Caisse de dépôt et placement du Québec

PRESS RELEASE

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THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC POSTS A 13.6% RETURN IN 2010

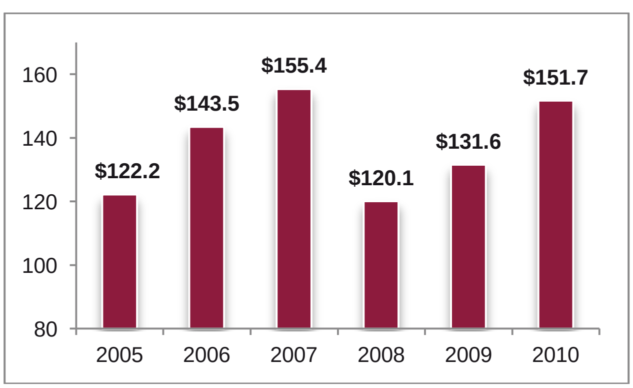
Net assets up $20.1 billion to $151.7 billion

Montréal, Thursday, February 24, 2011 – The Caisse de dépôt et placement du Québec announced that its weighted average return on depositor funds was 13.6% for the year ended December 31, 2010. The Caisse's net assets stood at $151.7 billion at the end of 2010, compared to $131.6 billion at December 31, 2009. This increase is due to net investment results of $17.7 billion, plus $2.4 billion in net deposits.

The three major asset classes contributed to the overall performance and net investment results: Fixed Income (9.7% return and $4.9 billion net result), Inflation-Sensitive Investments (16.3% return and $3.1 billion net result), and Equity (14.6% return and $9.2 billion net result). The Caisse outperformed its benchmark index by 4.1%. Of the 11 actively managed portfolios, representing approximately $122 billion and 81% of total net depositor assets, nine outperformed their benchmark index and added value.

“In a year marked by turbulence, Europe's sovereign debt crisis and fears of a slowdown in the U.S., the Caisse generated strong results on many fronts,” said Michael Sabia, the Caisse's President and Chief Executive Officer. “Our teams successfully repositioned the Caisse to focus on its core business and select quality holdings, while managing the portfolios prudently to take advantage of hard-to-predict market conditions. Of course, we understand that, ultimately, the most important thing is our long-term performance,” he added.

CHANGES IN THE CAISSE'S NET ASSETS – 2005-2010
($ IN BILLIONS)



SUMMARY OF RESULTS

	Return %	Benchmark Index %	Variance %	Valued Added $M
Fixed Income	**9.7**	**7.0**	**2.7**	**1,362**
Inflation-Sensitive Investments	**16.3**	**10.7**	**5.6**	**1,083**
Equity	**14.6**	**10.0**	**4.5**	**2,360**
Caisse Total*	**13.6**	**9.5**	**4.1**	**5,084**

* The total includes hedge fund, ABTN, asset allocation, overlay strategy and cash activities.

2010 ACHIEVEMENTS

During 2010, the Caisse implemented the five priorities of the strategic plan presented earlier in the year. "We kept our commitments and all the objectives related to these priorities, which called for major changes, were achieved on schedule," said Michael Sabia. "More importantly, though, our teams thoroughly and rigorously performed their duties to ensure the long-term strength of the Caisse's foundations."

The main achievements are the following:

- Refocusing of investment strategies on the Caisse's core business and in-depth changes to its portfolio line-up, making it more flexible and better suited to depositor needs.
  - Creation of three portfolios and changes to the mandates of 11 others.
- Establishment of a new client-oriented and efficient operational business model (including operations and information technologies) that will generate $25 million in annual recurring savings.
- Completion of several transactions in Québec, one of which, for example, increased the Caisse's stake in Gaz Métro ($300M). During the year, the Caisse also announced seven investments stemming from its partnership with Capital régional et coopératif Desjardins, enabling the growth of companies in seven Québec regions.
- Continued progress in improving its risk management, including:
  - Reduction of more than 10% in absolute risk and more than 50% of the Caisse's active portfolio risk.
  - Adoption of proactive strategies to mitigate risks in the context of the European crisis and period of rising interest rates.
  - Maintaining a robust cash flow level, at $48.9 billion at December 31, 2010.
  - Decrease of more than 50% of the overall leverage ratio (liabilities vs. total assets), which stood at 17% at December 31, 2010, compared to 23% at December 31, 2009 and 36% at December 31, 2008.
  - $3.7 billion reduction of debt of the Real Estate portfolio, which contributed to lower the leverage level from 55.8% at December 31, 2009 to 47% at December 31, 2010. In addition, the $6.7 billion leverage in the Private Equity and Infrastructure portfolios was completely eliminated.

"In 2010, we continued to build on our comparative advantages and take risks we can control. This allowed us to both reduce our risk and improve our performance. Maintaining a balance between risk and return is fundamental to our investment business," said Mr. Sabia.

MORE DETAILED RESULTS

"All in all, despite an uncertain environment, 2010 ended on a positive note, thanks to a significant rebound of stock markets in the fourth quarter spurred by the extraordinary measures of the IMF, European Union, European Central Bank and U.S. Federal Reserve," said Roland Lescure, the Caisse's Executive Vice-President and Chief Investment Officer. "We managed to navigate this ever-changing environment well, concentrating on quality portfolio assets," he added.

Fixed income

The Bonds portfolio achieved an 8.4% return, 1.6% above its benchmark index. The drop in rates of government bonds, with maturities of five years or more, and the additional yield on corporate bonds, relative to government securities, accounted for most of these results.

The Real Estate Debt portfolio also benefited from declining rates, posting a 17.1% return. Falling mortgage rates in Canada, the U.S. housing market recovery and the sale of U.S. assets, conducted as part of the portfolio refocusing announced in 2009, largely explain the performance of the portfolio, which outperformed its benchmark index by 10%.

Inflation-sensitive investments

The Real Estate portfolio achieved a 13.4% return, outperforming its benchmark index by 1.8%. This performance is mainly due to the strong performance of retail properties in Canada and office buildings in Canada, the U.S. and Europe.

The 25.4% total return of the infrastructure portfolios for the year is due to the resilience of energy assets in the face of market turbulence and the recovery of airport service assets after the financial crisis. These portfolio assets possess strong fundamentals that have improved throughout the year.

Equity

The Equity portfolios had a positive absolute return, benefiting from the market rebound in the second half of 2010. Although the recovery has been uneven around the world, the diversification of the Equity portfolios enabled the Caisse to take advantage of the environment.

In total, the Equity portfolios represent $72.4 billion, approximately 48% of the Caisse's net assets, including $19.3 billion in the Canadian Equity portfolio, $14.3 billion in our Global Equity and Québec International portfolios, $21.3 billion in international stock market index portfolios and $17.5 billion in the Private Equity portfolio.

The Canadian Equity portfolio generated a 15.7% return, 1.9% below its benchmark. This underperformance is primarily due to the portfolio's overweight on large-capitalization companies with strong fundamentals and the dramatic outperformance of small-cap companies in 2010.

The Global Equity and Québec International portfolios slightly outperformed their benchmark indexes, with returns of 7.3% and 14.0%, compared to index returns of 7.0% and 13.7%, respectively. These results reflect the strength of international markets and timely active management picks in energy, industrials and consumer goods.

The index-managed U.S. Equity, Foreign Equity and Emerging Markets Equity portfolios produced returns in line with their benchmark indexes.

The Private Equity portfolio, which achieved a return of 26.7%, significantly benefited from the global recovery in mergers and acquisitions and the rebound of financings in this area. The sharp rise in asset valuations during the year mainly reflected improvements in operating performance, debt reduction and an increase in the profitability of Private Equity portfolio companies. Accordingly, more than two thirds of the 2010's return is the result of activities in leveraged buyout and development financing.

Other

In 2010, the Caisse considerably reduced the risk attributable to the ABTN portfolio. At the same time, improving credit markets led to the portfolio's $509 million positive contribution to the Caisse's net investment results.

ASSET ALLOCATION

At December 31, 2010, the Caisse's asset allocation was the following:

Asset Class	Net Assets $ in Billions	Weight %
Fixed income	55.6	37
Inflation-Sensitive Investments	22.0	15
Equity	72.4	48
Total*	**151.7**	**100**

*The total includes hedge fund, ABTN, asset allocation, overlay strategy and cash activities.

FINANCIAL FOUNDATIONS

The $8 billion refinancing program, completed in June, helped further improve the Caisse's balance sheet. This financing was used to repay short-term debt and better match financing sources and financed real estate assets. This program did not increase the Caisse's total leverage.

During 2010, credit rating agencies maintained their investment grade credit rating, with a stable outlook, namely AAA (DBRS), AAA (S&P) and Aaa (Moody's).

OPERATING EXPENSES

In 2010, the Caisse continued to improve its efficiency, paying close attention to its operating expenses and external management fees. As a result, it achieved its budgetary reduction goal of $20 million announced in spring 2010. Achieving this objective enabled the Caisse to continue to decrease total operating expenses and external management fees, which stood at $269 million in 2010. The ratio of operating expenses to total assets therefore decreased from 22 basis points (bp) in 2009 to 19.4 bp in 2010, a level that compares favourably to best-in-class manager standards.

CONCLUSION

"There are many uncertainties remaining: the situation in North Africa and the Middle-East is evolving rapidly and the sovereign debt crisis in Europe has not been resolved. Moreover, in the United States, employment levels stagnate, the housing crisis persists and, at the same time, the exit strategy for expansionary monetary and fiscal policies is far from finalized," said Mr. Sabia.

"We posted solid results in 2010, but we know we have much work to do to provide good long-term returns to our depositors — given the current uncertainty and market volatility that will prevail in the coming years," added Mr. Sabia.

ABOUT THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

The Caisse de dépôt et placement du Québec is a financial institution that manages funds primarily for public and private pension and insurance plans. As at December 31, 2010, it held $151.7 billion in net assets. As one of Canada's leading institutional fund managers, the Caisse invests in major financial markets, private equity and real estate. For more information: www.lacaisse.com.

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Caisse de dépôt et placement du Québec

Returns

(for the year ended December 31, 2010)

Specialized Portfolio [1]	Net Assets at Dec 31, 2010 ($ in millions [2])	Net investment results ($ in millions [2])	Return %	Index %	Variance %	Variance ($ in millions)
Fixed Income						
Short Term Investments	3,376	18	0.7	0.5	0.1	3
Bonds	40,038	3,161	8.4	6.8	1.6	583
Long Term Bonds	3,598	390	12.3	12.3	0.0	(1)
Real Estate Debt	8,607	1,376	17.1	7.1	10.0	777
Subtotal	**55,619**	**4,945**	**9.7**	**7.0**	**2.7**	**1,362**
Inflation-Sensitive Investments						
Real Return Bonds	939	81	11.1	11.1	0.0	0
Infrastructure[3]	4,333	1,055	25.4	11.3	14.1	784
Real Estate	16,771	1,960	13.4	11.6	1.8	298
Subtotal	**22,043**	**3,096**	**16.3**	**10.7**	**5.6**	**1,083**
Equity						
Canadian Equity	19,312	2,557	15.7	17.6	(1.9)	(271)
Global Equity[4]	5,873	505	7.3	7.0	0.3	24
Québec International	8,442	1,179	14.0	13.7	0.3	34
U.S. Equity[5]	5,761	505	9.8	9.6	0.2	10
EAFE Equity[6]	9,733	530	4.1	3.9	0.2	13
Emerging Markets Equity	5,803	608	12.0	12.7	(0.6)	(27)
Private Equity	17,468	3,306	26.7	2.0	24.7	2,576
Subtotal	**72,392**	**9,190**	**14.6**	**10.0**	**4.5**	**2,360**
Hedge Fund	3,303	200	6.3	6.2	0.1	8
ABTN[7]	(2,613)	509	n.a.	n.a.	n.a.	n.a.
Asset Allocation	632	(77)	n.a.	n.a.	n.a.	n.a.
Total [8]	**151,742**	**17,731**	**13.6**	**9.5**	**4.1**	**5,084 [9]**

1 The following are index-managed portfolios: Short Term Investments, Long Term Bonds, Real Return Bonds, U.S. Equity, European, Australasia & Far East (EAFE) Equity and Emerging Markets Equity.

2 The net assets and net investment results are net of operating expenses.

3 This item includes the Investments and Infrastructures portfolio from January 1 to June 30 and the Infrastructure portfolio since July 1, 2010.

4 This portfolio was launched on April 1, 2010. The net investment results and return are for the period of April 1 - December 31, 2010.

5 This item includes the U.S. Equity (Hedged) and U.S. Equity (Unhedged) portfolios from January 1 to March 31 and the new U.S. Equity portfolio since April 1, 2010.

6 This item includes the Foreign Equity (Hedged) and Foreign Equity (Unhedged) portfolios from January 1 to March 31 and the new EAFE Equity portfolio since April 1, 2010.

7 The ABTN portfolio financing exceeds the fair market value of its investments and mainly accounts for the negative net assets.

8 The net assets and net investment results include overlay strategies and cash activities.

9 ABTN activities, asset allocation, overlay strategies and cash transactions contributed to the total variance.

NEW PORTFOLIO OFFER

OJBECTIVES 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	INFLATION-SENSITIVE INVESTMENTS
• Short Term Investments* • Bonds • Long Term Bonds* • Real Estate Debt	• Real Return Bonds* • Infrastructure • Real Estate
EQUITY	**OTHER INVESTMENTS**
• Canadian Equity • Global Equity • Québec International** • U.S. Equity* • EAFE Equity* • Emerging Markets Equity* • Private Equity	• Hedge Funds • Asset Allocation • ABTN

* Index portfolios

** Closing

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.

FIXED INCOME

DESCRIPTION

The Fixed Income category consists of four portfolios: Short Term Investments, Bonds, Long Term Bonds and Real Estate. These portfolios reduce the level of overall portfolio risk and match the assets and liabilities of depositors.

The Bonds and Real Estate Debt portfolios, whose net assets total $48.6 billion, are actively managed. The Short Term Investments and Long Term Bonds portfolios, whose net assets total $7.0 billion, are index managed.

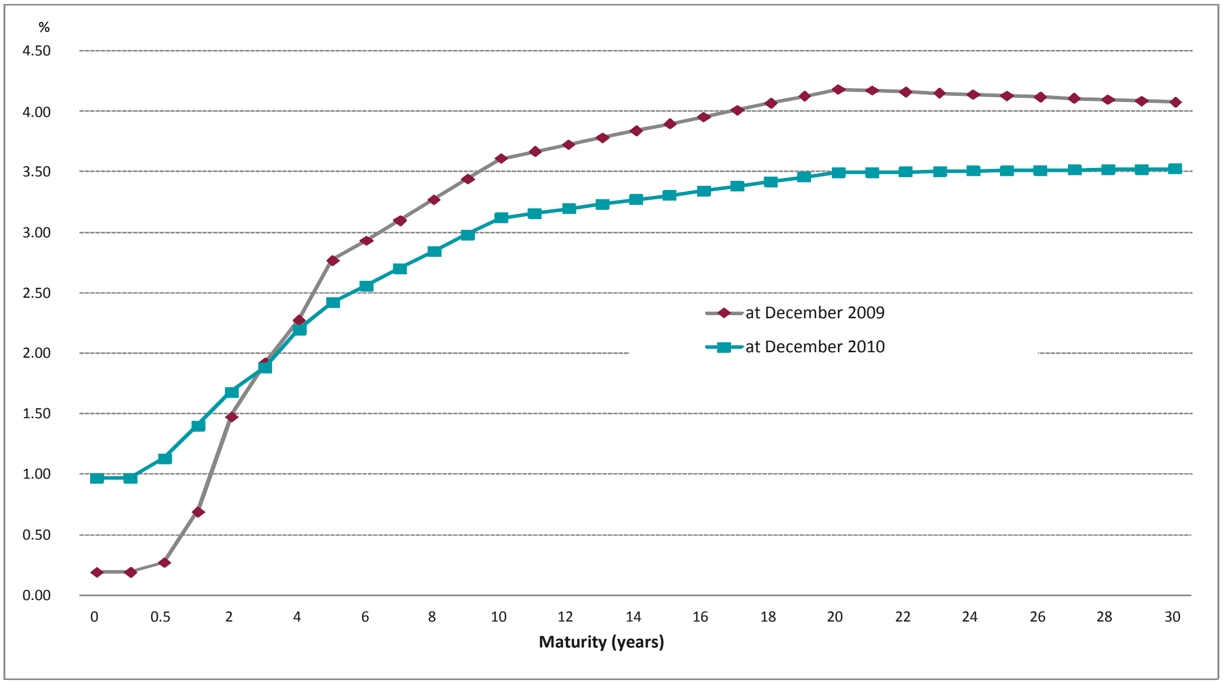
MARKET CONDITIONS

In 2010, global bond markets were initially affected by concerns about the creditworthiness of certain eurozone countries and fears of an economic slowdown in the United States. Support measures by the authorities (IMF, EU and ECB) finally calmed markets in Europe, leading to a gradual narrowing of credit spreads in the fourth quarter. In the U.S., a second wave of monetary easing in the fall was not enough to maintain the downward trend in rates that began in the second quarter. A U.S. economic recovery, coupled with continued tax cuts, was behind a large part of the rate hike in the fourth quarter.

Although the Bank of Canada raised its rates by 25 basis points three times, medium- and long-term Government of Canada bond rates declined before rising again in the fourth quarter. Very popular with foreign investors, the Canadian bond market performed well in 2010, supported particularly by a favourable fiscal situation and strong dollar.

Given an environment of low interest rates, a rebound in quality commercial property market valuations and a return of risk appetite, the real estate debt market saw a substantial improvement in liquidity. In addition, mortgage credit spreads contracted significantly, enabling the market to end the year on a good note.

Changes in Canadian federal bond rates in 2010



HIGHLIGHTS

- The Fixed Income category's overall return was 9.7%, 2.7% above the benchmark index.

SHORT TERM INVESTMENTS

- The portfolio's return was 0.7%. This performance is due to an environment of very low short-term rates.

BONDS

- This portfolio returned 8.4%, 1.6% above its index, generating $583 million in added value.
- Lower medium- and long-term rates (see chart) during the year positively contributed to portfolio returns.
- About three quarters of the added value is due to prudent corporate bond selection. The other quarter comes primarily from provincial and sovereign bond selection.

LONG TERM BONDS

- This portfolio saw a 12.3% return. It is identical to its index.
- This performance can be explained mainly by increases in value related to the decline in long-term rates.

REAL ESTATE DEBT

- This portfolio posted a 17.1% return, 10.0% above its benchmark index, delivering $777 million in added value.
- The decline in Canadian mortgage rates, the U.S. housing market recovery and U.S. asset sales, conducted as part of the portfolio refocusing announced in 2009, were behind this result.

Specialized portfolio performance

For the year ended December 31, 2010

	$BILLIONS	Weight[1] %	Return %	Index %	Variance %
Short Term Investments	3.4	2	0.7	0.5	0.1
Bonds	40.0	26	8.4	6.8	1.6
Long Term Bonds	3.6	2	12.3	12.3	0.0
Real Estate Debt	8.6	6	17.1	7.1	10.0
Total	**55.6**	**37**	**9.7**	**7.0**	**2.7**

[1] Compared to the Caisse's net assets

INFLATION-SENSITIVE INVESTMENTS

DESCRIPTION

The Inflation-Sensitive Investments category consists of three portfolios: Real Return Bonds, Infrastructure and Real Estate. These portfolios provide exposure to markets, including inflation-indexed, income-generating investments. This can partly hedge against the inflation risk associated with the liabilities of many Caisse depositors.

The Infrastructure and Real Estate portfolios, which have $21.1 billion in net assets, are actively managed. The Real Return Bonds portfolio, which has $0.9 billion in net assets, is index managed.

MARKET CONDITIONS

In 2010, the inflation rate in Canada rose to 2.4%, less than 0.5% above the Bank of Canada's 2% long-term target rate. Inflation-sensitive asset classes still saw considerable returns – against a backdrop of falling medium- and long-term rates and a rebound in activity in illiquid markets, such as real estate and infrastructure.

Real return bonds

In the second and third quarter, bond markets saw interest rates drop, followed by upward movement in the fourth quarter. This was also the case for the real return bond market. However, the increase in real interest rates* was slightly lower than the nominal rate hike due to upward inflation expectations for the period.

* Real interest rate equals the difference between the nominal interest rate and inflation rate over a specified period.

Infrastructure

The gradual reopening of credit markets triggered a rebound in activity in the infrastructure sector during 2010. The return of key industry players to the market led to an increase in major transactions in the second quarter. Furthermore, the money accumulated by infrastructure funds reached $19 billion, compared to $10.7 billion in 2009. In addition, the sector's resilience during the last economic cycle encouraged institutional investors to increase their infrastructure weighting in their portfolios. The sector, in particular, presents long-term investment opportunities. Given the state of public finances in developed countries, governments will have to resolve to utilize more private capital to replace their aging infrastructure.

Real Estate

In 2010, low interest rates and increased access to quality asset financing also led to a resurgence of activity in housing markets. The availability of capital and the scarcity of products on the market led to a compression of capitalization rates and, in turn, higher prices for the best assets in Canada and the United States. In contrast, the sovereign debt crisis and fiscal austerity measures in Europe undermined investor confidence in the region's growth potential, which induced a shift of investment, particularly to the United States.

On the emerging market front, their growing popularity with institutional investors also exerted upward pressure on prices.

HIGHLIGHTS

- The Inflation-Sensitive Investments category's overall return was 16.3%, 5.6% above the benchmark index.

REAL RETURN BONDS

- This portfolio posted an 11.1% return. It is identical to the DEX Real Return Bond Index and primarily due to lower long-term real interest rates.

INFRASTRUCTURE

- During the first half of the year, infrastructure and non-infrastructure investments were grouped under the Investments and Infrastructures portfolio. In the second half, infrastructure investments were transferred to the new Infrastructure portfolio.
- For the year, the combined return of these portfolios stood at 25.4%, 14.1% above its benchmark index.
- This return is due to the resilience of all the portfolio assets following the recent financial crisis, particularly the energy and airport service assets, including BAA, Enbridge Energy Partners, Interconnector UK and Noverco (Gaz Métro).
- The portfolio assets possess strong fundamentals that improved during the year and saw an increase in their EBITDA.

REAL ESTATE

- This portfolio returned 13.4%, 1.8% above its benchmark index, generating $298 million in added value.
- This performance is mainly due to the strong performance of retail properties in Canada and office buildings in Canada, the U.S. and Europe. The returns by business segment are as follows: Ivanhoe Cambridge generated 22%, SITQ (office buildings and business parks) 13%, and SITQ (apartments, hotels and investment funds) 3%.

Specialized portfolio performance

For the year ended December 31, 2010

	$BILLIONS	Weight[1] %	Return %	Index %	Variance %
Real Return Bonds	0.9	1	11.1	11.1	0.0
Infrastructure[2]	4.3	3	25.4	11.3	14.1
Real Estate	16.8	11	13.4	11.6	1.8
Total	**22.0**	**15**	**16.3**	**10.7**	**5.6**

[1] Compared to the Caisse's net assets

[2] This item includes the Investments and Infrastructures portfolio from January 1 to June 30, 2010 and the Infrastructure portfolio since July 1, 2010.

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.

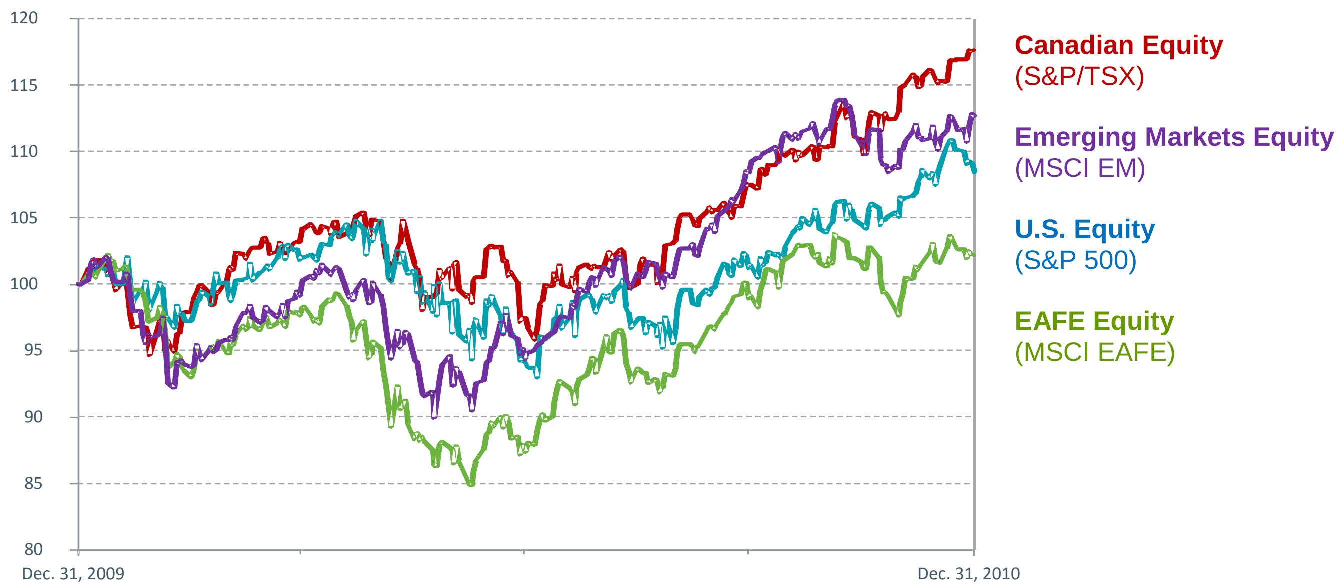
MARKET CONDITIONS

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 1st Half: Former Index 2nd Half: New Index	**Portfolio Return** 1st Half: Former Mandate 2nd Half: Mandate (Including "Investments")
1st Half	-7.4%	14.6%
2nd 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.

VALUATION OF INVESTMENTS

The Caisse conducts a complete evaluation of its illiquid real estate, infrastructure and private equity investments semi-annually, on June 30 and December 31. In accordance with today's Canadian accounting rules, it must set their fair market value for these given dates under normal competitive conditions.

Independent external firms — external appraisers and valuation committees composed of experts in the field — evaluate all important investments. In addition, as part of their audit of the Caisse financial statements, the co-auditors of the Caisse, the Auditor General of Québec and Ernst & Young, review the fair value of various investments.

REAL ESTATE

- Chartered external appraisers certify the fair value of real estate assets.
- 98% of properties are valuated this way.

INFRASTRUCTURE & PRIVATE EQUITY

- Investments whose fair value exceeds a pre-established materiality threshold are subject to independent valuation committee or external appraiser review.
- 94% of the fair value of portfolio investments is reviewed this way.

How does the Private Equity portfolio's fair value measurement compare to stock market valuation trends?

Due to their similar qualities, the fair value of private equity reflects the valuation trends of companies on major stock exchanges. However, the impact on private equity, relative to stock markets, is often delayed and less important.

For example, stock markets plunged about 50% in October 2007. The Caisse's Private Equity portfolio, on the other hand, declined 35% in value much later – in January 2008 (see overleaf).

While the stock market rebound began in March 2009, private equity valuations only started to increase in June 2009. Given a lower starting point, the magnitude of the stock market rebound was higher (75% vs 50%).

Private equity and stock market valuations