



Our Clients, the Depositors

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CONSTRUCTIVE COLLABORATION

In 2012, the Caisse substantially stepped up the consultations and discussions it held with depositors to review its strategic orientations, investment strategy and portfolio offering. Such collaboration with clients contributes to its goal of meeting their needs more effectively in a changing environment.

HIGHLIGHTS

01 Net investment results of \$14.9 billion and net deposits of \$2.3 billion brought depositors' net assets to \$176.2 billion as at December 31, 2012. These amounts take into account the arrival of four new depositors in 2012, bringing the total to 29.

02 In 2012, the Caisse made changes to its portfolio offering to facilitate the implementation of the new aspects of its investment strategy in the years to come and to meet depositors' needs more effectively.

03 All the large depositors chose to revise their investment policies so as to optimize their asset allocation as a function of the new features of the portfolio offering.

SERVICES THAT ANTICIPATE FUTURE CHALLENGES

In 2012, after a review of its strategic orientations, the Caisse established a new investment strategy aimed at generating depositors' target returns in the years to come. The new aspects of this strategy can be broken down into four components:

- Emphasize absolute-return management to invest in the best publicly traded companies.
- Increase investments in the less-liquid asset classes: private equity, infrastructure and real estate.
- Invest in Québec to generate returns and contribute to its economic development.
- Capitalize on the growth of emerging markets.

To ensure the strategy can be deployed in an evolving economic and financial environment, the Caisse considered introducing changes to the portfolios offered to depositors, most notably by:

- refocusing the Hedge Fund portfolio;
- creating the Global Quality Equity portfolio and adding a relationship-investing mandate, focused on developing long-term relationships with promising companies, to the Private Equity portfolio;
- closing out the Global Equity portfolio; and
- gradually shifting the Emerging Markets Equity portfolio from index management to active management.

The Caisse also reviewed its strategic asset allocation and examined the following scenarios:

- an increase in the weight of less-liquid assets;
- an increase in direct and indirect investments in emerging markets; and
- a decrease in the weight of fixed-income securities.

The Caisse's advisory services teams presented these scenarios to the depositors and reviewed with them the impacts of such changes on their investment policy.

SUSTAINED CONSULTATIONS AND DISCUSSIONS WITH DEPOSITORS

The service offering was revised over several months as part of a series of consultations and discussions with the depositors. The Strategic Asset Allocation Expertise Group, which comprises experts from the Caisse and the depositors, played an active advisory role in the process.

The Caisse's strategic orientations and the changes resulting from their implementation were central to the discussions at three forums that brought together members of the Caisse's senior management and senior officials of the main depositors. In addition, representatives for the depositors had the opportunity to speak with Caisse executives and portfolio managers during three seminars on the economic outlook, asset allocation and the portfolio offering.

More specifically, changes to the investment policy of the Hedge Fund portfolio, and their implementation beginning in July 2012, were discussed and agreed to with the depositors concerned. Furthermore, the Global Quality Equity portfolio and the relationship-investing mandate as part of the Private Equity portfolio were presented to all depositors at an information session in the fall of 2012. In this context, 19 of the 29 depositors amended their investment policies to reflect the new changes, which took effect on January 1, 2013.

The Caisse also met with the depositors in the fall of 2012 to propose that they make a strategic shift by significantly increasing the weight of less-liquid assets in their benchmark portfolios. Some of them chose to amend their investment policies as a result, and others began to work on such amendments.

Finally, the various changes associated with the closing-out of the Global Equity portfolio, as a result of the creation of the Global Quality Equity portfolio, were discussed with the depositors beginning in the fall of 2012 and continued into the first quarter of 2013.

ENHANCED COMMUNICATION ACTIVITIES AND TOOLS

Other initiatives rounded out the array of communication activities and tools offered to the depositors in 2012. For example, at luncheon conferences, employees had the opportunity to meet with representatives of the Régie des rentes du Québec and the Commission de la construction du Québec to discuss the challenges they face and their expectations of the Caisse.

Finally, the Caisse carried out its reporting to the depositors in a spirit of continued improvement. For example, it improved its periodic reports with:

- the creation of a section on the monitoring of depositors' liquidity risk in the semi-annual newsletter on risk;
- the addition of a section on interest rate overlay mechanisms in the document on asset classes, produced by the investment policy advisory team; and
- the development of interest rate monitoring mechanisms and their integration into the monthly reports to depositors to facilitate duration management of certain funds.

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COMPLEMENTARY ROLES

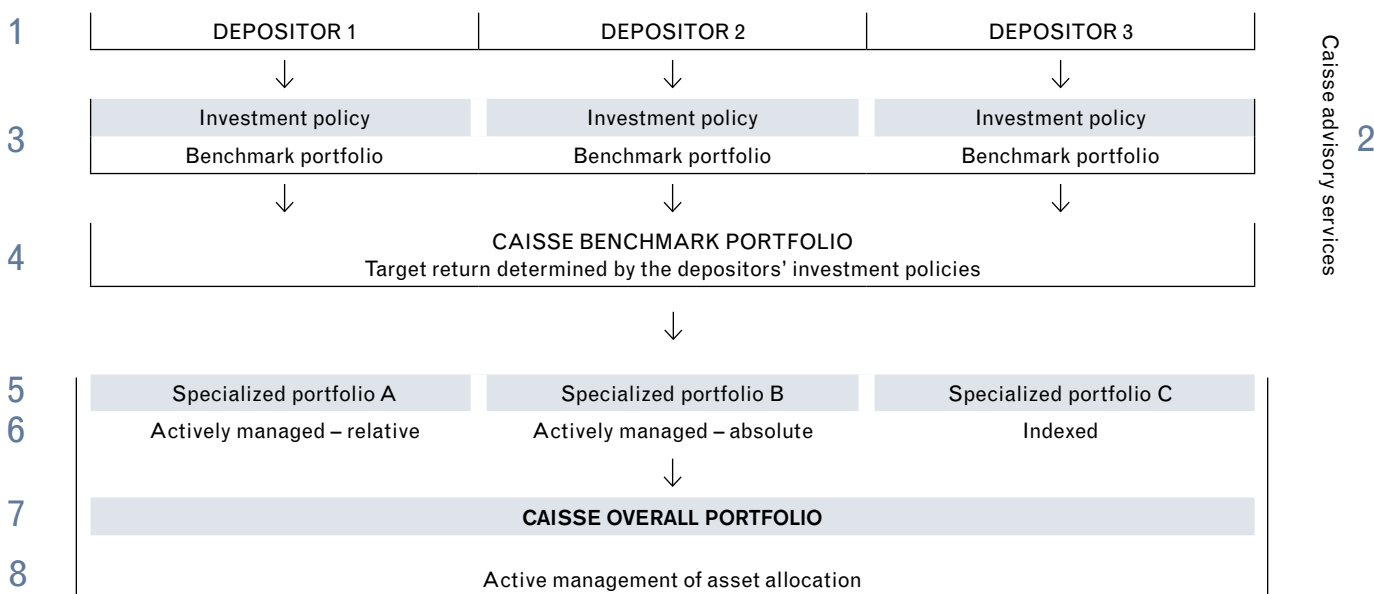
Below is an outline of the roles played by the depositors and the Caisse in the management of depositors' holdings (see Figure 1):

1. The depositors entrust their funds to the Caisse so as to earn a return on them, specifying target returns, risk tolerance and asset allocation in their investment policies.
2. The Caisse provides depositors with investment advice, working closely with them to develop and revise their investment policies.
3. Each depositor may invest its funds in the Caisse's 17 specialized portfolios* and select a target foreign currency exposure, as well as the interest rate sensitivity of certain investments, through overlay mechanisms. It may choose to invest in foreign equity portfolios that use active or index management. The asset allocation selected by a depositor (namely its choice of various specialized portfolios) becomes its benchmark index.
4. The Caisse's benchmark portfolio is the weighted average of all the depositors' benchmark portfolios.
5. The Caisse's portfolio managers invest the depositors' funds in accordance with the depositors' investment policies and the specialized portfolios' investment policies.
6. Eleven of the 17 specialized portfolios offered to depositors are managed actively. The managers of these portfolios aim to outperform their benchmark index or absolute-return threshold through their security, sector or country selection. Active management is concentrated in areas where the Caisse has a comparative advantage. The six other portfolios are indexed and aim to generate the same return as their benchmark indexes.
7. The sum of the depositors' funds constitutes the Caisse's overall portfolio. The return on this portfolio is the weighted average return on depositors' funds.
8. The Caisse manages asset allocation actively in response to market developments and the short- and medium-term economic outlook, and through rebalancing activities. To that end, it makes use of the flexibility provided by the depositors. The objective is to improve the return on depositors' funds and thus on the Caisse's overall portfolio.

* Including the Global Quality Equity portfolio created on January 1, 2013.

FIGURE 1

PROCESS USED TO MANAGE DEPOSITORS' HOLDINGS



THE DEPOSITORS

In 2012, the Caisse had 29 depositors, primarily Québec public- and parapublic-sector pension and insurance plans. Table 2 lists the eight main depositors' funds, which represented 97.2% of depositors' net assets as at December 31, 2012.

DEPOSITORS' INDIVIDUAL RETURNS

The overall return is the weighted average return on depositors' funds. Each depositor obtains a return that is a function of its investment policy, which determines the proportion of funds invested in each specialized portfolio. The returns obtained by the eight main depositors in 2012 ranged from 8.2% to 10.5%. For the past four years, the annualized returns for these depositors ranged from 8.9% to 9.6%.

TABLE 2

THE EIGHT MAIN DEPOSITORS' FUNDS

	Type of plan	Description
1 GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN	Pension plan	The plan consists primarily of contributions by employees who work in Québec's health and social services sector, education system and public sector. The plan is administered by the Commission administrative des régimes de retraite et d'assurances.
2 RETIREMENT PLANS SINKING FUND	Pension plan	The fund provides for payment of retirement benefits that are the responsibility of the government, according to the provisions of the retirement plans for the public and parapublic sectors. The fund is financed by the Government of Québec and administered by the Ministère des Finances et de l'Économie.
3 RÉGIE DES RENTES DU QUÉBEC	Pension plan	The Régie des rentes contributes to Québécois' income security, notably by providing for payment of a retirement pension. The plan is mandatory and the contributions are made by employees and employers.
4 SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY	Pension plan	The plan is administered by the Commission de la construction du Québec. The contributions to the plan are paid by construction industry employers and workers.
5 COMMISSION DE LA SANTÉ ET DE LA SÉCURITÉ DUTRAVAIL	Insurance plan	The Commission mainly compensates workers who have had work-related accidents and contributes to their rehabilitation. It is financed by contributions from Québec employers.
6 SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC	Insurance plan	The Société compensates victims of vehicular accidents and promotes traffic safety. It is financed mainly by fees collected for driver's licences and vehicle registration.
7 PENSION PLAN OF MANAGEMENT PERSONNEL	Pension plan	The plan consists of contributions by management employees in the public and parapublic sectors. The plan is administered by the Commission administrative des régimes de retraite et d'assurances.
8 GENERATIONS FUND	Other	The Generations Fund was created in June 2006 under the Act to reduce the debt and establish the Generations Fund. The amounts accumulated in the fund are dedicated exclusively to repaying the debt. The fund is administered by the Ministère des Finances et de l'Économie.

The following table presents a comparison of depositors' net assets as at December 31, 2011, and as at December 31, 2012.

TABLE 3

THE CAISSE'S 29 DEPOSITORS

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

	First deposit	Depositors' net assets			
		2012		2011	
		\$	%	\$	%
PENSION PLANS					
Régie des rentes du Québec	1966	39,070	22.2	34,877	21.9
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	14,476	8.2	13,159	8.3
Government and Public Employees Retirement Plan	1973	45,141	25.6	41,982	26.4
Pension Plan of Management Personnel	1973	7,798	4.4	7,122	4.5
Individual Plans	1977	190	0.1	178	0.1
Pension Plan of Elected Municipal Officers	1989	173	0.1	159	0.1
Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence	1990	340	0.2	301	0.2
Ministère des Finances et de l'Économie, Government of Québec ¹					
Retirement Plans Sinking Fund	1994	40,722	23.1	36,351	22.9
Superannuation Plan for the Members of the Sûreté du Québec – caisse employeurs	2009	303	0.2	144	0.1
Régime de retraite de l'Université du Québec	2004	253	0.2	226	0.2
Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	2005	124	0.1	97	–
Régime de retraite pour certains employés de la Commission scolaire de la Capitale	2006	36	–	37	–
Régime de rentes pour le personnel non enseignant de la Commission des écoles catholiques de Montréal	2007	219	0.1	222	0.1
Superannuation Plan for the Members of the Sûreté du Québec – caisse participants	2007	173	0.1	130	0.1
Régime de retraite des employés de la Ville de Laval	2007	114	0.1	95	–
Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges	2010	68	–	65	–
Fonds commun de placement des régimes de retraite de l'Université Laval ²	2012	114	0.1	–	–
Fiducie globale Ville de Magog ²	2012	41	–	–	–
Régime de retraite des employés et employés de la Ville de Sherbrooke ²	2012	13	–	–	–
INSURANCE PLANS					
Régie des marchés agricoles et alimentaires du Québec	1967	8	–	7	–
La Financière agricole du Québec	1968	271	0.2	218	0.2
Autorité des marchés financiers	1969	622	0.4	592	0.4
Commission de la santé et de la sécurité du travail	1973	10,882	6.2	9,945	6.3
Société de l'assurance automobile du Québec	1978	8,132	4.6	7,389	4.7
Fédération des producteurs de bovins du Québec	1989	4	–	7	–
Survivor's Pension Plan	1997	361	0.2	356	0.2
Conseil de gestion de l'assurance parentale	2005	3	–	2	–
OTHER DEPOSITORS					
Office de la protection du consommateur	1992	87	–	75	–
Société des alcools du Québec	1994	118	0.1	121	0.1
Ministère des Finances et de l'Économie, Government of Québec ¹					
Generations Fund	2007	5,170	2.9	4,024	2.5
Accumulated Sick Leave Fund	2008	750	0.4	769	0.5
Fonds d'information sur le territoire	2011	352	0.2	315	0.2
Agence du revenu du Québec ²	2012	82	–	–	–
Total		176,210	100.0	158,965	100.0

1. The Ministère des Finances et de l'Économie entrusts the Caisse with a total of five funds.

2. New depositor in 2012.