**	**(700)**	**650**	–	(113)	(108)	(221)
Other	**34**	**54**	**–**	**88**	33	5	–	38
	7,520	**7,501**	**12,884**	**27,905**	6,843	5,353	12,414	24,610
Investment liability activities								
Securities sold under repurchase agreements	**(88)**	**(169)**	**14**	**(243)**	(56)	(223)	(4)	(283)
Securities sold short	**(248)**	**(1,250)**	**(489)**	**(1,987)**	(246)	491	(768)	(523)
Financing activities								
Commercial paper payable	**(15)**	**(67)**	**(59)**	**(141)**	(11)	–	(3)	(14)
Loans payable	**(8)**	**(27)**	**(19)**	**(54)**	(15)	(23)	(18)	(56)
Term notes payable	**(342)**	**(52)**	**(792)**	**(1,186)**	(320)	–	(139)	(459)
Other								
External management fees	**(12)**	**(1)**	**–**	**(13)**	(8)	(2)	–	(10)
Withholding taxes	**(103)**	**–**	**–**	**(103)**	(99)	–	–	(99)
Transaction costs	**–**	**(88)**	**–**	**(88)**	–	(100)	–	(100)
	(816)	**(1,654)**	**(1,345)**	**(3,815)**	(755)	143	(932)	(1,544)
	6,704	**5,847**	**11,539**	**24,090**	6,088	5,496	11,482	23,066
Operating expenses *(Note 11)*				**(315)**				(298)
Net investment result before distributions to depositors				**23,775**				22,768

11
OPERATING EXPENSES

The following table presents the operating expenses for the years ended December 31:

	2014	2013
Salaries and employee benefits	**179**	153
Information technology and professional services	**46**	47
Data services and subscriptions	**14**	13
Rent	**14**	12
Maintenance, equipment and amortization	**34**	43
Other expenses	**17**	17
	304	285
Safekeeping of securities	**11**	13
	315	298

12
RISK IDENTIFICATION AND MANAGEMENT

RISK MANAGEMENT POLICIES, DIRECTIVES AND PROCEDURES RELATED TO INVESTMENT ACTIVITIES

La Caisse is responsible for managing deposits in accordance with service agreements and depositor investment policies, the investment policies for specialized portfolios and the integrated risk management policy. To do so, it has implemented various policies, directives and procedures to oversee the management of the risks relating to its operations.

The integrated risk management policy is adopted by la Caisse's Board of Directors. The purpose of this policy is to promote a stringent risk management culture and practices that help la Caisse carry out its mission on behalf of its depositors. The integrated risk management policy defines market risk, concentration risk, credit risk, the counterparty risk associated with derivative financial instruments, and financing-liquidity risk.

Specifically, this policy aims to:

- Prevent excessive losses resulting from the operations of the various investment groups;
- Establish a risk exposure level considered acceptable for la Caisse;
- Align performance objectives with the assumed level of risk;
- Optimize the allocation of risks among the various investment groups;
- State the risk management organizational structure.

The following individuals are responsible for financial governance and risk management:

1. The executive vice-presidents of the investment groups are the main individuals responsible for managing the risks related to their operations;
2. The Investment-Risk Committee, a subcommittee of the Executive Committee, with assistance from the Risk Department and the Policies and Compliance Senior Vice-Presidency;
3. The Board of Directors, its Audit Committee and its Investment and Risk Management Committee.

Moreover, teams operating independently from investment group managers are in charge of risk assessment and monitoring methods to ensure the independence and objectivity required for risk management.

The integrated risk management policy provides for reporting mechanisms and other forms of oversight for new investment operations, the outsourcing of investment management, the use of derivative financial instruments and compliance with the investment policies of specialized portfolios.

As part of the risk management framework, la Caisse develops and periodically reviews the investment policies of the specialized portfolios that seek to oversee the work of the specialized portfolio managers. A separate investment policy sets out the strategy, management model, types of authorized investments, benchmark index, target returns and concentration and risk limits. The managers must adhere to the investment policy requirements specific to their operations.

La Caisse is exposed to various financial risks. Detailed information regarding these risks is presented in the following sections.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

MARKET RISK

Market risk is the risk of financial loss arising from fluctuations in the fair value of financial instruments. Volatility in financial instrument prices stems from changes in market risk factors, in particular interest rates, credit rate spreads, exchange rates, share prices and commodity prices. La Caisse may use derivative financial instruments to manage market risks.

La Caisse manages all market risks according to an integrated approach for all specialized portfolios. The main factors contributing to risk, such as industry sector, geographic region and issuer, are taken into account. La Caisse's market risks are managed and calculated according to factors that can influence the fair value of investments and investment liabilities.

La Caisse measures its market risk using Value-at-Risk (VaR), which is based on a statistical estimate of the volatility of the fair value of each position and of correlations between market risk factors. VaR is a statistical estimate of the potential financial loss that could be incurred by la Caisse's actual portfolio, based on a predetermined confidence level and a given exposure period. The market VaR is estimated with a 99% confidence level over an exposure period of one year. To summarize, VaR indicates the level of loss that the actual portfolio of la Caisse could exceed in only 1% of cases. La Caisse estimates VaR for each instrument held in its specialized portfolios and aggregates the information for la Caisse's actual portfolio.

The historical-simulation method is used to measure VaR. This method is based mainly on the assumption that the future will be similar to the past. It requires that historical data series on all the risk factors needed to estimate the returns on instruments be available. In the absence of historical data, alternative methods are used.

The calculation results obtained by applying this methodology do not make it possible to estimate the amount of loss, based on a specific event, that would be incurred by la Caisse's portfolio if this event re-occurred. For example, if future conditions and market risk factors were substantially different from past economic conditions, actual losses could differ substantially from estimated losses. Moreover, these estimates at a given date do not take into account all possible losses resulting from exceptional market events or losses that could arise over and above the 99% confidence level. Consequently, in light of these limitations, the losses for la Caisse's actual portfolio could exceed the estimates.

In 2014, la Caisse revised its method for calculating VaR as well as its history of 1,500 days of observation in order to obtain a more reliable and relevant risk measure. A history of 2,500 days of observation of risk factors is now used to measure the volatility of returns and the correlation between the return of financial instruments. Moreover, due to the new methodology, the effects on the portfolio of the worst events seen over a one-week horizon, rather than a one-day horizon, are repeated several times during the year. The comparative VaR as at December 31, 2013 was recalculated to take these changes into account.

Two risk measures are calculated and analyzed:

- The absolute risk of the actual portfolio represents the total risk associated with the categories of financial instruments that make up la Caisse's actual portfolio;
- The absolute risk of the benchmark portfolio targeted by depositors represents the total risk of the benchmark indexes associated with the categories of financial instruments that make up la Caisse's benchmark portfolio.

The absolute risks of la Caisse's actual and benchmark portfolios are measured regularly and used to calculate the absolute risk ratio, which is subject to various limitations. The absolute risk ratio is obtained by dividing the absolute risk of the actual portfolio by the absolute risk of the benchmark portfolio.

The absolute risk of the actual portfolio and the absolute risk of the benchmark portfolio, including the risk associated with the underlying investments of unconsolidated subsidiaries whose risk is managed by la Caisse, as a percentage of net assets, according to a 99% confidence level and a history of 2,500 days, were as follows:

	December 31, 2014			December 31, 2013		
	Absolute risk of the actual portfolio %	**Absolute risk of the benchmark portfolio %**	**Absolute risk ratio**	Absolute risk of the actual portfolio %	Absolute risk of the benchmark portfolio %	Absolute risk ratio
Value at risk	**23.9**	**24.0**	**0.99**	24.3	23.6	1.03

RISK IDENTIFICATION AND MANAGEMENT (cont.)

Moreover, when managing market risk, la Caisse uses stress tests that allow it to evaluate the consequences of specific circumstances on the returns of la Caisse's actual portfolio based on historical, hypothetical or risk factor sensitivity scenarios. Using the various types of scenarios, stress tests measure financial instrument impairment following a change in one or more often-related risk factors, such as share prices, interest rates, rate spreads, exchange rates, commodity prices and market volatility.

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk is integrated into the VaR measurement.

In connection with the management of currency risk, certain specialized portfolios are fully or partially covered against such risk. La Caisse's exposure to foreign currencies takes into account coverage of the specialized portfolios as well as the customized currency strategies of the individual funds of each depositor. Customized currency strategies of individual funds are used by depositors to achieve the desired exposure to certain foreign currencies.

La Caisse uses derivative financial instruments to manage its exposure to foreign currencies. These instruments generally have maturities of less than 12 months for currency forwards and of less than two years for currency options and currency swaps. At maturity, new derivative financial instruments are negotiated to maintain effective long-term management of currency risk. Moreover, currency risk can also be managed by way of natural hedging activities, including the financing of investments in the same currency.

The net exposure to foreign currencies takes into account the effects of currency derivatives, natural hedging and the underlying investments in currencies of unconsolidated subsidiaries whose currency risk is managed by la Caisse. La Caisse's net exposure to foreign currencies, as a percentage of net assets, was as follows:

	December 31, 2014 **%**	December 31, 2013 %
Canadian dollar	**70**	70
U.S. dollar	**14**	14
Pound sterling	**3**	3
Euro	**2**	2
Other	**11**	11
	100	100

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk is integrated into the VaR measurement.

PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors that affect all similar financial instruments traded on the market. This risk is integrated into the VaR measurement.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

CONCENTRATION RISK

La Caisse analyzes overall concentration risk for all of the specialized portfolios that it manages. The integrated risk management policy sets out exposure limits according to category of financial instrument, issuer and growth market. Moreover, the investment policies of the specialized portfolios set out specific limits for each issuer, industry sector and geographic region.

The concentration limit by issuer is 3% of la Caisse's total assets, with the exception of securities issued by the governments of Canada, Québec or other Canadian provinces or territories, as well as by their ministries and agencies, which are not subject to concentration limits. Sovereign issuers rated AAA are also excluded from this concentration limit. Concentration by issuer is monitored monthly or upon initiation of a transaction requiring approval of the Investment-Risk Committee or the Board of Directors, as appropriate.

The following table presents the principal concentrations of issuers by geographic region as a percentage of total net exposure established according to the country of the principal place of business, after the effects of certain derivative financial instruments, including the underlying investments in unconsolidated subsidiaries whose concentration risk is managed by la Caisse:

	December 31, 2014	December 31, 2013
	%	%
Canada	**53**	53
United States	**22**	21
Europe	**14**	14
Growth markets	**7**	7
Other	**4**	5
	100	100

The following table presents the principal concentrations of issuers by sector as a percentage of total net exposure, after the effects of certain derivative financial instruments, including the underlying investments in unconsolidated subsidiaries whose concentration risk is managed by la Caisse:

	December 31, 2014	December 31, 2013
	%	%
Industry sector		
Real estate	**15**	18
Financials	**13**	13
Industrials	**8**	7
Energy	**7**	7
Information technology	**6**	5
Consumer discretionary	**6**	6
Consumer staples	**5**	4
Health care	**4**	4
Utilities	**4**	3
Real estate debt	**4**	4
Materials	**2**	3
Telecommunication services	**2**	2
Other	**3**	3
Government sector		
Government of Canada	**10**	7
Government of Québec	**7**	6
Government corporations and other public administrations in Québec	**3**	3
Other	**1**	5
	100	100

RISK IDENTIFICATION AND MANAGEMENT (cont.)

CREDIT RISK

Credit risk is the possibility of incurring a loss in value should a borrower, endorser, or guarantor experience a deterioration in financial position, fail to meet an obligation to repay a loan or fail to meet any other financial commitment.

Maximum credit risk exposure is measured based on the fair value of financial instruments without taking into account collateral held or other credit enhancements. For the "Other items," the maximum exposure to credit risk is the total amount guaranteed or committed.

The following table presents the maximum exposure to credit risk:

	December 31, 2014	December 31, 2013
Cash	**211**	103
Cash equivalents	**3,829**	5,902
Amounts receivable from transactions being settled	**1,346**	1,697
Advances to depositors	**1,090**	996
Investment income, accrued and receivable	**1,149**	898
Investments		
Fixed-income securities	**103,806**	87,950
Interests in unconsolidated subsidiaries in the form of debt instruments	**20,926**	17,046
Derivative financial instruments	**1,294**	1,973
	133,651	116,565
Other items		
Guarantees and loan guarantees *(Note 18)*	**565**	447
ABTN funding facility *(Note 18)*	**6,167**	6,167
	6,732	6,614
	140,383	123,179

La Caisse enters into master netting agreements *(Note 8)*, receives collateral *(Note 15)* and may also use derivative financial instruments such as credit default swaps, to reduce its total credit risk exposure.

In addition, to manage credit risk, la Caisse closely monitors changes in the credit cycle of issuers and uses a credit VaR to calculate the potential financial loss related to possible changes in the credit quality of issuers of fixed-income securities.

CONCENTRATION OF CREDIT RISK

A credit risk concentration analysis measures the fair value of all financial instruments related to a same issuer. The investment policy of the specialized portfolios sets out concentration limits according to credit rating. The credit risk analysis considers the probability of default and the recovery rate on debt securities held by la Caisse and monitors changes in the credit quality of issuers.

The following table presents the credit risk concentration according to the credit ratings of issuers of fixed-income securities and certain derivative financial instruments used to manage credit risk, as a percentage of the total exposure to credit concentration risk:

	December 31, 2014 %	December 31, 2013 %
Credit rating		
AAA – AA	**42**	46
A	**42**	40
BBB	**9**	8
BB or lower	**4**	1
No credit rating	**3**	5
	100	100

The credit ratings of securities issued or guaranteed by governments are obtained from recognized credit rating agencies. For corporate sector securities, credit ratings are determined using an internal rating process that can monitor changes in the credit cycle annually when the necessary information is available. Otherwise, la Caisse uses recognized credit rating agencies.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

COUNTERPARTY RISK RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

Certain over-the-counter financial instruments give rise to counterparty risk because they are negotiated by private contract without being traded or settled through a clearing house. Counterparty risk related to derivative financial instruments is the credit risk created by current or potential exposures arising from derivative financial instrument transactions where the counterparty becomes unable to honour the terms of the contracts.

To limit its exposure to the counterparty risk arising from transactions involving over-the-counter derivative financial instruments, la Caisse carries out transactions with financial institutions in accordance with management's criteria regarding the quality of the issuer. Moreover, la Caisse enters into legal agreements based on ISDA standards under which it benefits from the compensating effects between at-risk amounts and collateral exchanged in order to limit its net exposure to this risk.

This risk is measured by counterparty, pursuant to the applicable legal agreement, from which it is possible to calculate the net exposure created by all of the over-the-counter derivative financial instruments and collateral exchanged. Actual exposure to counterparty risk is measured on a daily basis, pursuant to the applicable legal agreement. Potential exposure to counterparty risk is measured on a monthly basis.

As at December 31, 2014, the legal agreements and the collateral received helped reduce exposure to the counterparty risk of over-the-counter derivative financial instruments. The maximum exposure to this risk was $317 million ($98 million in 2013) related to 29 counterparties (30 in 2013).

LIQUIDITY RISK

Financing-liquidity risk is the possibility of la Caisse not always being able to honour its financial liability commitments without having to obtain funds at abnormally high prices or having to sell assets. It is also the risk of la Caisse not being able to quickly sell investments without having a significant unfavourable effect on the price of the investment in question.

Liquidity is managed across all of la Caisse's cash activities. Compliance with the established rules is analyzed on a monthly basis, and the liquidity status is determined daily. Managers are responsible for evaluating the liquidity of the markets on which la Caisse obtains financing for its operations.

To ensure that sources of liquidity and potential liquidity requirements are properly aligned, la Caisse has a number of sources of liquidity in addition to its cash and cash equivalents, including investment income, the sale of bonds under repurchase agreements and liquid money market securities. In addition, la Caisse may issue commercial paper and term notes payable to meet its contractual commitments and financial obligations. As at December 31, 2014, la Caisse had close to $52 billion in liquidity ($44 billion as at December 31, 2013).

Furthermore, to manage liquidity risk, la Caisse conducts simulations of scenarios over different horizons and examines events that could lead to a liquidity crisis.

An analysis of undiscounted contractual cash flows of financial liabilities, presented in the table below, is a component of liquidity and financing management. However, this by-maturity allocation is not necessarily representative of the manner in which la Caisse manages its liquidity risk and financing requirements.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

The following tables present the maturities of the undiscounted contractual cash flows of financial liabilities, derivative financial instruments and other items:

					December 31, 2014
	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts payable on transactions being settled	–	(1,300)	–	–	(1,300)
Other financial liabilities	–	(254)	–	–	(254)
Investment liabilities					
Securities sold under repurchase agreements	–	(16,554)	–	–	(16,554)
Securities sold short	–	(7,686)	(1,396)	(4,974)	(14,056)
Commercial paper payable	–	(3,319)	–	–	(3,319)
Loans payable	–	(363)	(652)	–	(1,015)
Term notes payable	–	(1,340)	(3,343)	(7,389)	(12,072)
Net assets attributable to depositors					
Demand and term deposits	(225)	(197)	–	–	(422)
Distributions payable to depositors	–	(1,621)	–	–	(1,621)
	(225)	(32,634)	(5,391)	(12,363)	(50,613)
Derivative financial instruments					
Derivative instruments with net settlement	–	236	31	123	390
Derivative instruments with gross settlement					
Contractual cash flows receivable	–	51,198	14,366	2,215	67,779
Contractual cash flows payable	–	(51,710)	(14,344)	(2,154)	(68,208)
	–	(276)	53	184	(39)
Other items					
Commitments *(Note 18)*	–	(10,748)	(592)	(90)	(11,430)
Guarantees and loan guarantees *(Note 18)*	–	(431)	(44)	(90)	(565)
ABTN funding facility *(Note 18)*	–	–	(6,167)	–	(6,167)
	–	(11,179)	(6,803)	(180)	(18,162)
	(225)	(44,089)	(12,141)	(12,359)	(68,814)

RISK IDENTIFICATION AND MANAGEMENT (cont.)

					December 31, 2013
	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts payable on transactions being settled	–	(2,380)	–	–	(2,380)
Other financial liabilities	–	(240)	–	–	(240)
Investment liabilities					
Securities sold under repurchase agreements	–	(12,251)	–	–	(12,251)
Securities sold short	–	(7,582)	(2,266)	(2,632)	(12,480)
Commercial paper payable	–	(1,531)	–	–	(1,531)
Loans payable	–	(441)	(882)	–	(1,323)
Term notes payable	–	(2,447)	(1,976)	(7,098)	(11,521)
Net assets attributable to depositors					
Demand and term deposits	(371)	(92)	–	–	(463)
Distributions payable to depositors	–	(1,328)	–	–	(1,328)
	(371)	(28,292)	(5,124)	(9,730)	(43,517)
Derivative financial instruments					
Derivative instruments with net settlement	–	458	230	385	1,073
Derivative instruments with gross settlement					
Contractual cash flows receivable	–	50,501	12,795	1,258	64,554
Contractual cash flows payable	–	(50,835)	(12,793)	(1,263)	(64,891)
	–	124	232	380	736
Other items					
Commitments *(Note 18)*	–	(9,072)	(828)	(238)	(10,138)
Guarantees and loan guarantees *(Note 18)*	–	(400)	(47)	–	(447)
ABTN funding facility *(Note 18)*	–	–	(6,167)	–	(6,167)
	–	(9,472)	(7,042)	(238)	(16,752)
	(371)	(37,640)	(11,934)	(9,588)	(59,533)

Moreover, concerning net assets attributable to holders of participation deposits, the Regulation sets monthly limits for cancelling participation units, i.e., a depositor is limited to a maximum reimbursement of all their participation units in all of la Caisse's specialized portfolios of $15 million plus the proceeds of $2 million multiplied by the number of months that have elapsed since receipt of the notice of withdrawal. Any cancellation of participation units that does not proceed given the maximum amount permitted is carried forward to the first day of the subsequent month and made as soon as the limit permits. The purpose of the limits is to ensure optimal management of la Caisse's overall liquidity. Moreover, substantially all depositors are required to invest with la Caisse in accordance with the Act or the respective applicable legislation.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

FINANCING-LIQUIDITY RISK

The following tables present the main terms and conditions and effective interest rates of the investment liabilities related to la Caisse's financing activities:

December 31, 2014

	Currency	Nominal value	Maturity	Effective interest rate %
Loans payable	**USD**	**363**	**Less than 1 year**	**0.12**
	CAD	**641**	**September 2016**	**CDOR**
		1,004		
Commercial paper payable	**CAD**	**1,000**	**Less than 1 year**	**1.07**
	USD	**2,317**	**Less than 1 year**	**0.16**
		3,317		
Term notes payable	**CAD**	**1,000**	**July 2015**	**CDOR + 0.45**
	USD	**2,027**	**November 2019**	**4.40**
	EUR	**1,051**	**June 2020**	**3.50**
	CAD	**1,000**	**July 2020**	**4.60**
	USD	**2,317**	**July 2024**	**3.15**
	USD	**1,448**	**November 2039**	**5.60**
		8,843		

December 31, 2013

	Currency	Nominal value	Maturity	Effective interest rate %
Loans payable	USD	441	Less than 1 year	0.10
	CAD	839	September 2016	CDOR
		1,280		
Commercial paper payable	CAD	1,000	Less than 1 year	1.09
	USD	531	Less than 1 year	0.16
		1,531		
Term notes payable	USD	2,125	November 2014	3.00
	CAD	1,000	July 2015	CDOR + 0.45
	USD	1,860	November 2019	4.40
	EUR	1,098	June 2020	3.50
	CAD	1,000	July 2020	4.60
	USD	1,328	November 2039	5.60
		8,411		

The loans payable are repayable at maturity, except those related to investments in ABTNs that have a prepayment clause prorated to net cash flows received on investments in ABTNs and are guaranteed by them.

Commercial paper payable is issued at a discount, at fixed rates, with maturities not exceeding 12 months. The nominal value for all outstanding commercial paper may never exceed $8 billion in accordance with the limit prescribed in the commercial paper issuance information document.

Term notes payable are issued at a discount, or at par, and are repayable at maturity and secured by la Caisse's assets. Interest-bearing fixed-rate term notes have an optional prepayment clause at the option of the issuer.

13
CAPITAL MANAGEMENT

La Caisse defines its capital as net assets attributable to depositors. La Caisse's capital may fluctuate according to depositor demands for cancellations and issuances of participation deposit units and for deposits and withdrawals of demand and term deposits. La Caisse's capital management objective is to invest contributions and deposits in the best interests of the depositors in accordance with the Act in order to achieve an optimal return while respecting the depositor investment policies.

La Caisse is not subject to external capital requirements.

Another Caisse objective is to maintain its AAA credit rating to ensure access to capital markets at the best cost through its CDP Financial Inc. subsidiary. Consequently, the Board of Directors has limited the amount of notes that la Caisse may issue on capital markets to 10% of its net assets attributable to depositors, to which is added the fair value of outstanding notes (adjusted net assets).

14
FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

La Caisse enters into securities lending and borrowing transactions as well as securities repurchase agreements whereby it transfers financial assets to counterparties. The transferred securities do not meet derecognition criteria since la Caisse retains most of the risks such as credit risk, interest rate risk, currency risk, and price risk, as well as most of the related rewards such as cash flows.

The following table presents the fair values of the financial assets transferred but not derecognized from the Consolidated Statements of Financial Position as well as the fair values of the associated liabilities:

	December 31, 2014	December 31, 2013	January 1, 2013
Financial assets transferred but not derecognized			
Bonds	**18,567**	14,650	9,810
Equities	**7,881**	5,613	4,447
	26,448	20,263	14,257
Associated liabilities			
Securities sold under repurchase agreements	**16,551**	12,250	4,624

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GUARANTEES

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of business, la Caisse pledges financial assets as collateral for transactions involving securities borrowings, securities sold under repurchase agreements and derivative financial instruments. The counterparties are authorized, by way of legal contract or market practices, to either sell or repledge these securities as collateral. On certain conditions, la Caisse may have to pledge additional collateral if the pledged securities lose value.

The following table presents the fair value of collateral pledged by la Caisse according to transaction type:

	December 31, 2014	December 31, 2013	January 1, 2013
Securities borrowing	**5,230**	4,902	6,781
Securities sold under repurchase agreements	**15,914**	11,697	4,648
Exchange-traded derivative financial instruments	**386**	109	159
Over-the-counter derivative financial instruments	**1,004**	522	306
	22,534	17,230	11,894

GUARANTEES (cont.)

FINANCIAL ASSETS RECEIVED AS COLLATERAL

La Caisse receives financial assets as collateral for transactions involving securities lending, securities purchased under reverse repurchase agreements and derivative financial instruments. If the fair value of the collateral received decreases, la Caisse may, in certain cases, request additional collateral. La Caisse is authorized to sell or repledge as collateral certain securities in the absence of default by the counterparty. However, no security received as collateral was sold or repledged as collateral for the years ended December 31, 2014 and 2013 and as at January 1, 2013.

The following table presents the fair value of collateral received by la Caisse according to transaction type:

	December 31, 2014	December 31, 2013	January 1, 2013
Securities lending	**3,777**	2,079	2,159
Securities purchased under reverse repurchase agreements	**19,440**	13,920	11,408
Over-the-counter derivative financial instruments	**331**	1,180	1,386
	23,548	17,179	14,953

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RELATED PARTY DISCLOSURES

RELATED PARTY TRANSACTIONS

La Caisse's primary related parties include unconsolidated subsidiaries, joint ventures, associates, and la Caisse's key management personnel.

La Caisse enters into various transactions with related parties. These transactions are concluded under the same conditions as those prevailing in the market with unrelated parties and are measured at fair value. Given the very nature of la Caisse's activities as an investment entity, it may make investments in several investment categories, including investments in unconsolidated subsidiaries, joint ventures and associates.

The following table presents the amounts recognized in the Consolidated Statements of Financial Position as a result of la Caisse's investments in related parties:

		December 31, 2014		December 31, 2013
	Investments	**Investment income, accrued and receivable**	Investments	Investment income, accrued and receivable
Unconsolidated subsidiaries	**60,835**	**473**	54,304	76
Joint ventures and associates	**1,870**	**–**	1,520	–

The following table presents the amounts recognized in the Consolidated Statements of Comprehensive Income as a result of transactions between la Caisse and related parties:

		2014		2013
	Dividend and interest income	**Other**	Dividend and interest income	Other
Unconsolidated subsidiaries	**1,385**	**408**	1,627	(108)
Joint ventures and associates	**97**	**–**	217	–

RELATED PARTY DISCLOSURES (cont.)

OTHER RELATED PARTIES

La Caisse is governed by the Act, and the Government of Québec appoints the board of director members, at least two-thirds of whom must be independent. The Government of Québec also approves the appointment of the President and Chief Executive Officer. Consequently, la Caisse has availed itself of the IAS 24 exemption regarding the disclosure of transactions with a related government and with any entities related to the related government. The transactions carried out with the Government of Québec and its related entities are investment activities involving bonds issued by or guaranteed by the government and are carried out under normal market conditions through external brokers. These bonds are included in the "Governments" and "Government corporations and other public administrations" bond categories of Note 4a. In addition, la Caisse discloses information on the Government Sector category in the "Government of Québec" and "Government corporations and other public administrations in Québec" items of Note 12.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

La Caisse's key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly. These persons are the members of the Board of Directors, the President and Chief Executive Officer, and key members of the Executive Committee.

The following table presents the compensation of la Caisse's key management personnel for the years ended December 31:

	2014	2013
Salaries and other short-term employee benefits	**7**	5
Post-employment benefits	**1**	1
Other long-term employee benefits	**4**	4
	12	10

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INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

CONSOLIDATED SUBSIDIARY

CDP Financial Inc. is a wholly owned subsidiary that issues debt securities in order to finance la Caisse's investments at an optimal financing cost.

UNCONSOLIDATED SUBSIDIARIES

The subsidiaries presented in this category are entities controlled by la Caisse either directly or indirectly through subsidiaries in accordance with the criteria in IFRS 10. La Caisse controls an entity when it is exposed to variable returns and has the ability to use its power over the entity to affect the amount of its returns from the entity. Management must use its judgment when evaluating these criteria and all related facts and circumstances taken together in order to determine whether control exists. As an investment entity, la Caisse does not consolidate these entities, since they must be measured and recognized at fair value through profit or loss.

INTERMEDIATE SUBSIDIARIES

As part of certain investment activities, la Caisse may use intermediate subsidiaries whose sole purpose is to hold investments for la Caisse. They are therefore not included in the information presented in the following tables.

INTERESTS IN OTHER ENTITIES (cont.)

The following table presents the ownership interests held in the main consolidated and unconsolidated subsidiaries:

	Principal place of business	December 31, 2014 Ownership interest %	December 31, 2013 Ownership interest %
Consolidated subsidiary			
CDP Financial Inc	Canada	**100.0**	100.0
Unconsolidated subsidiaries			
Real estate debt			
Otéra Capital	Canada	**97.5**	97.5
Subsidiaries of Otéra Capital			
CDPQ Mortgage Investment Corporation	Canada	**100.0**	100.0
Hypothèques CDPQ Inc	Canada	**100.0**	100.0
Otéra Capital CADCAP Inc (MCAP Commercial LP)[1]	Canada	**100.0**	100.0
Energy			
SW Resources Partnership	Canada	**98.0**	98.0
Hedge funds			
AIM Quantitative Global SF II Ltd	United States[4]	**100.0**	100.0
CDP WTN Diversified Strategy Fund Limited	United Kingdom[4]	**100.0**	100.0
Crestline CDP Opportunity Fund LP	United States[4]	**100.0**	100.0
DGAM CDP Unique Strategies Fund	Canada[4]	**100.0**	100.0
Fort Global Quebec LP	United States	**100.0**	100.0
Newport Mount Royal Opportunity Fund Ltd	United States[4]	**100.0**	100.0
Solaise Systematic Fund Limited	United Kingdom[4]	**100.0**	100.0
Private investment funds			
AXA CDP Co-Investment Fund FCPR	France	**99.9**	99.9
VantagePoint CDP Partners LP	United States	**98.3**	98.3
GSO Churchill Partners LP	United States[4]	**98.0**	98.0
CDP Investments Partners II GP	United States[5]	**96.6**	96.6
KKR-CDP Partners LP	United States[4]	**90.1**	–
Real estate – Ivanhoé Cambridge Group			
Careit Fonds Gov DC Inc	Canada	**100.0**	100.0
Careit Fonds Gov Inc	Canada	**100.0**	100.0
Careit Pension Inc	Canada	**100.0**	100.0
Careit PF US Inc	Canada[6]	**100.0**	100.0
Cadim Inc	Canada	**92.8**	93.0
Ivanhoé Cambridge Inc	Canada	**92.8**	93.0
SITQ International Inc	Canada	**92.8**	93.0
SITQ E.U., LP	Canada	**92.7**	92.9
Careit Canada GP	Canada	**83.5**	84.3
Utilities			
CDP (SEW) Fund, LP[2]	United Kingdom[5]	**75.0**	75.0
Trencap LP (Gaz Métro)[3]	Canada	**59.6**	59.6
Information technology			
Blackstone Firestone Principal Transaction Partners (Cayman) LP	United States[4]	**66.7**	66.7

1. Otéra Capital CADCAP Inc owns 78.1% of MCAP Commercial LP as at December 31, 2014 (80.8% as at December 31, 2013).
2. CDP (SEW) Fund LP owns 50.0% of HDK (UK) Holdings Limited, which owns 100.0% of South East Water Ltd.
3. Trencap LP owns 61.1% of Noverco Inc, which owns 100.0% of Gaz Métro Inc, which owns 71.0% of Gaz Métro Limited Partnership.
4. Incorporated in the Cayman Islands in accordance with the limited partner structure.
5. Incorporated in Canada.
6. Incorporated in the United States.

INTERESTS IN OTHER ENTITIES (cont.)

JOINT ARRANGEMENTS

A joint arrangement is an entity over which la Caisse has joint control, i.e., a contractually agreed sharing of control over the entity, with one or more other parties. As an investment entity, la Caisse recognizes joint arrangements at fair value through profit or loss.

The following table presents the ownership interests held in the main joint arrangements:

		December 31, 2014	December 31, 2013
	Principal place of business	**Ownership interest %**	Ownership interest %
Energy			
HEF HoldCo II, Inc	United States	**33.3**	33.3
Industry			
AviAlliance Capital	Germany	**40.0**	40.0

ASSOCIATES

An associate is an entity over which la Caisse has significant influence over financial and operating policies without having ultimate control or joint control over the entity. La Caisse is deemed to have significant influence when it holds 20% to 50% of the entity's voting power. As an investment entity, la Caisse recognizes associates at fair value through profit or loss.

The following table presents the ownership interests held in the main associates:

		December 31, 2014	December 31, 2013
	Principal place of business	**Ownership interest %**	Ownership interest %
Consumer discretionary			
SGU Holdings LP	United States[1]	**46.7**	–
Quebecor Media Inc	Canada	**24.6**	24.6
Energy			
Corex Resources Ltd	Canada	**44.9**	44.9
Interconnector UK Ltd	United Kingdom	**33.5**	33.5
Fluxys	Belgium	**20.0**	20.0
Finance			
NewStar Credit Opportunities Fund Ltd	United States[2]	**30.0**	30.0
Catalina Holdings (Bermuda) Ltd	United States[3]	**29.3**	29.3
Explorer Holdings, Inc	United States	**25.5**	25.5
Industry			
Intransit BC Limited Partnership	Canada	**33.3**	33.3
Camoplast Solideal Inc	Canada	**32.5**	28.3
Groupe Keolis SAS	France	**30.0**	30.0
QPH Hold Trust, Hold Co PTY Limited (Port of Brisbane)	Australia	**26.7**	26.7
Airport Holding Kft	Hungary	**20.2**	18.2
Materials			
Greenpac Holding LLC	United States	**20.2**	20.2
Health care			
Image Networks Holdings Pty Ltd	Australia	**30.0**	–
Utilities			
Invenergy Green LP	Canada	**49.0**	49.0
London Array Ltd, London Array Unincorporated JV	United Kingdom	**25.0**	–

1. Incorporated in Canada.
2. Incorporated in the Cayman Islands in accordance with the limited partner structure.
3. Incorporated in Bermuda in accordance with the limited partner structure.

INTERESTS IN OTHER ENTITIES (cont.)

NON-CONTROLLED STRUCTURED ENTITIES

La Caisse holds interests in non-controlled structured entities, the majority of which represent private investment funds or limited partnerships. The interests held by la Caisse do not give it power over the relevant activities of these entities, as the control of these entities was established by contractual agreement in favour, generally, of a general partner or administrator. These interests are recognized at fair value through profit or loss and are presented under "Investments" in the Consolidated Statements of Financial Position. The maximum exposure to loss attributable to the various interests held in these non-controlled structured entities is limited to the fair value of the investment held by la Caisse, i.e., $14,872 million in 233 companies as at December 31, 2014 ($12,961 million in 229 companies as at December 31, 2013).

In addition, the MAV 1, 2, 3 trusts related to the ABTNs are non-controlled structured entities for which the maximum exposure to loss is limited to the fair value of the investment held by la Caisse and to the funding facility, which is presented in Note 4c.

18 COMMITMENTS AND CONTINGENCIES

Given the nature of its activities, la Caisse enters into various investment purchase commitments that will be settled in the coming fiscal years in accordance with the terms and conditions in the related agreements.

For la Caisse, guarantees and loan guarantees consist in providing guarantees to financial institutions and corporations regarding future income deriving from the sale of investments and transactions on derivative financial instruments as well as repayment of borrowings by investee companies. The maturities of the commitments are presented in Note 12.

The commitments were as follows:

	December 31, 2014	December 31, 2013
Investment purchase commitments	**11,209**	9,911
Guarantees and loan guarantees	**565**	447
ABTN funding facility *(Note 4c)*	**6,167**	6,167
	17,941	16,525

COMMITMENTS UNDER OPERATING LEASES

La Caisse rents office spaces under operating leases. The terms, price changes and renewal rights vary from one lease to the next. There is no contingent rent payable.

Minimum future commitments under the operating leases were as follows:

	December 31, 2014	December 31, 2013
Less than 1 year	**26**	25
1 to 5 years	**105**	97
More than 5 years	**90**	105
	221	227

LITIGATION

In the normal course of business, la Caisse may be subject to legal actions. Although la Caisse cannot predict the outcomes of any ongoing legal proceedings as at December 31, 2014, it has no reason to believe that the settlement of one of these proceedings could have a material impact on its financial position.

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TRANSITION TO IFRS

IFRS has been applied for the purposes of preparing the consolidated financial statements for the years ended December 31, 2014 and 2013 as well as the opening Consolidated Statement of Financial Position as at January 1, 2013, i.e., the transition date. IFRS requires first-time adopters to retrospectively apply all IFRS in effect at the end of the first fiscal year, except for certain optional exemptions and mandatory exceptions set out in IFRS 1.

OPTIONAL EXEMPTIONS

In its transition from Canadian GAAP to IFRS, la Caisse did not elect any of the optional exemptions set out in IFRS 1.

MANDATORY EXCEPTIONS

Among the mandatory exceptions in IFRS 1, the exception applied by la Caisse in its transition from Canadian GAAP to IFRS is as follows:

ESTIMATES

The estimates established in accordance with IFRS are consistent with those established in accordance with Canadian GAAP and are based on the information that was available as at January 1, 2013 and as at December 31, 2013.

STATEMENTS OF CASH FLOWS

Under Canadian GAAP, la Caisse had been exempted from presenting a consolidated statement of cash flows. IAS 1, *Presentation of Financial Statements*, requires that a complete set of financial statements include a statement of cash flows for the current year and for the comparative year. Consequently, la Caisse presents statements of cash flows under IFRS.

EXPLANATIONS OF ADJUSTMENTS MADE UPON TRANSITION TO IFRS

A) UNCONSOLIDATION OF SUBSIDIARIES BY AN INVESTMENT ENTITY

Under Canadian GAAP, la Caisse had been consolidating its subsidiaries when they did not satisfy certain conditions in AcG-18. Under IFRS, an investment entity cannot consolidate its subsidiaries but must measure them and present them as an investment at fair value through profit or loss. Consequently, these subsidiaries are no longer consolidated in la Caisse's consolidated financial statements but are rather presented as interests in unconsolidated subsidiaries under "Investments" in the Consolidated Statements of Financial Position and are measured at fair value.

As at January 1, 2013, la Caisse's unconsolidation of subsidiaries increased "Investment income, accrued and receivable" by $22 million and reduced "Other assets" by $655 million, "Investments" by $5,053 million, "Other liabilities" by $788 million, "Liabilities related to investments" by $2,892 million and "Non-controlling interests" by $2,006 million. As at December 31, 2013, the unconsolidation of subsidiaries increased "Investment income, accrued and receivable" by $47 million and reduced "Transactions being settled" asset by $82 million, "Other assets" by $546 million, "Investments" by $5,294 million, "Other liabilities" by $837 million, "Liabilities related to investments" by $2,837 million and "Non-controlling interests" by $2,201 million.

For the year ended December 31, 2013, la Caisse's unconsolidation of subsidiaries reduced "Investment income" by $595 million, "Unrealized increases in value" by $886 million and "Net investment results attributable to non-controlling interests" by $333 million, and it increased "Operating expenses" by $11 million and "Gains on the sale of investments" by $1,159 million.

B) FAIR VALUE MEASUREMENT OF INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

The fair value measurement of unconsolidated subsidiaries under IFRS differs from the fair value measurement of the assets and liabilities of consolidated subsidiaries under Canadian GAAP. Under IFRS, the unit of account is the interest in an unconsolidated subsidiary and not the assets and liabilities of this subsidiary. Therefore, under IFRS, the fair value of interests in unconsolidated subsidiaries is measured using an enterprise value technique. Measuring the fair value of interests in unconsolidated subsidiaries under IFRS increased investments and net assets attributable to depositors by $637 million as at January 1, 2013 and by $702 million as at December 31, 2013.

For the year ended December 31, 2013, net unrealized gains increased by $65 million.

TRANSITION TO IFRS (cont.)

EXPLANATIONS OF RECLASSIFICATIONS MADE UPON TRANSITION TO IFRS

C) CASH AND CASH EQUIVALENTS

IAS 1 requires cash and cash equivalent amounts to be presented in the Consolidated Statements of Financial Position. Consequently, as at January 1, 2013, amounts of $152 million and $3,262 million that had previously been presented in "Other assets" and "Investments," respectively, were reclassified to "Cash" in an amount of $54 million and to "Cash equivalents" in an amount of $3,360 million. As at December 31, 2013, amounts of $163 million and $5,842 million that had previously been presented in "Other assets" and "Investments," respectively, were reclassified to "Cash" in an amount of $103 million and to "Cash equivalents" in an amount of $5,902 million.

D) TRANSACTIONS BEING SETTLED

Under Canadian GAAP, la Caisse had offset the financial assets and financial liabilities related to transactions being settled in accordance with Section 3861, *Financial Instruments – Disclosure and Presentation*, of Part V of the *CPA Canada Handbook – Accounting*. IAS 32, *Financial Instruments – Presentation* was amended for retrospective application to fiscal years beginning on or after January 1, 2014. These amendments clarified the meaning of the offsetting criterion "currently has a legally enforceable right of set-off." Consequently, as at January 1, 2013 and as at December 31, 2013, amounts of $170 million and $411 million were reclassified to "Amounts receivable from transactions being settled" and to "Amounts payable on transactions being settled," respectively, in the Consolidated Statements of Financial Position.

E) NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Under Canadian GAAP, depositors' net holdings had been classified as equity due to an exception for mutual fund units in Emerging Issues Committee Abstract EIC-149, *Accounting for Retractable or Mandatorily Redeemable Shares*. Under IFRS, distributions to depositors are presented as finance costs in the Consolidated Statement of Comprehensive Income, since participation deposit units are retractable and entitle depositors to receive distributions.

This change in classification for the year ended December 31, 2013 reduced "Comprehensive income attributable to depositors" in the Consolidated Statement of Comprehensive Income by $11,098 million and had no effect on the net assets presented in the Consolidated Statements of Financial Position as at January 1 and December 31, 2013. The amount of expenses presented in the Consolidated Statement of Comprehensive Income as distributions to depositors for the year ended December 31, 2013 was calculated and paid in accordance with the *Act respecting the Caisse de dépôt et placement du Québec and its regulations* in force during the year.

F) INVESTMENT INCOME, INVESTMENT EXPENSE AND NET REALIZED GAINS

Under Canadian GAAP, investment expense as well as income and expenses related to certain derivative financial instruments were included in "Investment income" in the Consolidated Statement of Comprehensive Income. Under IFRS, investment expense must be presented separately in the Consolidated Statement of Comprehensive Income. Furthermore, income and expenses related to derivative financial instruments, other than those used as economic hedges, must be presented as net realized gains and net realized losses, respectively.

Under Canadian GAAP, in order to maintain the nature of distributions from private investment funds, certain distributions had been presented as net realized gains. Under IFRS, distributions from private investment funds represent dividend income in accordance with IAS 18, *Revenue*, and, consequently, these distributions are presented as investment income.

For the year ended December 31, 2013, expenses in an amount of $755 million that had been presented in "Investment income" were reclassified to "Investment expense." Furthermore, net realized gains in an amount of $292 million, attributable to derivative financial instruments, and net realized gains in an amount of $388 million from distributions of private investment funds that had been presented in "Investment income" and "Gains on the sale of investments," were reclassified to "Net realized gains" and "Investment income," respectively.

TRANSITION TO IFRS (cont.)

RECONCILIATIONS BETWEEN CANADIAN GAAP AND IFRS

In accordance with IFRS 1, the following tables present, for the years indicated, reconciliations between Canadian GAAP and IFRS for the Consolidated Statements of Financial Position and for the Consolidated Statements of Comprehensive Income and Changes in Net Assets Attributable to Depositors:

Reconciliation of the Consolidated Statement of Financial Position as at January 1, 2013:

Combined Statement of Net Assets Items under Canadian GAAP	**Balances under Canadian GAAP**	**IFRS-conversion adjustments**		**Reclassifications**		**Balances under IFRS**	**Consolidated Statement of Financial Position** Items under IFRS
Assets							**Assets**
	–	–		54	c	54	Cash
	–	–		3,360	c	3,360	Cash equivalents
Transactions being settled	153	–		170	d	323	Amounts receivable from transactions being settled
Advances to depositors	797	–		–		797	Advances to depositors
Investment income, accrued and receivable	751	22	a	–		773	Investment income, accrued and receivable
Other assets	1,002	(655)	a	(152)	c	195	Other assets
Investments	210,460	(4,416)	a, b	(3,262)	c	202,782	Investments
	213,163	(5,049)		170		208,284	**Total assets**
Liabilities							**Liabilities**
Transactions being settled	155	–		170	d	325	Amounts payable on transactions being settled
Other liabilities	1,300	(788)	a	–		512	Other financial liabilities
Liabilities related to investments	34,129	(2,892)	a	–		31,237	Investment liabilities
	35,584	(3,680)		170		32,074	**Total liabilities excluding net assets attributable to depositors**
Combined net assets	177,579	(1,369)		–		176,210	
Non-controlling interests	(2,006)	2,006	a	–		–	
Depositors' net holdings	**175,573**	637	b	–		**176,210**	**Net assets attributable to depositors**

TRANSITION TO IFRS (cont.)

Reconciliation of the Consolidated Statement of Financial Position as at December 31, 2013:

Combined Statement of Net Assets Items under Canadian GAAP	**Balances under Canadian GAAP**	**IFRS-conversion adjustments**		**Reclassifications**		**Balances under IFRS**	**Consolidated Statement of Financial Position** Items under IFRS
Assets							**Assets**
	–	–		103	c	103	Cash
	–	–		5,902	c	5,902	Cash equivalents
Transactions being settled	1,368	(82)	a	411	d	1,697	Amounts receivable from transactions being settled
Advances to depositors	996	–		–		996	Advances to depositors
Investment income, accrued and receivable	851	47	a	–		898	Investment income, accrued and receivable
Other assets	846	(546)	a	(163)	c	137	Other assets
Investments	240,940	(4,592)	a, b	(5,842)	c	230,506	Investments
	245,001	(5,173)		411		240,239	**Total assets**
Liabilities							**Liabilities**
Transactions being settled	1,969	–		411	d	2,380	Amounts payable on transactions being settled
Other liabilities	1,386	(837)	a	–		549	Other financial liabilities
Liabilities related to investments	39,998	(2,837)	a	–		37,161	Investment liabilities
	43,353	(3,674)		411		40,090	**Total liabilities excluding net assets attributable to depositors**
Combined net assets	201,648	(1,499)		–		200,149	
Non-controlling interests	(2,201)	2,201	a	–		–	
Depositors' net holdings	**199,447**	702	b	**–**		**200,149**	**Net assets attributable to depositors**

TRANSITION TO IFRS (cont.)

Reconciliation of the Consolidated Statements of Comprehensive Income and Changes in Net Assets Attributable to Depositors for the year ended December 31, 2013:

Combined Statement of Income and Changes in Net Assets Items under Canadian GAAP	**Balances under Canadian GAAP**	**IFRS-conversion adjustments**	**Reclassifications**	**Balances under IFRS**	**Consolidated Statements of Comprehensive Income and Changes in Net Assets Attributable to Depositors** Items under IFRS
Investment income	6,587	(595) a	851 f	6,843	Investment income
	–	–	(755) f	(755)	Investment expense
	6,587	(595)	96	6,088	Net investment income
Operating expenses	(287)	(11) a	–	(298)	Operating expenses
Net investment income	6,300	(606)	96	5,790	**Net income**
Gains on the sale of investments	4,433	1,159 a	(96) f	5,496	Net realized gains
Unrealized increases in value	12,303	(821) a, b	–	11,482	Net unrealized gains
	16,736	338	(96)	16,978	**Net gains on financial instruments at fair value**
Net investment results	23,036	(268)	–	22,768	
Net investment results attributable to non-controlling interests	(333)	333 a	–	–	
Net investment results attributable to depositors	22,703	65	–	22,768	**Net investment result before distributions to depositors**
Depositors' net deposits	1,171	–	(1,171) e	–	
	–	–	(11,098) e	(11,098)	Distributions to depositors
Increase in depositors' net holdings	23,874	65	(12,269)	11,670	**Comprehensive income attributable to depositors**
	–	–	11,098 e	11,098	Distributions to depositors
	–	–	1,171 e	1,171	Net contributions by depositors
Depositors' net holdings as at January 1, 2013	175,573	637 b	–	176,210	Net assets attributable to depositors as at January 1, 2013
Depositors' net holdings as at December 31, 2013	199,447	702	–	200,149	**Net assets attributable to depositors as at December 31, 2013**

SUPPLEMENTARY INFORMATION

Summary financial statements of the specialized portfolios

(in millions of Canadian dollars)

	SHORT TERM INVESTMENTS (740)		BONDS (760)		LONG TERM BONDS (764)		REAL ESTATE DEBT (750)	
Statements of financial position								
As at December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Assets								
Investments	**6,830**	6,168	**91,669**	75,902	**2,511**	2,173	**10,252**	8,826
Other financial assets	**–**	–	**2,024**	4,746	**387**	360	**266**	58
	6,830	6,168	**93,693**	80,648	**2,898**	2,533	**10,518**	8,884
Liabilities								
Investment liabilities	**–**	–	**28,867**	23,360	**344**	300	**7**	33
Other financial liabilities	**5**	2,659	**2,115**	2,437	**352**	344	**184**	59
Total liabilities excluding net assets attributable to holders of participation units	**5**	2,659	**30,982**	25,797	**696**	644	**191**	92
Net assets attributable to holders of participation units	**6,825**	3,509	**62,711**	54,851	**2,202**	1,889	**10,327**	8,792

	SHORT TERM INVESTMENTS (740)		BONDS (760)		LONG TERM BONDS (764)		REAL ESTATE DEBT (750)	
Statements of comprehensive income								
For the years ended December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Investment income	**61**	63	**2,268**	1,875	**75**	82	**320**	231
Investment expense	**(1)**	(1)	**(425)**	(351)	**(1)**	(1)	**–**	–
Net investment income	**60**	62	**1,843**	1,524	**74**	81	**320**	231
Operating expenses	**(1)**	(1)	**(54)**	(52)	**(1)**	(1)	**(4)**	(4)
Net income	**59**	61	**1,789**	1,472	**73**	80	**316**	227
Net realized gains (losses)	**–**	–	**640**	491	**51**	33	**373**	(200)
Net unrealized gains (losses)	**–**	–	**2,197**	(1,930)	**218**	(256)	**379**	(19)
Net gains (losses) on financial instruments at fair value	**–**	–	**2,837**	(1,439)	**269**	(223)	**752**	(219)
Net investment results before distributions to holders of participation units	**59**	61	**4,626**	33	**342**	(143)	**1,068**	8
(Distributions) recoveries	**(59)**	(61)	**(1,789)**	(1,663)	**(73)**	(80)	**(316)**	(150)
Comprehensive income attributable to holders of participation units	**–**	–	**2,837**	(1,630)	**269**	(223)	**752**	(142)

	SHORT TERM INVESTMENTS (740)		BONDS (760)		LONG TERM BONDS (764)		REAL ESTATE DEBT (750)	
Statements of changes in net assets attributable to holders of participation units								
For the years ended December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Balance as at January 1[1]	**3,509**	8,908	**54,851**	43,653	**1,889**	3,669	**8,792**	7,573
Participation units								
Units issued	**7,224**	2,241	**6,856**	14,917	**178**	640	**1,127**	1,848
Units cancelled	**(3,908)**	(7,640)	**(1,833)**	(2,089)	**(134)**	(2,197)	**(344)**	(487)
Net change in participation units for the period	**3,316**	(5,399)	**5,023**	12,828	**44**	(1,557)	**783**	1,361
Comprehensive income attributable to holders of participation units	**–**	–	**2,837**	(1,630)	**269**	(223)	**752**	(142)
Balance as at December 31	**6,825**	3,509	**62,711**	54,851	**2,202**	1,889	**10,327**	8,792

1. The adoption of International Financial Reporting Standards (IFRS) has been applied retrospectively to January 1, 2013.

SUPPLEMENTARY INFORMATION

Summary financial statements of the specialized portfolios (cont.)

(in millions of Canadian dollars)

	REAL RETURN BONDS (762)		INFRASTRUCTURE (782)		REAL ESTATE (710)		CANADIAN EQUITY (720)	
Statements of financial position								
As at December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Assets								
Investments	**1,003**	1,085	**11,181**	9,034	**22,857**	22,590	**29,954**	29,178
Other financial assets	**207**	351	**174**	217	**21**	–	**86**	53
	1,210	1,436	**11,355**	9,251	**22,878**	22,590	**30,040**	29,231
Liabilities								
Investment liabilities	**105**	66	**1,218**	1,197	**–**	–	**5,181**	5,899
Other financial liabilities	**125**	181	**384**	58	**20**	55	**358**	333
Total liabilities excluding net assets attributable to holders of participation units	**230**	247	**1,602**	1,255	**20**	55	**5,539**	6,232
Net assets attributable to holders of participation units	**980**	1,189	**9,753**	7,996	**22,858**	22,535	**24,501**	22,999

Statements of comprehensive income								
For the years ended December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Investment income	**25**	19	**790**	874	**121**	396	**434**	488
Investment expense	**–**	–	**(15)**	(9)	**–**	(3)	**(17)**	(50)
Net investment income	**25**	19	**775**	865	**121**	393	**417**	438
Operating expenses	**(1)**	(1)	**(31)**	(28)	**(8)**	(9)	**(30)**	(43)
Net income	**24**	18	**744**	837	**113**	384	**387**	395
Net realized gains (losses)	**17**	(31)	**(427)**	(333)	**(188)**	1,535	**1,156**	1,424
Net unrealized gains (losses)	**84**	(157)	**832**	137	**2,189**	977	**1,302**	1,549
Net gains (losses) on financial instruments at fair value	**101**	(188)	**405**	(196)	**2,001**	2,512	**2,458**	2,973
Net investment results before distributions to holders of participation units	**125**	(170)	**1,149**	641	**2,114**	2,896	**2,845**	3,368
(Distributions) recoveries	**(24)**	(18)	**(744)**	(791)	**(113)**	(384)	**(387)**	(666)
Comprehensive income attributable to holders of participation units	**101**	(188)	**405**	(150)	**2,001**	2,512	**2,458**	2,702

Statements of changes in net assets attributable to holders of participation units								
For the years ended December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Balance as at January 1[1]	**1,189**	1,225	**7,996**	6,266	**22,535**	16,859	**22,999**	21,945
Participation units								
Units issued	**88**	398	**1,886**	3,219	**601**	3,211	**1,681**	1,308
Units cancelled	**(398)**	(246)	**(534)**	(1,339)	**(2,279)**	(47)	**(2,637)**	(2,956)
Net change in participation units for the period	**(310)**	152	**1,352**	1,880	**(1,678)**	3,164	**(956)**	(1,648)
Comprehensive income attributable to holders of participation units	**101**	(188)	**405**	(150)	**2,001**	2,512	**2,458**	2,702
Balance as at December 31	**980**	1,189	**9,753**	7,996	**22,858**	22,535	**24,501**	22,999

1. The adoption of International Financial Reporting Standards (IFRS) has been applied retrospectively to January 1, 2013.

SUPPLEMENTARY INFORMATION

Summary financial statements of the specialized portfolios (cont.)

(in millions of Canadian dollars)

	U.S. EQUITY (731)		EAFE EQUITY (730)		EMERGING MARKETS EQUITY (732)		GLOBAL QUALITY EQUITY (736) (created January 1, 2013)	
Statements of financial position								
As at December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Assets								
Investments	**10,278**	9,724	**9,516**	9,832	**11,709**	10,306	**26,825**	16,455
Other financial assets	**14**	14	**42**	30	**277**	327	**1,555**	773
	10,292	9,738	**9,558**	9,862	**11,986**	10,633	**28,380**	17,228
Liabilities								
Investment liabilities	**20**	–	**4**	4	**18**	80	**12**	–
Other financial liabilities	**26**	24	**50**	34	**191**	304	**62**	31
Total liabilities excluding net assets attributable to holders of participation units	**46**	24	**54**	38	**209**	384	**74**	31
Net assets attributable to holders of participation units	**10,246**	9,714	**9,504**	9,824	**11,777**	10,249	**28,306**	17,197
Statements of comprehensive income								
For the years ended December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Investment income	**223**	231	**309**	337	**311**	252	**654**	261
Investment expense	**–**	(1)	**(28)**	(32)	**(42)**	(30)	**(34)**	(14)
Net investment income	**223**	230	**281**	305	**269**	222	**620**	247
Operating expenses	**(5)**	(6)	**(8)**	(8)	**(22)**	(17)	**(32)**	(18)
Net income	**218**	224	**273**	297	**247**	205	**588**	229
Net realized gains (losses)	**1,325**	1,089	**686**	407	**345**	(74)	**781**	63
Net unrealized gains (losses)	**690**	2,325	**(580)**	2,029	**357**	253	**2,560**	2,295
Net gains (losses) on financial instruments at fair value	**2,015**	3,414	**106**	2,436	**702**	179	**3,341**	2,358
Net investment results before distributions to holders of participation units	**2,233**	3,638	**379**	2,733	**949**	384	**3,929**	2,587
(Distributions) recoveries	**(218)**	(224)	**(273)**	(297)	**(247)**	(212)	**(588)**	(229)
Comprehensive income attributable to holders of participation units	**2,015**	3,414	**106**	2,436	**702**	172	**3,341**	2,358
Statements of changes in net assets attributable to holders of participation units								
For the years ended December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Balance as at January 1[1]	**9,714**	10,150	**9,824**	9,819	**10,249**	8,711	**17,197**	1,780
Participation units								
Units issued	**1,259**	817	**1,342**	808	**1,708**	2,673	**9,282**	13,130
Units cancelled	**(2,742)**	(4,667)	**(1,768)**	(3,239)	**(882)**	(1,307)	**(1,514)**	(71)
Net change in participation units for the period	**(1,483)**	(3,850)	**(426)**	(2,431)	**826**	1,366	**7,768**	13,059
Comprehensive income attributable to holders of participation units	**2,015**	3,414	**106**	2,436	**702**	172	**3,341**	2,358
Balance as at December 31	**10,246**	9,714	**9,504**	9,824	**11,777**	10,249	**28,306**	17,197

1. The adoption of International Financial Reporting Standards (IFRS) has been applied retrospectively to January 1, 2013.

Summary financial statements of the specialized portfolios (cont.)

(in millions of Canadian dollars)

	PRIVATE EQUITY (780)		ASSET ALLOCATION (771)		ABTN (772)		ACTIVE OVERLAY STRATEGIES (773) (Created January 1, 2014)	GLOBAL EQUITY (735) (Dissolved April 1, 2014)	
Statements of financial position									
As at December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	**2014**	2013
Assets									
Investments	**22,469**	19,940	**2,623**	2,329	**9,236**	9,776	**7,534**	**–**	5,097
Other financial assets	**359**	726	**220**	466	**28**	31	**468**	**–**	76
	22,828	20,666	**2,843**	2,795	**9,264**	9,807	**8,002**	**–**	5,173
Liabilities									
Investment liabilities	**432**	484	**1,239**	1,530	**9,182**	9,860	**7,435**	**–**	1,499
Other financial liabilities	**152**	93	**11**	118	**55**	54	**26**	**–**	191
Total liabilities excluding net assets attributable to holders of participation units	**584**	577	**1,250**	1,648	**9,237**	9,914	**7,461**	**–**	1,690
Net assets attributable to holders of participation units	**22,244**	20,089	**1,593**	1,147	**27**	(107)	**541**	**–**	3,483

Statements of comprehensive income									
For the years ended December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	**2014**	2013
Investment income	**1,635**	1,272	**69**	42	**152**	164	**37**	**14**	249
Investment expense	**(65)**	(38)	**(23)**	(15)	**(120)**	(128)	**(66)**	**(1)**	(113)
Net investment income	**1,570**	1,234	**46**	27	**32**	36	**(29)**	**13**	136
Operating expenses	**(52)**	(42)	**(8)**	(16)	**(3)**	(4)	**(52)**	**(1)**	(35)
Net income	**1,518**	1,192	**38**	11	**29**	32	**(81)**	**12**	101
Net realized gains (losses)	**(1,212)**	(421)	**354**	(167)	**(25)**	(31)	**293**	**559**	2,244
Net unrealized gains (losses)	**2,079**	2,655	**(70)**	240	**133**	727	**19**	**(424)**	(321)
Net gains (losses) on financial instruments at fair value	**867**	2,234	**284**	73	**108**	696	**312**	**135**	1,923
Net investment results before distributions to holders of participation units	**2,385**	3,426	**322**	84	**137**	727	**231**	**147**	2,024
(Distributions) recoveries	**(1,518)**	(790)	**(38)**	(11)	**(29)**	(8)	**81**	**(12)**	(171)
Comprehensive income attributable to holders of participation units	**867**	2,636	**284**	73	**108**	719	**312**	**135**	1,853

Statements of changes in net assets attributable to holders of participation units									
For the years ended December 31	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	**2014**	2013
Balance as at January 1[1]	**20,089**	17,692	**1,147**	1,099	**(107)**	(834)	**–**	**3,483**	13,733
Participation units									
Units issued	**3,366**	2,186	**863**	260	**26**	8	**584**	**23**	237
Units cancelled	**(2,078)**	(2,425)	**(701)**	(285)	**–**	–	**(355)**	**(3,641)**	(12,340)
Net change in participation units for the period	**1,288**	(239)	**162**	(25)	**26**	8	**229**	**(3,618)**	(12,103)
Comprehensive income attributable to holders of participation units	**867**	2,636	**284**	73	**108**	719	**312**	**135**	1,853
Balance as at December 31	**22,244**	20,089	**1,593**	1,147	**27**	(107)	**541**	**–**	3,483

1. The adoption of International Financial Reporting Standards (IFRS) has been applied retrospectively to January 1, 2013.

FINANCIAL CERTIFICATE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, Michael Sabia, President and Chief Executive Officer of la Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of la Caisse de dépôt et placement du Québec ("la Caisse") for the year ended December 31, 2014.

2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any 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 period covered by the Annual Filings.

3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the consolidated financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of la Caisse as at the closing dates of the periods presented in the Annual Filings, as well as its comprehensive income, changes in net assets attributable to depositors, and cash flows for those years.

4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for la Caisse.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, at fiscal year-end, I have:
   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:
      i) Material information relating to la Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.
      ii) Information required to be disclosed by la Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.
   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the consolidated financial statements have been prepared, with a view to publication of financial information, in accordance with International Financial Reporting Standards (IFRS).

5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

5.2. **ICFR material weakness relating to design:** Not applicable.

5.3. **Limitation of scope and design:** Not applicable.

6. **Evaluation:** I have:
   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report my conclusions based on this evaluation.
   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report the following information:
      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.
      ii) Description of any material weaknesses relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes to the ICFR:** La Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2014 and ending on December 31, 2014 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee of la Caisse:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of la Caisse or its Audit Committee, any fraud that involves management or other employees who have a significant role in the ICFR.

President and Chief Executive Officer

MICHAEL SABIA
April 10, 2015

FINANCIAL CERTIFICATE OF THE EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

I, Maarika Paul, Executive Vice-President and Chief Financial Officer of la Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of la Caisse de dépôt et placement du Québec ("la Caisse") for the year ended December 31, 2014.

2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any 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 period covered by the Annual Filings.

3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the consolidated financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of la Caisse as at the closing dates of the periods presented in the Annual Filings, as well as its comprehensive income, changes in net assets attributable to depositors, and cash flows for those years.

4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for la Caisse.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, at fiscal year-end, I have:
   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:
      i) Material information relating to la Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.
      ii) Information required to be disclosed by la Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.
   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the consolidated financial statements have been prepared, with a view to publication of financial information, in accordance with International Financial Reporting Standards (IFRS).

5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

5.2. **ICFR material weakness relating to design:** Not applicable.

5.3. **Limitation of scope and design:** Not applicable.

6. **Evaluation:** I have:
   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report my conclusions based on this evaluation.
   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report the following information:
      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.
      ii) Description of any material weaknesses relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes to the ICFR:** La Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2014 and ending on December 31, 2014 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee of la Caisse:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of la Caisse or its Audit Committee, any fraud that involves management or other employees who have a significant role in the ICFR.

Executive Vice-President and Chief Financial Officer

Maarika Paul

MAARIKA PAUL
April 10, 2015

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In 2014, the Chief Financial Officer oversaw work to update existing documentation and to evaluate the design and effectiveness of internal control over financial reporting, and the Executive Committee approved the methodology for evaluating key controls. The purpose of this evaluation of internal control over the main financial processes was to ensure that la Caisse could meet its quality objectives related to financial reporting, in all material respects.

The evaluation of the design and effectiveness of internal control over financial reporting was carried out with the framework usually adopted by North American companies, namely that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013). This work enabled the Disclosure Committee to conclude that the design of control over financial reporting is adequate and effective, and that it provides reasonable assurance that the financial information presented in the Annual Filings, as defined by la Caisse's Financial Certification Policy, is reliable, and that la Caisse's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

CONTROLS ABOUT THE DESIGN AND EFFECTIVENESS OF FINANCIAL REPORTING CONTROLS AND PROCEDURES

Under la Caisse's Financial Certification Policy, the design and effectiveness of disclosure controls and procedures pertaining to the Annual Filings, namely the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report, must be evaluated.

As with the evaluation of internal control over financial reporting, the Chief Financial Officer also oversaw efforts to update existing documentation and to evaluate the design and effectiveness of disclosure controls and procedures, and the Executive Committee also approved the methodology for evaluating key controls.

As at December 31, 2014, the evaluation confirmed that the disclosure controls and procedures are adequate and effective, and 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, as as to ensure that appropriate decisions concerning disclosure can be made.

The Board of Directors also approved the 2014 Annual Filings before their public disclosure.

General Notes

1. La Caisse's operations comply with the requirements of the Act respecting the Caisse de dépôt et placement du Québec[1] and investment industry practices. Its financial statements are prepared in accordance with International Financial Reporting Standards. Each year, la Caisse's co-auditors, the Auditor General of Québec and Ernst & Young LLP, audit the financial statements, the compliance of operations with laws, regulations, policies and guidelines, to the extent they deem appropriate.
2. The 2014 Annual Report Additional Information is an integral part of the 2014 Annual Report and presents, in the first section, the Tables of Returns as at December 31, 2014, for composites of la Caisse's depositors' accounts. These tables and calculations have been audited as at December 31, 2014 by Deloitte LLP for compliance with the Global Investment Performance Standards (GIPS®).
3. In this Annual Report, depositors' net assets and net investment results are defined as net assets attributable to depositors and net investment results before distributions to depositors.
4. The returns of the specialized portfolios represent the time-weighted rate of return.
5. The benchmark indexes for the asset classes and overall portfolio are based on the weighted average of the benchmark indexes for the specialized portfolios that comprise them.
6. Unless otherwise stated, returns, which are expressed as a percentage, are presented before operating expenses, distributions to depositors and other fees, but net of transaction fees, external management fees of investment funds and expenses of the real estate subsidiaries, and are annualized for periods of more than one year. They include the return on cash and cash equivalents and they take into account any foreign exchange hedging. The return spreads related to operating expenses of each specialized portfolio are presented in the Tables of Returns in the 2014 Annual Report Additional Information.
7. Unless otherwise stated, net investment results before distributions to depositors and net assets attributable to depositors are presented net of operating expenses and other fees.
8. Some returns are expressed in basis points (b.p.). One hundred basis points equal 1.00% and one basis point equals 0.01%.
9. Unless otherwise stated, all figures are in Canadian dollars. The letters M and B used with dollar amounts designate millions and billions, respectively.
10. Totals (figures or percentages) may vary because of rounding of figures.
11. Unless otherwise stated, all data in the tables and figures are from studies carried out by la Caisse.
12. The tables listing the top 10 investments present, in alphabetical order, the main cash positions based on information shown in Tables 8, 9, 10 and 11 of the 2014 Annual Report Additional Information.
13. To determine whether an asset is classified as a Québec investment, la Caisse uses the location of the head office of the company or of the issuer or, in the case of real estate, the location of the property.

    This classification system is widely used in the fund management industry but involves biases. Some companies are included even though their core operations are outside Québec. Similarly, companies with extensive operations in Québec are excluded if their head office is outside the province.

1. The Act respecting the Caisse de dépôt et placement du Québec is available on the Caisse website at www.lacaisse.com.

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- The 2014 Annual Report and the 2014 Annual Report Additional Information are available on our website at www.lacaisse.com.
- For information: 514 842-3261, info@lacaisse.com
- *Le Rapport annuel 2014 et le document Renseignements additionnels au rapport annuel 2014 sont aussi accessibles en français sur notre site Web: www.lacaisse.com.*
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