



NEW PORTFOLIO OFFER

OBJECTIVES OF PORTFOLIO OFFER CHANGES

As we announced a year ago (see our 2009 Annual Report, p. 66-67), the Caisse significantly changed its portfolio offer in the first half of 2010 with the following objectives in mind:

- Simplify the portfolios and increase transparency;
- Offer greater flexibility to depositors through new investment options and new currency, interest rate and inflation hedging strategies;
- Concentrate active management within asset classes where the Caisse possesses comparative advantages;
- Ensure specialized portfolio coherence and facilitate understanding of their risk-return profiles;
- Reduce and better manage the level of authorized leverage.

INTRODUCTION OF THE NEW OFFER

The introduction of the new portfolio offer involved extensive changes to the investment policies of the depositors, management mandates and investment policies of the specialized portfolios. Consequently, benchmark indexes had to be adjusted to adequately reflect these changes.

To ensure an orderly transition to the new offer, the new portfolios were introduced in three phases: January 1, April 1 and July 1, 2010.

January 1

- Creation of the ABTN portfolio.
- Closing of the Commodities portfolio.
- Adoption of index-based management for the Long Term Bonds and Real Return Bonds portfolios.

April 1

- Creation of the Global Equity portfolio and gradual closing of the Québec International portfolio.
- Adoption of index-based management for the Short Term Investments, U.S. Equity, EAFE (Europe, Australasia, Far East) Equity and Emerging Markets Equity portfolios.
- Establishment of currency overlay strategies.

July 1

- Closing of the Investments and Infrastructures portfolio and transfer of the “Investments” portion to the Private Equity portfolio.
- Creation of the Infrastructure portfolio.
- Transfer of the “corporate bond” component of the Investments and Infrastructures portfolio to the Bonds portfolio and the distressed debt activities of the Bonds portfolio to the Private Equity portfolio.

2010 SPECIALIZED PORTOFLIO OFFER

SEVENTEEN SPECIALIZED PORTFOLIOS GROUPED INTO FOUR BROAD CATEGORIES

The 17 specialized depositor portfolios have been grouped into four categories based on their risk-return profiles:

- The **Fixed Income** category reduces the level of overall portfolio risk and matches the assets and liabilities of depositors;
- The **Inflation-Sensitive Investments** category provides exposure to markets, including inflation-indexed, income-generating investments. This can partly hedge against the inflation risk associated with the liabilities of many depositors;
- The **Equity** category basically enhances the expected returns of depositors;
- The **Other Investments** category provides greater investment diversification.

OVERLAY STRATEGIES

In addition to these 17 portfolios, the Caisse has offered **overlay strategies** since April 1, allowing each depositor to customize a hedge against currency, interest rate inflation risks.

The Caisse enhanced its advisory services to better assist depositors in establishing their investment policies and choosing effective hedging strategies.

FIXED INCOME

- Short Term Investments*
- Bonds
- Long Term Bonds*
- Real Estate Debt

EQUITY

- Canadian Equity
- Global Equity
- Québec International**
- U.S. Equity*
- EAFE Equity*
- Emerging Markets Equity*
- Private Equity

* Index portfolios

** Closing

INFLATION-SENSITIVE INVESTMENTS

- Real Return Bonds*
- Infrastructure
- Real Estate

OTHER INVESTMENTS

- Hedge Funds
- Asset Allocation
- ABTN

FIXED INCOME (four specialized portfolios)

- **Short Term Investment:** index-managed portfolio.
- **Bonds:** actively managed portfolio whose index was changed to reflect a greater proportion of Québec bonds. The portfolio now includes all types of corporate bonds.
- **Long Term Bonds:** index-managed portfolio with a new index that places a greater emphasis on Québec bonds.
- **Real Estate Debt:** actively managed portfolio that focuses on high-quality Canadian mortgages. Its benchmark index was adjusted accordingly.

INFLATION-SENSITIVE INVESTMENTS (three specialized portfolios)

- **Real Return Bonds:** index-managed portfolio.
- **Infrastructure:** actively managed portfolio that includes the “Infrastructures” portion of the former Investments and Infrastructures portfolio. It concentrates on investments with high proportion of current income. A new benchmark index was created accordingly.
- **Real Estate:** actively managed portfolio with a lower maximum leverage level. Its benchmark index was changed to ensure better geographic representation.

EQUITY (seven specialized portfolios)

- **Canadian Equity:** actively managed portfolio that seeks long-term capital growth.
- **Global Equity:** actively managed portfolio that primarily relies on a global sectoral approach and, in the case of emerging markets, a geographic allocation approach. External management is used, whenever necessary, to complement the expertise of Caisse managers. This portfolio will be gradually funded by the December 31, 2012 closure of the Québec International portfolio.
- **Québec International:** portfolio in the process of closing.
- **U.S. Equity, EAFE Equity and Emerging Markets Equity:** index-managed portfolios that are no longer hedged against foreign exchange risk.
- **Private Equity:** actively managed portfolio that includes the “Investments” component of the former Investments and Infrastructures portfolio. Its benchmark index was changed to reflect its new objectives.

OTHER INVESTMENTS (three specialized portfolios)

- **Hedge Fund:** actively managed portfolio with a fund-of-funds strategy .
- **Asset Allocation:** actively managed portfolio that will focus on tactical asset allocation.
- **ABTN:** unfunded portfolio that consists of ABCPs, now called ABTN (asset-backed term notes), established to ensure greater operational transparency.

ADOPTION OF NEW BENCHMARK INDEXES IN 2010

When changes were made to the portfolio offer, the Caisse adopted new benchmark indexes that better represent the new management mandates of the various portfolios. These indexes are generally more efficient — in other words, more demanding for portfolio managers.

The following table shows the benchmark indexes adopted in light of the new portfolio offer.

Specialized Portfolios	2010 Benchmark Indexes
FIXED INCOME	
Short Term Investments	DEX 91 Day T-Bill
Bonds	DEX Universe Bond (Adjusted)
Long Term Bonds	DEX Long Term Government Bond (Adjusted)
Real Estate Debt	Index consists of 90% DEX Universe Bond Index and 10% Giliberto-Levy Index (Hedged)
INFLATION-SENSITIVE INVESTMENTS	
Real Return Bonds	DEX Real Return Bond
Infrastructure	Index consists of a basket of publicly traded infrastructure-related shares (Hedged)
Real Estate	Aon Hewitt – Real Estate (Adjusted)
EQUITY	
Canadian Equity	S&P/TSX Capped
Global Equity	MSCI ACWI (Unhedged)
Québec International	Index consists of 80% DEX Universe Quebec Bond Index and 20% DEX 91 Day T-Bill, plus a basket of equity futures.
U.S. Equity	S&P 500 (Unhedged)
EAFE Equity	MSCI EAFE (Unhedged)
Emerging Markets Equity	MSCI EM (Unhedged)
Private Equity	Index consists of 70% State Street Private Equity (Adjusted) and 30% MSCI World (Hedged)
OTHER INVESTMENTS	
Hedge Fund	Dow Jones Credit Suisse Hedge Fund Index (Adjusted-Hedged)

The U.S. Equity and Foreign Equity portfolios, hedged and unhedged, and the Investments and Infrastructures portfolio were closed during 2010.