



EQUITY

DESCRIPTION

The Equity category consists of seven portfolios: Canadian Equity, Global Equity, Québec International, U.S. Equity, EAFE (Europe, Australasia, Far East) Equity, Emerging Markets Equity and Private Equity. These portfolios basically enhance the expected returns of the Caisse's depositors.

The Canadian Equity, Global Equity and Québec International portfolios, which have \$33.6 billion in net assets, are actively managed. The U.S. Equity and EAFE Equity and Emerging Markets Equity portfolios, which have \$21.3 billion in net assets, are index managed.

The Private Equity portfolio, which has \$17.5 billion in net assets, is actively managed.

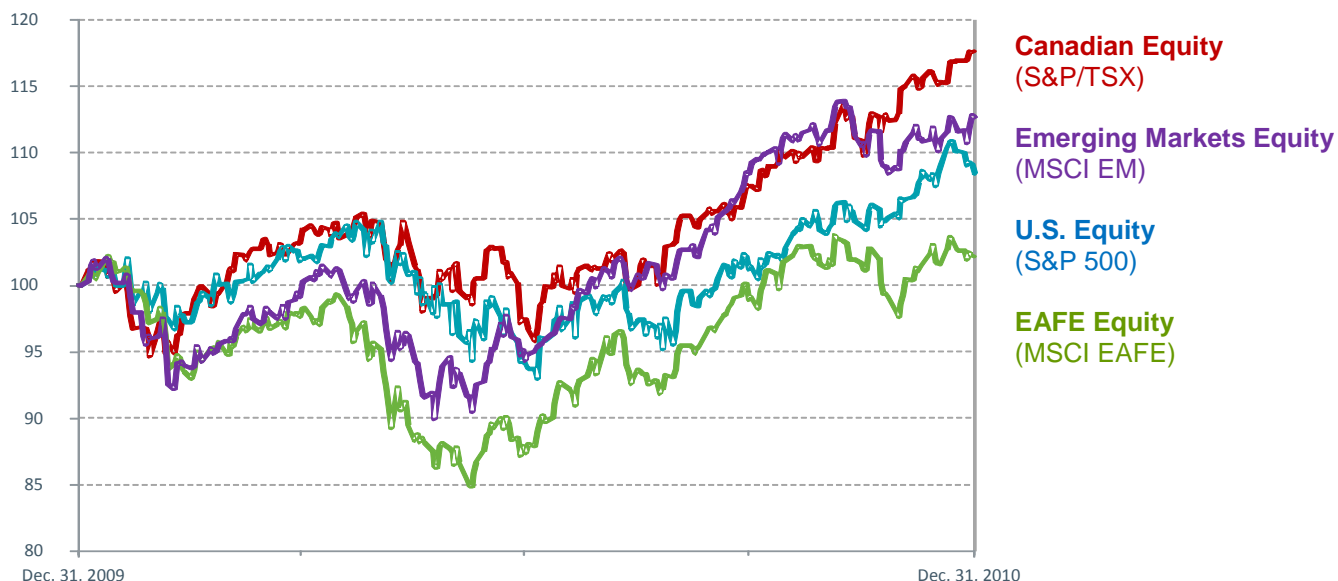
MARKET CONDITIONS

After the strong rally, which began in March 2009, major stock exchanges had a good year in 2010. Overall, returns were more than 10%. This is due to accommodative monetary policies throughout the world, strong emerging market growth and higher corporate profits, particularly in the U.S., where they approached 45%.

From January to September, uncertainty surrounding the eurozone and its potential impact on the global economy stalled markets, keeping indices in fairly neutral territory. The temporary resolution of this crisis, a second round of monetary easing in the U.S. and better economic growth and employment numbers eventually pushed stock markets up in the fourth quarter.

On the private equity front, the year was marked by a gradual recovery in mergers and acquisitions, with most of the increase in the second half. Transactions totalled more than \$2 trillion worldwide, an increase of 23% compared to 2009. The gradual reopening of financing markets led to a resumption of trading and contributed to the revaluation of securities. The high-yield debt market was particularly strong, with issues totalling US\$172 billion. In this environment, private equity firms saw their portfolios stabilize and were more active in the market. About 1,300 transactions, totalling US\$200 billion were completed in the United States.

Stock market trends in 2010 (in Canadian dollars)



HIGHLIGHTS

- The Equity category's overall return was 14.6%, 4.5% above the benchmark index.

CANADIAN EQUITY

- Given its significant exposure to energy and materials, this portfolio delivered an absolute return of 15.7%. In 2010, the Canadian market posted the highest return of the G7 countries. The Caisse allocates the largest portion of its stock market investments in this market.
- Compared to its benchmark index, the Canadian Equity portfolio maintains a greater exposure to large-capitalization companies with compelling fundamentals. In an environment where small companies outperformed their large counterparts, this weight primarily explains the 1.9% underperformance of this portfolio relative to its benchmark index.
- Moreover, the absolute return strategies contributed positively to portfolio performance.
- Over five years, the portfolio has returned 8.0%, 1.5% above the benchmark index.

GLOBAL EQUITY

- This new portfolio, created on April 1, 2010, saw a 7.3% return, 0.3% above the MSCI ACWI (Morgan Stanley Capital International All Country World Index).
- This performance was mainly due to the active management approach of the New York office, namely prudent stock selection in energy, industrials, consumer goods and the absolute return arena.

QUÉBEC INTERNATIONAL

- The Québec International portfolio posted a 14.0% return, outperforming its benchmark index by 0.3%.
- The performance of international markets and Québec high-yield bonds essentially led to this result.

U.S. EQUITY

- These activities returned 9.8%. On April 1, 2010, the portfolio's strategy was changed — it is now an index-managed portfolio.

EAFE EQUITY

- These activities returned 4.1%. On April 1, 2010, the portfolio's strategy was changed — it is now an index-managed portfolio.
- Concerns over the state of public finances and economic prospects of certain European Union members weighed heavily on portfolio performance.

EMERGING MARKETS EQUITY

- This portfolio saw a 12.0% return. Since April 1, 2010, it has been index-managed portfolio.
- Strong economic growth in these markets had positively contributed to portfolio returns. However, performance varied considerably throughout the region.

PRIVATE EQUITY

- The Private Equity portfolio posted a 26.7% return, outperforming its benchmark index. The return was primarily due to improvement in operational performance, debt reduction and higher profits of portfolio companies. Leveraged buyout financing activities contributed nearly 50% to the portfolio's performance. On the development capital front, the result is mainly due to the stake in Quebecor Media, which contributed nearly 25% to the return.
- In early 2010, as part of its new portfolio offer, the Caisse announced that the "Investments" component of the Investments and Infrastructures portfolio would be transferred to the Private Equity portfolio on July 1, 2010. In addition, the Caisse stated it would adopt a new benchmark index that better represents the portfolio's activities and its new mandate. These changes were conveyed to the Caisse's depositors in April and implemented on July 1, as planned.
- The following table shows the effect of this year's index change on this portfolio's benchmark index calculation. As you will see, the new index is linked to the Private Equity portfolio's new mandate: the portfolio returned 10.5% and the index 10.2% in the second half of the year.

	Index 1 st Half: Former Index 2 nd Half: New Index	Portfolio Return 1st Half: Former Mandate 2nd Half: Mandate (Including "Investments")
1 st Half	-7.4%	14.6%
2 nd Half	10.2%	10.5%
2010 Total	2.0%	26.7%

Specialized Portfolio Performance

For the year ended December 31, 2010

	\$BILLIONS	Weight ¹ %	Return %	Index %	Variance %
Canadian Equity	19.3	13	15.7	17.6	(1.9)
Global Equity ²	5.9	4	7.3	7.0	0.3
Québec International	8.4	6	14.0	13.7	0.3
U.S. Equity ³	5.8	4	9.8	9.6	0.2
EAFE Equity ⁴	9.7	6	4.1	3.9	0.2
Emerging Markets Equity	5.8	4	12.0	12.7	(0.6)
Private Equity	17.5	12	26.7	2.0	24.7
Total	72.4	48	14.6	10.0	4.5

¹ Compared to the Caisse's net assets

² Since April 1, 2010

³ This item includes the U.S. Equity portfolios, hedged and unhedged, from January 1 to March 31, 2010 and the new U.S. Equity portfolio since April 1, 2010.

⁴ This item includes the Foreign Equity portfolios, hedged and unhedged, from January 1 to March 31, 2010 and the new EAFE Equity portfolio since April 1, 2010.