1973

Eighth Annual Report

UÉBEC DEPOSIT AND INVESTMENT FUND

Eighth Annual Report
1973

Québec Deposit and Investment Fund

The Québec Deposit and Investment Fund is a corporation within the meaning of the Civil Code and an agent of the Crown in right of the Province created by a provincial Act assented to July 15th, 1965.

Bodies whose constituent Act prescribes the deposit of moneys with the Québec Deposit and Investment Fund

- Québec Agricultural Marketing Board
- Québec Crop Insurance Board
- Québec Deposit Insurance Board
- Québec Health Insurance Board
- Québec Pension Board
- Québec Workmen's Compensation Commission

Other bodies availing themselves of the services of the Québec Deposit and Investment Fund

- Government and Public Employees Retirement Plan
- Supplemental pension plans established by collective agreement decrees
- Supplemental pension plan of l'Université du Québec
- Supplemental pension plan of the James Bay Development Corporation
- Supplemental pension plan (C.S.N. – A.H.P.Q. – Ministère des Affaires sociales)

Legal Deposit – 1st quarter 1974
Québec National Library

Board of Directors

Marcel Cazavan, Chairman
General Manager
Québec Deposit and Investment Fund

Judge Gill Fortier, Vice-Chairman
President
Québec Pension Board

Judge Richard Beaulieu*
President
Québec Municipal Commission

Hervé Belzile
President
Alliance Mutual Life Insurance Company

Claude Castonguay
Pouliot, Guérard, Castonguay & Associates Inc.

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Deputy Minister of Finance
Government of Québec

Louis Laberge
President
Québec Federation of Labor

Raymond Lavoie
President and General Manager
Crédit Foncier Franco-Canadien

E.-A. Lemieux*
General Manager – Finance and Accounting
Hydro-Québec

*Associate member

Management

Marcel Cazavan, General Manager
Jean-Michel Paris, Assistant General Manager
Jacques Roy, Executive Assistant

Investment
Bond Department
Roland Lefebvre, Manager
Jean Laflamme, Associate Manager
Guy Liébart, Assistant Manager

Stock Department
Pierre Arbour, Manager
Etienne J. de Kosko, Associate Manager
Jean Arsenault, Assistant Manager
Pierre Dufresne, Assistant Manager
Georges Gratton, Assistant Manager
Raymond Lacourse, Assistant Manager
Claude L. Langevin, Assistant Manager

Private Placement Department
Jean C. Lavoie, Manager
Jacques Doiron, Assistant Manager

Real Estate and Mortgage Department
Gilles Doré, Manager
Dominique Colard, District Manager
Pierre Galarneau, District Manager
Bernard Ranger, Legal Counsel

Deposits
Gérard J. Blondeau, Manager

Economic Research
Pierre Mayer, Associate Manager

Treasury
Guy Rhéaume, Assistant Treasurer
Gody Lienhard, Assistant Manager

Secretariat
Marcel Camu, Secretary

Chairman of the Board and
General Manager

Québec, March 6th, 1974

Raymond Garneau, Esq.
Minister of Finance
Government of Québec

Sir:

In accordance with provisions of the charter of the Québec Deposit and Investment Fund, I transmit herewith our eighth annual management report and statements of accounts for the year ended December 31st, 1973.

As required under Section 41 of the charter, this report contains an outline of policy, a summary of our activities and statements of accounts duly verified by the Auditor-General of the Province, as well as statistical data.

Yours very truly,

M Cazavan

Marcel Cazavan

Management report

During the year ended December 31st, 1973, the assets of the Québec Deposit and Investment Fund increased by some $494 million to reach $2,641,824,432; the income for this eighth year totalled $172,445,180 and the net return on average deposits rose from 7.22% to 7.32%. It was the seventh consecutive annual increase in the return of the investment portfolio. The segregated portfolios also grew significantly with total assets increasing by $34.1 million during the year to reach $85,795,776. As for the portfolios under management, they amounted at year-end to $234,810,940, bringing the total assets managed by the Fund to $2,948,160,554.

The economy in 1973

Following a rapid expansion in the first quarter of 1973, the Canadian economy slackened considerably during the balance of the year due to production bottlenecks and major work stoppages. Notwithstanding the exceptional tensions prevailing on world markets in the areas of exchanges, prices and interest rates, the unemployment rate was reduced in Canada and the floating exchange rate of the Canadian dollar was stabilized in relation to the U.S. dollar. However, the priority given to these two objectives of economic policy was not conducive to the restraint of inflationary trends.

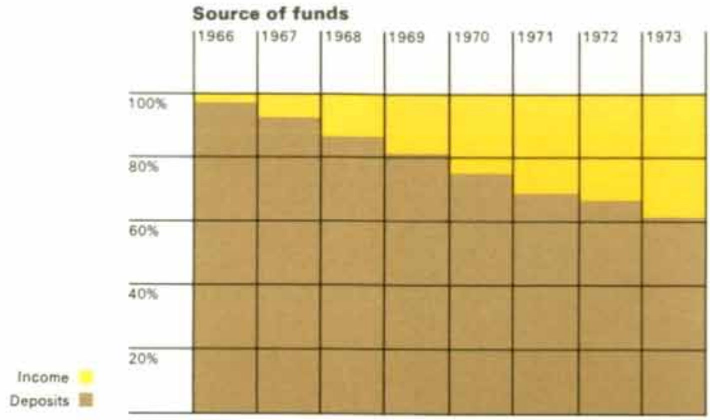
During 1973, the Canadian economy's great dependence on foreign markets constituted the main obstacle to full achievement of the general objectives of the Canadian government's economic policy. Following a world-wide shortage of foodstuffs, an unfortunate coincidence of business cycles in the leading developed nations led to a scarcity of many raw materials. Concurrently, the U.S. dollar was officially devalued a second time and was devalued *de facto* before surging upward in the second half of the year. In an unsuccessful attempt to curb the unusual world-wide inflationary pressures which followed, monetary restrictions were imposed but only led to a general increase in interest rates. As a result of this failure to curb inflation, the Canadian government was forced to enact fiscal policies aimed at alleviating the disturbing impact of inflation on the equitable distribution of income. In October, the embargo on the export of oil products from the Middle East, coupled with the ensuing price increases, compounded the problem and dramatically crystallized the spectre of inflation.

In the area of fiscal matters, for the fourth consecutive year, the federal government tried to stimulate the economy in order to cope with the continuing high rate of unemployment. The Government's political situation and the soaring rate of inflation proved to be the determining factors in the choice of measures announced in the February budget. In addition to a reduction in personal income tax and an increase in old-age pensions, as well as various tax cuts on non-luxury consumer goods, basic exemptions and income brackets were indexed on the rate of inflation. Though in use for some years in the field of government benefit programs, this type of indexing had never been used in the field of taxation in Canada. Such a precedent constitutes implicit recognition that the Government of Canada is unable to cope with the world-wide problem of inflation and suggests further recourse to this technique by governments as well as by the private sector.

With respect to monetary policy, restrictions were imposed during the year, mainly by increasing short-term interest rates rather than by strongly curtailing growth of the money supply. It would appear that the Bank of Canada dealt with inflationary trends while giving priority to full employment and a stable exchange rate, credit expansion remaining liberal while the increase in interest rates stayed well below that prevailing in the United States and in Europe. Partly because of the ensuing outflow of funds on a short-term basis, the Canadian dollar remained close to par in relation to the U.S. dollar despite the successive devaluations of the latter. Also, the emphasis on short-term financing contributed to a significant increase in available funds. During 1973, the Winnipeg agreement was renegotiated six times; the bank and discount rates increased by 2.50% and 3.50%, respectively, while interest rates on certificates of deposit and commercial papers advanced by 3.50% and 4.00%, respectively. However, the money supply increased by 16.8%, personal loans by 24.5% and commercial loans by 27.5%. Despite this substantial expansion of the money supply, the astonishing increase in bank loans was achieved only at the cost of a sharp decline in the overall liquid assets ratio of chartered banks: their net foreign assets taken into consideration, it dropped from 24.9% to 19.8% during the year.

Even though a progressive slowdown occurred during the balance of the year, the first quarter performance was sufficiently high to bring the real growth of the G.N.P. to a level clearly above its long-term potential. This unusual growth was attributed to an intensified consumer market, investments in residential construction, machinery and equipment, as well as exports. Investments in buildings and inventories remained strong despite existing bottlenecks. The resulting increases in wholesale rates and consumer price levels were the highest since 1951. Heavy demand and high profits on inventories resulted in the highest increases in corporate profits since the Second World War. Finally, unprecedented growth in employment, particularly at the beginning of the year, led to a significant reduction in the unemployment rate.

As for foreign trade, Canadian exports and imports, reflecting the effects of inflation, both recorded an advance in the order of 25.5% in 1973, bringing the surplus of the balance of trade to approximately $2.1 billion. Because of the



traditional deficit in invisibles, the current account balance will show a slight deficit of $350 million in 1973. Finally, the balance in the capital account suggests a net capital outflow of only about $100 million.

Investment policy

The Québec Deposit and Investment Fund is a public body which has been entrusted with the management of hybrid capital in an economy of private capital. The bivalent character of the capital managed by the Fund stems from the fact that, on the one hand, these funds are private both in source and application while, on the other, they are temporarily under public ownership. This situation gives rise to two levels of responsibility which could, at times, tend to come into conflict were it not for the Fund's role of trusteeship. In defining investment policy, the trusteeship role, in effect, prevails over all other considerations and enables the reconciliation of investment objectives and constraints within a coherent and rational policy.

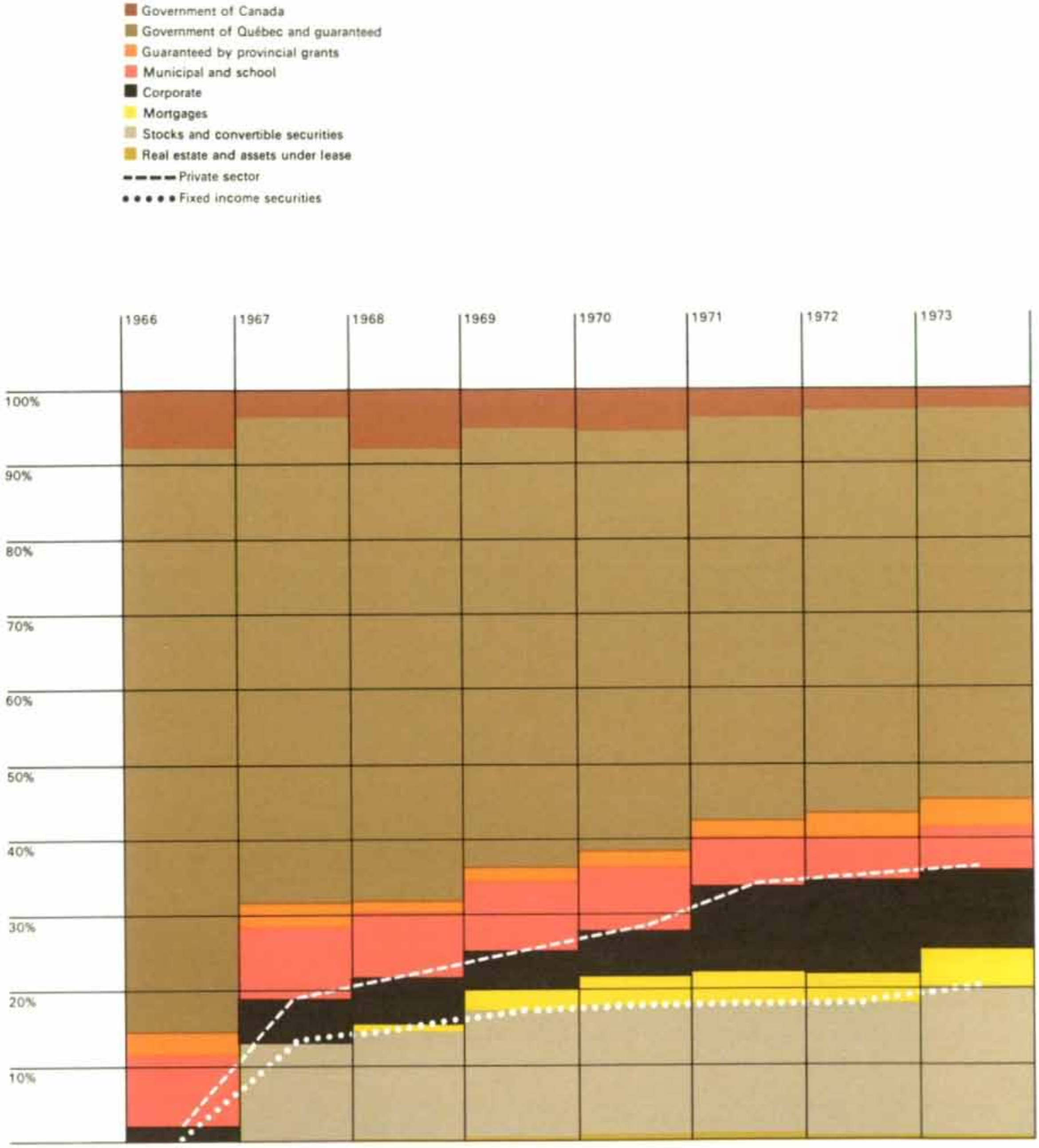
The Fund has no assets of its own. It manages assets which are temporarily entrusted to it by others with the mandate to make them grow while ensuring their security. The role of the Fund is strictly one of trusteeship and must be carried out according to the rules applying to assets under management. The general investment policy of the Fund is therefore based on the long-term nature of the deposits entrusted to it and its goal is to maintain a basic balance between the earnings and the overall risk of the investments.

However, the special origin and nature of the Fund impart a social dimension to its role. Though this social responsibility is ancillary to its duties as trustee, it nonetheless remains a constant concern. The Fund fulfills this role by taking into consideration the social and economic impact of its investments on each of the conventional sectors of investment. Such orientation has led to its rapid and complete acceptance and integration within the network of financial institutions. As an integral part of the complex structure of Canadian financial institutions, the Fund is thus able to effectively extend the influence of its orientation.

The investment policy of the Fund is essentially dual in nature : one is general and the other specific.

Sheltered from rapid or major changes, the general investment policy is an outgrowth of the constituent Act of the Fund and serves as a background to the specific investment policy. The latter is affected by day-to-day activities and, as a result of economic, social and financial factors, is constantly evolving. However, this continuing adaptation is not readily perceptible since it involves the management of a $3 billion portfolio. The Fund's investment policy is best illustrated by an analysis of the evolution of its portfolio during its eight years of existence.

Distribution of long-term investments



Initially made up almost exclusively of securities issued by public bodies, the long-term portfolio of the Fund has gradually evolved towards an almost static distribution of public and private sector securities in the ratio of 64% and 36%, respectively. Should a modification of this distribution prove desirable, the overall investments are so extensive that a protracted period of activity would be required to arrive at a significant change in ratio. A second basic observation concerns the gradual reduction of fixed income securities in favor of variable income securities. These now make up some 19% of the Fund's assets. Though less apparent, this evolution is of great importance since it provides evidence of a general confidence in the future of Québec's economy. In this period of very high interest rates, such investments in variable income securities require that guaranteed incomes be sacrificed for potentially larger but uncertain earnings. However, the inflationary trend of recent years lightens to a certain extent the burden of this decision, particularly when one considers the rate which a taxpaying investor had to obtain in 1973 to maintain the purchasing power of his capital.

To date, the Fund has limited its investment to Canadian securities, mainly of Québec origin, and it is improbable that it will deem it appropriate to change this policy in 1974. Canadian economic growth promises to be more rapid in 1974 than in most other industrialized countries and Canada also should benefit from its relative long-term immunity to the energy crisis which, together with the substantial reduction in the American equalization tax on the purchase of Canadian securities, should promote a better performance by Canadian exchanges.

Bonds

During its eighth year, the Fund increased its long-term bond portfolio by some $290 million, bringing its book value to $1,865,548,010 at year-end. This amount represented 71.9% of all investments, compared with 74.5% the preceding year. The average rate of return of this portfolio increased from 8.10% to 8.19% during the fiscal year.

In the first half of 1973, the economic situation and financial market prospects led the Fund to reduce its activity in the long-term bond sector in favor of the money market. In fact, over 60% of its long-term bond purchases were made only in the second half of the year when interest rates were noticeably higher than during the first half of the year.

The Government of Canada bond portfolio remained basically unchanged compared with 1972, amounting to $57.1 million at year-end. However, an aggressive management policy for this portfolio generated a large number of transactions which resulted in a substantial increase in the returns, from 6.23% to 6.67% during the year.

With respect to Government of Québec and Hydro-Québec bonds, the Fund continued its usual support by subscribing a total of $210 million in new issues, including a $50 million private investment in Hydro-Québec bonds in October. At year-end, this portfolio amounted to $1,317,430,965, with an average yield of 8.16%, compared with 8.07% the preceding year. Some $22.8 million were invested in bonds guaranteed by government grants and issued by hospitals, universities and CEGEPs; this portfolio of securities amounted to $87,814,481 at year-end, with a return of 8.38% compared with 8.44% the preceding year. In the area of municipal and school bonds, the portfolio increased by $19.7 million in 1973 for a total of $141,284,968, with an increased return of 8.29% compared with 8.27%.

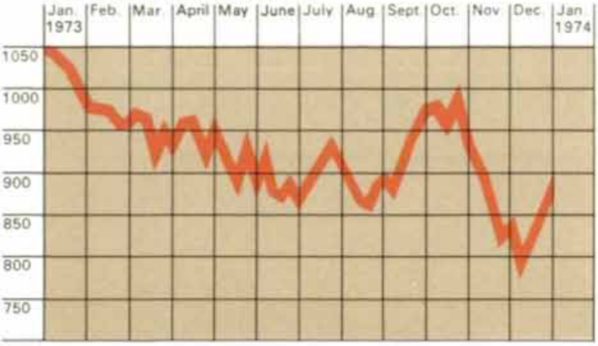
Following a period of intensive accumulation of corporate bonds initiated in 1970, the Fund proceeded to consolidate this portfolio in 1973, mainly to improve its quality. This was carried out to the extent allowed by favorable yield structures and spreads. At year-end, this portfolio had increased by $17.6 million, for a total of $261,895,547 with a return of 8.41%, compared with 8.47% the preceding year. The lower yield is due mainly to the transfer of mortgage investments issued in the form of bonds which, in the past, had been carried in the bond portfolio. During the year, these securities, as well as the convertible bonds, were transferred to the real estate and mortgage and the stock portfolios, respectively. The latter transfer was necessary for administrative purposes. These transfers reduced the book value of the bond portfolio by about $41 million and increased other portfolios by the same amount.

Stocks

After reaching an all-time high of 1051.7 on January 11th, 1973, the Dow Jones industrial average took a downward direction which was to last almost the entire year and affect the Canadian stock market indexes.

The increase in short-term interest rates, the shortage of raw materials as well as the problems of the U.S. administration prompted by the Watergate affair, created a pessimistic atmosphere until August. By then, Dow Jones had lost some 200 points since the beginning of the year. The reduction in the prime rate of certain U.S. banks as well as a more promising outlook for the world economy led to a gain of more than 120 points in the Dow Jones industrial average from mid-August to the end of September. The war between Egypt and Israel and the Arab embargo did not seem to moderate the new optimism of investors, with the result that the upward surge of the Dow Jones and Canadian stock exchanges continued for a number of weeks. This increased activity was related to technical and psychological factors rather than to reassuring economic developments, but pushed Dow Jones to 987 on October 26th, the Montreal index to 249 on November 1st and the Toronto index to an unprecedented peak of 238 on October 29th. The better performance of the Canadian markets was undoubtedly due to a great extent to the continued rise in the price of raw materials, a very favorable circumstance for a number of Canadian companies, and also to the phenomenal increases in the international prices of crude oil since Canadian stock market indexes are strongly influenced by oil stocks. It was only then that the Western world suddenly became aware of the impact of the energy crisis: the shortage of oil supplies, added to its rocketing prices, would reduce, if not paralyze, the economic growth of industrialized countries. From the end of October to the beginning of December, the world stock market plummeted sharply. Within three weeks, Dow Jones dropped nearly 100

Dow Jones industrial index



points to 788 while the Toronto and Montreal stock exchange indexes slipped by nearly 15%.

Acting upon this exceptional stock market situation, the Fund acquired a considerable number of corporate shares in several industrial sectors where it wishes to increase its holdings. At the end of February, it was decided to accelerate the rate of purchase of shares, particularly in companies which were likely to benefit from the devaluation of the dollar. The November downward trend also enabled the Fund to complete an ambitious acquisition program. Finally, with the strengthening of markets in December, the Fund was able to reduce to some extent those holdings which had become vulnerable because of the high oil prices.

The 1973 economic situation and the stock market prospects thus resulted in a large number of transactions which significantly changed the distribution of the Fund's stock portfolio. Holdings in sectors such as "public utilities", "banks and finance", "consumer goods and services" and "forest products" were greatly reduced while those in "heavy and secondary industries" and "oil and gas" were increased; furthermore, the sector of "real estate companies" was added to the list to encompass a group of newly acquired securities.

Net stock purchases amounted to $117.6 million during the year, bringing the market value of the stock portfolio to $531 million and its book value to $491,655,228. At December 31st, 1973, this portfolio constituted 18.9% of the Fund's total portfolio, compared with 16.7% at the end of 1972. During the year, the capital surplus of the stock portfolio diminished by $33.7 million, representing a reduction of 8% of the average book value. In the same period, the composite index of the Montreal Stock Exchange, the Toronto Stock Exchange and the Dow Jones industrial average recorded respective reductions of 5.47%, 3.77% and 16.58%.

The capital surplus of the stock portfolio excludes dividends and interest on convertible securities amounting to $15,942,802; this income represents a yield of 3.72% on the average book value, compared with 3.39% in 1972.

Real estate and mortgages

In the real estate and mortgage sector, the Fund's investment policy continues to be oriented towards the financing of new construction within the limits of the province. Designed to stimulate the construction industry, the policy also has the effect of relating the growth of the portfolio to the rate of activity in the construction industry and of introducing a considerable lapse of time between the moment funds are committed and the time they are disbursed upon completion of the work. During 1973, the Fund disbursed some $51.2 million as a result of commitments made mainly in 1971 and 1972. Concurrently, new commitments totalling nearly $90 million were made, bringing total commitments to some $150 million at year-end. The commitments will result in disbursements either as mortgages or mortgage bonds during the 1974 to 1976 period.

Mortgage interest rates were on the increase during most of the year, rising from slightly more than 9% to 10% in the last quarter. The market nevertheless became highly competitive for good quality loans. At the end of the year, the overall supply of capital exceeded demand.

While the present number of construction projects is greater than at any other time in recent years, short- and medium-term prospects are not overly promising for the construction industry. Handicapped by a manpower shortage which cannot be overcome on the short-term, the construction industry has now been hit by an unprecedented shortage of materials since the postwar period. This scarcity of materials has resulted in considerable price increases along with unstable markets ; suppliers often refuse to set prices prior to the delivery date. A substantial increase in the cost of projected construction, as well as a slowdown in construction starts, can be expected.

On December 31st, 1973, the real estate and mortgage portfolio amounted to $151,319,003, broken down on the basis of 43.3% in residential buildings, 29.7% in commercial real estate, 17.3% in office buildings and 9.7% in industrial buildings. Commitments made in 1973 were lower in the residential sector and proportionately higher in the commercial sector. From 9.28% at the beginning of the year, the return of the portfolio declined to 8.98% at the close of the year.

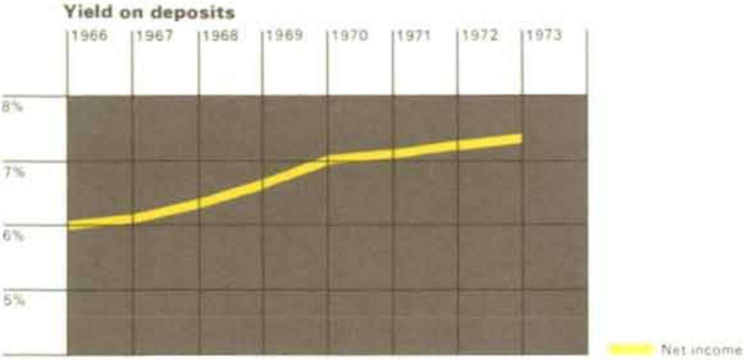
Private placement

The upturn in activity which took place in the private investment sector during the last quarter of 1972 continued during the first quarter of 1973. However, the deterioration of stock markets led to a slowdown in the level of activity during the second quarter. Faced with higher interest rates and lower price-earning ratios, a number of corporations chose to defer their expansion or refinancing projects. In addition, some companies recorded higher profits in 1973 and were able, with the cooperation of banks, to finance their smaller expansion projects internally. At the end of the year, the energy crisis led most companies to reconsider the orientation and advisability of their expansion plans.

This situation prompted a reduction in the number of financing applications submitted to the Private Placement Department. The slowdown occurred mainly at the level of the more marginal applications with the result that disbursements and commitments nevertheless increased substantially during the year.

The Fund, through its Private Placement Department, financed or committed itself to participate financially in the establishment of four new Québec companies in 1973. Completed or committed financing during the same period was broken down on the basis of 40% in service industries and 60% in manufacturing industries.

During the year, the Private Placement Department effected nine financings of an overall nominal value of $12,692,200, broken down as follows : 53% in bonds, 46% in shares or secur-



ities convertible to shares, and 1% in mortgages. Commitments at the end of the year amounted to $9.9 million.

Payments to depositors

Expressed in terms of rate of return on the average balance of deposits during the year, the gross return on investment rose from 7.299% in 1972 to 7.415% in 1973, while the net return reached 7.316%, compared with 7.219% the preceding year; calculated on the same basis, administrative expenditures were 0.099% in 1973, an increase of 0.002%, taking into account the adjustments required by the change in accounting procedures for amortization of fixed assets.

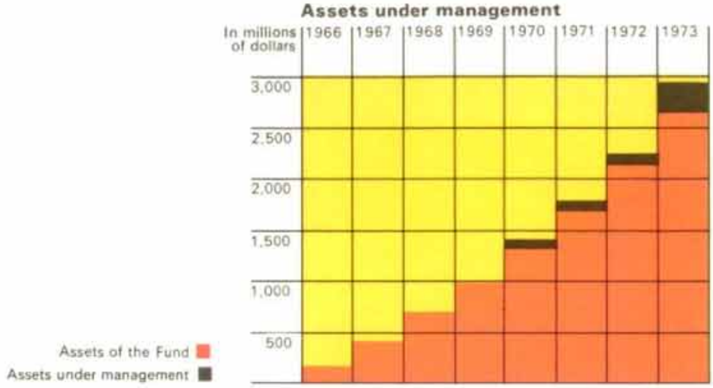
As a result of the slump in the stock market but especially because of the plunge of the bond market, the Fund's investment portfolio dropped from a capital surplus of $74.9 million to a deficit of $54.3 million during the year. On the other hand, the average rate of return on the overall long-term investment portfolios of the Fund stood at 7.360% at year-end, compared with 7.309% the preceding year.

The average balance of demand deposits in 1973 was $41,964,381. Interest of $2,598,300 was paid on these deposits at a rate which fluctuated between 4.46% and 8.09% and averaged 6.19%, compared with 4.23% the preceding year. Interest totalling $1,769,188 was paid on term deposits, whose average balance was $24,201,301, representing an average rate of 7.31%. The average balance of notice deposits was $2,259,482,301. Income distributed amounted to $165,787,269, or the equivalent of a rate of return of 7.34%, compared with 7.32% in 1972. The average rate paid by the Fund on overall deposits was 7.316% in 1973, compared with 7.219% the preceding year.

Segregated portfolios and portfolios under management

Since 1970, the Fund has been entrusted with the management of the funds of an increasing number of public or semi-public pension funds. The administration and acquisition of securities on behalf of these various pension funds are subject to the provisions of the Supplemental Pension Plan Act. Furthermore, such securities must be kept separate from other investments. In practice, this is achieved by the Fund through its segregated portfolios and portfolios under management. During 1973, the book value of the overall assets so entrusted to the Fund rose to $320,606,716.

All sums deposited by the administrator of a supplemental pension plan empowered to deal with the Fund are accumulated in the form of demand or term deposits and are periodically distributed in the segregated fixed-income securities, stocks or mortgage loan portfolios according to the proportions agreed upon and set in advance in keeping with the particular requirements of each plan. Such periodic distributions are carried out through the purchase of units in the various segregated portfolios, at a price equal to the unit liquidation value of the net assets of each portfolio.



When the assets of a plan include real estate or other securities at the time the administrator entrusts their management to the Fund, they are managed within the framework of a mandate which provides for their gradual and orderly liquidation and reinvestment in segregated portfolios. To this end, the by-laws of the Fund since 1970 include a series of provisions and mechanisms enabling it to conclude agreements concerning the management of supplemental existing or future pension plans of enterprises in the public sector.

In 1973, the Fund was empowered to administer the Government and Public Employees Retirement Plan. In keeping with an Act adopted on July 6th, 1973, the organization office of this pension plan made its first deposit on August 24th, 1973. Subsequently, the administrative committee of the pension plan became its administrator. The number of supplemental pension or retirement plans entirely or partly managed by the Fund thus increased to five.

In 1973, the Fund received deposits totalling $21,341,394 from the participants in its segregated funds. These new deposits, together with the proceeds of the liquidation of securities and the income from portfolios under management, as well as the reinvestment of income from segregated portfolios, brought the consolidated assets of the latter to $85,795,776, an increase of $34.1 million for the year.

On December 31st, 1973, the assets of the three segregated portfolios were made up mainly of long-term investments broken down as follows: $30,209,246 in bonds and other certificates of indebtedness, $18,563,375 in ordinary or preferred shares and in convertible debentures and $25,307,348 in mortgages; the proportion of investments in the private sector amounted to 82.9% at that date.

Assets of the segregated bond portfolio increased by $14 million in 1973 to reach $31,200,032. The average return on long-term securities rose by 0.25% during the year, reaching 8.51%. In the distribution of the portfolio, corporate bonds represented 58.2%, approximately the same percentage as in the previous year. The liquidation value of each of the 22,099 units outstanding at December 31st was $1,375.74, compared with a book value of $1,411.83. Despite a 7% reduction in the long-term bond market in 1973, the liquidation value of the segregated bond portfolio unit nevertheless increased by 3.39% during the year.

Total assets of the segregated stock portfolio increased by 58.4% in 1973 and amounted to $21,556,721 at year-end. In view of the condition of stock markets at that time, the proportion of short-term deposits represented 16% of total investments. Investment income during the year, including profits on the sale of securities in the amount of $1,431,040, reached $2,083,419. The unit liquidation value of the 16,135 units of participation outstanding at December 31st, 1973, was $1,265.86, compared with a book value of $1,336.02. Although stock market indexes dropped considerably in 1973, to the point of resulting in "negative performances" for many common stock funds offered by North American financial institutions, the segregated stock portfolio unit value nevertheless increased by 0.76% during the year.

The segregated mortgage portfolio continued its progress at an accelerated rate in 1973, reaching $33,039,023 at year-end, while the average return of mortgages paid in full or in part was 9.37%. During the year, the value of units in the portfolio rose to $1,234.78, an increase of 8.87% in comparison with December 31st, 1972.

In 1973, the Québec Workmen's Compensation Commission became the sixth body to entrust management of its investments to the Fund. On the date the agreement was signed, the Commission's portfolio consisted exclusively of bonds whose nominal value was close to $200 million.

Board of Directors

During the year, the Fund was deeply bereaved by the sudden and untimely death of its Chairman and General Manager, Mr. Claude Prieur. The head of the Fund since its establishment, Mr. Prieur's qualities of humanism and leadership had earned him the respect and admiration of all. The Fund will forever bear the mark of this man who gave it direction during its first seven years of existence.

Mr. Marcel Cazavan, who as Deputy Minister of Finance had been an Associate member of the Board of Directors of the Fund from 1966 to 1972, was appointed to succeed Mr. Prieur as Chairman and General Manager.

During the year, Messrs. Claude Castonguay and Claude Forget were appointed members of the Board of Directors to replace Mr. Charles B. Neapole, whose term had expired, and Mr. Michel-F. Bélanger, who, following his appointment as President of the Montreal Stock Exchange, resigned as the Government representative on the Board of Directors. Subsequently, Mr. Forget submitted his resignation to become a Member of the Québec National Assembly. Early in 1974, Judge Richard Beaulieu was appointed to the Board of Directors to succeed Judge John F. Sheehan.

The Fund wishes to express its appreciation to Messrs. Neapole, Bélanger, Forget and Sheehan for the priceless assistance they so generously gave.

Staff

At year-end, the regular staff of the Fund consisted of 84 employees.

The Board of Directors, recognizing that the results of the year would not have been possible without the invaluable cooperation of the officers and employees, expresses its gratitude to all the members of the staff for their dedication.

On behalf of the Board of Directors,

M Cazavan

Chairman

Québec, March 6th, 1974

Financial Statements

Balance sheet

as at December 31st, 1973

Assets

	1973	1972
Investments (Note 2)		
Bonds	**$ 1 865 548 010**	$ 1 564 642 417
Shares and convertible securities	**491 655 228**	356 065 176
Mortgages (Note 3)	**128 900 001**	79 830 962
Real estate (Note 4)	**22 419 002**	20 221 998
Assets under lease	**1 488 442**	1 740 320
Short-term investments	**85 943 437**	90 875 167
	$2 595 954 120	$ 2 113 376 040
Cash	**2 303 014**	357 508
Investment income receivable	**42 563 781**	32 870 314
Fixed assets, at amortized cost (Note 5)	—	256 668
Other assets	**1 003 517**	746 072
	$ 2 641 824 432	$ 2 147 606 602

The accompanying notes form an integral part of the financial statements

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Liabilities

	1973	1972
Deposits		
Notice deposits (Note 6)	**$ 2 445 923 839**	$ 2 002 310 035
Term deposits	**42 100 000**	19 000 000
Demand deposits	**46 886 917**	54 444 753
	$ 2 534 910 756	$ 2 075 754 788
Accrued interest on deposits	**47 089 267**	37 378 265
Transactions under settlement (Note 7)	**7 953 676**	—
Other liabilities	**800 292**	1 122 997
	$ 2 590 753 991	$ 2 114 256 050
General reserve (Note 8)	**51 070 441**	33 350 552
	$ 2 641 824 432	$ 2 147 606 602

Auditor's Report

In accordance with Section 43 of the Québec Deposit and Investment Fund Act, I have examined the balance sheet of the Fund as at December 31st, 1973, and the statement of income and expenditure for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the investments and the operations of the Fund were made in compliance with the Act; the accompanying balance sheet and statement of income and expenditure present fairly the financial position of the Québec Deposit and Investment Fund as at December 31st, 1973, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Robert Noël, C.A.
Assistant Auditor-General
Québec, March 6th, 1974

Statement of income and expenditure

for the year ended December 31st, 1973

Income	1973	1972
Investment income		
Interest on bonds	$ 138 858 235	$ 112 879 020
Dividends and interest on convertible securities	15 942 802	9 955 618
Interest on mortgages	9 253 818	7 041 093
Real estate and leased asset revenue	1 877 514	1 953 618
Net interest on short-term investments	6 177 182	5 556 918
	$ 172 109 551	$ 137 386 267
Other income	202 765	439 346
Administrative fees*	132 864	67 191
	$ 172 445 180	$ 137 892 804
Expenditure		
Directors' fees and expenses	$ 6 173	$ 4 635
Salaries and fringe benefits	1 194 398	984 962
Travel expenses	52 312	46 742
Legal, professional and bank charges	237 615	120 784
Premises and office equipment (Note 5)	683 263	330 759
Documentation and stationery	68 640	50 976
Other expenses	48 022	49 359
	$ 2 290 423	$ 1 588 217
Net operating income	$ 170 154 757	$ 136 304 587
Less: Interest on demand and term deposits	4 367 488	2 981 948
Net income	$ 165 787 269	$ 133 322 639

The accompanying notes form an integral part of the financial statements

*Administrative costs charged to supplemental pension plans managed by the Fund

Summary of allocation of net operating income

	Interest on deposits		
	Demand and term deposits	Notice deposits	Total
Balance of accrued interest at the beginning of the year	$ 419 055	$ 36 959 210	$ 37 378 265
Net operating income	4 367 488	165 787 269	170 154 757
	$ 4 786 543	$ 202 746 479	$ 207 533 022
Transfers to deposit accounts	3 526 112	156 917 643	160 443 755
Balance of accrued interest at year-end	$ 1 260 431	$ 45 828 836	47 089 267

Deposit accounts — Summary of transactions

	Deposits		
	Demand and term deposits	Notice deposits	Total
Balance at the beginning of the year	$ 73 444 753	$ 2 002 310 035	$ 2 075 754 788
Deposits	298 712 213	—	298 712 213
Transfers	(286 696 161)	286 696 161	—
Interest	3 526 112	156 917 643	160 443 755
Balance at year-end	$ 88 986 917	$ 2 445 923 839	$ 2 534 910 756

General reserve

	1973	1972
Balance at the beginning of the year	**$ 33 350 552**	$ 19 671 769
Net profit on sale of investments	**17 719 889**	13 678 783
Balance at year-end	**$ 51 070 441**	$ 33 350 552

Notes to the financial statements

Note 1
The financial statements include the accounts of the Fund and its wholly-owned subsidiary, Cadim Inc.

Note 2
Shares, land and short-term investments are accounted at cost while other investments are at amortized values. At December 31st, 1973, the market value of investments was $2,541,605,056.

Note 3
Mortgages include an amount of $35,713,552 (1972, $6,950,000) of loans approved in the form of bonds guaranteed by trust deed.

Note 4
Real estate has been reduced by $628,201 representing the sum due on a mortgage assumed by the Fund.

Note 5
Prior to January 1st, 1973, the amortization of fixed assets other than immovables was charged to expenditure according to the straight line method of amortization. In 1973, the Fund decided to adopt the method followed by certain government bodies by charging the disbursements for fixed assets directly to operating expenditure. The unamortized balance of fixed assets at December 31st, 1972, has been charged to operations in 1973, which has the effect of reducing net income by $256,668 for the year ended December 31st, 1973.

Note 6
Notice deposits consist of 2,766,422.772 units of participation giving their holders a proportionate share in the net assets and net income of the Fund.

Note 7
The transactions under settlement represent securities purchased during the last days of the fiscal year and not delivered by brokers and investment dealers as at the balance sheet date. Prior to January 1st, 1973, these securities were accounted for only when delivered. This revised method more accurately reflects the investment position of the Fund.

Note 8
The general reserve is made up of net profits on sale of investments and is used as an adjusting account on withdrawals of notice deposits.

Note 9
The figures for 1972 have been reclassified to conform with those of 1973.

Statistical information

Yield on deposits

	Amount	Yield equivalence on average deposits*
Gross income	$ 172 445 180	7.415%
Expenditures	2 290 423	0.099%
Net operating income	$ 170 154 757	7.316%

*Average balance of deposits amounted to $2 325 647 983

Average interest rate paid on deposits

	Average deposits	Interest paid or due	Average yield
Demand deposits	$ 41 964 381	$ 2 598 300	6.192%
Term deposits	24 201 301	1 769 188	7.310%
Notice deposits	2 259 482 301	165 787 269	7.337%
Total	$ 2 325 647 983	$ 170 154 757	7.316%

Summary of investments as at December 31st, 1973

% Book value		Nominal value
71.86%	**Bonds**	
	Government of Canada	$ 59 370 000
	Government of Québec and guaranteed	1 321 335 500
	Guaranteed by provincial grants	90 369 000
	Municipal and school	148 656 000
	Corporate	265 079 000
		$ 1 884 809 500
18.94%	**Stocks and convertible securities**	
	Public utilities	
	Banks and financial	
	Consumer goods and services	
	Heavy and secondary industries	
	Oil and gas	
	Mines and metals	
	Forest products	
	Real estate companies	
	Convertible securities	
3.56%	**Mortgages**	
1.38%	**Mortgages guaranteed by trust deed**	
0.89%	**Real estate**	
0.06%	**Assets under lease**	
3.31%	**Short-term investments**	
100.00%	**Total investments**	

Note At December 31st, 1973, the net cumulative profit on sale of investments was $51 070 441

Book value	Percentage	Weighted average yield	Market value
57 122 049	3.06%	6.67%	$ 53 494 087
1 317 430 965	70.62%	8.16%	1 254 511 229
87 814 481	4.71%	8.38%	82 881 452
141 284 968	7.57%	8.29%	132 049 933
261 895 547	14.04%	8.41%	248 987 014
1 865 548 010	100.00%	8.19%	$ 1 771 923 715
$ 82 901 028	16.86%	4.78%	$ 74 250 584
64 189 460	13.06%	5.45%	88 666 960
50 991 022	10.37%	2.50%	49 165 691
117 081 343	23.81%	3.53%	125 165 805
72 258 148	14.70%	1.41%	80 046 192
62 669 359	12.75%	3.34%	69 205 896
18 701 835	3.80%	5.06%	21 546 038
1 406 562	0.28%	1.93%	1 728 650
$ 470 198 757	95.63%	3.60%	$ 509 775 816
21 456 471	4.37%	6.41%	21 154 643
$ 491 655 228	100.00%	3.72%	$ 530 930 459
$ 93 186 449	61.58%	8.51%	$ 93 186 449
35 713 552	23.60%	9.68%	35 713 552
22 419 002	14.82%	9.80%	22 419 002
$ 151 319 003	100.00%	8.98%	$ 151 319 003
$ 1 488 442		8.00%	$ 1 488 442
$ 85 943 437		8.80%	$ 85 943 437
[illegible]5 954 120			$ 2 541 605 056

Statement of immovables held as at December 31st, 1973, and rented under long-term leases

Localities	*Land and buildings*	*Cost*	*Amortized value*
Baie d'Urfé	Lots (327-1, part 58-1 and part 343) Parish of Ste-Anne	$ 831 813	$ 798 165
Dorval	Lots (87 and 88) Parish of Pointe-Claire	725 000	694 796
Laval	Lot (616-3) Parish of St-Martin	900 000	818 377
Laval	Lots (616-7, 617-3) Parish of St-Martin	892 710	847 790
Pointe-Claire	Lot (130-17) Parish of Pointe-Claire	580 000	536 079
Pointe-Claire	Lots (116-7, 117-6) Parish of Pointe-Claire	1 300 000	579 717
Ste-Foy	Lots (86-51, 87-122, 91-48) Parish of Ste-Foy	653 000	605 833
St-Laurent	Lots (477-3, 475-413) Parish of St-Laurent	1 400 000	1 321 540
Town of Mount Royal	Lot (577-4) Parish of St-Laurent	1 844 000	1 685 218
		$ 9 126 523	$ 7 887 515

	Land		
Alma	Lots (36-B-1, 37-1 Rang 4) Labarre District	$ 300 000	$ 300 000
Baie Comeau	Lots (9-240, 241) Town of Laflèche, Saguenay	40 000	40 000
Cap-de-la-Madeleine	Lots (552-5, 6, 7, 553-4, 5, 6, 554-21, 22) City of Cap-de-la-Madeleine	200 000	200 000
Côte St-Luc	Lot (101-141) Municipality of the Parish of Montreal	80 000	80 000
Dollard-des-Ormeaux	Lot (244-145) Parish of Ste-Geneviève	53 000	53 000
Hull	Lots (345, 346, 355, northern half of lot 358 and northern half of lot 356) Subdivision 5	150 000	150 000
Hull	Lots (244-626, 244-363, 364, 365, 366, 244-408, 409, 410, 244 part 595) Subdivision one	560 000	560 000

Localities	*Land*	*Cost*	*Amortized value*
LaSalle	Lot (995-3519) Parish of Lachine	$ 55 000	$ 55 000
Laval	Lots (654-20, 21, 22, 23, part 654-57) Parish of St-Martin	84 000	84 000
Longueuil	Lot (parts 68-69) Parish of St-Antoine	500 000	500 000
Montreal	Lots (816, 817-1, 817-2, 818, 819, 820-1, 820-2, 821-1, 821-2, 1261, 1262) Parish of St-Jacques	2 400 000	2 400 000
Montreal	Lots (1282, 1282-1, 1283 part N.W.) Parish of St-Antoine	700 000	700 000
Montreal	Lots (425-191 and 6) Parish of Sault-au-Récollet	70 000	70 000
Montreal	Lots (182-1 and 2) District of St-Laurent	250 000	250 000
Montreal	Lots (10-274A to 277A, 275 to 277, part 278, part 287, 291 and 294, 291A to 293A, and part 294A) of the Incorporated Village of Côte St-Louis	230 000	230 000
Montreal	Lot (366-16) Parish of St-Laurent	125 000	125 000
Montreal	Lot (335A-7-1) Parish of Longue-Pointe	560 000	560 000
Montreal	Lots (163 part S.E. 130, 163 part S.E. 133, 163-226, 163-227, 163-366) of the Incorporated Village of Côte-des-Neiges	297 000	297 000
Montreal	Lots (1275 to 1279) Parish of St-Antoine	600 000	600 000
Montreal	Lots (1286, 1287, 1288, 1289, 1290, (-1-6) 1297A, 1297B, 1297B-1, 1297C, 1297D, 1901) Parish of St-Antoine	1 275 000	1 275 000
Montreal North	Lot (13-85) Parish of Sault-au-Récollet	60 000	60 000
Montreal North	Lot (13-94) Parish of Sault-au-Récollet	60 000	60 000
Québec	Lots (509-1058-2, 509-1085, 1104 and 1105) Parish of St-Roch Nord	32 000	32 000
Québec	Lots (509-1092, 1106, 1107) Parish of St-Roch Nord	26 000	26 000
Québec	Lot (part 417-4) Parish of St-Roch Nord	66 680	66 680
Québec	Lots (227 N.S., 227-379, 380, 381, 227-382, 227-361-3) Parish of St-Colomb of Sillery	3 459 324	3 459 324

Localities	*Land*	*Cost*	*Amortized value*
Québec	Lots (585-46, 585-54-3, 585-54-7, 585-54-4, 585-49-2, 585-49-1, 585-53-4-4) Parish of St-Roch Nord	$ 85 000	$ 85 000
Québec	Lot (part 47) Parish of Québec, Suburb	275 000	275 000
Rimouski	Lot (548-56-101) Parish of St-Germain	163 000	163 000
Rivière-du-Loup	Lots (202-255, 246, 247, 248, 239-240) Town of Fraserville	155 000	155 000
Ste-Foy	Lot (61-55) Parish of Ste-Foy	100 000	100 000
Ste-Foy	Lots (63-11, 69-12) Parish of Ste-Foy	37 000	37 000
Ste-Foy	Lots (403-540) Parish of Ste-Foy	40 000	40 000
Ste-Foy	Lots (283-8-2, 283-8-2-1, 283-13, 283-12) Parish of Ste-Foy	168 000	168 000
Ste-Foy	Lot (110-1) Parish of Ste-Foy	78 029	78 029
Ste-Foy	Lots (214-258, 259, 260) Parish of Ste-Foy	73 790	73 790
St-Lambert	Lots (271-538-1 and 2) Parish of St-Antoine de Longueuil	29 280	29 280
St-Lambert	Lots (271-537-1, 271 538-5) Parish of St-Antoine de Longueuil	29 280	29 280
St-Lambert	Lots (271-538-3, 4) Parish of St-Antoine de Longueuil	29 280	29 280
St-Lambert	Lots (271-537-2, 537-3, 538-6, 538-7, 538-8) Parish of St-Antoine de Longueuil	65 500	65 500
St-Laurent	Lots (part 555 and part 557) Parish of St-Laurent	412 324	412 324
Sept-Iles	Lots (16-1-38 and 16-1-39 and part N.S. 2660) Rang 2, Village of Sept-Iles, Letellier District	280 000	280 000
Sept-Iles	Lot (497 part 2) Rang 2, Village of Sept-Iles, Letellier District	71 500	71 500

Localities	*Land*	*Cost*	*Amortized value*
Sept-Iles	Lots (1842-1, 1493-1) Rang 2, Village of Sept-Iles, Letellier District	$ 31 500	$ 31 500
Val d'Or	Lots (58-B-16, 17 and 34 Rang 8 and 58B-4, 5, 6, 7, 8, 9, 10, 11, 12, 19, 20, 21, 22, 23, 24, 25, 26 and 27) Rang 8, Dubuisson District, Abitibi County	175 000	175 000
		$ 14 531 487	$ 14 531 487
		$ 23 658 010	$ 22 419 002

Segregated portfolios

At the end of 1969, the Act broadened the field of activity of the Fund by allowing it to manage the sums of money derived from supplemental pension plans of public or quasi-public bodies.

The Fund is required to hold the investments of these plans separate from its own and to manage them pursuant to the Act governing supplemental pension plans. These investments in bonds, stocks and mortgages are designated by the Fund as segregated portfolios.

Balance sheet

as at December 31st, 1973

Assets	**1973**	1972
Investments, at amortized cost (Market value $29 411 746; 1972, $12 728 580)	**$ 30 209 246**	$ 12 455 163
Demand deposits	**37 409**	1 522 142
Term deposits	**400 000**	3 000 000
Cash	—	583
Accrued interest	**553 377**	214 846
	$ 31 200 032	$ 17 192 734
Participants' equity		
22 099 units of participation (1972, 13 126 units)	**$ 27 565 672**	$ 15 379 199
Retained earnings	**3 634 360**	1 813 535
	$ 31 200 032	$ 17 192 734

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Auditor's Report

I have examined the balance sheet of the Segregated Portfolio-Bonds of the Québec Deposit and Investment Fund as at December 31st, 1973, and the statement of earnings and retained earnings for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and statement of earnings and retained earnings present fairly the financial position of the Segregated Portfolio-Bonds of the Québec Deposit and Investment Fund as at December 31st, 1973, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Robert Noël, C.A.
Assistant Auditor-General
Québec, March 6th, 1974

Statement of earnings and retained earnings

for the year ended December 31st, 1973

	1973	1972
Investment income		
Interest on bonds	**$ 1 643 487**	$ 786 516
Interest on demand deposits	**66 665**	79 935
Interest on term deposits	**83 741**	99 215
	$ 1 793 893	$ 965 666
Profit on sale of securities	**26 932**	180 787
Net earnings for the year	**$ 1 820 825**	$ 1 146 453
Balance of retained earnings at the beginning of the year	**1 813 535**	667 082
Balance of retained earnings at year-end	**$ 3 634 360**	$ 1 813 535

Note
The management fees of this portfolio are charged directly to the participants and amounted to $19 585 for the year ended December 31st, 1973.

Balance sheet

as at December 31st, 1973

Assets

		1973		1972
Investments, at cost (Market value $17 431 299; 1972, $12 150 529)	$	**18 563 375**	$	11 252 410
Demand deposits		**2 977 879**		1 332 103
Term deposits		—		1 000 000
Cash		—		499
Accrued interest and dividends receivable		**15 467**		21 477
	$	**21 556 721**	$	13 606 489

Participants' equity

16 135 units of participation (1972, 11 545 units)	$	**18 300 663**	$	12 433 850
Retained earnings		**3 256 058**		1 172 639
	$	**21 556 721**	$	13 606 489

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Auditor's Report

I have examined the balance sheet of the Segregated Portfolio-Stocks of the Québec Deposit and Investment Fund as at December 31st, 1973, and the statement of earnings and retained earnings for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and statement of earnings and retained earnings present fairly the financial position of the Segregated Portfolio-Stocks of the Québec Deposit and Investment Fund as at December 31st, 1973, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Robert Noël, C.A.
Assistant Auditor-General
Québec, March 6th, 1974

Statement of earnings and retained earnings

for the year ended December 31st, 1973

		1973		1972
Investment income				
Dividends and interest	**$**	**538 187**	$	250 413
Interest on demand deposits		**97 803**		73 699
Interest on term deposits		**16 389**		91 769
	$	**652 379**	$	415 881
Profit on sale of securities		**1 431 040**		493 379
Net earnings for the year	**$**	**2 083 419**	$	909 260
Balance of retained earnings at the beginning of the year		**1 172 639**		263 379
Balance of retained earnings at year-end	**$**	**3 256 058**	$	1 172 639

Note
The management fees of this portfolio are charged directly to the participants and amounted to $24 340 for the year ended December 31st, 1973.

Balance sheet

as at December 31st, 1973

Assets

	1973	1972
Mortgages	**$ 25 307 348**	$ 18 086 942
Demand deposits	**(16 979)**	2 670 622
Term deposits	**7 500 000**	—
Cash	—	553
Accrued interest	**248 654**	138 305
	$ 33 039 023	$ 20 896 422

Participants' equity

	1973	1972
26 757 units of participation (1972, 18 425 units)	**$ 29 032 203**	$ 19 317 677
Retained earnings	**4 006 820**	1 578 745
	$ 33 039 023	$ 20 896 422

On behalf of the Board of Directors,

Marcel Cazavan
Gill Fortier

Auditor's Report
I have examined the balance sheet of the Segregated Portfolio-Mortgages of the Québec Deposit and Investment Fund as at December 31st, 1973, and the statement of earnings and retained earnings for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and statement of earnings and retained earnings present fairly the financial position of the Segregated Portfolio-Mortgages of the Québec Deposit and Investment Fund as at December 31st, 1973, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Robert Noël, C.A.
Assistant Auditor-General
Québec, March 6th, 1974

Statement of earnings and retained earnings

for the year ended December 31st, 1973

	1973	1972
Investment income		
Interest on mortgages	$ 2 001 034	$ 696 580
Interest on demand deposits	266 973	188 601
Interest on term deposits	160 068	271 465
Net earnings for the year	$ 2 428 075	$ 1 156 646
Balance of retained earnings at the beginning of the year	1 578 745	422 099
Balance of retained earnings at year-end	$ 4 006 820	$ 1 578 745

Note
The management fees of this portfolio are charged directly to the participants and amounted to $46 416 for year ended December 31st, 1973.

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