



VALUATION OF INVESTMENTS

The Caisse conducts a complete evaluation of its less liquid investments semi-annually, on June 30 and December 31. These investments represent nearly one-third of the Caisse's net assets. External appraisers and valuation committees composed of independent experts review the Caisse's investment valuations.

PRIVATE EQUITY

- Investments whose fair value exceeds a pre-established materiality threshold are subject to independent valuation committee or external appraiser review.
- Nearly 80% of the fair value of the portfolio is reviewed this way.

REAL ESTATE

- Chartered external appraisers certify the fair value of real estate assets.
- 95% of properties are valued this way.

MARK-TO-MARKET

What does "mark-to-market" mean?

It is the valuation of an investment at fair value—the price obtained from its sale on the market at a given date, under normal competitive conditions.

The Caisse and fair value investment valuation (mark-to-market)

Under today's Canadian accounting rules, the Caisse must set the fair value of its investments based on the assumption that they will be available for sale upon preparing its financial statements.

Private equity and real estate investments, with a long-term holding horizon, are no exception to this rule.

UNREALIZED DECREASE IN VALUE

What is an unrealized decrease in value?

It is a decline in the value of an asset relative to its acquisition cost or previous valuation. This decline stays unrealized as long as the asset remains in the owner's possession. This is what's called a "paper loss."

As long as the asset is unsold, its owner does not incur any actual financial loss. If the value of the asset increases while it is still in the owner's possession, the unrealized decrease in value could be offset, in part or in full, leaving room for profit.

For example, a homeowner who paid \$100,000 a few years ago for his house, appraised at \$250,000 as at December 31, 2008, must have his property assessed again at December 31, 2009. He learns that his house, at that date, is worth no more than \$200,000. Compared to the appraisal as at December 31, 2008, fair value represents a \$50,000 or 20% decline, but still represents a \$100,000 increase in value compared to the price he paid initially.

However, if the owner does not sell his house immediately, this "paper loss" could disappear with a real estate market recovery. In the long run, the value of the house could even continue to appreciate.

What are the 2009 unrealized decreases in value for less liquid investments?

By year-end, some markets benefited from improved liquidity, leading to increases in fair value. In 2009, the illiquid specialized portfolios saw the following increases (decreases) in value:

Unrealized Increases (Decreases) in Specialized Portfolio Values

\$ billions	2009		
	1 st Half Year	2 nd Half Year	Total
Real Estate	(1.8)	(0.6)	(2.4)
Real Estate Debt	(2.2)	(0.3)	(2.5)
Total Real Estate	(4.0)	(0.8)	(4.8)
Private Equity Investments and Infrastructures	(1.3)	2.5	1.2
Asset Backed Commercial Paper*	(0.4)	0.9	0.5
Total	(5.7)	2.5	(3.2)

Note: Table data includes increases and decreases in the values of conventional assets and liabilities and derivatives in each portfolio.

* Now called ABTM (Asset-Backed Term Notes).