FIXED INCOME

DESCRIPTION

The Fixed Income asset class consists of four portfolios: Short Term Investments, Bonds, Long Term Bonds and Real Estate Debt. It helps reduce the level of overall portfolio risk and match depositors' assets and liabilities.

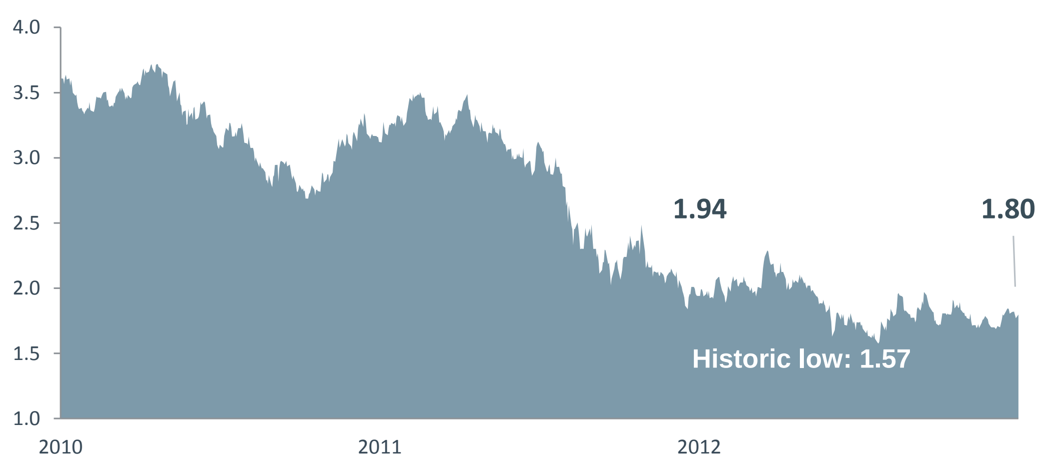
The Bonds portfolio and the Real Estate Debt portfolios, with net assets totalling $51.4 billion, are actively managed, whereas the Short Term Investments and Long Term Bonds portfolios, with net assets totalling $12.6 billion, are index-managed.

MARKET CONDITIONS

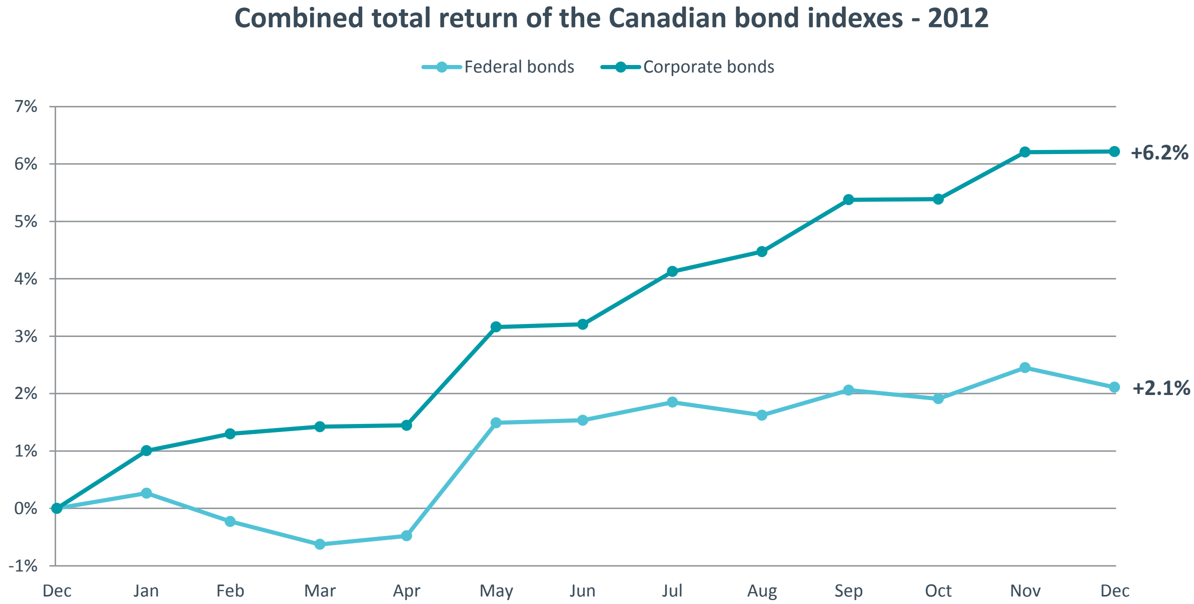
At the start of 2012, the exacerbation of financing problems for some European governments and the slowdown in the emerging economies weighed on the markets. Risk assets declined and the long-term growth outlook was revised downward. In the United States, the economy also slowed and the unemployment rate was slow to decrease as the impact of the earlier stimulus programs tapered off. In Canada, GDP growth was disappointing and the unemployment rate barely budged.

Government of Canada 10-year bond interest rates fell to a historic low of 1.57% in July before ending the year at 1.80%, down only slightly from their level at the start of the year.

Government of Canada 10-year bond yields



The credit market was more profitable in 2012. Various measures helped stabilize the markets: in Europe the Outright Monetary Transaction program was announced, the European Stability Mechanism was created and progress was made toward the creation of a single banking regulator, while in the United States the Federal Reserve announced new support measures. Investors gradually recovered their appetite for risk, which was especially beneficial to corporate bonds, with a 6.2% total return, but came at the expense of Canadian federal bonds, with a 2.1% total return.



HIGHLIGHTS

Returns on specialized portfolios

For the year ended December 31, 2012

	Net assets[1] $ billions	Weight[2] %	Net investment results[1] $ millions	Return %	Index %
Short Term Investments	8.9	5.1	92	1.1	1.0
Bonds	43.8	24.9	1,745	4.3	3.6
Long Term Bonds	3.7	2.1	112	3.4	3.7
Real Estate Debt	7.6	4.3	342	5.1	3.6
Total[3]	**64.0**	**36.4**	**2,291**	**3.9**	**3.2**

[1]Net assets and net investment results are net of operating expenses.
[2]Percentage of the Caisse's net assets.
[3]Possible discrepancies in the totals (figures or percentages) are due to rounding.

After benefiting from substantial declines in interest rates in recent years, the return obtained by these portfolios normalized in 2012. The overall return on the Fixed Income asset class was 3.9%; it generated $2.3 billion of net investment results and exceeded the benchmark index by 0.7%.

SHORT TERM INVESTMENTS

- This portfolio returned 1.1%, outperforming its benchmark index by 0.1%. Its performance reflects an environment of very low short-term interest rates.

BONDS

- The largest share of the assets held by the Caisse is invested in this portfolio: 24.9%, or $43.8 billion, as at December 31, 2012.
- The portfolio returned 4.3%, generating $1.7 billion of net investment results. The return was 0.7% above its benchmark index.
- The positive performance in relation to the benchmark is due essentially to:
    - Strategies focused on the reduction of systemic risk related to the European crisis; and
    - The higher return on corporate bonds.

LONG TERM BONDS

- This index-managed portfolio returned 3.4%.
    - The result essentially reflects the interest income paid on bonds, while interest rates fluctuated very little during the year.

REAL ESTATE DEBT

- This portfolio returned 5.1%, for $342 million of net investment results, outperforming its benchmark index by 1.5%.
    - The higher interest income return explains most of the positive return spread vis-à-vis the benchmark index.