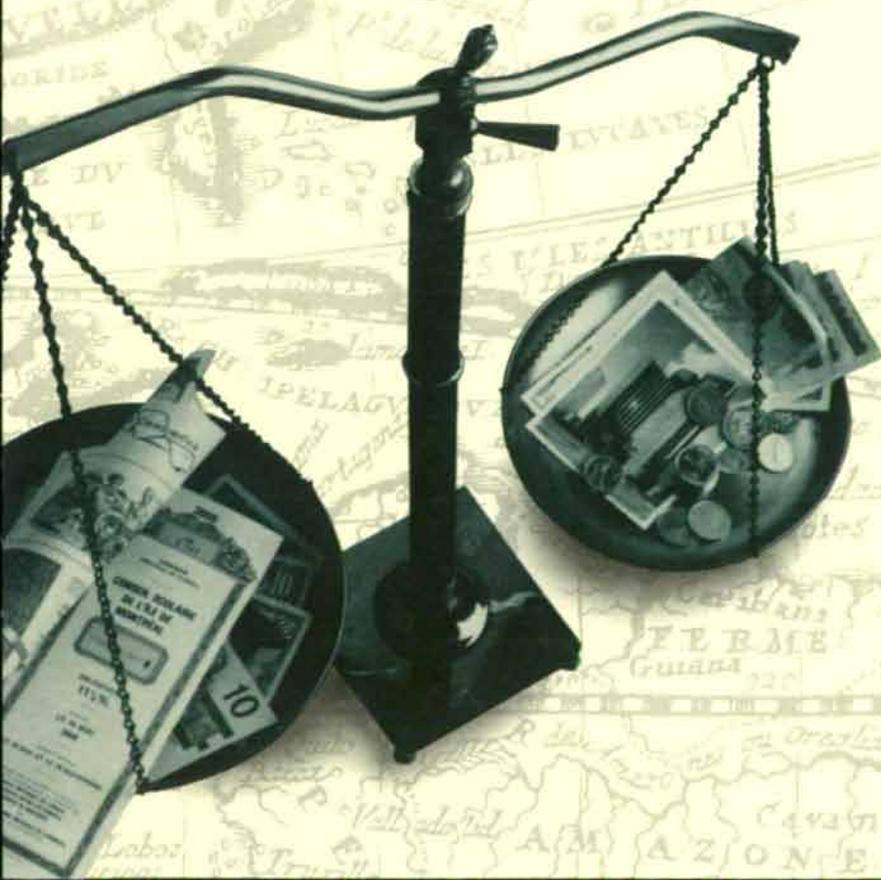


CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC

A N N U A L

R E P O R T

1 9 8 9



## 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 consists in making profitable investments and supporting Québec's economic development. To achieve these objectives, it uses the best investment vehicles available: bonds, shares and convertible securities, mortgages, real estate and short-term securities, money market derivative and synthetic products. The Caisse, whose principal place of business is located in the heart of Montréal, a first-class financial center, is one of North America's major financial institutions.▲

## SUMMARY

Highlights	1
The Chairman's Message	2
Economic Review	5
Asset Mix	9
Variable-Income Securities	13
Fixed-Income Securities	19
Depositors' Funds	25
Administration	29
Combined Summary Financial Statements	32

## HIGHLIGHTS

### HIGHLIGHTS

	1989	1988
	(in millions of dollars)	
<b>ASSETS UNDER MANAGEMENT</b>		
Total book value	34,172	30,059
Excess realizable value over book value of investments	3,321	1,739
<b>Total realizable value</b>	<b>37,493</b>	<b>31,798</b>
<b>BREAKDOWN OF ASSETS UNDER MANAGEMENT</b>		
Investments		
Bonds	17,279	16,249
Shares and convertible securities	13,362	10,430
Mortgages	1,948	1,773
Real estate investments	1,849	801
Short-term investments	2,500	2,033
Total investments	36,938	31,286
Other assets	555	512
<b>Total realizable value</b>	<b>37,493</b>	<b>31,798</b>
<b>DEPOSITORS' HOLDINGS</b>		
Régie des rentes du Québec	15,411	14,111
Commission administrative des régimes de retraite et d'assurances	9,656	7,916
Régie de l'assurance automobile du Québec	5,136	4,459
Commission de la santé et de la sécurité du travail	3,571	2,716
Commission de la construction du Québec	2,832	2,362
Other depositors	56	60
Total depositors' holdings	36,662	31,624
Liabilities	831	174
<b>Total realizable value</b>	<b>37,493</b>	<b>31,798</b>
<b>NET DEPOSITORS' INCOME</b>	<b>3,577</b>	<b>2,633</b>
<b>EXCESS WITHDRAWALS OVER DEPOSITS</b>	<b>121</b>	<b>92</b>
<b>INTERNAL RATE OF RETURN</b>	<b>16.9 %</b>	<b>10.5%</b>

WITH AN ASTUTE COMBINATION  
OF ASSET-MIX STRATEGY AND

INSIGHTFUL INVESTMENT DECISIONS BY MANAGERS, THE CAISSE SURPASSED THE REFERENCE INDICES FOR ALL ITS MAIN INVESTMENT VEHICLES AND OBTAINED AN OVERALL RETURN OF 16.9% ON FUNDS UNDER MANAGEMENT, OR 11.9% MORE THAN THE RATE OF INFLATION.

The Caisse will pursue its investment activities on international markets to maximize the return on funds under management and ensure portfolio liquidity.



The Caisse's return for the past eight years is now 15.9%.▲ Assets grew by \$5.7 billion, the largest increase in the Institution's history, and now stand at \$37.5 billion at realizable value, or \$34.2 billion at book value.▲ For bonds, which represented 46% of total assets, the Caisse used a dynamic strategy of investments in Québec, Canadian and U.S. securities, as well as securities issued by the French and German governments. At realizable value, these investments amounted to \$17.3 billion, and generated a return of 14.6%, compared to 12.8% for the bond index.▲ Mortgage investments posted a return identical to that of the market at 12.4% and totalled \$1.9 billion at realizable value, or 5.2% of total assets.▲

The growth of assets, numerous transactions on domestic and foreign markets, and major financial operations created substantial cash flow needs. The Canadian money market investments portfolio ranged from \$1.6 billion to \$4 billion during the year, and closed at \$1.9 billion, or 5.2% of assets, as at December 31. The return of 12.5% was slightly higher than that of the reference index based on 91-day Canada Treasury bills.▲ In a market where takeover bids exerted considerable influence, strategic positioning of the Canadian equities portfolio, which was underweighted in the cyclical sectors, achieved a return of 22.7%, or 130 points more than the TSE 300, which was slightly under that of the Montréal Exchange's XXM at 23.1%.▲

Investment activities of the specific foreign equity investments portfolio produced a return of 15.9%, surpassing the CIWI world index by 230 points in an environment strongly influenced by currency fluctuations, which the Caisse managed to offset by hedging the foreign exchange risk. The proportion of this portfolio increased substantially in 1989, rising from 4.5% to 6.1% of total assets, which excludes the indexed block of U.S. equities used only for tactical management purposes.▲

Real estate investments rose sharply from 2.5% to 5.2% of assets, mainly as a result of an investment related to the acquisition of Ivanhoe, a major real estate company. The realizable value of these investments is now close to \$2 billion.▲

Diverging economic scenarios - growth in several European countries and Asia, slowdowns in Canada, the United States and the United Kingdom - clearly demonstrated the need for geographically diversified portfolio management.▲

The Caisse will pursue its investment activities on international markets to maximize the return on funds under management and ensure greater portfolio liquidity. In so doing, it will help to develop, in Montréal, financial activities that will contribute to a more vigorous domestic financial market and make the city a leading financial centre.▲

Similarly, through its international corporate investments, the Caisse helps medium-sized Québec companies to grow on foreign markets and places its many financial-sector contacts at their disposal. It also seeks to assist foreign companies interested in making Québec their base to penetrate North American markets. In a context of market globalization, characterized by the Canada-U.S. Free Trade Agreement and the integration of Europe, the Caisse intends to promote

Québec as a link that all investors and businesses should discover and use.▲

The dynamics of our domestic financial market are such that all available local resources are needed. Increasingly, financial institutions, banks, fund managers, investment brokers and pension funds are discovering that executing transactions in Montréal, especially on the Montréal Exchange, benefits both themselves and the local community. Canada bond futures, an innovative financial instrument, were introduced during the year. A number of professional investors have already made use of this vehicle and many others would do well to add it to their range of investment activities, not only to improve the profitability and liquidity of their portfolios, but also to encourage institutions that develop efficient products and thereby support the financial community as a whole.▲

Mergers and acquisitions made headlines throughout 1989. Some of them proved beyond a doubt that Québec's financial and industrial institutions have extreme difficulty in mobilizing large amounts of capital and, at the same time, underscored the limitations of the Caisse itself on a market where billions are the unit of measure and the stakes are often of worldwide import. The Caisse cannot and will not act alone. Although today, more than ever before, the Institution plays a crucial role in companies' long-term growth, we believe that the expression of this will

takes on its full significance only when complemented by the determination of the entrepreneurs, executives, managers and directors who run these companies. At the beginning of a new decade, these businessmen and -women must again assume an innovative role and act swiftly to keep pace with an ever-changing economy that is highly competitive and open to the world.▲

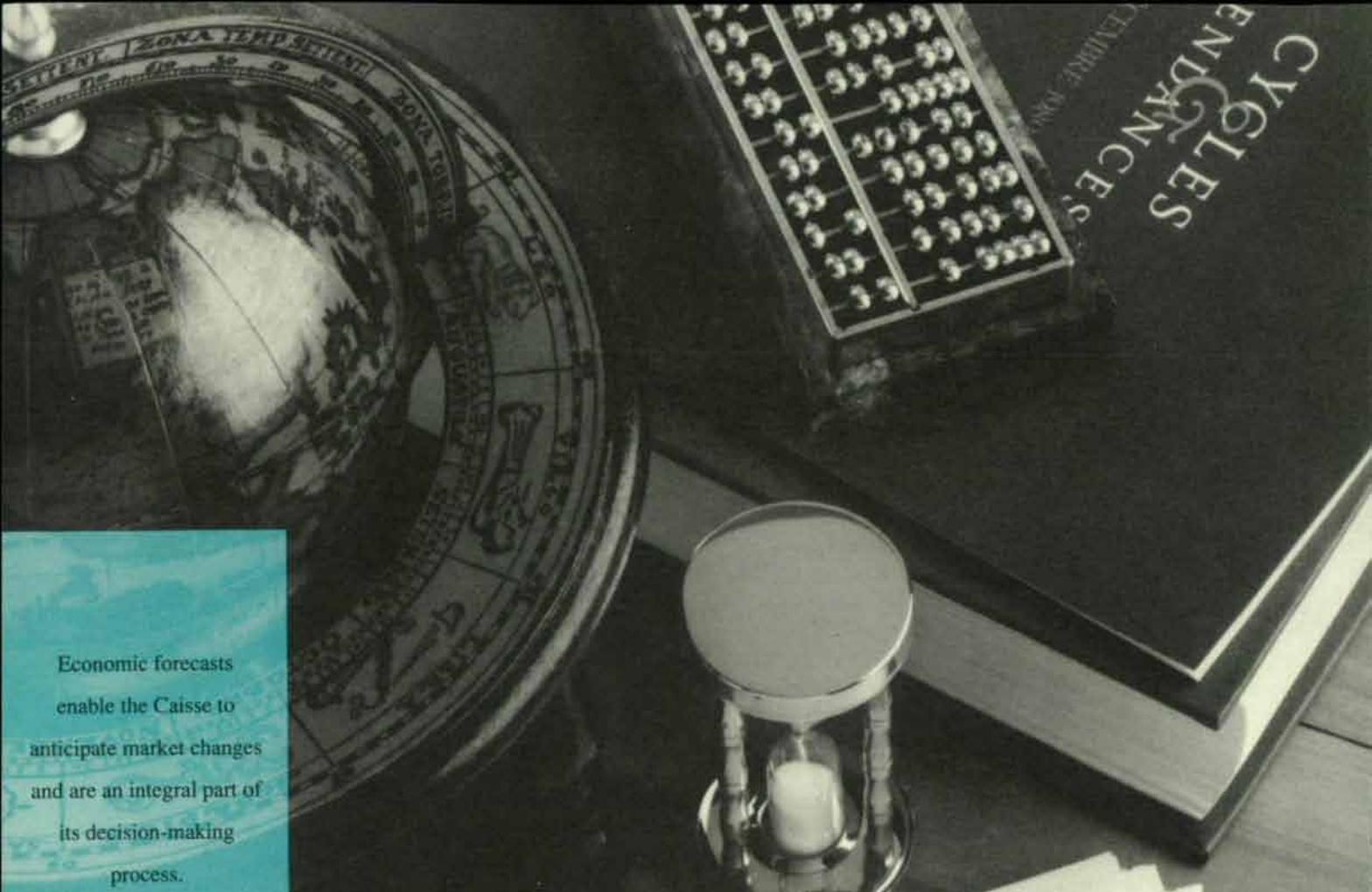
In conclusion, I should like to point out the contribution made by Mr. Justice Richard Beaulieu and Pierre Péladeau, who were members of the Board for fifteen and nine years, respectively, and by Marcel Côté and Gérald Tremblay, whose mandates as Directors ended during the year. I thank them for their dedication in carrying out their duties and supporting the Caisse in the attainment of its objectives. Lastly, I should like to welcome Jean-Charles Lafond, Pierre Michaud and André Trudeau, the new members of the Board whom the Caisse will be counting on today and in the future.▲



*Jean Campeau*

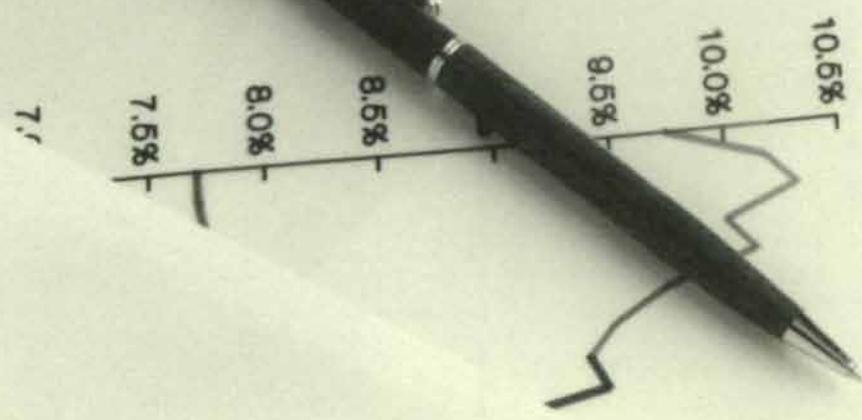
Jean Campeau  
Chairman of the Board  
and General Manager

Montréal, February 28, 1990

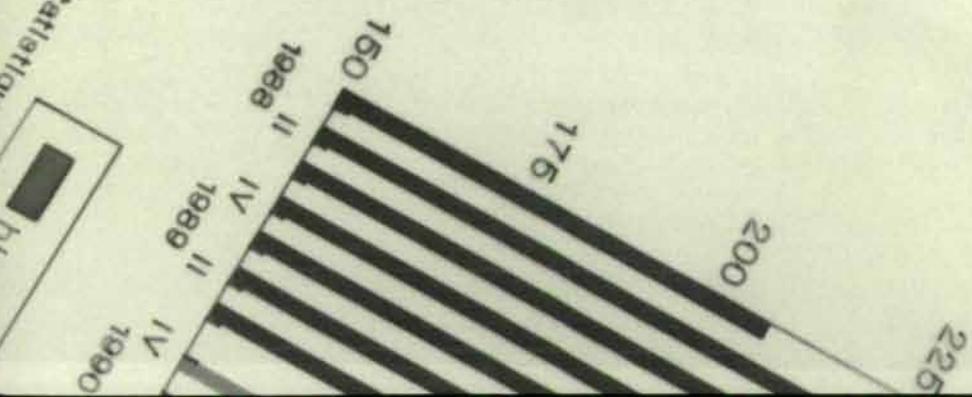


Economic forecasts enable the Caisse to anticipate market changes and are an integral part of its decision-making process.

**Taux à long terme**



Sources: Statistique



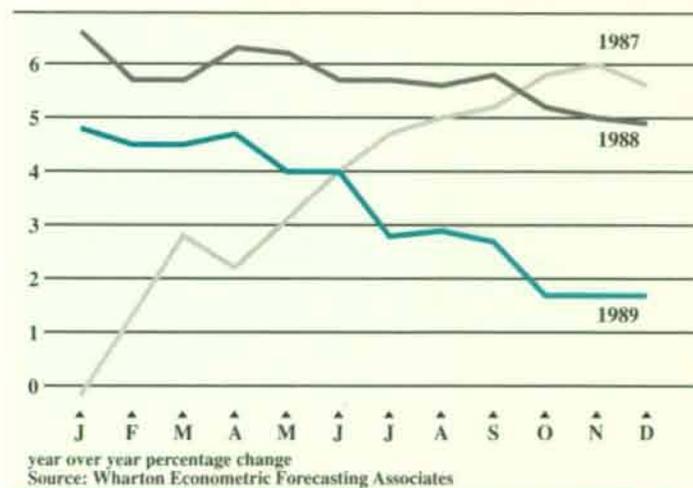
**T**HE ECONOMIC SYNCHRONISM OF THE SEVEN MAJOR INDUS-

TRIAL COUNTRIES CAME TO AN END IN 1989. THE ECONOMIES OF CONTINENTAL EUROPE AND JAPAN CONTINUED TO GROW RAPIDLY, WHILE NORTH AMERICA EXPERIENCED THE SLOWDOWN THAT HAD BEEN EXPECTED FOR A YEAR, AND THE UNITED KINGDOM RECORDED A RATHER WEAK RATE OF GROWTH.

Despite fairly restrictive monetary policies, inflation accelerated in all these countries.▲ The pronounced slowdown in the industrial sector of the **American economy** contributed to slower overall growth than in 1988. One reason for this change was the considerable weakness of exports during the second half. This outcome was expected because the United States' competitive position stopped improving when the dollar stabilized on foreign exchange markets in 1988 and then appreciated slightly in the first half of 1989. Overall growth would have slowed even more if U.S. consumer spending on services had not increased at a regular pace and high production-capacity utilization rates had not caused a surge in capital expenditures.▲ High utilization rates and a tight job market, as indicated by lower unemployment, created inflationary pressures that led to a tighter monetary policy until early in 1989. The price upswing turned out to be temporary, however, levelling off

when industrial weakness relieved the pressure on production capacity and the unemployment rate stabilized. This phenomenon brought interest rates down slightly in the second half.▲

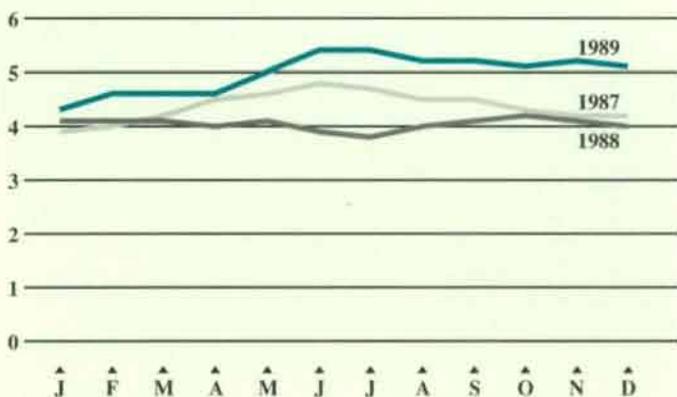
1 INDUSTRIAL PRODUCTION GROWTH IN THE U.S.



The slowdown in growth of the **Canadian economy** began just over a year ago and had a major impact on industrial activity. It was caused by the appreciation of the dollar, which was due in part to the tighter monetary policy pursued by the Bank of Canada since 1987 and which caused foreign trade to drop sharply. The domestic reaction took longer to set in, so that signs

government and several provincial governments fuelling their rise. Nevertheless, the basic inflationary trend weakened because of a tight job market and a very high manufacturing-capacity utilization rate. Prices would no doubt have risen even more had it not been for the dollar's considerable strength over the past three years. In these circumstances, with the central bank firmly committed to reversing the inflationary trend and the money supply and credit aggregates still growing rapidly, it was not surprising that monetary management aimed to keep short-term interest rates very high.▲

2 CONSUMER PRICE INDEX GROWTH IN CANADA



year over year percentage change  
Source: Statistics Canada

of weakness due partly to the restrictive federal budget policy announced last spring were not apparent until summer. Capital expenditures were unusually strong for the third consecutive year because the rapid growth of previous years pushed the economy to the limits of its capacity and the Free Trade Agreement spurred additional expenditures.▲ Price increases gained momentum, with substantial use of indirect taxation by the federal

The slowdown in growth of the Québec economy was more pronounced than elsewhere in the country. After exceptional performances in 1986 and 1987, residential investments fell sharply in the wake of previous years' overproduction, returning to average levels. The consumer sector did not perform as well as in previous years, but made a positive contribution nonetheless.▲

### 3 NON-RESIDENTIAL INVESTMENT GROWTH IN QUÉBEC



\* estimate  
percentage change  
Source: Bureau de la statistique du Québec

A high level of capital expenditures continued to be the engine of growth in Québec's economy and pointed to positive medium-term prospects. Hydro-Québec's projects and high capacity utilization rates played a part, and efforts by manufacturers to position themselves for free trade with the United States also sustained activity.▲





THE RETURNS GENERATED BY FUNDS UNDER CAISSE MAN-

AGEMENT DEPEND ON ELEMENTS SUCH AS THE LONG-TERM ASSET MIX STRATEGY BY INVESTMENT VEHICLE AND THE ACTIVE MANAGEMENT OF THE VARIOUS ASSET CATEGORIES.

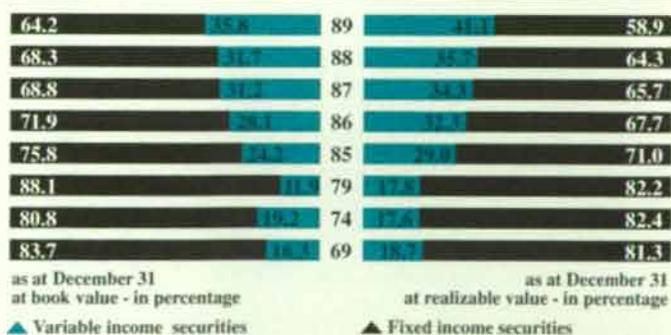
The investment policy and target asset mix are different for each Fund.▲

In 1989, the Caisse made strategic asset mix decisions to diversify risk and improve the medium- and long-term return on the funds. It aimed at increasing the proportion of its real estate investments by 2.5% and its foreign equities by 1.25%.▲

But another aspect of asset-mix management is the tactical asset mix. This is an active-management method designed to generate value added on a shorter-term investment horizon. It involves departing from the target asset mix by picking certain financial assets over others, on the basis of the economic environment and a relative evaluation of financial markets. In applying this management method, the Caisse has developed a structured financial model to better evaluate the various market risks and better define its short-term strategy. Moreover, it has made considerable efforts to perfect new financial tools so that decisions can be implemented faster and more efficiently.▲ The asset-mix management strategies followed during the past year take into account all these factors and can be

summarized as follows: after allocating close to 5% of assets for the purchase of bonds at the end of 1988, the Caisse sold equities equal in value to 1% of its assets early in 1989 to accumulate cash. In the spring, it began moving back toward a neutral position on Canadian equities and at the same time reducing the weighting of the bond portfolio, which remained underweighted for the rest of the year. In the second quarter, the Caisse emphasized short-term investments and, toward mid-summer, used a portion of the reserves accumulated in short-term securities to purchase equities. The Caisse thus ended 1989 with a slight overweighting of equities and an underweighting of bonds.▲

#### 4 EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT



The **internal rate of return** measures the results obtained on total depositors' holdings. In 1989, it was 16.9%, or 11.9% higher than the inflation rate of 5%.▲

The results for the past four years and the inflation-rate slowdown cycle, which has now lasted eight years, were 11.3% and 15.9%, respectively. Without taking inflation into account, the internal returns in real terms were quite good at

The **time-weighted return** helps to evaluate the manager's contribution to the growth of funds. It does not take into account the timing variable for the receipt of deposits, over which the fund manager has no influence.▲

The bond portfolio achieved a return of 14.6% in 1989, or 180 basis points higher than the reference index. Also, the mortgage portfolio's return of 12.4% was identical to that of the index. As for equities, the Canadian portfolio generated a return of 22.7%, compared to 21.4% for the TSE 300 index and a gain of 23.1% for the Montréal Exchange's XXM at year-end. The specific foreign equity investments portfolio had a return of 19.4% in U.S. dollars, but 15.9% in Canadian dollars, after taking into account the appreciation of the Canadian currency, in comparison with 17.1% and 13.6% for the world index. The reasons for this positive difference are the contribution by external managers, regional distribution of the portfolio greater than that of the world index, an internal U.S. fund return that surpassed the reference index, and a small positive contribution by the tactical hedging portfolio. Furthermore, the indexed block of U.S. equities held for tactical management purposes generated a return comparable to that of the index. The return on the specific real estate investments portfolio was 15.9%, including 8.5% in terms of current return and 7.4% in terms of added value. These results take into account only the interest on the financing of the Ivanhoe acquisition and exclude the potential added value. If this financing



## 5 RETURN

	1989	Compound average annual rate for the period	
		1986-1989	1982-1989
<b>Internal rate of return</b>			
Total depositors' holdings	16.9	11.3	15.9
<b>Time-weighted rate of return</b>			
Financial assets			
Bonds	14.6	10.8	17.2
Mortgages	12.4	11.2	14.5
Canadian equities	22.7	12.1	14.3
Specific foreign equity investments portfolio	15.9	13.7	-
Specific real estate investments portfolio	15.9	15.4	-
Short-term investments	12.5	-	-

at realizable value - in percentage

8% and 12.2%. These rates are higher than those historically recorded for long periods.▲ These very encouraging results are due to selection of the most profitable asset categories and returns on each vehicle that were higher than the reference indices.▲

had not been taken into account, the return would have been 17.4%. Lastly, the return on the money market investments portfolio was 12.5%, compared to 12.4% for the index based on 91-day Canada Treasury bills.▲

An analysis of results obtained for the past eight years shows that the returns for the three principal types of assets surpassed those of the reference indices. These returns were



17.2% compared to 15% for bonds, 14.3% compared to 13.3% for Canadian equities, and 14.5% compared to 14% for mortgages. As for the specific real estate and foreign equity investments portfolios, which were created more recently, the results show that the value added to the internal return of the Caisse's portfolio has been very positive, with returns of 15.4% and 13.7%, respectively, for the past four years.▲

#### 6 RETURN OF FINANCIAL INDICES

Indices	1989	1986-1989	1982-1989
Scotia McLeod Bond			
- Medium Term	12.8	9.9	15.0
Scotia McLeod Mortgage	12.4	10.1	14.0
TSE 300	21.4	11.7	13.3
CIWI			
(Capital International World Index)	13.6	18.9	-
Scotia McLeod			
- Canada Treasury bills (91 days)	12.4	9.9	10.7

Strategic positioning of the equities portfolios, corporate investments and exceptional growth of real estate investments contributed substantially to the Caisse's results.



Figure 5 Croissance économique au Japon (variation en pourcentage)



# 東京第1部

(21) 証券2) 11版

1月7日 (水曜日)

銘柄	前日比	最高	最低	終値
東証1部				
東証2部				
東証3部				
東証4部				
東証5部				
東証6部				
東証7部				
東証8部				
東証9部				
東証10部				
東証11部				
東証12部				
東証13部				
東証14部				
東証15部				
東証16部				
東証17部				
東証18部				
東証19部				
東証20部				

**V**ARIOUS IMPORTANT SECTORIAL EVENTS AFFECTED

MARKETS IN 1989. NOT ONLY WAS THERE PRESSURE BY CERTAIN ECONOMIC VARIABLES, SUCH AS GROWTH, CORPORATE EARNINGS, INFLATION AND INTEREST RATES, BUT CANADIAN BANKS INCREASED THEIR SUPPLEMENTARY RESERVES BY \$4 BILLION TO COVER LOANS TO DEVELOPING COUNTRIES.

The strong worldwide demand for petroleum products surprised many observers. The price of gold rose in the fourth quarter in response to inflationary fears and the political situation in Eastern Europe. In addition, consumer spending levelled off, and consumer credit increased as a percentage of personal disposable income. Lastly, the Canadian dollar was fairly strong in comparison to its U.S. counterpart.▲

These events had an impact on **Canadian stock markets**, bringing price-earnings ratios up from 10.9 to 14.8 (or 12.8 excluding banks' supplementary reserves). They also caused the dividend rate to stabilize at 3.25%, a historically low level, and increased the market value over book value ratio of equities slightly, from 1.4 to 1.6.

The real return on shareholders' equity fell from 8.9% to 5.6% (or 7.2% taking banks' supplementary reserves into account).▲

Substantial stock market gains were due primarily to the direct and indirect effects of North American takeover bids, corporate repurchases of shares, and foreign investments in the Canadian stock market.▲

The Caisse's Canadian equities portfolio took advantage of these advances. At year-end, it amounted to \$10,295 million at realizable value, compared to \$8,951 million the previous year.▲

Moreover, the stock market as a whole posted a strong gain of 21.4%. Capital appreciation, expressed as gains recorded by the indices, was 19.5% for the Montréal Exchange's XXM and 17.1% for the TSE 300 index. These gains are far higher than the annual inflation rate of 5% and compare very favorably with returns on other Canadian investment vehicles.▲

Still, the return on Canadian equities was divided unequally among the various sectors, which recorded different rates of growth and profitability linked to Canada's economic and financial environment.▲ Defensive sectors made a generally positive and substantial contribution to the total return, whereas the cyclical sectors made a negative contribution.▲

7 STOCK MARKET INDICES IN 1989

Indices	Location	In local currency	In Canadian dollars
XXM	Montréal	23.1	23.1
TSE 300	Toronto	21.4	21.4
Standard & Poors' 500	United States	31.7	27.9
CIWI	United Kingdom	37.1	18.7
CIWI	West Germany	39.7	42.2
CIWI	Japan	17.0	-1.2

*total return in percentage*

Sectors that recorded a strong performance were transportation, including waste management, with a return of 42.5%, golds, 34.6%, consumer products, 31.9%, pipelines, 29.1%, financial services, 27.8%, utilities, 26.4% and oils, 26.1%.▲

Industrial products performed poorly, with a return of 2.9%, as did forest products, 3.3%, metals and minerals, 7.2% and communications, 7.8%.▲

8 XXM INDEX IN 1989



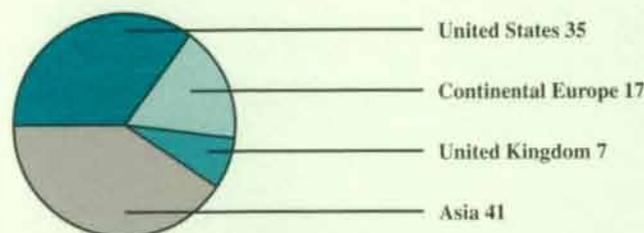
The Caisse's Canadian equities portfolio was especially well positioned to adapt to market conditions in 1989. The total return, which surpassed the reference indices, is due mainly to substantial underweighting of cyclical sectors and an excellent selection of securities from all sectors.▲

During the first half of the year, the weakness of most currencies in relation to the U.S. dollar had a considerable impact on **international stock markets**. In the fall, the deutsche mark appreciated considerably against the dollar, and in the United Kingdom fears that the policy of defending the pound would be abandoned pushed that currency down sharply. In local currencies, however, most of the markets showed highly respectable gains. Despite receiving a jolt in October, the U.S. market posted an excellent return of 31.7%. In the United Kingdom, despite a correction in September and October, the market performed well with a return of 37.1% in local

currency. The German market's 39.7% return was due mainly to that country's strong growth. Similarly, in Japan a vigorous economy enabled the market to gain 17% in local currency.▲ During the year, investments of \$597.8 million brought the specific foreign equity investments portfolio to \$2,212.8 million as at December 31, or 6.1% of the Caisse's total assets at realizable value, compared to 4.5% the previous year. The geographical breakdown of the specific portfolio was as follows: 35% in the United States, 7% in the United Kingdom, 17% in continental Europe and 41% in Asia.▲

The specific foreign equity investments portfolio is managed according to three different management methods. A global mandate is handled by external managers who, subject to special restrictions, may invest anywhere except in Canada. A fund of U.S. equities is managed by an internal team. There are also funds, indexed to the U.S., U.K., continental Europe and Asia sub-indices of the world index, whose proportions are controlled by the internal team. At year-end, their realizable value was \$632.2 million, \$314.3 million and \$1,266.3 million, respectively.▲

9 GEOGRAPHICAL BREAKDOWN OF THE SPECIFIC FOREIGN EQUITY INVESTMENTS PORTFOLIO



as at December 31, 1989  
at realizable value - in percentage

The specific foreign equity investments portfolio does not include an indexed block of U.S. equities which is held by the Caisse for tactical management purposes and which reached \$757 million at realizable value at year-end. This management method was introduced in September and generated a return comparable to that of the index.▲

Moreover, a currency forward contracts portfolio was created during the year. It is used in conjunction with the geographical allocation to improve the efficiency and return of the asset-mix process. This currency forward contracts portfolio, called the tactical hedging portfolio, is managed by the internal team and its performance is included in that of the specific foreign equity investments portfolio.▲

As a result of a study on diversification into foreign equities for a Canadian investor, the Caisse concluded that a foreign equities portfolio completely hedged against foreign exchange risk had a better risk-return profile than an

unhedged portfolio. It therefore decided to hedge all of the foreign equities it holds against exchange risk. This hedging is independent from the tactical hedging. It was begun in mid-1989 and should be completed at the end of 1990.▲

**Corporate investments** are one of the ways the Caisse attains its objectives of profitability and contribution to Québec's economic development. These investments aim to provide financial support for profitable, well-managed companies seeking to expand, provided that they offer their shareholders a good potential return in the medium and long term.▲

The scope of the projects under study in **large businesses** early in 1989 pointed to an active year; in fact, it was an exceptional year, with \$297 million invested in three new companies: La Société financière des caisses Desjardins, Imprimeries Quebecor and Corporation d'acquisition Socanav-Caisse.▲

New investments of \$90 million were also made in companies already in the portfolio to enable partners to adapt to the financial and industrial realities of the 1990s.▲

In addition, Socanav's bid to acquire Steinberg during the summer demonstrates the support that the Caisse offers local businesses that can contribute significantly to the attainment of its double mandate.▲

To ensure that the portfolio was well managed and its components well balanced, the Caisse reduced its corporate investments in the mining sector and

sold \$114 million of Noranda shares on the market, although it remains one of the company's major shareholders.▲ Moreover, after a successful takeover bid by Institut Mérieux, the Caisse sold its common share interest of almost 20% in Connaught BioSciences for \$161 million, realizing a profit of \$48 million.▲

Acquisitions amounted to \$387 million and disposals, \$301 million, bringing total transactions to a record \$688 million.▲

As at December 31, the total portfolio under management had a realizable value of \$1,849 million and comprised 35 investments in 23 sectors of the economy, compared to 32 investments in 20 sectors in 1988.▲

The Caisse pursued an investment strategy emphasizing investments in the form of hybrid-type securities (securities eventually giving access to property and providing current benefits) rather than investing directly in common shares.

The year-end breakdown of the portfolio clearly illustrates this prudent management of risk: 79.2% was invested in common shares and 20.8% in hybrid-type securities, compared to 85.2% and 14.8%, respectively, in 1988.▲

The economic context of 1989 slowed the growth of **small** and **medium-sized businesses** in Québec, where consolidation and restructuring of a financial and organizational nature were called for, after more than seven years of sustained growth.▲

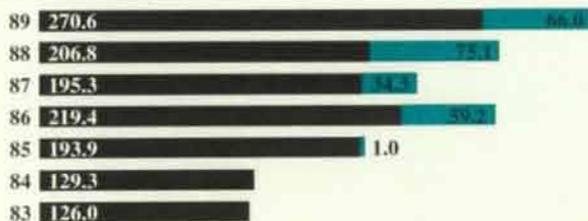
The Caisse continued to finance medium-sized businesses through equity investments and debentures, concluding eight transactions for commitments totalling \$53 million.▲

The Institution also continued to be active on the secondary market for QSSP issues of medium-sized businesses offering good growth potential in the medium and long term. At year-end, \$18.7 million had been invested in such companies.▲

Capidem Québec and Capital de l'Estrie, two of the three regional investment companies created in 1988, saw their first full year of operation in 1989. The third company, Société en commandite Mauricie-Bois-Francis-Drummond was launched in February 1989.▲ With combined capital of \$29.1 million, these three companies fund small businesses with sales of less than

small and medium-sized businesses had a realizable value of \$270.5 million and comprised 61 private placements, for a total of \$226.3 million, shares of 34 companies listed on the secondary QSSP market, totalling \$17.7 million, and interests in nine investment companies, amounting to \$26.5 million.▲ The Caisse successfully pursued its strategy of **international corporate investments**. Its aim is to form associations with companies that share its profitability and institutional objectives and thus create benefits for its small and medium-sized Québec partners. The Caisse seeks to promote relations between its foreign partners and Québec companies to support them in their development strategies and enable them to benefit from market globalization, accentuated by free trade between Canada and the United States, and to prepare for the European market of tomorrow. Two new investments were made in continental Europe during the year, bringing the portfolio's realizable value to \$32.1 million.▲ A very promising \$2.8-million investment was made in Siparex S.A., a French company in the Rhône-Alpes region. Siparex has a portfolio of corporate investments in small and medium-sized businesses that should create synergy for the Caisse and its partners, because the company is located in a highly industrialized region and invests in advanced-technology sectors.▲ The other corporate investment is in Euro-Clinvest, a group that is active throughout Europe but focuses mainly on France. The company is sponsored by Crédit Lyonnais and also invests in small and medium-sized businesses.▲

10 EVOLUTION OF INVESTMENTS IN SMALL AND MEDIUM-SIZED BUSINESSES



as at December 31 at realizable value - in millions of dollars investments transferred to other portfolios

\$5 million and capital needs of less than \$500,000, through equity investments and debentures. At year-end, they had concluded 16 transactions, for commitments of \$4.7 million.▲

The Caisse is also a major shareholder in nine investment companies that have capital of \$275.5 million and investments in 45 Québec businesses to date.▲

As at December 31, the portfolio of corporate investments in

Exceptional growth by the specific **real estate** investments portfolio in 1989 brought it to the desired size in terms of asset mix. As at December 31, the total portfolio amounted to \$1.7 billion at book value, an increase of 144.1% over 1988. The realizable value was close to \$2 billion, compared to \$881.7 million at the end of the previous year.▲

Real estate investments enable the Caisse to attain its fundamental objectives: to obtain a sure, long-term return and to contribute to a key sector of the economy.▲

The real estate portfolio breaks down as follows: land, 3.5%; buildings, 48.8%; stocks and bonds of real estate companies, 4.2%; interests in limited partnerships, 0.4%; and debentures and financings, mainly in the form of convertible securities or purchase options, 43.1%.▲ This last category includes \$820 million in financing which was provided to Corporation d'acquisition Socanav-Caisse to purchase Steinberg and is to be converted into shares of the real estate subsidiary Ivanhoe early in 1990. With this transaction, the Caisse adds shopping centres in Québec and Ontario to its portfolio, as well as landholdings that may lead to an increase in activity and investment related to the development of new office space and shopping centres. In addition, the Caisse is now associated with Ivanhoe's dynamic, competent team of managers and employees. Some of the Caisse's partners in Société immobilière Trans-Québec

(S.I.T.Q.) were also involved in the Ivanhoe acquisition. They are the employees' pension funds of Alcan, the National Bank, the Mouvement Desjardins, the Université Laval, the City of Montréal, the Société de transport, and les policiers de la Communauté urbaine de Montréal.▲

During the year, the Caisse also invested in the Québec City region, in close cooperation with S.I.T.Q., acquiring interests in five shopping centres. It also made four investments in the heart of the province, namely in Nicolet, Plessisville, La Pocatière and Trois-Rivières-Ouest.▲

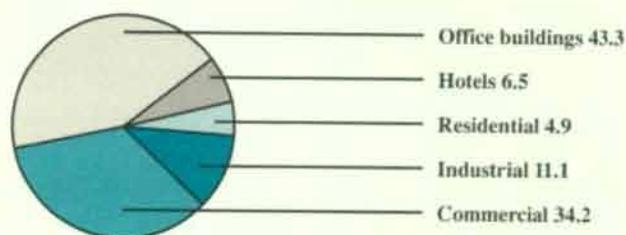
The Caisse also pursued investment activities related to the acquisition of industrial land. It purchased several parcels of land or took part in development projects with an increasing number of partners, such as Groupe Alexis Nihon in Saint-Laurent, Groupe Marzim in Baie-d'Urfé and the Cytrenbaum-Liberatore association in Laval.▲

In the hotel sector, the Caisse took part in two major projects: the acquisition of the Hôtel des Gouverneurs-Le Grand, along with Auberges des Gouverneurs and Assurance-vie Desjardins, and the inclusion of the Inter-Continental hotel chain in Montréal's World Trade Center.▲

Other highlights of the year were an investment in Place du commerce in Brossard, the opening of Édifice Mérici in Québec City, and a first investment in a cultural building, Cité de l'image, in Montréal.▲

As at December 31, 1989, the breakdown of real estate properties at realizable value was as follows: office buildings, 43.3%; commercial, 34.2%; industrial, 11.1%; residential, 4.9%; and hotels, 6.5%.▲

11 BREAKDOWN OF REAL ESTATE PROPERTIES



as at December 31, 1989  
at realizable value - in percentage



Province  
de  
Québec

\$ 100,000.00-

No  
GUEN00055

\$ 100,000.00

EVEN  
315

OBLIGATION  
10%

CAPITAL PAYABLE  
16 OCTOBRE

INTERET PAYABLE  
16 AVRIL et 16 OCT

Capital en intégra

HYDRO-QUÉBEC

The use of synthetic and  
derivative products adds  
value to the return on  
traditional investment  
vehicles.



# FIXED-INCOME SECURITIES

## Bond Investments

**I**N 1989, BANK OF CANADA  
MONETARY POLICY, COMBINED

WITH THE INCREASING INTERDEPENDENCE OF THE VARIOUS  
INTERNATIONAL MARKETS CREATED BY THE RANGE OF  
FINANCIAL INSTRUMENTS NOW AVAILABLE, HAD A MAJOR IMPACT  
ON THE CANADIAN MARKETS.

The inversion of the  
Canadian yield curve  
became more pronounced  
during the year, causing a  
substantial increase in  
spreads between short-term  
rates in Canada and the  
United States. Fluctuations  
in the interest rate structures  
of the two countries created  
attractive investment  
opportunities.▲

### 12 SUMMARY OF BOND AND MORTGAGE PORTFOLIOS ACCORDING TO TYPE OF ISSUER

Securities	At realizable value		Average nominal	Average	Modified
	in billions of dollars	(%)	rate <sup>1</sup> (%)	maturity <sup>2</sup> (years)	duration <sup>2</sup> (volatility)
<b>Permanent investment basis</b>					
Issued by the gouvernement du Québec	8.7	45.3	10.51	8.68	5.09
Government guaranteed	2.7	14.1	10.04	10.13	5.56
Guaranteed by grants, municipalities and school boards	2.4	12.5	10.88	7.38	4.22
Corporate and other	0.1	0.5	11.13	3.97	2.63
Mortgages	2.0	10.4	11.34	3.74	2.59
<b>Temporary investment basis</b>					
Government issued or guaranteed					
Canada	1.3	6.8	9.00	9.08	5.30
United States	1.4	7.3	6.89	9.58	5.33
France	0.2	1.0	8.20	12.40	7.26
Others	0.4	2.1	10.24	9.54	4.75
	<b>19.2</b>	<b>100.0</b>	<b>10.12</b>	<b>8.33</b>	<b>4.82</b>

*as at December 31, 1989*

<sup>1</sup> weighted as per nominal value  
<sup>2</sup> weighted as per realizable value

The Caisse bought or sold  
Québec public-sector **bonds** on  
the secondary market amount-  
ing to some \$6.3 billion during  
the year, thus helping to main-  
tain a high-quality secondary  
market for securities of  
this type.▲

Apart from its regular activities  
on the Canadian and U.S. mar-  
kets, the Caisse traded French

# FIXED-INCOME SECURITIES

## Bond Investments

and German government bonds amounting to \$2.8 billion on a temporary-investment basis. In addition to offering the potential for better returns, the use of several major markets permits better portfolio diversification, because each market evolves differently depending on its economy.▲

The Caisse also took advantage of the new Canada bond futures market created by the Montréal Exchange in

on a temporary basis. The latter, which are very liquid, are used mainly for controlling the duration factor, and for participating actively in the Québec public-sector securities market and allowing a more vigorous asset mix for the Caisse overall. As at December 31, 1989, securities held on a temporary basis represented 17.2% of the total fixed income securities portfolio.▲

New investments in Québec public-sector bonds totalled \$1,295 million during the year. Of this amount, \$650 million was allocated to securities issued by the Province of Québec, \$225 million to securities issued by Hydro-Québec and \$420 million to other public-sector issuers, including the Société de développement industriel and the Corporation d'hébergement du Québec.▲

### 13 SUMMARY OF ACQUISITIONS OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC AND QUÉBEC PUBLIC SECTOR IN 1989

	Amount of issues			Acquisitions by the Caisse on the Canadian market	
	Canadian market	Other markets	Total	(\$)	(%)
<b>Gouvernement du Québec</b>					
Refunding	1,562	126	1,688	650.0	41.61
<b>Hydro-Québec and other provincial crown corporations</b>					
Regular issue	1,154	1,019	2,173		
Refunding	1,056	155	1,211		
	2,210	1,174	3,384	300.0	13.57
<b>Municipalities and guaranteed by grants</b>					
Regular issue	84	20	104		
Refunding	498	20	518		
	582	40	622	344.8	59.24
	<b>4,354</b>	<b>1,340</b>	<b>5,694</b>	<b>1,294.8</b>	<b>29.74</b>

*at par value - in millions of dollars*

September 1989. The purchase or sale of these securities often presents quite good arbitrage opportunities in addition to increasing portfolio-management flexibility.▲

The fixed-income securities portfolio comprises securities classified on a permanent-investment basis, actively managed, and securities acquired

At year-end, the bond portfolio had a realizable value of \$17.3 billion, an average maturity of 8.77 years, an average coupon rate of 10.05% and a modified duration of 5.02 years.▲

Mortgage Investments

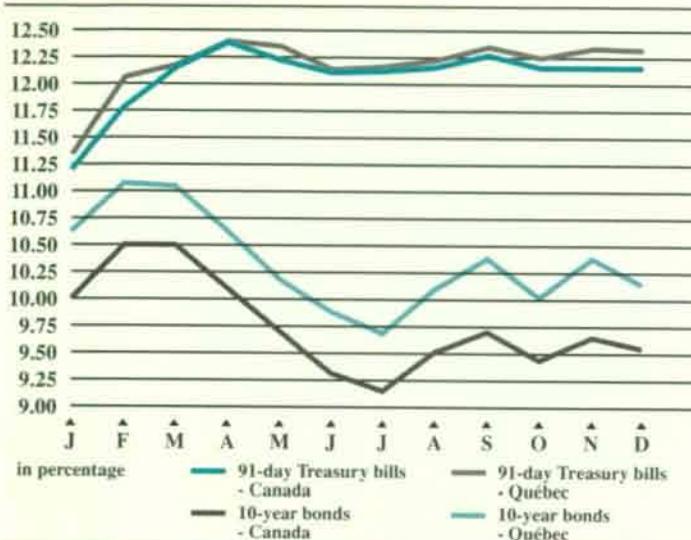
In 1989, short-term mortgage rates rose as a result of a tighter monetary policy, whereas long-term rates dropped. At year-end, interest rates for one-year residential mortgages were 75 basis points above five-year rates.▲ Overall, the residential market dropped. Québec housing starts were down, especially because of the sluggish multi-unit

\$125.5 million. In addition, the Caisse granted loans amounting to \$7.3 million in cooperation with Société Nationale de Fiducie and Les Coopérants, Société mutuelle d'assurance-vie. Lastly, the Caisse pursued the objective of increasing the proportion of industrial loans in its total portfolio so as to provide financing for growing businesses. As at December 31, this sector of activity represented 12% of the portfolio, compared to 10.5% the previous year.▲

The main achievements for the year include financing of \$16.5 million for the construction of an office building in Montréal, financing of \$3 million for an existing office building in Drummondville, the refinancing of two major shopping centres in Matane and Rimouski, representing \$5.6 million and \$6 million, respectively, financing of \$4.7 million for the construction of a shopping centre in Magog, financing of \$21.5 million for 17 industrial and commercial buildings in the Québec City region, financing of \$8.3 million for six industrial properties, and financing of \$5 million for a 170-unit apartment building in Montréal.▲

With specialized expertise and branches in the main regions of Québec, the four representatives that made most of the Caisse's residential mortgage investments - Fiducie Desjardins, Sherbrooke Trust, Trust Général du Canada and Trust Prêt et Revenu - enabled the Caisse to increase the credit available for the purchase of property in the following sectors: single-family housing, condominiums and multi-unit housing with four units or less.▲

14 EVOLUTION OF YIELD IN 1989



housing sector, which is more sensitive to interest rates. The Montréal region was especially affected. The residential rental market, like the single-family housing market, continued to have a surplus supply.▲ The beginning of the year was quite calm, but thereafter demand for financing in the commercial and industrial sectors was quite strong. Developers took advantage of lower interest rates, especially for the longest maturities, to resume projects.▲ Despite these factors, the market was favorable to lenders, and the Caisse granted mortgage loans totalling \$332 million. The Institution made a sustained effort to ensure its loans were accessible in all areas of Québec; in fact, regional financings totalled

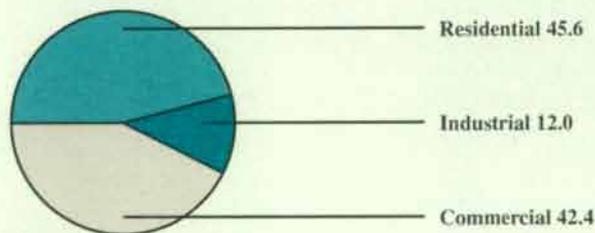
The Caisse was also an active participant in the program sponsored by the Cooperative Housing Federation of Canada and the Canada Mortgage and Housing Corporation, financing a number of housing cooperative projects with indexed mortgage loans. These financings were done exclusively in Québec, often in ex-metropolitan areas.▲

At year-end, the Caisse's mortgage investments totalled \$1.9 billion at realizable value and represented 5.2% of total assets. They were allocated among the following sectors: residential, 45.6%; commercial, 42.4%; and industrial, 12%. The average coupon rate was 11.3%. Moreover, the average maturity dropped to 3.7 years, which corresponds to a modified duration of 2.6 years. This is the result of a substantial reduction in the maturities of new loans granted during the year and is part of the overall strategic objective of decreasing the average maturity of the portfolio.▲

12.75% in March and dropped thereafter to 12% and 11.75%, respectively, in December.▲ In fact, the yield curve was inverted for much of the year, reflecting the drop anticipated by the markets. Such a configuration is abnormal and usually temporary. It reflects the degree to which the Bank of Canada slows market forces. These forces would have normally brought the entire yield curve down as a result of the lower rates that followed a more accommodating monetary policy in the United States. However, for 90-day commercial papers, yield spreads between Canada and the United States increased, from the beginning to the end of the year, from 215 basis points to the historical high of 375. In this context, the Canadian dollar, which had slipped somewhat, rebounded as a result of an influx of foreign capital that pushed it above \$0.86 U.S.▲

The portfolio strategy for short-term securities was adapted to this environment. The result was a decrease in the average maturity of investments and an increase in the relative amounts outstanding of bank and commercial papers, which provided better returns than Canada Treasury bills.▲ The growth of the Caisse's total assets, coupled with a dynamic and innovative

15 BREAKDOWN OF MORTGAGE INVESTMENTS



as at December 31, 1989  
at realizable value - in percentage

The interest rates for 91-day Canada Treasury bills on the **money market** rose from 10.9% in January to 12.25% in the second quarter, and fluctuated around this level for the rest of the year. Rates for securities with six-month and one-year maturities peaked at

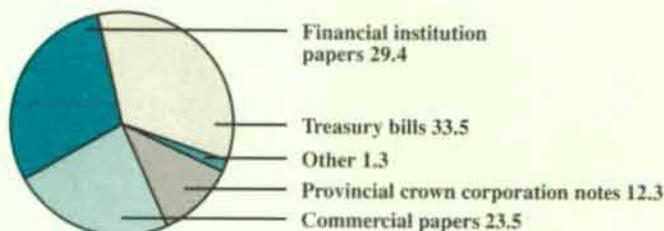
outstanding. The Caisse used a wide range of short-term investment vehicles to negotiate substantial volumes while respecting return objectives.▲ As at December 31, the total Canadian money market investments portfolio amounted to \$1.9 billion at par value, and the average weighted maturity was 36 days.▲

Short-term operations now complement investments in derivative products, such as bond futures or stock market index futures. By combining short-term investments and futures, the Caisse has developed expertise in the creation of synthetic products on domestic and international markets. Synthetic products are derivative products (options or futures) combined with an underlying value, such as a basket of stocks or bonds. Whether they are fixed- or variable-income investment vehicles, these products add value to returns without increasing risk and enable Montréal's financial community to develop expertise.▲ In addition, investments in foreign securities, be they stocks or bonds, entail a foreign exchange risk. A hedging policy has therefore been developed to manage this risk separately. Thus, although the Caisse seeks to hedge the exchange risk, it nonetheless tries to

derive maximum advantage from it and therefore actively manages counterparts. All currency transactions are effected by its own traders, and deliveries are made in more than 20 countries.▲

The foreign securities portfolios to be hedged amounted to more than \$4 billion in 1989, and the volume of transactions was more than \$22 billion. Most of these operations involved forward-exchange and spot-exchange contracts; currency swaps and interest rate swaps were also used as complementary hedging instruments.

16 BREAKDOWN OF SHORT-TERM INVESTMENTS



as at December 31, 1989  
at par value - in percentage

The Caisse intends to further diversify its exchange-risk management instruments, notably by using currency options.▲

approach by its managers, created substantial cash flow needs. Thus, the inflows and outflows of funds, which must be synchronized and harmonized, must also be effected at the lowest possible cost or the best possible return. The total volume of the short-term securities portfolio therefore changed several times because of substantial cash fluctuations during the year. The total amount outstanding peaked at \$4 billion toward mid-year, although it dipped to a low of \$1.6 billion. The securities in the portfolio were actively traded, so that total transactions, many of them substantial, amounted to 30 times the average monthly amount



# DEPOSITORS' FUNDS

## General Fund

**T**WO NEW DEPOSITORS  
JOINED THE CAISSE DURING

THE YEAR. THEY ARE LA FÉDÉRATION DES PRODUCTEURS DE BOVINS DU QUÉBEC AND THE PENSION PLAN OF ELECTED MUNICIPAL OFFICERS.

As at December 31, 1989, the realizable value of depositors' holdings with the Caisse was \$36.7 billion, an increase of \$5 billion during the year. The book value of these holdings was \$33.3 billion, up \$3.5 billion over 1988 as a result of a partial reinvestment of income, amounting to \$3.6 billion.▲

Net withdrawals of \$121 million were recorded, however. Net contributions of \$845 million made by some depositors did not entirely offset the withdrawals totalling \$966 million made by others, including \$903 million by the Régie des rentes du Québec alone.▲

Under legislation adopted by the National Assembly, the Caisse is entrusted with the funds contributed to various public pension funds and insurance plans by almost four million Québécois.▲

Although the organizations concerned administer these plans, the Caisse has the legal responsibility and the mandate to oversee the investment, protection and growth of their 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 toward depositors and bear interest. Participation deposits give the holder a share in the net equity and net income of a particular Fund. Their value depends on the value of the Fund to which they are allocated.▲

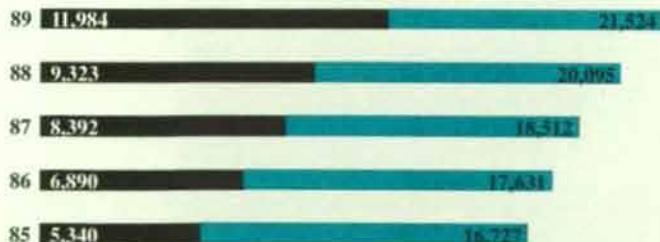
The Caisse has nine Funds: the General Fund and eight Individual Funds. The General Fund is a pooled fund that includes several depositors, whereas each Individual Fund has only one. Of the 13 depositors, nine accumulate reserves to meet future commitments and the other four entrust the Caisse with liquid assets.▲

The principal depositor to the **General Fund**, the *Régie des rentes du Québec (R.R.Q.)*, manages the universal pension plan for Québécois.▲

Despite a \$643-million increase in its holdings at book value during the year, the Régie had to withdraw \$903 million from its \$1,546 million in income to meet current requirements.▲

In 1988, \$742 million was withdrawn, representing a 60.7% utilization of funds, versus 58.4% in 1989.

### 17 EVOLUTION OF INVESTMENTS



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

Fixed income securities (bonds, mortgages, short-term investments)

Variable income securities (shares, convertible securities, real estate investments)

# DEPOSITORS' FUNDS

## General Fund

### 18 DEPOSITORS

	Abbreviation	First deposit	Number of contributors <sup>1</sup>	Depositors' holdings <sup>2</sup>
Régie des rentes du Québec	R.R.Q.	1966	3,170,000	15,411.2
Commission administrative des régimes de retraite et d'assurances	CARRA			
Government and Public Employees Retirement Plan	RREGOP	1973	370,000	9,591.1
General Retirement Plan for Mayors and Councillors of Municipalities		1975	750	25.1
Individual Plans		1977	125	36.0
Pension Plan for Elected Municipal Officers		1989	-	3.9
Régie de l'assurance automobile du Québec	RAAQ	1978	3,938,000	5,135.8
Commission de la santé et de la sécurité du travail	C.S.S.T.	1973	174,261	3,570.8
Commission de la construction du Québec	C.C.Q.			
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	140,500	2,832.5
Fonds d'assurance-prêts agricoles et forestiers	FAPAF	1978	3,000	16.1
Régie des assurances agricoles du Québec		1968	48,311	0.2
Régie des marchés agricoles du Québec		1967	66	2.1
Régie de l'assurance-dépôts du Québec		1969	1,400	37.1
La Fédération des producteurs de bovins du Québec		1989	20,000	0.4

as at December 31, 1989

<sup>1</sup> estimate

<sup>2</sup> at realizable value - in millions of dollars

### 19 BREAKDOWN OF THE FUNDS' ASSETS ACCORDING TO TYPE OF INVESTMENT

Type	At book value			% of total	At realizable value	
	General Fund <sup>1</sup>	Individual Funds	Total		Net change	Total
Bonds	10,771.3	6,243.2	17,014.5	50.0	794.0	17,217.4
Mortgages	656.5	1,332.5	1,989.0	5.9	146.2	1,969.2
Shares and convertible securities	5,182.5	5,212.1	10,394.6	30.5	1,652.4	13,285.8
Real estate investments	844.7	744.9	1,589.6	4.7	1,008.9	1,836.3
Short-term investments	1,562.0	937.5	2,499.5	7.3	527.2	2,499.7
Net deposits in the General Fund	-	20.5	20.5	0.1	(39.4)	20.5
	19,017.0	14,490.7	33,507.7	98.5	4,089.3	36,828.9
Other assets	309.0	215.4	524.4	1.5	24.6	524.4
<b>1989</b>	<b>19,326.0</b>	<b>14,706.1</b>	<b>34,032.1</b>	<b>100.0</b>	<b>4,113.9</b>	<b>37,353.3</b>
1988	17,691.6	12,226.6	29,918.2	100.0	2,524.0	31,657.2
Net change	1,634.4	2,479.5	4,113.9	-	-	5,696.1

as at December 31, 1989  
in millions of dollars

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

At year-end, its holdings deposited with the Caisse amounted to \$15.4 billion at realizable value and accounted for 42% of total depositors' holdings.▲

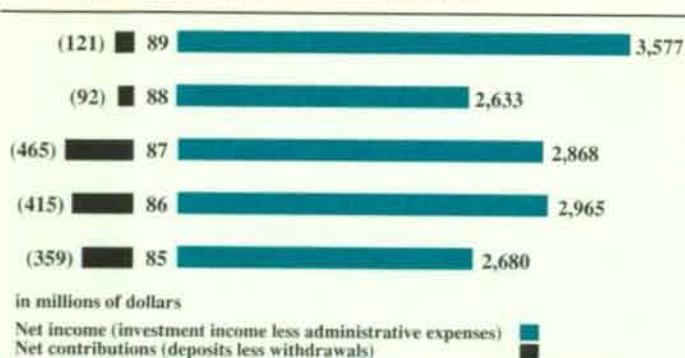
The 0.2% annual increase in the contribution rate, implemented in 1987 for a five-year period, will slow the Régie's rate of projected withdrawals in future years.▲

The Régie de l'assurance automobile du Québec (RAAQ) is the General Fund's second-largest depositor. It administers the general plan that provides insurance against injuries caused by traffic accidents. Its principal mandate is to reduce the risk of accidents by improving control of access to the road system, to promote road safety and to compensate victims of traffic accidents.

Eight **Individual Funds** are held by the Caisse's various depositors. The *Government and Public Employees Retirement Plan (RREGOP)* covers public-sector employees, including civil servants as well as employees of the education and social affairs sectors. The plan is managed by the Commission administrative des régimes de retraite et d'assurances (CARRA). Since its creation, the plan has grown to \$8.6 billion, representing 25.7% of total depositors' holdings and making the RREGOP the Caisse's second-largest depositor. At realizable value, this amounts to \$9.6 billion, or 26.2% of depositors' holdings. During 1989, the plan's holdings increased by \$1,248 million at book value, of which \$345 million arose from new contributions and the balance from reinvested income.

The RREGOP features two accounts: one for unionized employees (Fund 301) and another for non-unionized employees, which also includes contributions from employers and transfers from supplemental pension plans (Fund 302).▲ CARRA also administers other plans, including the *Individual Plans, General Retirement Plan for Mayors and Councillors of Municipalities* and *Pension Plan for Elected Municipal Officers*.

20 DISTRIBUTION OF TOTAL DEPOSITORS' NET INCOME AND CONTRIBUTIONS



In 1989, the Régie had to withdraw \$35 million of its \$501 million in investment income, compared to \$8 million in 1988. This withdrawal stems partially from the capital expenditure program under which the RAAQ invested \$50 million to improve road safety. As at December 31, 1989, the realizable value of the RAAQ's holdings was \$5.1 billion, or \$4.6 billion at book value. The plan represents 14% of total depositors' holdings with the Caisse and 24.9% of the General Fund at realizable value.▲

The *Fonds d'assurance-prêts agricoles et forestiers (FAPAF)* is responsible for securing the reimbursement of losses on farm loans. It therefore maintains a minimum reserve of \$11 million in the form of units in the General Fund.▲

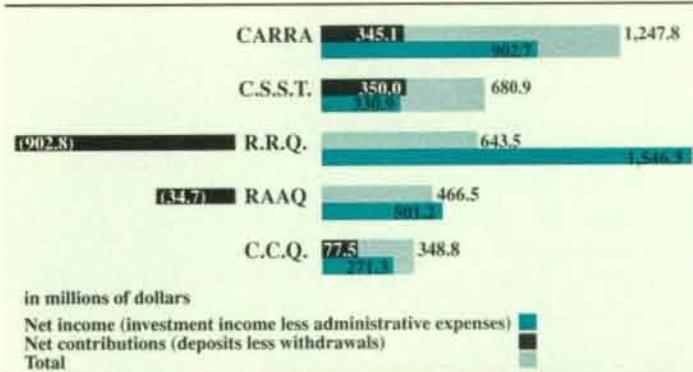
The other depositors to the General Fund are the *Régie des assurances agricoles du Québec*, the *Régie de l'assurance-dépôts du Québec*, the *Régie des marchés agricoles du Québec* and *La Fédération des producteurs de bovins du Québec*. They are not included among the unitholders in the General Fund. However, they entrust the Caisse with liquid assets in the form of demand or term deposits now totalling \$39.8 million.▲

21 BREAKDOWN OF TOTAL DEPOSITORS' HOLDINGS

	1989	1988	1987	1986	1985
Régie des rentes du Québec	42.0	44.6	46.9	48.5	49.6
Commission administrative des régimes de retraite et d'assurances	26.4	25.0	23.9	22.7	21.7
Régie de l'assurance automobile du Québec	14.0	14.1	14.1	13.7	13.2
Commission de la santé et de la sécurité du travail	9.7	8.6	7.8	8.2	8.7
Commission de la construction du Québec and other depositors	7.9	7.7	7.3	6.9	6.8

as at December 31  
at realizable value - in percentage

22 DISTRIBUTION OF THE MAJOR DEPOSITORS' NET INCOME AND CONTRIBUTIONS IN 1989



Assets are mostly invested in Individual Funds 303 and 304 and total \$36 million, \$25.1 million and \$3.9 million, respectively, at realizable value.▲

The Caisse also manages the holdings of certain other supplemental pension plans, including that of the *Commission de la construction du Québec (C.C.Q.)*.

As at December 31, this plan's assets totalled \$2.8 billion at realizable value, allocated among three accounts: the active participants' account - \$2 billion - (Fund 311), the retired participants' account - \$0.7 billion - (Fund 312) and the additional contributions account - \$0.1 billion - (Fund 313). With the addition

of employees from most other trades, contributions to Fund 313 were almost equal to those of Fund 311 in 1989, at \$32 million. In addition, during the year a \$349 million increase was recorded for the plan, based on income of \$271 million and contributions of \$78 million.▲

The *Commission de la santé et de la sécurité du travail (C.S.S.T.)* entrusts to the Caisse the funds it accumulates to cover industrial-accident and occupational-disease benefits it is required to pay.▲

The Commission receives contributions from all employers for insurance against accidents occurring in their sectors of activity. As at December 31, the C.S.S.T. had assets of \$3.5 billion at realizable value, representing close to 9.6% of total depositors' holdings.

The Commission's holdings at book value increased by \$681 million, which includes income of \$331 million.▲ Despite a reduction in the contribution rate from 2.75% to 2.50%, the C.S.S.T. deposited \$350 million during the year and consequently made the largest amount of contributions to the Caisse in 1989.▲

**T**HE 12.9% RISE IN ADMINISTRATIVE EXPENSES IS ASSO-

CIATED WITH THE INCREASE IN THE CAISSE'S ASSETS AND GROWING USE OF DERIVATIVE FINANCING VEHICLES.

These **administrative expenses** thus increased to \$19.8 million, with salaries representing 60.3%, rent and insurance, 14%, professional fees, 6.6% and other expenses, 19.1%. In accordance with the rules governing the Institution, they are allocated among the various Funds on a pro-rata basis according to the realizable value of investments.▲ In addition, expenses of \$7.6 million related directly to investment-management services performed by other financial institutions were charged against the investment income of the Funds.▲

Although the Caisse has many partners, its employees are one of its fundamental resources.▲ The Caisse is developing its **human resources** management philosophy on a day-to-day

involvement and recognition of efforts in order to ensure a good return and maintain a strong sense of employee involvement, as well as a high level of job satisfaction and motivation.▲

The Caisse's management style is based on delegation of authority. Employees are responsible for managing their own work according to their level of authority. They are also responsible for their decisions and are subject to review and control of their activities. The Caisse is noted for the high calibre and special qualifications of its employees and regards all of them as partners in the pursuit of its institutional objectives.▲

To ensure its employees maintain a high level of professional performance, the Caisse



basis, emphasizing flexible management, which permits swift, coordinated action. The Institution also encourages creativity, innovation and entrepreneurship, which is the very basis of its existence. Lastly, it promotes an environment that encourages initiative,

takes an organized approach to personnel planning, training, development and performance evaluation. Competence is the basic selection criterion. If candidates are equally qualified, in-house promotion takes priority over outside recruiting.

This policy also helps the Caisse maintain significant continuity despite its high growth rate.▲

Lastly, the Caisse always aims for an open and constructive dialogue. It does its utmost to maintain and develop innovative partnership relations with employees, based on mutual trust, integrity and credibility.▲

During the year, the Caisse pursued its objectives of ensuring the continuity and quality of its **information systems** services.▲

It prepared its third information systems master plan, which will enable it to provide administration systems for derivative vehicles, based primarily on the development of portfolio-management tools, and to promote simple, flexible access to internal and external investment data. The master plan will be implemented over three years at a cost of \$8 million.▲

The Caisse also followed up on its applications-development program, primarily to meet needs related to stock markets, foreign exchange contracts, bond options, and performance measurement.▲

Furthermore, regarding **public affairs**, involvement in a large number of investment projects, mergers and acquisitions, and ever-increasing financial activities gave the Caisse a higher profile in 1989, especially in the media.▲

The Caisse continued to produce the economic and financial publications *Cycles et tendances* and *Collection Recherche*, which are available on request, as well as *Savoir-faire*, a bulletin for customers in the medium-sized business niche.▲

Two notable events took place during the year: the Board of Directors of Siparex S.A. visited the Caisse for an extensive program of business meetings, and the Caisse sent a delegation to France to develop corporate investments. As a result, the Caisse and the Caisse des dépôts et consignations signed a cooperation agreement. During this trip, the Caisse held two press conferences to publicize these investment activities, one in Paris and the other in Lyons.▲

During the year, the Caisse completed the implementation of the **Act respecting the protection of non-smokers in certain public places** by introducing the concrete measures required under the Act.▲

MEMBERS OF THE BOARD  
OF DIRECTORS

**Jean Campeau**

Chairman of the Board and  
General Manager

**Claude Legault**

President  
Régie des rentes du Québec

**Claude Béland**

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

**Gisèle Desrochers**

Deputy Minister  
Ministère du Loisir, de la  
Chasse et de la Pêche

**Louis Laberge**

President  
Fédération des travailleurs du  
Québec

**Jean-Charles Lafond**

President  
Commission municipale du  
Québec

**Pierre Michaud**

Chairman and  
Chief Executive Officer  
Groupe Val Royal Inc.

**Gaston Pelletier**

Vice-President  
Corporation financière du  
St-Laurent

**Claude Séguin**

Deputy Minister  
Ministère des Finances

**André Trudeau**

Deputy Minister  
Ministère de l'Environnement

SENIOR MANAGEMENT

**Chairman of the Board and  
General Manager**

**Jean Campeau**

**Senior Vice-Presidents**

**Claude Ferland**

Fixed Income Investments

**Michel Nadeau**

Stock Market Investments  
and Planning  
and Depositors' Affairs

**Daniel Paillé**

Corporate Investments

**Serge Rémillard**

Administration and Control

**Jean-Claude Scraire**

Legal and Corporate Affairs  
and Real Estate Investments

**Corporate Secretary**

**Carmen Crépin**

MANAGEMENT PERSONNEL

**Yves Benoit**

Data Processing

**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**

Public Affairs

**Ghislaine Laberge**

Mortgage Investments

**Hubert Lapierre**

Canadian Stock Market  
Investments

**Richard Lesage**

Economics

**Jacques Malenfant**

Human Resources

**Germain Mathieu**

Real Estate Investments

**Yves Moquin**

Asset Mix

**Walter Murkens**

Depositors' Affairs

**Justin Paquet**

Bond Investments

**Normand Provost**

Corporate Investments -  
Small and Medium-Sized  
Businesses

**Adel Sarwat**

International Stock Market  
Investments

**Alain Tessier**

Finance

# COMBINED SUMMARY FINANCIAL STATEMENTS

## BALANCE SHEET

as at December 31, 1989

	1989	1988
	(in millions of dollars)	
<b>ASSETS</b>		
Investments		
Bonds	17,076	16,276
Shares and convertible securities	10,455	8,782
Mortgages	1,968	1,803
Real estate investments	1,618	651
Short-term investments	2,500	2,035
	33,617	29,547
Other assets	555	512
	<b>34,172</b>	<b>30,059</b>
<b>LIABILITIES</b>		
	831	174
<b>DEPOSITORS' HOLDINGS</b>		
General Fund	18,823	17,664
Individual Funds	14,518	12,221
	33,341	29,885
	<b>34,172</b>	<b>30,059</b>

## STATEMENT OF INCOME

for the year ended December 31, 1989

	1989	1988
	(in millions of dollars)	
<b>INCOME</b>		
Investment income	2,798	2,501
Gains and losses on sale of investments	798	148
Other income	1	1
	3,597	2,650
<b>EXPENDITURE</b>		
Administrative expenses	20	17
<b>NET DEPOSITORS' INCOME</b>	<b>3,577</b>	<b>2,633</b>
<b>ALLOCATION OF INCOME</b>		
Interest on demand and term deposits	40	18
Net income allocated to participation deposit holders	3,537	2,615

*Note: Combined financial statements are provided in the FINANCIAL STATEMENTS AND FINANCIAL STATISTICS booklet of the 1989 Annual Report.*

**FOR INFORMATION:**

**(514) 842-3261**

Should you wish to obtain an additional copy of this report, please contact Public Affairs.

Ce rapport peut aussi être obtenu en français sur demande.

Legal deposit - 1990  
Bibliothèque nationale du Québec

ISBN 2-550-20484-0

ISSN 0835-2143

Design and production:  
Gauthier et Associés

CAISSE  
DE DÉPÔT  
ET PLACEMENT  
DU QUÉBEC

1981, AVENUE MCGILL COLLEGE  
MONTRÉAL (QUÉBEC) H3A 3C7  
(514) 842-3261 TELEX: 055-61874  
TELECOPIER: (514) 842-4833