

**1987  
ANNUAL  
REPORT**

CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC

## PROFILE

The Caisse de dépôt et placement du Québec, a totally autonomous institution in its investment management operations, was formed in 1965 to manage the funds arising from various public pension and insurance plans. Its mandate is to ensure that the funds under its administration generate a profit through sound investments and also to support Québec's economic development. To achieve these objectives, it uses the best investment vehicles available, including bonds, shares and convertible securities, mortgages and real estate investments. The Caisse is one of North America's major financial institutions. Its principal place of business is located in the heart of Montréal, a first-class financial center.

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# HIGHLIGHTS OF THE YEAR

(in millions of dollars)	1987	1986
<b>ASSETS UNDER MANAGEMENT</b>		
Total book value	\$ 27,459	\$ 25,073
Excess market value over book value of investments	1,455	3,007
<b>Total market value</b>	<b>\$ 28,914</b>	<b>\$ 28,080</b>
<b>BREAKDOWN OF ASSETS UNDER MANAGEMENT</b>		
Investments		
Bonds	\$ 15,760	\$ 15,704
Shares and convertible securities	9,187	8,474
Mortgages	1,699	1,486
Real estate investments	598	531
Short-term investments	1,173	1,405
Total investments	28,417	27,600
Other assets	497	480
<b>Total market value</b>	<b>\$ 28,914</b>	<b>\$ 28,080</b>
<b>DEPOSITORS' HOLDINGS</b>		
Régie des rentes du Québec	\$ 13,500	\$ 13,558
Commission administrative des régimes de retraite et d'assurances	6,883	6,332
Régie de l'assurance automobile du Québec	4,051	3,843
Commission de la santé et de la sécurité du travail	2,235	2,287
Commission de la construction du Québec	2,100	1,915
Other depositors	30	13
Total depositors' holdings	28,799	27,948
Liabilities	115	132
<b>Total market value</b>	<b>\$ 28,914</b>	<b>\$ 28,080</b>
<b>NET DEPOSITORS' INCOME</b>	<b>\$ 2,868</b>	<b>\$ 2,965</b>
<b>NET DEPOSITORS' WITHDRAWALS</b>	<b>\$ 465</b>	<b>\$ 415</b>
<b>INTERNAL RATE OF RETURN ON TOTAL DEPOSITORS' HOLDINGS</b>	<b>4.7%</b>	<b>13.5%</b>

# THE CHAIRMAN'S MESSAGE

**The portfolio has  
withstood the  
impact of the plunge**

1987 proved to be a period of turmoil for financial markets and investors. On the international scene, as well as in Canada and Québec, markets were volatile: on the one hand, interest rates climbed and then dropped slightly at year-end, and on the other hand, stock markets plummeted in October.

In spite of this difficult environment, the Caisse obtained a 4.7% financial rate of return for 1987, which was slightly above inflation. For the current six-year economic and financial cycle begun in 1982, the average annual rate of return reached 16.9% compared with an inflation rate of 5%. Performance was equally good for the longer ten-year reference period for which the rate of return totalled 12.8%, or 5.7% above the inflation rate for the same period.

The Caisse's domestic stock market investments portfolio has withstood the impact of the October 19, 1987 plunge. Our portfolio managers, although they had not anticipated the full extent of the correction, noted its impending danger and consequently implemented strategies to limit the overall risk associated with the Canadian stock portfolio and protect the underlying capital. The 4.6% return is a positive

result. The positioning of this portfolio, which was intentionally prudent and defensive, appears to have suffered from the underweighting of golds sector stocks in the short term. The Caisse's strategy in this instance was not to take part in a movement which it thought was exclusively speculative.

However, the major stock market correction allowed the Caisse to invest in primary issues made in connection with the Québec Stock Savings Plan (QSSP) and produced more realistic price-earnings ratios, permitting the acquisition of quality stocks at attractive prices in the medium and long terms. The Caisse was also much more active on the secondary QSSP market than in previous years when, according to our analysts, the pricing of these stocks seemed overly optimistic.

Furthermore, bond markets which had been rather sluggish before October rallied somewhat as a result of falling interest rates and the general climate of uncertainty prevailing in the market for variable income securities, and particularly Canadian and foreign equities.

Mortgages and real estate investments were stabilizing elements as usual, offering the highest yields at 9.3% and 14.5%, respectively. It is noteworthy that our Institution completed the largest mortgage investments program of its existence in 1987, with loans granted totalling over \$500 million.

At year-end, the Caisse's total investments, at book value, included \$15,627 million in bonds (58%), \$7,957 million in shares and other convertible securities (29.5%), \$1,714 million in mortgages (6.3%), \$491 million in real estate investments (1.8%) and \$1,173 million in money market securities (4.4%). At market value, bonds represented 55.5%, shares and convertible securities, 32.3%, mortgages, 6%, real estate investments, 2.1%, and money market securities, 4.1%.

The total net income generated by these investments and paid to depositors totalled \$2,868 million and notably included \$613 million in gains on sale of investments.

In 1987, the Caisse's objective to contribute to Québec's economic development and, more specifically, its preoccupation with geographically distributing its investments led to vigorous mortgage lending operations in all regions of the province as well as active and sustained transactions with Québec medium-sized businesses. A total investment budget of \$81 million was allocated to these transactions in 1987, compared with \$36 million in 1986. Moreover, real estate development projects were carried out and acquisitions were made throughout Québec in cooperation with Société Immobilière Trans-Québec, of which

the Caisse is the major shareholder, and various partners (Groupe immobilier St-Jacques, Prével, Cadillac Fairview, Devencore and Groupe Ruel).

Our Institution also firmly maintained its position of providing support to large and medium-sized businesses and offering quality assistance to their owners and management in their projects and visions for development, here and abroad.

During the year, the Québec legislature amended the investment authority provisions contained in the act governing the Caisse. Provisions concerning the eligibility of investments in corporate shares were broadened and updated and the percentage related to the general investment authority was increased from 7% to 10%, thus removing certain restrictions which limited our portfolio managers' room to manoeuvre.

Major changes also occurred in the Canadian stock brokerage industry, with Canadian and foreign banks acquiring ownership of over 65% of brokerage firms. As a result, sources of financing have become increasingly concentrated. Owing to its size and the diversity of its operations, the Caisse will continue to play a major role in North American

financial markets and offer additional, yet original, funding to entrepreneurs. This availability of funds will also become important in the free-trade environment to ensure the growth and competitiveness of Québec enterprises through appropriate capitalization.

Please allow me at this point to express our grief concerning the deaths of two members of the Board of Directors during the year: Raymond Blais, president of the Confédération des caisses populaires et d'économie Desjardins, and Fernand Paré, president of La Solidarité, Compagnie d'assurance sur la vie. Their service to Québec society, the institutions they headed and our Board of Directors was generous, consistent and productive. The Board wishes to pay tribute to their contribution and their memory.

Furthermore, I am sorry to report that André Marier, a pioneer of our Institution, and Robert Normand have completed their terms. The Board now relies on the support and cooperation of four new members. They are Gisèle Desrochers, Claude Béland, Marcel Côté and Claude Séguin.



Finally, on behalf of the Board of Directors, I would like to thank all employees for their efforts in pursuing our Institution's objectives. Whether in terms of support to the development of our environment or in terms of financial return, the Caisse de dépôt et placement du Québec assumes major responsibilities and continually strives for excellence. In day-to-day operations, the Caisse has a competent, experienced, dynamic and efficient team of men and women. But it is mainly a team of devoted people who take seriously their role in contributing to the improvement of Québec society for their fellow citizens.

A handwritten signature in dark ink that reads "Jean Campeau". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jean Campeau  
Chairman of the Board  
and General Manager

Montréal, March 14, 1988

With increases in employment, manufacturing shipments, retail sales and investments, Québec's economic performance exceeded the national average in 1987.

Overall, economic growth in North America as a whole was very impressive in 1987.





**Impressive  
North American  
economic  
performance**

# THE ECONOMIC ENVIRONMENT

Other than in North America, economic growth among major industrialized countries was disappointing in 1987. Despite signs of a recovery in domestic demand, strong local currencies reduced the competitiveness of these countries, affecting external trade and hence output. This is a reversal from previous years when Europe and Japan had benefited extensively from increased sales to the United States. On the other hand,

strong domestic currencies and moderate growth rates kept the inflation rate very low, especially in Japan and West Germany.

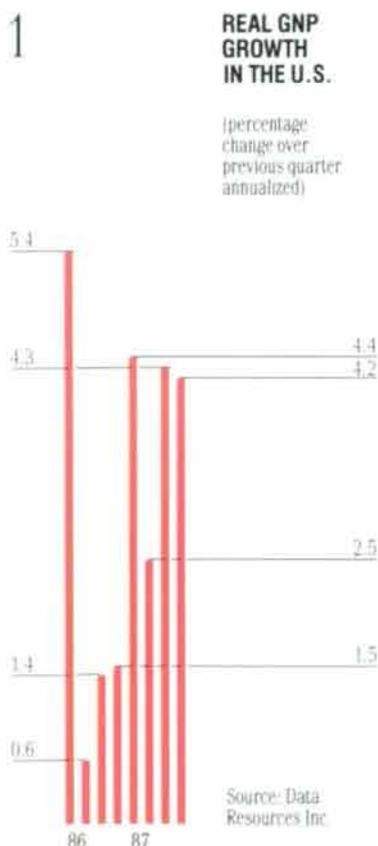
## THE AMERICAN ECONOMY

In contrast to overseas developments, U.S. economic growth clearly accelerated in 1987. Compared with an annualized growth rate of only 1.2% in the last nine months of 1986, the Gross National Product increased at an average rate of 3.8% during 1987. This reversal – the result of an earlier easing in monetary policy and of the dollar's substantial decline over the previous two years – occurred despite a marked slowdown in the consumption and housing sectors, which had been extremely strong since the beginning of the recovery in 1983.

A rebound in exports triggered a revival in the U.S. industrial sector which accounts for much of the 1987 performance improvement. Investments have also picked up since last winter, partly as a result of the recovery in industrial activity and partly for tax-related reasons.

The economic recovery and rising oil prices led to a higher inflation rate than

in 1986. This sparked serious concerns in financial markets and eventually resulted in a tightening of monetary policy aimed at curbing inflationary expectations. However, after the October stock market debacle, concern about a possible financial crisis led the authorities to push interest rates lower.





Even though net export volumes rose in 1987 due to the dollar's decline, the trade deficit deteriorated further as a result of a major increase in import prices. This imbalance and the still very large federal government deficit remain two serious problems which were not resolved last year, in spite of the strong economic performance.

#### THE CANADIAN ECONOMY

In Canada, the reversal from 1986 to 1987 was even more impressive. After registering little or no growth in the second half of 1986, the Canadian economy achieved an average performance of 5.5% for the first nine months of 1987, clearly surpassing expectations. Very rapid growth in consumer spending and investments was accompanied by truly exceptional activity in housing. The Canadian economy's sound performance in 1987 was mainly the result of a considerable drop in interest rates from 1985 until last winter, and a more favourable international environment, particularly for the natural resource sector. Given the exceptional strength of domestic demand in 1987, it is no surprise that imports rose rapidly and output lagged somewhat behind demand.

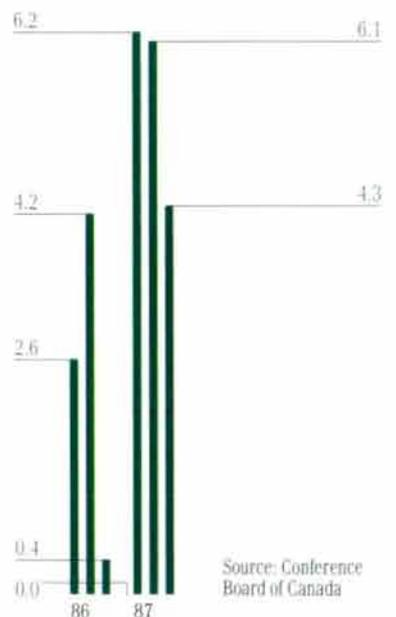
Inflation accelerated at the beginning of the year which, jointly with the rapidly-growing economy, led to a tighter monetary policy. The Canadian dollar

gained versus the U.S. dollar, especially during the second and third quarters and as a result of increases in some commodity prices. The higher dollar and moderate wage growth eventually brought Canada's inflation rate below the U.S. rate towards the end of 1987.

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#### REAL GNP GROWTH IN CANADA

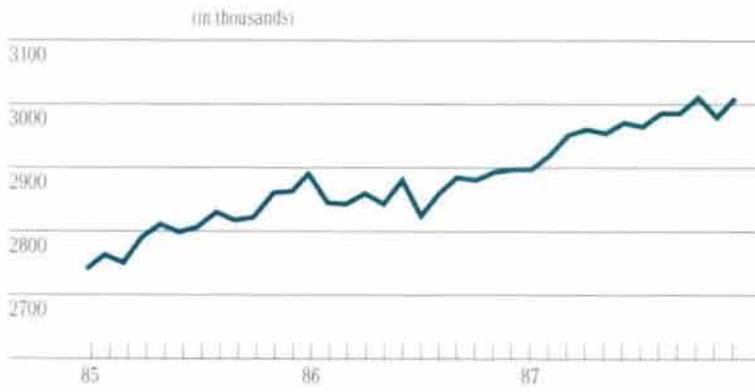
(percentage change over previous quarter annualized)



Source: Conference Board of Canada

### 3

### EMPLOYMENT IN QUÉBEC



Source:  
Conference  
Board of Canada

reflection of its diversified industrial segment, a favourable international climate for natural resources or the fact that Québec has a low percentage of the weakest industries (such as automobiles, grain and oil), but it was also due to Québec's aggressive business community and the high level of confidence prevailing over the past few years.

#### THE QUÉBEC ECONOMY

Québec's growth rate was well above the national average. All available economic indicators show a higher level of employment, manufacturing shipments, retail sales and investment spending. The most remarkable result was for housing starts which reached an all-time provincial high.

The good relative performance of the Québec economy was not only a

In their everyday life, most Quebecers participate in several ways in the growth of the Caisse's assets. Through their contributions to the Régime des rentes du Québec or to various public pension or insurance plans and the purchase of drivers' licences, over 3,900,000 Québec citizens contribute to the various funds under management.



Deposits from  
3,900,000  
Quebecers

# DEPOSITORS' FUNDS

## TOTAL FUNDS

As at December 31, 1987, the market value of depositors' holdings with the Caisse reached \$28.8 billion, an increase of \$0.8 billion during the year. The book value of these holdings totalled \$27.3 billion, up \$2.4 billion over 1986 as a result of the partial reinvestment of income which amounted to \$2.9 billion. However, net withdrawals of \$465 million were recorded. In this regard, net contributions of \$351 million made by some depositors did not entirely offset the effect of withdrawals totalling \$816 million made by others, including \$673 million by the Régie des rentes du Québec alone.

The Caisse is entrusted with the funds contributed to various public pension funds and insurance plans by over 3.9 million Quebecers, under legislation adopted by the National Assembly.

While the administration of these plans is assumed by the organizations concerned, the Caisse has the legal responsibility and the mandate to oversee the investment, protection and growth of their respective assets. The Caisse receives funds in the form of demand, term or participation deposits, at the depositor's option. Demand and term deposits constitute indebtedness towards depositors and bear interest. Participation deposits give the holder a share in the net equity and net income of a particular Fund. Their value varies according to the value of the Fund to which they are allocated.

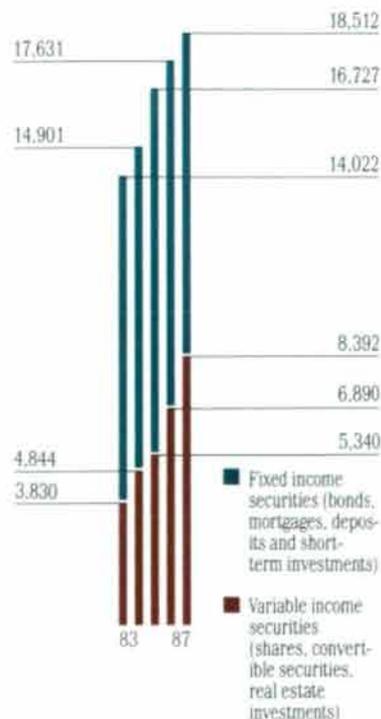
The Caisse has nine Funds: the General Fund and eight Individual Funds. The General Fund is a pooled fund which includes several depositors, while each Individual Fund has only one. Of its eleven depositors, seven accumulate reserves to meet future commitments and the other four entrust the Caisse with liquid assets.

The Caisse meets periodically with its depositors in order to be better informed of their needs and to update them on results obtained.

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## EVOLUTION OF INVESTMENTS

as at December 31  
(at book value -  
in millions  
of dollars)





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### DEPOSITORS

as at December 31, 1987  
(at market value – in millions of dollars)

	Abbreviation	First deposit	Number of contributors <sup>1</sup>	Depositors' holdings
Régie des rentes du Québec	R.R.Q.	1966	2,900,000	13,499.8
Commission administrative des régimes de retraite et d'assurances	CARRA			
Government and Public Employees Retirement Plan	RREGOP	1973	375,000	6,834.7
General Retirement Plan for Mayors and Councillors of Municipalities		1975	680	19.6
Individual plans		1977	125	28.7
Régie de l'assurance automobile du Québec	RAAQ	1978	3,900,000	4,050.9
Commission de la santé et de la sécurité du travail	C.S.S.T.	1973	165,534	2,235.8
Commission de la construction du Québec	C.C.Q.			
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	105,000	2,099.8
Fonds d'assurance-prêts agricoles et forestiers	FAPAF	1978	1,451	10.7
Régie des assurances agricoles du Québec		1968	40,900	7.1
Régie des marchés agricoles du Québec		1967	69	1.5
Régie de l'assurance-dépôts du Québec		1969	1,422	10.6

<sup>1</sup> estimate.

#### GENERAL FUND

##### Régie des rentes du Québec (R.R.Q.)

The principal depositor to the Caisse's General Fund, the R.R.Q., manages the universal pension plan for Quebecers, created in 1965.

Despite an increase in its holdings of \$684 million at book value during the year, the Régie des rentes du Québec had to withdraw \$673 million from its \$1,357 million in income to meet current requirements during the year. In 1986, \$556 million was withdrawn. At year-end, its holdings deposited with the Caisse, standing at \$13.5 billion at market value, accounted for 46.9% of total depositors' holdings. As a result of the 0.2% per annum increase in contributions implemented in 1987 for a five-year period, the contribution rate for 1988 will rise from 3.8% to 4% of contributory earnings. This increase will slow down the rate of withdrawals expected to be made by the Régie during future years.

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**BREAKDOWN OF THE FUNDS' ASSETS  
ACCORDING TO TYPE OF INVESTMENT**

as at December 31, 1987  
(in millions of dollars)

	At book value				At market value	
	General Fund <sup>1</sup>	Individual Funds	Total	% of total	Net change	Total
<b>Investments</b>						
Bonds	10,745.5	4,828.9	15,574.4	56.9	850.0	15,706.8
Mortgages	647.0	1,120.3	1,767.3	6.4	261.5	1,752.1
Shares and convertible securities	4,131.5	3,811.3	7,942.8	29.0	1,401.0	9,166.0
Real estate investments	259.6	189.9	449.5	1.6	101.7	564.1
Short-term investments	704.9	433.5	1,138.4	4.2	(210.8)	1,139.0
Deposits in the General Fund	—	31.6	31.6	0.1	(20.5)	31.6
	16,488.5	10,415.5	26,904.0	98.2	2,382.9	28,359.6
<b>Other assets</b>	326.8	163.4	490.2	1.8	17.3	490.2
<b>1987</b>	<b>16,815.3</b>	<b>10,578.9</b>	<b>27,394.2</b>	<b>100.0</b>	<b>2,400.2</b>	<b>28,849.8</b>
1986	15,686.7	9,307.3	24,994.0	100.0	2,492.1	28,001.6
<b>Net change</b>	<b>1,128.6</b>	<b>1,271.6</b>	<b>2,400.2</b>	<b>—</b>	<b>—</b>	<b>848.2</b>

<sup>1</sup>The assets of the General Fund have been reduced by total demand deposits of the Individual Funds and accrued interest.

**Régie de l'assurance automobile du Québec (RAAQ)**

The RAAQ, formed in 1977, is the second largest depositor to the General Fund. It manages the general plan which provides insurance against injuries caused by traffic accidents. Premiums are levied yearly to allow benefits to be paid out to victims. As provided by law, the Régie must entrust the funds

received from insured participants to the Caisse. As at December 31, 1987, the market value of the Régie de l'assurance automobile du Québec's holdings reached \$4.1 billion, or \$3.8 billion at book value. The increase in book value of \$431 million over the previous year is due to income of \$397 million and \$34 million in new contributions. The plan represents 14.1% of total depositors' holdings with the Caisse and 22.8% of the General Fund at market value.

**Fonds d'assurance-prêts agricoles et forestiers (FAPAF)**

The FAPAF is also one of the unitholders in the General Fund. It maintains a minimum reserve of \$10 million as collateral for the loans it secures.

**Other Depositors**

The Régie des assurances agricoles du Québec, the Régie de l'assurance-dépôts du Québec and the Régie des marchés agricoles du Québec are not included among the unitholders in the General Fund. However, they entrust the Caisse with liquid assets in the form of demand or term deposits totalling \$19 million.

**INDIVIDUAL FUNDS  
Government and Public Employees  
(RREGOP)**

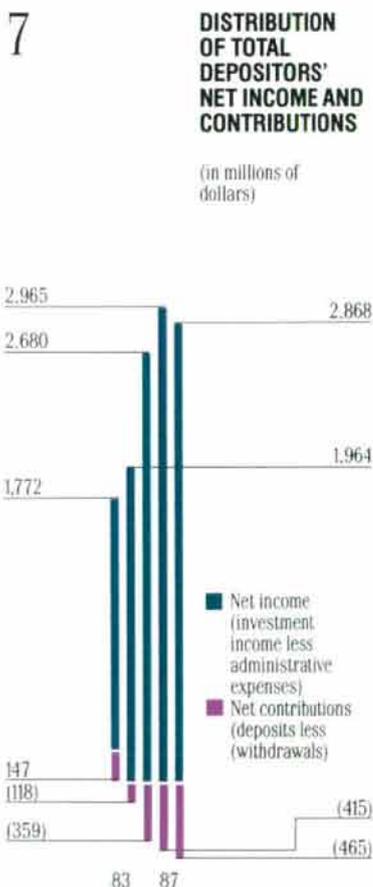
The Government and Public Employees Retirement Plan was set up in 1973 for public sector employees including civil

servants as well as employees of the education and social affairs sectors. It is managed by the Commission administrative des régimes de retraite et d'assurances (CARRA). Since its creation, the plan has accumulated \$6.4 billion, representing 23% of the total holdings of the Caisse's depositors and making the RREGOP the second largest depositor with the Caisse. At market value, this amounts to \$6.8 billion, or 24% of depositors' holdings. During 1987, the plan's holdings increased by \$920 million at book value, of which \$233 million arose from new contributions and the balance from reinvested income. The RREGOP, the plan which brings in the largest amount of contributions to the Caisse, features two accounts: one for unionized employees and another for non-unionized employees. The respective holdings of these accounts are included in Individual Funds 301 and 302.

**Commission de la construction  
du Québec (C.C.Q.)**

The Caisse also manages the holdings of certain other supplemental pension plans, including the plan for employees of the construction industry. The type of benefits paid out by this plan and the source of contributions which characterize it make it rather special. As at December 31, this plan's assets totalled \$2.1 billion at market value, allocated among three accounts: the active participants' account (Fund 311 – which includes all non-retired employees), the retired participants' account (Fund 312 – which includes all retired employees of the industry) and the additional contributions account (Fund 313 – which includes non-retired employees who pay additional contributions). During the year, a \$265 million increase was recorded for the plan, based on contributions of \$68 million and income of \$197 million.

With an increase in the contribution rate to the basic plan for employees and employers (Fund 311) up from \$1 to \$1.45 per hour of work in 1987, the



**Mayors and Councillors of Municipalities and Individual Plans**  
CARRA also administers other plans, including those mentioned above. Assets are invested in Individual Funds 304 and 303 and total \$19.6 and \$28.7 million respectively, at market value.

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**BREAKDOWN OF TOTAL DEPOSITORS' HOLDINGS**  
as at December 31  
(at market value - in percentage)

	1987	1986	1985	1984	1983
Régie des rentes du Québec	46.9	48.5	49.6	50.9	51.9
Commission administrative des régimes de retraite et d'assurances	23.9	22.7	21.7	20.3	19.5
Régie de l'assurance automobile du Québec	14.1	13.7	13.2	12.2	11.1
Commission de la santé et de la sécurité du travail	7.8	8.2	8.7	9.5	10.1
Commission de la construction du Québec and other depositors	7.3	6.9	6.8	7.1	7.4

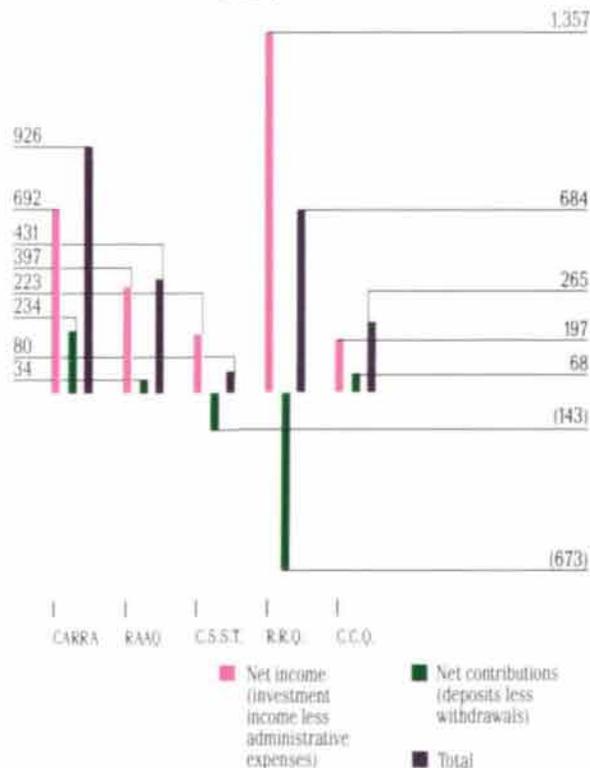
Commission will now be able to bring in new funds and consequently reverse the withdrawal situation which prevailed from 1983 to 1986.

**Commission de la santé et de la sécurité du travail (C.S.S.T.)**  
Since 1973, the C.S.S.T. has entrusted to the Caisse the funds it accumulates to meet workmen's compensation and occupational illness benefits it is required to pay. The Commission receives contributions from all employers for insurance against accidents occurring in their sector of activity. As at December 31, 1987, the C.S.S.T. had assets of \$2.2 billion at market value, representing close to 7.8% of total depositors' holdings. The Commission's holdings at book value increased by \$80 million despite withdrawals of \$143 million from income of \$223 million. Changes made to the plan have limited the growth of these holdings, but increases in contribution rates from \$2.05 to \$2.50 in 1987 and \$2.50 to \$2.75 in 1988 will help to partially offset this trend.

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**DISTRIBUTION OF EACH DEPOSITOR'S NET INCOME AND CONTRIBUTIONS IN 1987**

(in millions of dollars)



In allocating assets, the Caisse strives to achieve a good balance between the various levels of risk associated with each type of investment vehicle on the various markets, investing in the short, medium or long term with a view to meeting its objectives of yielding a profit and promoting Québec's economic development.

This asset mix depends on a number of parameters, including the economic situation, which is one of the most important factors.





Returns  
above  
inflation

# ASSET MIX

To obtain a maximum return on investments, the fund manager must make three major decisions. The first consists of determining in the long term and for each plan he manages, the desirable proportion of shares, bonds, mortgages and real estate as well as

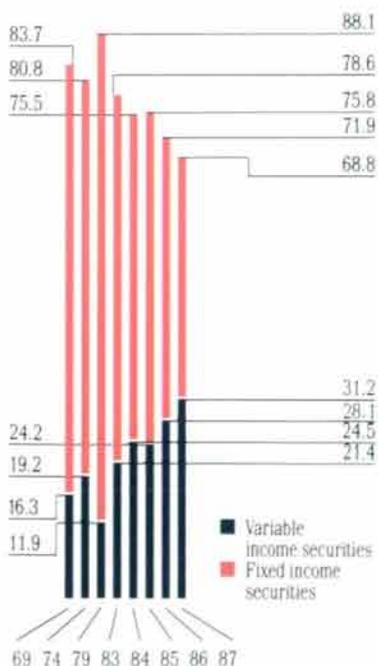
other types of investment vehicles. The portfolio must take into account the particular aspects of the various plans under management and their needs for liquid assets, while complying with the Caisse's mandate to achieve profitability and encourage Québec's economic development. This is what we call the Caisse's investment policy.

The second decision consists of increasing or reducing the percentage of shares, bonds or other assets according to returns anticipated in the shorter term. This investment strategy is periodically revised to keep abreast of economic forecasts. The last step is the individual management of each type of investment, the selection of segments and securities, as well as the determination of maturities, etc.

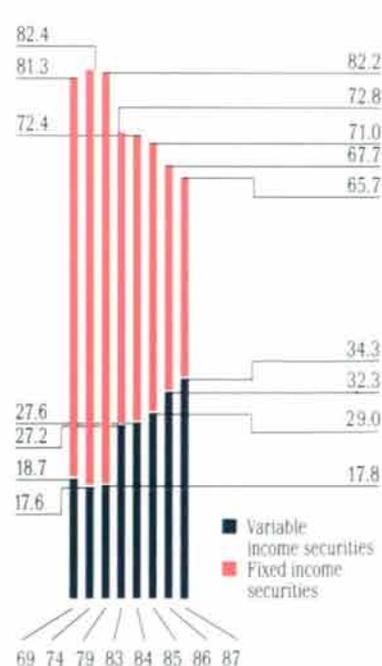
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## EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT

as at December 31  
(at book value -  
in percentage)



(at market value -  
in percentage)



**SUMMARY  
OF OPERATIONS IN 1987**

(in millions of dollars)

	January 1 to October 16	October 16 to December 31
Bonds	1,265.9	406.1
Mortgages	364.9	179.1
Canadian equities	(231.3)	712.7
Corporate investments		
small and medium-sized businesses	40.9	15.9
large businesses	—	(40.0)
Foreign equities	205.6	8.8
Real estate investments	92.9	10.0

1987 offers a good example of how important it is to have an investment strategy which allocates funds among the various types of investments.

The year can easily be divided into two periods: before and after the October 19 stock market correction. Table 11 shows that during the months which preceded the correction, our Canadian stock market portfolio managers recorded net sales of over \$230 million. Subsequently, the positioning of the Canadian equities portfolio was restructured and over \$700 million was reinvested in Canadian securities during the last two months of the year.

Moreover, the Caisse accumulated considerable amounts of bonds during the period which preceded October 19, as their rates seemed unusually high. It also granted the largest amount of mortgages of its existence. Finally, the geographic distribution of stock market investments was continued in order to reduce the overall risk of portfolios.

**RETURN**

Table 12 shows the internal rate of return obtained on total depositors' holdings for the year just ended, for the inflation rate slowdown period of 1982 to 1987 and for the last ten years.

It also indicates the time-weighted rate of return for each type of investment, which helps evaluate the fund manager's contribution to the growth of funds. This does not take into account the timing variable for the receipt of deposits over which the fund manager has no influence.

**INTERNAL RETURN**

The Caisse obtained a 4.7% internal rate of return for total funds under its administration in 1987, which, in spite of the difficult period, was 0.5% higher than the inflation rate.

## 12

## RETURN

(at market value – in percentage)

	Compound average annual rate for the period		
	1987	1982-1987	1978-1987
<b>Internal rate of return</b>			
Total depositors' holdings	4.7	16.9	12.8
<b>Time-weighted rate of return</b>			
Financial assets			
Bonds	4.2	18.8	11.8
Mortgages	9.3	15.6	11.8
Canadian equities	4.6	13.6	15.8
Foreign equities	(0.5)	20.8 <sup>1</sup>	–
Real estate investments	14.5	14.4 <sup>2</sup>	–
Short-term investments	9.1	–	–

<sup>1</sup>Based on the last four years, when the foreign equities portfolio was created.<sup>2</sup>Based on the last three years, when the specific real estate investments portfolio was created.RETURN  
OF FINANCIAL  
INDICES

	1987	1982-1987	1978-1987
<b>Indices</b>			
MYW Bond – Medium Term	3.89	16.15	–
MYW Mortgage	8.73	15.28	11.91
TSE 300	5.88	12.37	16.01
C.I.P. World Stocks	10.18	24.74	20.94
MYW Commercial papers (30 days)	8.53	10.85	11.96

Over a longer span however, which is in fact a more adequate way to truly gauge a pension or insurance plan's management, the internal rate of return during the inflation rate slowdown cycle which has been prevailing for the last six years was 16.9%, representing an 11.9% positive return differential compared with an average inflation rate of 5% for the same period. Over a ten-year period, the 12.8% return represents a 5.7% positive return differential.

## TIME-WEIGHTED RETURN

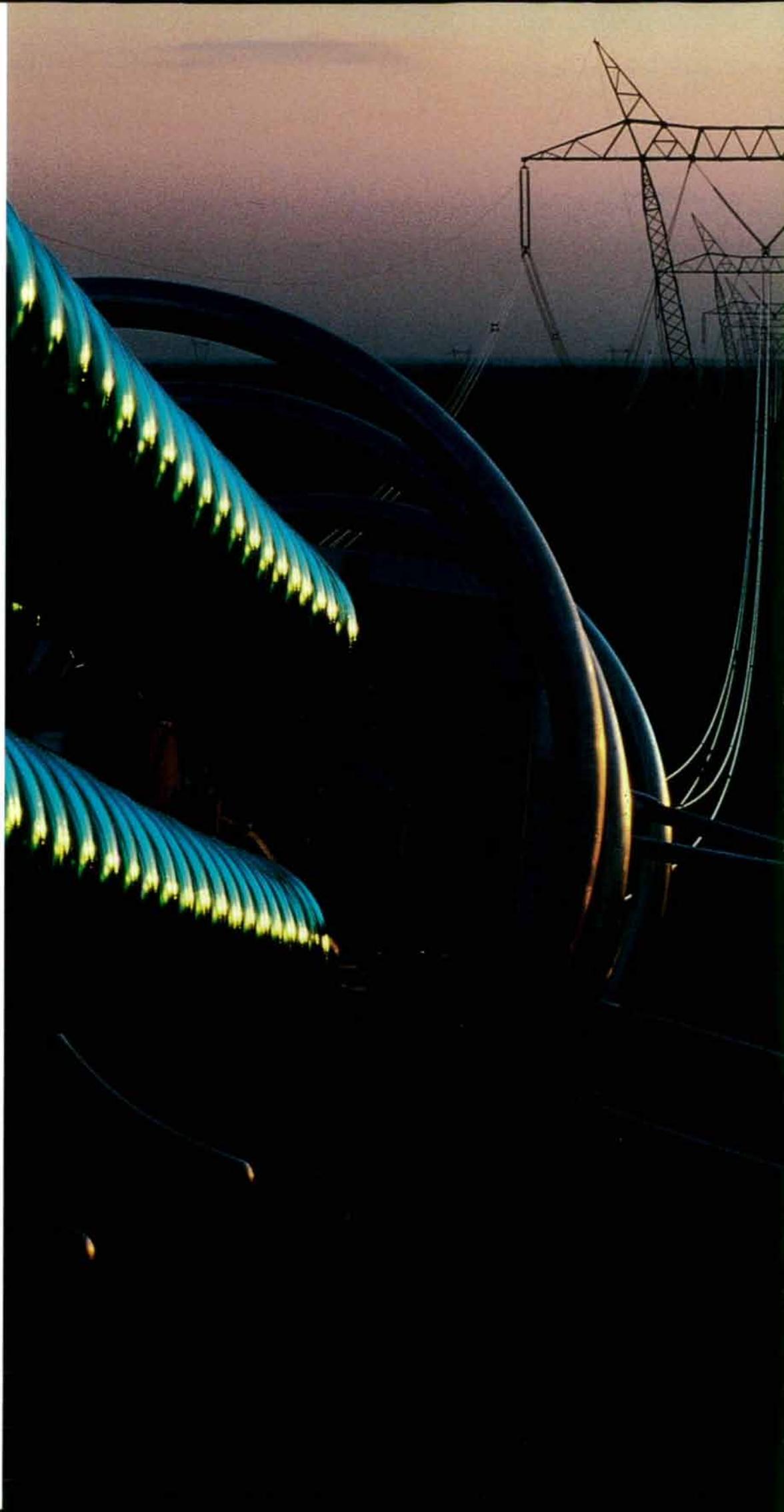
The bond portfolio yielded a return of 4.2%, which is 30 basis points higher than the McLeod, Young, Weir (MYW) medium-term index. But returns for 1987 did not exceed those of market indices in all categories of investment. For Canadian equity investments, a 4.6% return was recorded, compared with 5.88% for the TSE 300 index. Foreign equity investments yielded a rate of return of –0.5%. The total cumulative annualized return obtained from the time the portfolio was set up four years ago reached 20.8%. This performance is 12.1% higher than that recorded by the Canadian equities portfolio over the same period.

As for the money market investments portfolio, it yielded a 9.12% return, compared with 8.53% for the MYW 30-day commercial papers index.

The mortgage portfolio's 9.3% return compares favourably with 8.7% for the MYW mortgage index.

Finally, the specific real estate investments portfolio generated a very satisfactory 14.5% return.

The public and para-public sectors, including the government, government corporations such as Hydro-Québec, school boards, cegeps and universities, as well as municipalities and health care establishments, issue quality bonds to fund a portion of their requirements. Purchases made by the Caisse in these sectors during 1987 amounted to over \$1 billion. Through its activity, the Caisse contributes to maintaining a quality secondary market for this type of investment.





Participating in  
a quality  
market

# FIXED INCOME SECURITIES

## SITUATION

The strong economic performance and greater inflationary expectations in Canada, as well as the United States, caused interest rates to fluctuate mostly upwards during the year.

The yield on long-term gouvernement du Québec bonds rose by 270 basis points from the beginning of the year until just before the stock market collapse, from 9.65% in early January to 12.35% by mid-October. This progressive increase was followed by a drop of 160 basis points in just a few days. The bond yield then started climbing again, closing at 11.20% as the year ended.

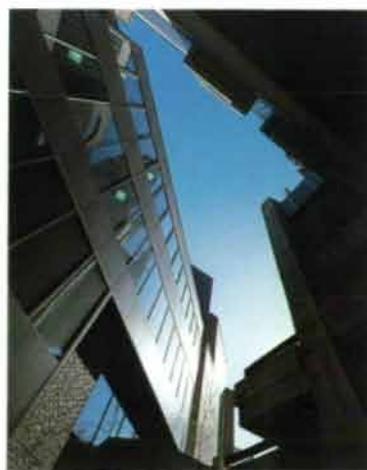
The management of bond investment portfolios requires constant and careful attention to economic fluctuations. Furthermore, the globalization of markets is increasingly affecting Canadian bond markets, which partially explains their greater volatility.

## BOND INVESTMENTS

A large portion of the Caisse's annual bond investment program focuses on high quality issues such as gouvernement du Québec and many other public sector issues that are guaranteed by the gouvernement du Québec.

The Institution also contributes to maintaining a quality secondary market for securities issued or guaranteed by the gouvernement du Québec. As it is constantly active in this market and holds a large portfolio of bonds of this nature, the Caisse can ensure that the level of liquidity is sufficient to meet supply and demand.

The bond portfolio's profitability mainly depends on the overall management of the duration factor as a means of measuring the risk associated with bond investments. This is achieved with high liquidity securities and by controlling the impact of interest rate variations. As regards the overall fixed income securities portfolio, interest rate management therefore principally consists of establishing and controlling the global level of risk desired in relation to these rates, and of taking advantage of market opportunities to optimize the return.



**SUMMARY OF BOND AND MORTGAGE PORTFOLIOS  
ACCORDING TO ISSUERS**

as at December 31, 1987

Securities	At market value		Average nominal rate (%)	Average maturity (years)	Modified duration (volatility)
	(in millions of dollars)	(%)			
<b>Permanent investment basis</b>					
Issued by the					
gouvernement du Québec	8,507.2	48.7	11.08	9.47	5.06
Government guaranteed	2,263.4	13.0	10.19	9.73	5.06
Guaranteed by grants	699.9	4.0	11.13	5.40	3.63
Municipalities and school boards	1,146.5	6.6	11.09	5.49	3.56
Corporate and other	210.1	1.2	11.32	4.59	2.80
Mortgages	1,752.1	10.0	10.91	4.84	3.02
<b>Temporary investment basis</b>					
Government issued or guaranteed					
Canada	1,232.1	7.1	9.94	8.95	5.09
United States	1,457.2	8.3	6.94	9.07	6.83
Others	190.4	1.1	9.75	11.12	2.68
<b>Total</b>	<b>17,458.9</b>	<b>100.0</b>	<b>10.47</b>	<b>8.51</b>	<b>4.80</b>

The bond portfolio includes a majority of securities held on a permanent investment basis and a minority of securities acquired on a temporary basis. The Caisse is active on the U.S. and Canadian bond markets as it pursues its operational investment policy whose objective is to acquire and manage on an active trading basis very high liquidity securities of approximately 15% of fixed income investments in order to protect the overall flexibility of the bond portfolio. At the end of 1987, those securities reached 16.5% of total bond and mortgage investments.

Bond purchases from the gouvernement du Québec, Hydro-Québec and other government corporations on the primary market aggregated \$1 billion in 1987. Acquisitions of new municipal bond issues and of issues guaranteed by grants totalled \$172 million.

As at December 31, 1987, the market value of bond investments in the Caisse's portfolio was \$15.7 billion, while the average maturity totalled 8.9 years, the average coupon was 10.42% and the modified duration was five years.

Total bond investments provided a 4.2% rate of return in 1987.

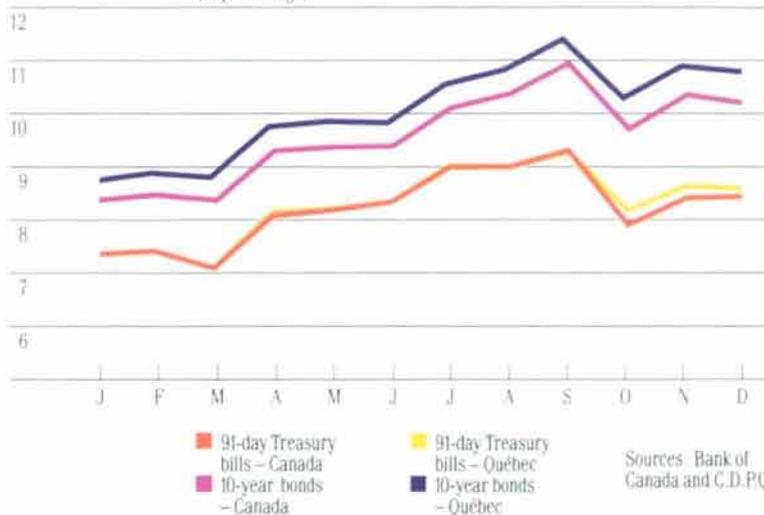
**SUMMARY OF ACQUISITIONS OF NEW BONDS  
ISSUED BY THE GOUVERNEMENT DU QUÉBEC  
AND QUÉBEC PUBLIC SECTOR IN 1987**

(at par value - in millions of dollars)

	Amounts of issues			Acquisitions by the Caisse on the Canadian market	
	Canadian market	Other markets	Total	Amount	(%)
<b>Gouvernement du Québec</b>					
Regular issue	1,476.7	737.0	2,213.7		
Refunding	-	627.9	627.9		
	1,476.7	1,364.9	2,841.6	900.0	60.95
<b>Hydro-Québec and other government corporations</b>					
Regular issue	1,075.6	1,447.0	2,522.6		
Refunding	427.0	415.4	842.4		
	1,502.6	1,862.4	3,365.0	100.0	6.66
<b>Municipalities and guaranteed by grants</b>					
Regular issue	1,861.7	599.6	2,461.3	172.2	9.25
<b>Total</b>	<b>4,841.0</b>	<b>3,826.9</b>	<b>8,667.9</b>	<b>1,172.2</b>	<b>24.20</b>

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**EVOLUTION  
OF YIELD  
IN 1987**  
(in percentage)



Mortgage rates remained relatively low during the first three months of the year and began rising moderately afterwards. The rise continued throughout the last nine months but rates were still maintained at an acceptable level for lenders as well as consumers.

All of the above factors contributed to intense activity for mortgage lenders. This intense activity was favourable for borrowers in terms of interest rates and loan amounts. As in previous years, this phenomenon was accentuated by the large availability of funds for this market.

#### MORTGAGE INVESTMENTS

Home buyers, investors and business people, motivated by the economy's strength and good performance, were very active in real estate markets during 1987. Moreover, sales volumes and housing prices rose substantially. In addition, commercial real estate activity picked up considerably, particularly in Montréal. Confidence continued to be high among developers and the leasing of office, commercial, and especially retail, as well as industrial space was most vigorous.

Concerned with interest rate fluctuations and the high level of stock markets, the Caisse decided to allocate the highest amount ever to its mortgage investment operations in 1987. A new record was consequently established as total mortgage loans aggregated \$520 million, divided among the residential, commercial and industrial sectors.

The Caisse continued to favour new construction projects and ensure that its loans were available across Québec. Major investments were made during the year, including Place du Royaume in Chicoutimi, Mail Champlain in Brossard and Les Promenades de la Cathédrale in Montréal.

#### MONEY MARKET INVESTMENTS

Money market interest rates fell gradually from the beginning of the year until April, reaching slightly more than 7% for 91-day Canada Treasury bills. A progressive increase then followed, as a result of the Bank of Canada's tighter monetary policy. Rates had reached 9.6% at the time of the stock market correction, then dropped sharply by 200 basis points and rallied again, although the increase was moderate during the last quarter.

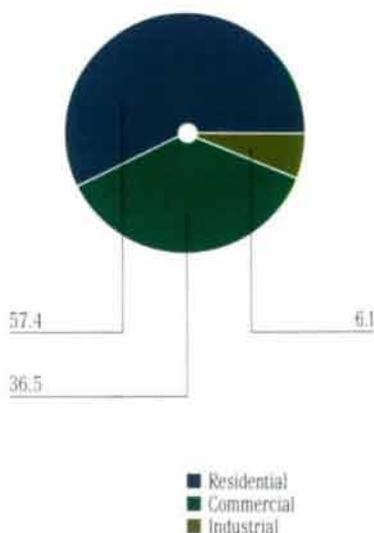
A major portion of the Caisse's mortgage investments in the residential sector was made through four representatives: Fiducie du Québec, Fiducie Prêt et Revenu, Sherbrooke Trust and Trust Général du Canada. With their business network and various branches, these trust companies are better placed to serve this market.

The development of the Caisse's money market operations is based on two objectives: meeting needs for liquid assets and generating stable investment income.

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#### BREAKDOWN OF MORTGAGE INVESTMENTS

as at December 31, 1987  
(at market value -  
in percentage)



The Caisse's mortgage investments portfolio amounted to \$1.75 billion at market value at year-end, representing 6% of the Institution's overall portfolio. The Caisse is therefore considered a major intermediary in the mortgage loan business. The breakdown of these investments was as follows: residential sector, 57.4%, commercial sector, 36.5% and industrial sector, 6.1%.

Also, as at December 31, 1987, the average interest rate for mortgage loans was 11%, while the average maturity was 4.8 years. During the year, the Caisse's total mortgage investments yielded a 9.3% return.

First, the management of the needs for liquid assets obeys variations in the cash flow and consists of keeping a good balance between inflows and outflows of capital. Using daily forecasts, portfolio managers try to match the inflows and outflows of the various assets and liabilities with needs for liquid assets. These operations are intended to hedge needs for liquid assets without taking unnecessary risks regarding interest rate fluctuations.

Second, earning stable investment income from its short-term investments is also one of the Caisse's overall investment strategy objectives. In fact, money market investments offer minimum credit risk. They also provide a stable return that is sometimes also quite attractive, as was the case in 1987. Money market investment portfolios accordingly include high quality securities offering a minimum credit risk. Québec and Canada Treasury bills account for almost 70% of the Caisse's overall money market portfolio structure and carry no risk. They are also highly liquid, which means that they can be readily cashed in because of frequent government issuances and the large volumes available on the markets.

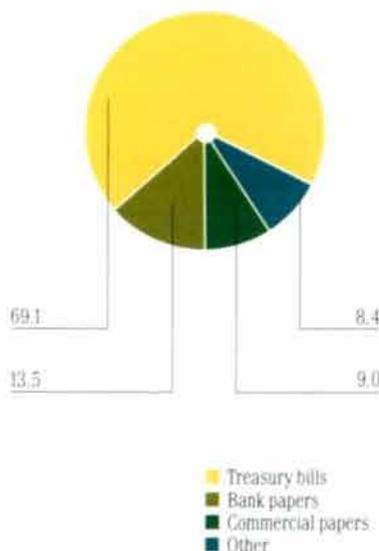
Moreover, aggressive management of money market investments also results in increased returns on these investments, as portfolio managers make the necessary adjustments to meet objectives and adapt to the market situation by modifying various parameters including liquidity, maturity and the structure of the portfolios according to issuers.

Total money market investments in the Caisse's portfolio yielded a 9.12% return in 1987 and reached \$1.2 billion at par value as at December 31, while the average maturity was 93 days.

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**BREAKDOWN OF SHORT-TERM INVESTMENTS**

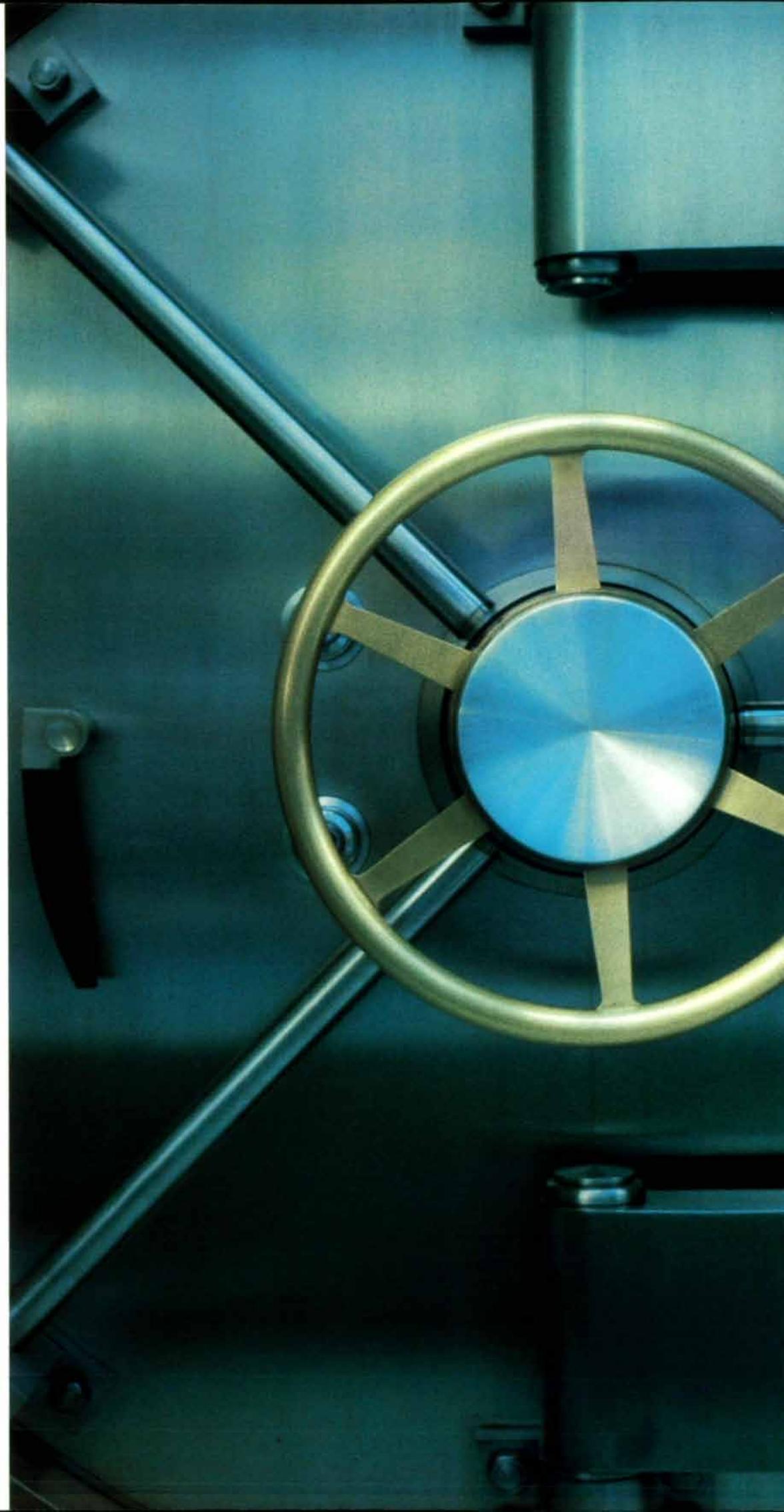
as at December 31, 1987  
(at par value -  
in percentage)



Also during 1987, the Caisse invested in securities of Québec issuers and its strong activity in this sector indicates how appealing these issues are.

In its foreign exchange activities, the Caisse, due to the increasing internationalization of its operations, took the necessary protective measures such as hedging its short-term foreign exchange risk. The aggressive management of hedging operations also allows the Institution to earn a premium in addition to the return provided by its portfolios.

Stock markets fluctuated widely during the last quarter of 1987 and the severe 3rd-Monday-of-October correction was the climax. Despite this situation, the total rate of return on investments was positive and above inflation. Strategies implemented permitted to limit the overall risk associated with the Canadian stocks portfolio and to protect the underlying capital.



Positive  
results  
despite an  
unstable  
stock market

# VARIABLE INCOME SECURITIES

## SITUATION

During the first part of 1987, major world markets recorded excellent results. Falling long-term interest rates in West Germany as well as Japan, substantially higher profit expectations and the abundance of liquid funds were the principal reasons for the generalized euphoria.

The rise in interest rates which followed and the dropping U.S. dollar, resulting from the slowness of the improvement of the U.S. budget and trade deficits as well as the very high valuation levels of leading markets, caused a major and particularly steep correction, marked by the October 19 downturn.

The Tokyo Stock Exchange posted the highest return, in local currency, followed by North American stock exchanges which managed, despite the difficult circumstances, to show slight gains over 1986 year-end results.

On the Canadian market, cyclical components performed particularly well, spurred by the increase in gold prices and most other metals and forest products, as well as a general increase in the profitability of the manufacturing sector. The consumer goods sector, however, suffered from stronger competition and lower consumer spending while the financial sector was affected by continuing problems associated with loans to developing countries.

## RETURN

In 1987, the Caisse's Canadian equities portfolio yielded a 4.6% return, including dividends.

Since the beginning of the current economic and stock market cycle over six years ago, Canadian equity investments have provided a total annualized return of 13.6%.

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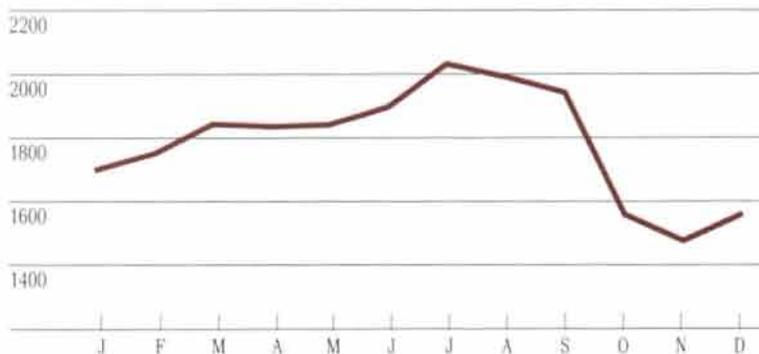
## STOCK MARKET INDICES

(growth in percentage)

Indices	Location	1987	1982-1987
XXM	Montréal	3.35	68.16
TSE 300	Toronto	3.06	61.71
Standard & Poors' 500	United States	2.03	101.62
CommerzBank	Germany	(36.49)	92.49
F.T. Industrials 100	England	2.01	150.28
Nikkei Dow Jones	Japan	14.58	180.71

In local currencies, excluding dividends.

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**XXM INDEX  
IN 1987**

XXM: Montréal

The foreign equities portfolio recorded an overall return of -0.5% in 1987. This performance is mostly the result of the prudent and conservative strategy which was pursued by our portfolio managers and outside managers, which included, among other characteristics, an underweighting of Japanese investments.

**CANADIAN EQUITIES**

The market value of the Caisse's Canadian equities portfolio totalled \$7.959 million at the end of 1987, an increase of some \$507 million over the previous year.

Various methods are used in managing this portfolio, each with its own objectives and characteristics and contributing, on the whole, to meeting the Caisse's objectives of obtaining maximum return from its investments and encouraging Québec's economic development.

At the end of 1987, regularly traded shares on the stock market, representing 80% of total Canadian equities included in this portfolio, were grouped according to three types of management. The first is based on a selection of sectors according

to stock market cycle fluctuations (\$4.792 million), the second is based on a selection of stocks included in each stock market sector (\$1.035 million) and the third, mainly involving highly liquid securities, is based on efficient changes in the asset mix (\$518 million). The remaining 20% of the total Canadian equities portfolio was made up of corporate investments.

The overall structure of this portfolio has become increasingly defensive and allowed the Caisse to pull through last October's correction, without equalling market performance, however, over the entire year.

#### **PRIVATE AND CORPORATE INVESTMENTS**

The Caisse's corporate investments favour the development of Québec companies or Canadian companies operating in Québec, which are already or are becoming leaders in their respective business segments. These investments consist of large ownership interests in the common share capital of each company, without exceeding 30% however. They are usually concluded in close cooperation with the company's management and major shareholders. The Caisse generally seeks representation on the company's board of directors proportionally with its investment.

Despite a particularly volatile market, the corporate investments portfolio pertaining to large companies brought \$220 million in investments in twelve companies during 1987 and sales of investments amounting to \$200 million. These partnership associations were concluded to help fund expansion or acquisition projects contemplated by companies such as CDC Life Sciences, Memotec Data and Sceptre Resources through additional share capital subscriptions. The Caisse also took advantage of the strong market situation which prevailed before the stock market correction to reduce its interest in matured investments.

As at December 31, 1987, the market value of this portfolio totalled \$1.470 million and included investments in 31 companies operating in 10 of the 14 stock market sectors.

Since the year-end, the Caisse has decided to offer private financing in addition to its corporate investments respecting large businesses. This type of investment, which is aimed at providing domestic commercial companies with tailor-made financing, will translate into a better diversification of the portfolio and help generate higher returns than for the overall market in the medium and long terms.

#### **MEDIUM-SIZED BUSINESSES**

One of the most remarkable features of 1987 was certainly the great difficulty for small and medium-sized businesses to gain access to one of the most popular sources of capital offered during the past few years. Indeed, public financing under the Québec Stock Savings Plan (QSSP) was disrupted despite the generally favourable economic climate which continued to prevail for new investments. Consequently, a number of companies contemplating major expansion or acquisition projects were forced to rely on other sources of capital to complete their financing programs.

Since 1981, the Caisse has been active in supporting the funding requirements of Québec medium-sized businesses that are profitable and offer sustained growth potential. This type of financing, which consists of acquiring share capital or debentures in a given company, has proven to be a good alternative to public financing, permitting the Caisse to extend its support in 1987 to investments of some \$81 million in 40 Québec enterprises, including 15 located in various regions of the province.

Of this number, 24 investments consisted of private financing, aggregating \$73 million, while a total of 34 financing offers were concluded. This amount includes two financing offers totalling \$3 million which were still under negotiation as at December 31, 1987. Furthermore, the Caisse allocated \$8 million to the purchase of shares of 16 medium-sized businesses listed on the stock exchange and took part in the first two QSSP issues made after October 19, involving Groupe Goyette in Saint-Hyacinthe and Cover Industries in Québec City.

The stock market situation in general, and particularly medium-sized businesses eligible for the QSSP, provided interesting investment opportunities during the last few months of 1987, especially for an institution like the Caisse whose investments are made with medium- and long-term objectives.

The Caisse took part in financing projects which generated over \$273 million in investments from the companies it was associated with. It is noteworthy that our Institution's investment in Financière Entraide-Coopérants brought together two major participants of the financial sector, with business operations throughout Québec.

In 1987, reimbursements of matured financings and redemptions totalled \$9 million. In addition, four investments of a market value of \$57 million as at December 31, 1986 were transferred to the corporate investments portfolio for large businesses.

At year-end, the portfolio of investments in small and medium-sized businesses had a market value of \$195 million and included 31 term loans, for commitments aggregating \$52 million, as well as 67 investments in the form of equity or convertible debentures, amounting to \$143 million. Furthermore, the disbursement of a total of \$15 million earmarked for investments was still pending.

### EVOLUTION OF FOREIGN EQUITY PORTFOLIO IN COMPARISON WITH MARKETS

(in Canadian dollars)



#### FOREIGN EQUITIES

World trade developments have led to the globalization of the market for goods and services. Moreover, the fact that macroeconomic policies at the world level have been diverging for several years has resulted in budget surpluses in certain areas and deficits in others, causing major exchange and interest rate fluctuations and massive inflows and outflows of capital between countries. This phenomenon was accentuated by telecommunications developments, resulting in the speeding up and intensification of the volume of transactions as well as the increasing integration of financial markets.

In this perspective, the Caisse began investing in foreign equities a few years ago. This policy is a long-term one with the dual objective of yielding maximum return on investment, given the potential risk, by diversifying sources of income and of taking advantage of the international situation to develop a synergistic approach in the management of Canadian equity investments. The evolution of foreign equity investments stands as proof of this orientation. At the end of 1987, total investments of this nature amounted to CA \$1,228 million at market value, compared with \$1,022 million, \$410 million and \$148 million at the end of the three previous years.

The management of foreign equity investments, which was for the most part entrusted to outside managers, failed to meet expectations,

as they performed well below the corresponding market index. During the year, the role of these outside managers was reevaluated, resulting, among other things, in the Caisse setting up an internal management team for a major portion of its U.S. equity investment operations. At year-end, the market value of this U.S. equities portfolio under internal management reached \$256 million and generated a higher performance than that of the corresponding market index.



In view of their close relationship with the Canadian market and their high liquidity, U.S. shares are one of the most important areas in the overall management of foreign investments. These investments in U.S. shares are also managed in conjunction with Canadian operations as this permits the Caisse to implement better asset mix strategies and to benefit from opportunities offered by the increasing integration of Canadian and U.S. markets.

Consequently, a portion of the internally managed U.S. equities portfolio, representing \$122 million at market value, is associated with Canadian equity investments rather than international equity investments.

As at December 31, 1987, the geographic distribution of the foreign equities portfolio, excluding the \$122 million portion of the U.S. portfolio, was as follows: 39.3% in the U.S., 30.7% in Asia and 30% in Europe.

The foreign equities portfolio also includes corporate investments allowing long-term associations with foreign enterprises setting up businesses in Québec or expanding their operations here or with Québec enterprises with similar projects outside of Canada.

In 1987, investments in companies such as IN-COM, Pallas Group S.A. and an Asian venture capital fund were concluded as part of the Caisse's international corporate investments program.

#### REAL ESTATE INVESTMENTS

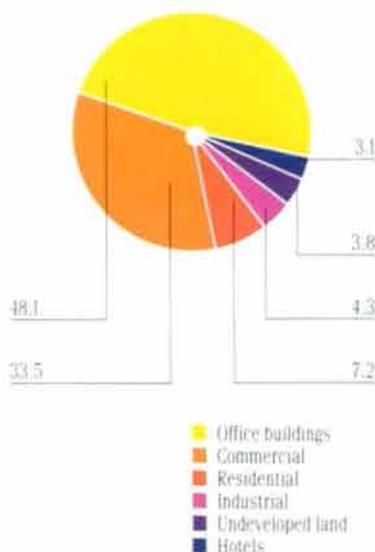
The Caisse's real estate investments portfolio increased by 25.8% in 1987. At year-end, real estate assets totalled \$529 million, compared with \$420 million in 1986, and had a market value of \$671 million. A total rate of return of 14.5% was recorded for this portfolio, including 8.01% in terms of current yield and a 6.49% increase in value.

In 1987, the sectorial diversification of investments was marked by the purchase of residential and commercial buildings and the divestment of an office building in downtown Montréal. As at December 31, 1987, the breakdown of real estate investments among the various sectors, at market value, was the following: office buildings, 48.1%, commercial, 33.5%, residential, 7.2%, industrial, 4.3%, hotels, 3.1%, and undeveloped land, 3.8%.

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**BREAKDOWN OF REAL ESTATE INVESTMENTS**

as at December 31, 1987  
(at market value -  
in percentage)



In addition, the Caisse developed its regional operations by acquiring a major residential complex in Québec City and interests in shopping centers located in Magog, Lac-Mégantic and Roberval. An agreement in principle was also concluded for the acquisition of four large shopping centers in the Saguenay, Lac-Saint-Jean and Lower Saint Lawrence regions with Westcliff. Les Coopérants and Société Immobilière Trans-Québec. The Caisse's real estate investments portfolio was also given a new dimension as a result of an interest acquired in Cadillac Fairview. This \$65 million investment ensures diversification on the Canadian and American markets.

The Caisse maintained its interest in real estate development projects in cooperation with several partners. In this endeavour, it associated with Montréal para-municipal organizations and Devencore in the acquisition of the city block bordered by Saint-Jacques, Saint-Antoine and Saint-Pierre Streets as well as McGill Street. It also participated in promoting the Montréal World Trade Center, a project valued at over \$100 million.

Moreover, the Mouvement Desjardins' pension fund joined the Caisse's other partners in Société Immobilière Trans-Québec. This company enjoyed continued growth and acquired industrial buildings in Montréal and Québec City

in addition to interests in regional shopping centers on behalf of a real estate fund it manages. The development of this company is based on its reputation as a specialized manager offering a high quality of service. The real estate assets it manages are now valued at over \$600 million.

As at December 31, 1987, the market value of real estate properties in which the Caisse had an interest exceeded \$1 billion. This valuation was confirmed by an external scientific appraisal which was performed in keeping with the Institution's policy to obtain a fair valuation of its real estate investments.

**Qualified and  
experienced  
human  
resources**

# ADMINISTRATION

## ADMINISTRATIVE EXPENSES

The Caisse's administrative expenses totalled \$17.4 million in 1987 and were allocated among the various Funds based on the market value of investments. Salaries and employee benefits remained the highest expenditure item of the year, representing 51.7% of total expenses. Other items included rent, totalling 11.7%, professional fees, 11.5%, depreciation of fixed assets, 7.1%, and other charges, 18%. Furthermore, expenses that are directly related to investment management services performed by other financial institutions were charged against the income generated by these investments as follows: \$3.4 million to the General Fund and \$2.6 million to the various Individual Funds.

## HUMAN RESOURCES

Regardless of the instability of employment in the financial sector and the resulting pressure exerted on all of our human resources, the Caisse successfully pursued its efforts to obtain the qualified and experienced resources needed to carry out its various investment programs.

These efforts, combined with employee training activities, have increased the quality of our team. Regardless of a considerable staff turnover situation, fund managers and investment specialists have, on the average, over 10 years of market-acquired experience each, which we are proud of considering the average for most companies engaged in this field. In addition, professional and management personnel as a whole have acquired an average of over 12 years of experience each, half of which was with our Institution.

## HEALTH

1987 also marks the coming into force of the Act respecting the protection of non-smokers in certain public places. The provisions of this act are gradually being implemented at the Caisse.

## INFORMATION SYSTEMS

During the year, the Caisse continued to upgrade the quality of its information systems.

The conversion program applying to all systems and information constituted a major activity following the replacement of the central computer. Furthermore, the step-by-step implementation of the new stock market information system was launched during the year.

The Caisse also pursued its micro-computer acquisition program in order to provide efficient work tools for its employees. A training program has been developed to help employees operate computer equipment efficiently and make appropriate use of software.



Almost all of the Caisse's employees now use office automation equipment which helps them to enter, process, interrogate or use the data they have access to. This equipment can be operated on an individual or centralized basis.

A security and emergency contingency plan was also set up. The first part of the plan has been completed and subsequent steps are being implemented to make sure that all information systems will be better protected.

#### COMMUNICATIONS

The Caisse developed a variety of new promotional tools in 1987 to support its institutional and marketing operations. They include a corporate brochure, a video and an exhibition booth. It also pursued its communications policy whereby it strives to provide more information on its operations than most financial institutions, while keeping in mind the private nature of negotiations leading to financial transactions.

In addition, the Caisse actively implemented its information program respecting medium-sized businesses. It published a quarterly bulletin, organized various business meetings, was associated in seminars and symposiums on corporate financing and gave interviews to the media. Furthermore, the Caisse continued to promote a series of conferences entitled "Entre partenaires". These conferences are intended for the executives of the companies in which the Caisse invests. They are held three or four times a year and topics such as strategic planning and the economic situation are discussed.

The Caisse also sponsored the Savings and Investments Marketplace again this year, the largest event of its kind in North America, and contributed to holding Network, the first world convention of fast-growing companies which gathered over 900 congressmen and women from some 50 countries, in Montréal.

In addition, the Caisse continued to publish *Cycles et tendances*, an analysis of economic trends and forecasts prepared by its team of economists. This increasingly popular publication is published twice a year in June and December and is available upon request.

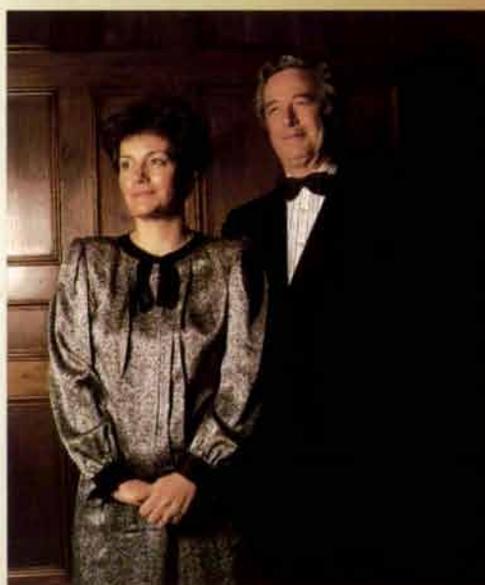
The Caisse's Board of Directors is representative of Québec's socio-economic structure. It includes representatives of employers, cooperatives and unions, as well as civil servants.

In the usual order, Claude Séguin, Gaston Pelletier, Benoît Morin, Jean Campeau, Claude Legault, Louis Laberge and Marcel Côté...



Gisèle Desrochers,  
Judge Richard Beaulieu...

Claude Béland and  
Pierre Péladeau.



## MEMBERS OF THE BOARD OF DIRECTORS

**Jean Campeau**  
Chairman of the Board and General Manager

**Claude Legault**  
President  
Régie des rentes du Québec

**Judge Richard Beaulieu**  
President  
Commission municipale du Québec

**Claude Béland**  
President  
La Confédération des caisses populaires  
et d'économie Desjardins du Québec

**Marcel Côté**  
Partner  
SECOR

**Gisèle Desrochers**  
Assistant Deputy Minister  
Ministère du Loisir, de la Chasse et de la Pêche

**Louis Laberge**  
President  
Fédération des travailleurs du Québec

**Benoît Morin**  
General Secretary and Clerk  
Conseil exécutif

**Pierre Péladeau**  
President  
Quebecor Inc.

**Gaston Pelletier**  
Vice-President  
Corporation financière du Saint-Laurent

**Claude Séguin**  
Deputy Minister  
Ministère des Finances

## SENIOR MANAGEMENT

Chairman of the Board and General Manager

**Jean Campeau**

Senior Vice-Presidents:

**Claude Ferland**  
Fixed Income Investments

**Michel Grignon**  
Variable Income Investments

**Michel Nadeau**  
Planning and Depositors' Affairs

**Jean-Claude Scraire**  
Legal and Corporate Affairs  
and Real Estate Investments

**Jean Trudel**  
Administration and Control

Secretary  
**Marcel Camu**

## MANAGEMENT PERSONNEL

**Alain Auclair**  
Human Resources

**Yves Benoit**  
Administration and Data Processing

**Normand Bernier**  
Inter-Corporate Relations  
- International Sector

**Pierre Bouvier**  
Bond Portfolio

**Jean-Claude Cyr**  
Real Estate Investments

**Serge Desjardins**  
Internal Audit

**Réal Desrochers**  
International Corporate Investments

**André Duchesne**  
Money Market Investments

**Pierre Fortier**  
Corporate Investments - Large Businesses

**Philippe Gabelier**  
Communications

**Lucien Goulet**  
Mortgage Investments - Québec City

**Claude L. Langevin**  
Canadian Stock Market Investments

**Frédéric Lecoq**  
Canadian Stock Market Investments

**Richard Lesage**  
Economics

**Gody Lienhard**  
Securities

**Normand Loiselle**  
Resources and Supplies

**Yves Moquin**  
Asset Mix

**Walter Murkens**  
Depositors' Affairs

**Serge Piquette**  
Mortgage Investments

**Normand Provost**  
Corporate Investments - Small and Medium-Sized  
Businesses

**Adel Sarwat**  
International Stock Market Investments

**Alain Tessier**  
Accounting

# COMBINED SUMMARY FINANCIAL STATEMENTS

## BALANCE SHEET

	as at December 31, 1987 (in millions of dollars)	
	1987	1986
<b>ASSETS</b>		
Investments		
Bonds	\$ 15,627	\$ 14,724
Shares and convertible securities	7,957	6,543
Mortgages	1,714	1,467
Real estate investments	491	454
Short-term investments	1,173	1,405
	26,962	24,593
Other assets	497	480
	<u>\$ 27,459</u>	<u>\$ 25,073</u>
<b>LIABILITIES</b>		
	\$ 115	\$ 132
<b>DEPOSITORS' HOLDINGS</b>		
General Fund	16,774	15,643
Individual Funds	10,570	9,298
	27,344	24,941
	<u>\$ 27,459</u>	<u>\$ 25,073</u>

## STATEMENT OF INCOME

	for the year ended December 31, 1987 (in millions of dollars)	
	1987	1986
<b>INCOME</b>		
Investment income	\$ 2,271	\$ 2,189
Gains and losses on sale of investments	613	790
Other income	1	1
	2,885	2,980
<b>EXPENDITURE</b>		
Administrative expenses	17	15
<b>NET DEPOSITORS' INCOME</b>	<u>2,868</u>	<u>2,965</u>
<b>ALLOCATION OF INCOME</b>		
Interest on demand and term deposits	16	13
Net income allocated to participation deposit holders	\$ 2,852	\$ 2,952

Note: Combined financial statements are provided in the FINANCIAL STATEMENTS AND FINANCIAL STATISTICS booklet of the 1987 Annual Report.

**For information: (514) 842-3261**

Communications

Inter-Corporate Relations –

Québec/Canada and International Sector

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CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC

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