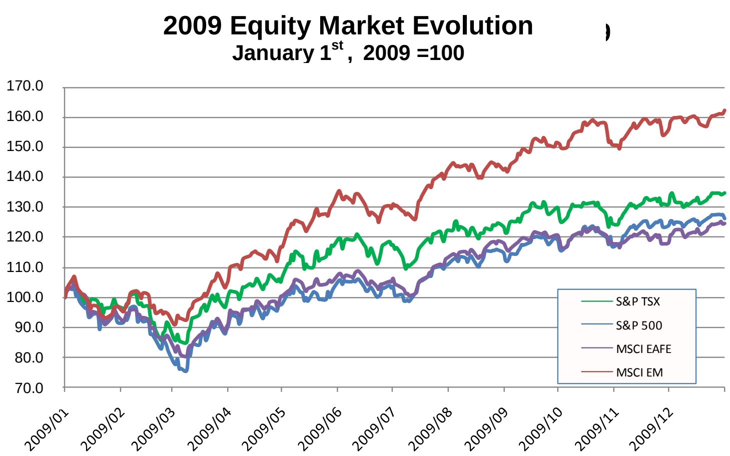
Caisse de dépôt et placement du Québec

EQUITY MARKETS

MARKET CONDITIONS

Early 2009 saw a continuation of the equity sell-off that started in fall 2008. Fuelled partly by fears of another Great Depression, it gained momentum around the world. Between January 1 and the trough of March 9, 2009, Canadian and U.S. exchanges fell, respectively 15% and 25%.

The strong, coordinated policies of governments and central banks—such as the massive injection of liquidity into the financial system and the rescue of major financial institutions—contributed to the return of investor confidence. In the spring, fears of a depression receded and investors underweight in equities contributed to a market rally. All in all, the benchmark indexes climbed between 26% and 62% in local currencies, while equity markets overall returned 30.9% in Canadian dollars.



In local currencies

HIGHLIGHTS

- The group saw an overall return of 31.4%.
- The specialized equity portfolios as a whole outperformed their benchmark indexes by 0.6%. This outperformance is due to active internal management of Canadian and U.S. equity portfolios, which exceeded their added value targets.
- The total value of the specialized equity portfolios rose 75% (or some $20 billion) in 2009.
- In 2009, the Caisse invested $9.6 billion in equities to take advantage of the market recovery.

Return of specialized portfolios
Equity Markets

(For the fiscal year ended Dec. 31, 2009) Percentage

	Weight *	Return	Index	Spread
Canadian Equity	13.0	36.6	35.1	1.6
U.S. Equity (hedged)	0.5	28.7	24.1	4.6
U.S. Equity (unhedged)	3.1	11.3	7.4	3.9
Foreign Equity (hedged)	1.6	22.4	23.5	(1.1)
Foreign Equity (unhedged)	3.6	10.9	11.9	(1.0)
Emerging Markets Equity	3.8	50.9	51.6	(0.7)
Québec International	9.7	26.9	27.7	(0.9)

** : As a proportion of the Caisse's net assets*

CANADIAN EQUITY

- This portfolio returned 36.6%, 1.6% above the S&P/TSX Capped Index. Value added is mainly the result of security selection in the materials and consumer sectors.

U.S. EQUITY (HEDGED)

- This portfolio posted a 28.7% return, 4.6% above the S&P 500 Hedged Index. The outperformance is due to the equity market recovery and security selection in health care, media and telecommunications, energy and technology sectors.

FOREIGN EQUITY (HEDGED)

- The return on this portfolio was 22.4%, 1.1% below the MSCI-EAFE Hedged Index. External management mandates, financial sector security selection and an underweight in Australia, a net result of various strategies and different managers, detracted from performance.

EMERGING MARKETS EQUITY

- This portfolio recorded a 50.9% return, 0.7% below the MSCI-EM Index. This underperformance is due to lacklustre Chinese investments.