Caisse de dépôt et placement du Québec

PRESS RELEASE

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Fiscal year ended December 31, 2007:

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC'S FIRST DECILE RETURN OF 5.6% ADDS $7.9 BILLION TO DEPOSITORS' NET ASSETS

Montréal, February 21, 2008 – The Caisse de dépôt et placement du Québec stated today that the weighted average return on depositors' funds for the fiscal year ended December 31, 2007 was 5.6%. This is a first decile return within the comparative universe of Canada's major pension funds. It represents an added $7.9 billion to the depositors' net assets.

For the 3-year period ended December 31, 2007, the Caisse posted an annual return of 11.5%, which is in the first decile of the comparative universe. For the five-year period ended December 31, 2007, the annual return was 12.4%, and lies within the top 5% of the comparative universe.

Table 1
WEIGHTED AVERAGE RETURN ON DEPOSITORS' FUNDS
(as at December 31, 2007)

Period	Annual Return	Percentile Ranking[1]
2007	5.6%	First decile
3 years	11.5%	First decile
5 years	12.4%	First 5 percentiles

[1]According to RBC Dexia Investor Services – Funds of $1 billion and more

The 5.6% return includes unrealized depreciation (provision) of $1.9 billion incidental to the liquidity crisis that occurred in the Canadian asset-backed commercial paper (ABCP) market in August 2007. This provision, established according to Canadian Institute of Chartered Accountants (CICA) guidelines, had a downward effect of 1.3% on the Caisse's overall performance in 2007. For most of the amount ($1.4 billion), the probability of recovery at maturity is deemed high, in particular because it is not related to the U.S. subprime mortgage crisis.

GROWTH OF DEPOSITORS’ NET ASSETS

Depositors’ net assets grew from $143.5 billion as at December 31, 2006 to $155.4 billion as at December 31, 2007. The $11.9 billion increase is made up of the result of investment operations, totalling $7.9 billion, and net deposits of $4.0 billion.

Over the last five years, depositors’ net assets doubled, growing from $77.7 billion to $155.4 billion. This increase is due to the results of investment operations (81.3%, at $63.2 billion) and net deposits (18.7%, at $14.5 billion).

In addition, depositors’ total assets, including liabilities as at December 31, 2007, totalled $227.1 billion and the Caisse’s total assets under management, $257.7 billion.

Table 2

DEPOSITORS’ NET ASSETS

(as at December 31 – in $ billions)

	2007	Period 2003 - 2007
Net assets, beginning of period	143.5	77.7
Results of investment operations	7.9	63.2
Depositors’ net deposits	4.0	14.5
Change in net assets	**11.9**	**77.7**
Net assets, end of period	**155.4**	**155.4**

2007 HIGHLIGHTS OF OVERALL RETURN

The 2007 return of 5.6% was drawn both upward and downward by different factors.

The key factors that had a positive effect were:

1. The foreign exchange risk hedging policy that contributed an estimated return in 2007 of about $3.5 billion;

2. The sizeable weight assumed by non traditional investments in the depositors’ portfolios, mainly the specialized Private Equity, Investments and Infrastructures, Real Estate, and Hedge Funds portfolios, and the high return on these investments in 2007. The weighting of these assets grew from 19.6% to 35.1% between 2003 and 2007;

3. Favourable stock markets in Canada and emerging countries, with a 9.8% return for the S&P/TSX and an 18.2% for the MSCI EM (unhedged);

4. The overall value added of 72 basis points provided by managers, slightly over $1.0 billion, before the effect of the ABCP investment provision.

The key factors that influenced performance negatively in 2007 were:

1. The world credit crisis that sparked a sudden upsurge in credit spreads;

2. Generally less hospitable U.S. and foreign stock markets in 2007; in the United States, the S&P 500 index (hedged) posted a low return of 3.8%; the foreign market MSCI EAFE (hedged) showed a similar return of 3.7%;

3. The liquidity crisis hitting the Canadian non-bank ABCP market;

"In short, foreign exchange risk hedging, the increased weight of non traditional assets of the last few years, solid Canadian stock market performance and our managers' value added are the reasons the Caisse is posting a first decile return in 2007—in spite of the global credit crisis and the ABCP investment provision," explained Caisse President and Chief Executive Officer, Henri-Paul Rousseau.

Finally, the Caisse cashed in significant realized gains in 2007 from the sale of investments, in anticipation of less hospitable economic times in certain sectors and regions of the world, and positioned itself for future investment opportunities.

VALUE ADDED

In 2007, total Caisse manager overall value added relative to the depositors' overall portfolio benchmark was 72 basis points (bp) before ABCP investment provision and −57 basis points after provision.

The Caisse's value added, after provision, for the 3 and 5 year periods ended December 31, 2007 remains in line with depositors' targets at 99 and 82 bp respectively.

In 2007, the main specialized portfolios that contributed to value added relative to benchmarks in 2007 were the Private Equity portfolio (+1,240 bp), the Hedge Funds portfolio (+412 bp), the Canadian Equity portfolio (+281 bp), and the Investments and Infrastructure portfolio (+197 bp).

The main specialized portfolios that underperformed their benchmarks were primarily the hedged and unhedged U.S. Equity portfolios (−311 and −275 bp), the Real Estate portfolio (−409 bp), with an absolute return remaining high at 20.3%, and the Real Estate Debt portfolio (−258 bp).

UNREALIZED DEPRECIATION INCIDENTAL TO THE CANADIAN ABCP MARKET LIQUIDITY CRISIS

The total provision of $1.9 billion recorded as at December 31, 2007 on the ABCP investments represents 15% of their initial value of $12.6 billion. The initial value of $13.2 billion made public by the Caisse in November 2007 has been adjusted to $12.6 billion to factor in the effect of restructuring Skeena Trust, which took place on December 20, 2007.

The provision has three components.

The first component is a contingency provision of $1.4 billion with a probable recovery at maturity deemed high due considering the quality of underlying assets, expected return on investments and progress on the Canadian market restructuring project.

The second component is a $469 million provision on high-risk assets (U.S. subprime mortgages) with a face value of $782 million. The probability of recovery at maturity for this provision is deemed low.

The third component is an amount of $30 million for restructuring fees on these investments.

OPERATING EXPENSES, EXTERNAL MANAGEMENT FEES AND OPERATIONAL EFFICIENCY

For fiscal 2007, operating expenses totalled $261 million, an increase of $34 million over 2006. External management fees reached $69 million, up $15 million compared with 2006. These increases were mainly related to the growth of total assets under management during the last years. Expressed in cents per $100 of average net assets, operating expenses and external management fees combined were 21.7 cents in 2007 versus 21.6 cents in 2006 and 22.6 cents in 2005.

AUDIT OF THE COMBINED FINANCIAL STATEMENTS

In accordance with the law, the Auditor General of Québec audited the Caisse’s books in 2007 and his report accompanies the combined financial statements. Each year, the Auditor General of Québec, to the extent that he deems appropriate, conducts the financial audit and ensures that the Caisse’s operations comply with laws, regulations, policies and guidelines, and with the systems and procedures set up to control and protect its assets.

ABOUT THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

The Caisse de dépôt et placement du Québec is a financial institution that manages funds primarily for public and private pension and insurance plans. As at December 31, 2007, it held $155.4 billion of net assets. One of the leading institutional fund managers in Canada, the Caisse invests in the main financial markets as well as in private equity and real estate. For more information: www.lacaisse.com.

TABLE 3
RETURN BY INVESTMENT GROUP
COMPARED WITH BENCHMARK INDICES
(for the period ended December 31, 2007 – as a percent)

Investment group Specialized portfolios	**Market index**	**Return** %	**Index** %	**Value added** %
Private Equity		**13.6**	**5.1**	**8.5**
Investments and Infrastructures	*Investments and Infrastructures*	8.8	6.8	2.0
Private Equity	*Private Equity*	16.2	3.8	12.4
Equity Markets		**5.6**	**5.0**	**0.7**
Canadian Equity	*S&P/TSX capped*	12.6	9.8	2.8
U.S. Equity (hedged)	*S&P 500 hedged*	0.7	3.8	−3.1
U.S. Equity (unhedged)	*S&P 500 unhedged*	−13.3	−10.5	−2.8
Foreign Equity (hedged)	*MSCI – EAFE hedged*	4.3	3.7	0.6
Foreign Equity (unhedged)	*MSCI – EAFE unhedged*	−5.1	−5.7	0.6
Emerging Markets Equity	*MSCI – EM unhedged*	17.0	18.2	−1.2
Québec International	*Québec International*	4.8	4.6	0.2
Hedge Funds		**5.5**	**4.6**	**0.9**
Hedge Funds	*CS/Tremont Hedge Fund Index modified*	9.5	5.4	4.1
Commodities	*Commodity Financial Instruments*	−0.5	3.8	−4.3
Fixed Income and Currency		**3.9**	**3.8**	**0.1**
Short Term Investments	*SC 91-day Canadian T-Bill*	4.6	4.4	0.1
Real Return Bonds	*SC Real Return Bond*	1.5	1.6	−0.1
Bonds	*SC Universe Bond*	3.8	3.7	0.1
Long Term Bonds	*SC Long Term Government Bond*	4.7	4.4	0.3
Asset allocation and Other (in $ millions)		**−$35M**	**–**	**−$35M**
Real Estate		**12.0**	**15.5**	**−3.4**
Real Estate Debt	*CMP - Real Estate Debt*	0.9	3.5	−2.6
Real Estate	*Aon – Real Estate*	20.3	24.4	−4.1
Weighted average return on depositors' funds (before unrealized depreciation on ABCP)		**6.9**	**6.2**	**0.7**
Unrealized depreciation on third-party ABCP in restructuring		**−1.3**	**–**	**−1.3**
Weighted average return on depositors' funds		**5.6**	**6.2**	**−0.6**

Note: Differences due to rounding out

Table 4

INVESTMENTS IN THIRD-PARTY ABCP IN RESTRUCTURING

(estimated fair value as at December 31, 2007 – in $ millions)

		Provision		
	Face value	$	%	Estimated\fair value
Synthetic and traditional assets	11,825	**(1,398)**	**(11.8)**	10,427
High-risk assets	782	**(469)**	**(60.0)**	313
Restructuring fees	–	**(30)**		
	12,607	**(1,897)**	**(15.0)**	**10,740**

*Source: Caisse de dépôt et placement du Québec

Table 5

OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES

(as at December 31 – in $ millions)

	2007	2006	2005
Operating expenses	**261**	227	216
External management fees	**69**	54	36
Total operating expenses and external management fees	**330**	281	252
Prorated to average net assets, i.e. in cents per $100 of average net assets	**21.7 cents**	21.6 cents	22.6 cents

Source and information:
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