Caisse de dépôt et placement du Québec

APPENDIX III

VALUATION OF INVESTMENTS

The Caisse undertakes a full evaluation of its less liquid investments twice a year, at June 30 and December 31, relying on external appraisers and valuation committees comprised of experts that are independent from the Caisse.

MARK-TO-MARKET

What does the expression "mark-to-market" mean?

/ It is a valuation of an investment at its fair value, i.e. the price obtained from its sale on the market at a given date.

/ For example, a homeowner that paid $250,000 several years ago must have his property assessed. He learns that, according to current market conditions, his house is not worth more than $200,000, even though it has been renovated. Compared to the price paid, this fair value represents a drop of $50,000 or 20%.

/ However, if the owner does not sell his home immediately, this "paper loss" could take care of itself through a real estate market recovery. In the long term, the value of the house could continue to appreciate and even exceed the original price paid.

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

/ According to the accounting rules in effect in Canada, the Caisse must set the fair value of its investments by presuming that they are available for sale on the date the financial statements are prepared.

/ Private equity and real estate investments, whose holding horizon is 3 to 5 years, are not an 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 compared to its acquisition cost or previous valuation. This decline is said to be unrealized as long as the asset remains in the possession of the buyer. This is what is called a “paper loss.”

As long as the asset is not sold, its owner does not assume 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 cancelled, in part or in whole.

What are the unrealized decreases in value at June 30, 2009, for less liquid investments?

Since the beginning of 2009, less liquid investments posted the following decreases:

At June 30, 2009	in $B	%
Investments in real estate debt	-2.2	39%
Investments in real estate properties	-1.8	32%
Total real estate	**-4.0**	**71%**
Private equity, infrastructure and investments	-1.3	23%
ABCP	-0.4	7%
Total	**-5.7**	**100%**

GLOBAL PERFORMANCE

What is meant by a neutral performance?

Net investment results as well as the increase in the value of liquid investments (fixed-income securities and stocks) made it possible to compensate for the unrealized decrease in value of less liquid investments.