ANNUAL REPORT 1991

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

Profile

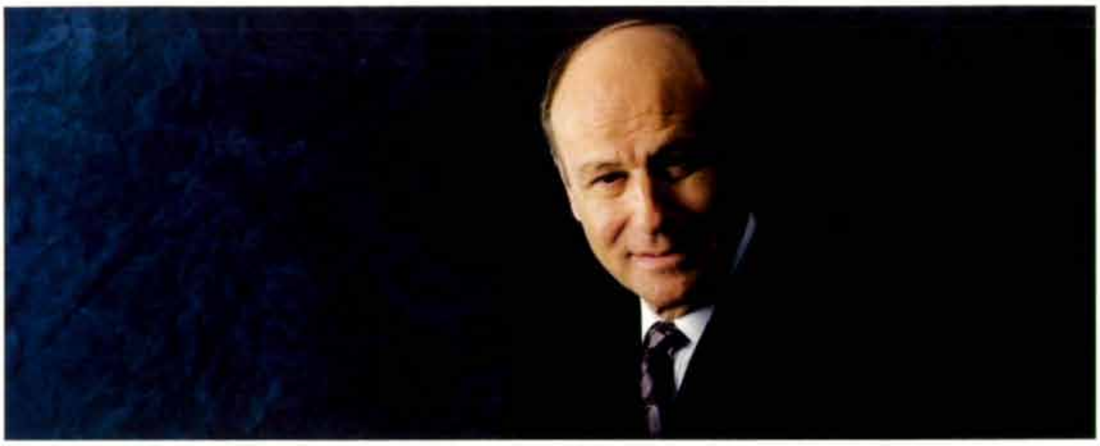
The Caisse de dépôt et placement du Québec is a totally autonomous financial institution in its investment management operations. It was formed in 1965 by an act of the National Assembly to manage the funds arising from various Québec public pension and insurance plans. Its dual mandate consists in achieving an optimum financial return and making a sustained and durable contribution to the Québec economy. To achieve these objectives, it uses a varied and broad range of traditional and innovative financial instruments: bonds, shares and convertible securities, mortgages, real estate and short-term securities, money market derivative and synthetic products. This healthy diversification, which is applied to the Québec, Canadian and foreign markets, is combined with active management and an astute choice of investments. The Caisse, whose principal place of business is located in the heart of Montréal, a first-class financial centre, is one of North America's major financial institutions.

Summary

	1991	1990[1]
	(in millions of dollars)	
ASSETS UNDER MANAGEMENT		
Investments		
Bonds	**18,502**	17,731
Shares and convertible securities	**13,480**	12,423
Mortgages	**2,020**	2,012
Real estate investments - net[2]	**1,795**	1,604
Short-term investments	**1,811**	1,825
Total investments at book value - net	**37,608**	**35,595**
Other assets and liabilities	**498**	73
Total assets under management at book value	**38,106**	**35,668**
Excess market value over book value of investments	**3,026**	591
Total market value of assets under management	**41,132**	**36,259**
DEPOSITORS' HOLDINGS		
Régie des rentes du Québec	**15,887**	14,649
Commission administrative des régimes de retraite et d'assurances - RREGOP	**11,973**	9,970
Société de l'assurance automobile du Québec	**5,393**	4,886
Commission de la santé et de la sécurité du travail	**3,986**	3,594
Commission de la construction du Québec	**3,643**	3,013
Other depositors	**250**	147
Total depositors' holdings	**41,132**	**36,259**
NET DEPOSITORS' INCOME	**3,675**	**2,777**
NET DEPOSITORS' WITHDRAWALS	**1,237**	**450**
RATE OF RETURN[3]	**17.2%**	**0.5%**

[1] restated to conform with the presentation of 1991
[2] reduced since 1990 by related bank and mortgage loans
[3] calculated at market value using the time-weighted method

Message from the Chairman of the Board and Chief Executive Officer



The Caisse's 25th anniversary in 1991 was an occasion to call attention to the role it has played since its founding, as well as to acknowledge the confidence Québecers have placed in it and to measure their expectations. Thus the past year further encouraged and motivated both Management and personnel in actively pursuing the Caisse's mandate.

Anniversaries afford indeed an opportunity to review the past, and 1991 could not have provided a more opportune time for such reflection. The economic slowdown which emerged during the second half of 1990 continued, however, to darken the horizon. A few signs of recovery appeared at the beginning of 1991, and some observers were quick to interpret them as proof that the recession was over. However, their optimism was short-lived as economic activity slumped again, dashing hopes of a quick recovery.

The weakness of the recovery intensified the feeling of gloom among the business community and the general public, especially in the months that followed. Many industries restructured and rationalized their operations, resulting in numerous layoffs. Companies which had posted exceptional growth in previous years found themselves struggling.

The slowdown was not, however, limited to Québec. It affected the entire industrialized world, eloquent proof of the increasing interdependency of global economies.

The recession spread throughout Canada, and also sparked a major downturn in the United States, thereby depriving the Québec export markets of an important stimulus. Even those countries which until then had enjoyed unprecedented growth saw their economies lose steam. Coming on the heels of the Canadian recession, this slowdown threatens to persist and thus put a damper on the recovery of North American economies. Japanese markets, which had seemed immune to economic fluctuations, showed signs of weakness; and for their part, Western European economies, including those of the European Community, experienced similar difficulties after a period of tremendous vitality.

Although Canadian gross domestic product did not rebound as strongly as hoped, it nonetheless recorded modest but sustained growth during the second half of 1991. Several sectors of the economy continued to decline, however, indicating that this was not an across-the-board improvement. But the drop in interest rates, the Canadian dollar and inflation all point to a stronger recovery. Furthermore, these factors, which can only restore confidence in the economy and encourage consumer and investment spending, have already begun to leave their mark on bond and equity markets, which rallied in the final weeks of 1991.

In spite of tough economic times, the Caisse achieved a most impressive overall return of 17.2%. Beyond this very positive performance, it must be noted that the Caisse is first and foremost a long-term investor, and structures its investment strategies accordingly; in this perspective, then, the institution's average annual return over the past 10 years has been 14.4%, or almost 10% higher than the 4.8% average annual inflation rate for the same period.

The past year was also marked by events in both the political and military arenas which rekindled uncertainty over the economic future. At the start of 1991, the outbreak of war in the

Persian Gulf region mobilized the resources of the industrialized countries for a short but intense period. Although the war temporarily diverted attention away from the economy, it contributed to the atmosphere of general uncertainty and more specifically to the erosion of a number of economic sectors.

In the political arena, the delicate balance achieved in recent years by certain Central European countries and the republics of the former USSR was suddenly upset, bringing about the collapse of a political entity that played a major role in shaping the West's foreign policy for so many decades. While the economic outlook for the countries of the new Commonwealth of Independent States was at best not very promising, despite their shift to a market economy, their present situation is cause for the gravest concern, given the political and social instability which could conceivably emerge in these countries in the foreseeable future.

Although less spectacular than the changes that rocked Eastern Europe, the treaty of Maastricht marked a decisive stage in the development of the European Community. The treaty defines objectives and outlines a specific timetable for negotiating, by January 1, 1999, the terms and conditions of the third phase of economic and monetary union, under which a single European currency will be created. The treaty transcends strictly economic and monetary concerns since it also deals with implementation of a common foreign and defence policy. It can therefore be said that this treaty is both the culmination of a long and gradual movement towards a European union of a federal type, and the beginning of a negotiating process that will take many years. The progress made so far in reinforcing existing ties among EC members has, in some respects, exceeded the more modest objectives many sceptics had thought feasible in so short a time. However, extensive and inevitably arduous negotiations will be required before the various provisions of the treaty can be translated into reality. These will therefore test the member countries' ability to reconcile their trade and economic objectives with the political imperatives of the EC's various regions. Even though this historic treaty has yet to be ratified by each country's parliament, it nonetheless clearly shows the signatories' desire for cohesion and their will to join together, in the perspective of the challenges that trade liberalization will present for their economies and industries in the foreseeable future.

Similar concerns in fact prompted Canada and the U.S. to conclude the Free Trade Agreement, and later to begin negotiation of a similar agreement with Mexico. For its part, the international community was encouraged to continue the Uruguay Round of GATT talks, which will no doubt soon reach a conclusion despite the formidable obstacles that still lie in its path.

The outlines of three colossal economic blocs are therefore clearly discernable, around which will revolve the economic activity of the countries and industries comprising them. On either side of the Atlantic will be the European bloc and the North American bloc. Across the Pacific, a third group, formed of Asian countries conceivably with Japan as its hub, could soon spring into existence, whose dynamics would undoubtedly influence those of the other two.

Until now, the concept of globalization which has emerged in recent decades may well have seemed more theoretical than real, but its existence can no longer be denied, nor can its irrevocable repercussions, given the concrete steps governments and businesses everywhere are taking in preparation.

These shifts in the economic map, accompanied as they are by far-reaching and systematic changes in the rules that have traditionally governed trade, are nothing less than a prelude to a new world order which will affect every nation on earth. It is vital to prepare for it. Even though the challenge of this new world order is undeniably now upon us, one cannot hope to meet it effectively by adopting short-term measures; on the contrary, the adjustment process must be placed in a longer-term perspective. It must begin at the very heart of economies and businesses with the goal of securing lasting profitability, a goal that cannot be reached other than by constantly seeking optimal levels of productivity that will ensure and sustain competitiveness. Expedient solutions and quick fixes are not enough. The complexity of the problems posed by globalization requires that priorities be defined in a strategic perspective, and that investments be made in job training, in research and development and in new production technologies, especially in the manufacturing sector, which is still operating far short of its potential. Is not the success of certain foreign economies which are now reaping the benefits of strategies they patiently and systematically applied without expecting concrete short-term results explained by their willingness to adopt this kind of strategic orientation and make this kind of investment?

Every economy faces the inexorable challenge of the new world order, although to differing degrees. But the problems are the same and are cause for concern everywhere, not just in Québec. It is a formidable challenge, and meeting it successfully will demand considerable effort. Nonetheless, we must remain confident and not allow ourselves to be unduly discouraged by the economic gloom brought on by the recession, especially when a number of signs point to the recovery strengthening in 1992. For some time now, the business community has gradually become more aware of the need to adopt urgent measures to face the challenges of the future; it is this realization that will inspire growth strategies. Since its economic and industrial base is still comparatively young and in the process of being consolidated, Québec has the advantage of greater flexibility, even though it may lack the size and strength of older economies. The dynamism so characteristic of Québec in the past few decades therefore augurs well for its future ability to adapt and innovate, and ultimately to meet its challenges and its commitments.

The Caisse's objectives of excellence and innovation must thus be placed in the context of making a lasting contribution to Québec's economic development and performing its duties as a portfolio manager; in this way, it seeks to promote the expansion of Québec financial markets and the development of innovative investment instruments and vehicles. However, ensuring the vitality of the Québec economy must be a shared objective; it does not depend on any single person or institution. Only by harnessing all of Québec's energies will the economy receive the boost it requires to meet the challenges of the 21st century.

In conclusion, on behalf of the Board of Directors and on my own behalf, I would like to thank the management team and the personnel of the Caisse for their tireless efforts in 1991. It is during difficult times like these that the quality and professionalism of the personnel of an institution like the Caisse are most apparent. They deserve our sincerest gratitude.

I also wish to thank the members of the Board of Directors for their support of Management, and for assuming their duties with both skill and dedication.

It is with regret that I announce the departure of Mr. Gaston Pelletier after 13 years on the Board. His colleagues and the management team had ample opportunity during his tenure to appreciate both his wisdom and his sound financial judgement; we express to him our warmest thanks.

In 1991, we had the pleasure of welcoming three new members to the Board of Directors: Messrs. Jacques O'Bready, Gabriel Savard and Raymond Sirois. We are certain that they will give the activities of the Caisse their fullest consideration, and share with it the benefits of their experience.

Jean-Claude Delorme
Chairman of the Board and
Chief Executive Officer

Montréal, February 21, 1992

Message from the President and Chief of Operations

During the past year, the Caisse faced a fairly difficult economic environment, one which was nonetheless favourable for investment activities, given the significant yield spreads among the various investment vehicles offered on North American markets. The year was characterized more by the recession than by the anemic recovery which succeeded it. Despite this, the Caisse's active management of investments, its policy of wide diversification and its timely selection of asset categories that delivered the highest returns enabled it to achieve most satisfactory results and add $6.1 billion to the value of the depositors' portfolios, which represents the strongest growth in the Caisse's history. This increase consists of $3.7 billion in net investment income and $2.4 billion resulting from the appreciation in the market value of portfolios. These results pushed the market value of the Caisse's net assets past the $40 billion mark to $41.1 billion.

The bond portfolio, which amounted to $19.7 billion at market value, is the Caisse's main investment vehicle. It represented 48.4% of total investments and includes Québec, Canadian and U.S. securities, as well as securities issued by the French, German and British governments. It generated a return of 22.9%, compared to 22.1% for the Universe index, which more closely reflects the yield curve for two- to 30-year bonds in which the Caisse invests.

During the year, the Caisse capitalized on the positive Canadian yield curve and the overweighting of Québec securities in its portfolio. Investors were drawn to the secondary market for Québec public sector securities. The Caisse traded close to $22 billion of these securities in 1991, or almost triple the amount in 1990.

The resulting additional cash generated enabled the Caisse to increase its new investments on the primary market for Québec public sector securities by $689 million over 1990, bringing investments on this market to $2.2 billion in 1991.

Equities, which at 37.5% represented the second-largest component of the Caisse's total portfolio, made a slightly less significant, but nonetheless very appreciable contribution to the overall return. This contribution was derived from the weighting of Québec, Canadian and foreign securities in the stocks and corporate equity investment portfolios as well as from hedging against currency fluctuations.

The Québec and Canadian securities portfolio, which totalled $11.5 billion at market value, generated an 11.6% return compared to 12% for the TSE 300 index. This reflects the weaker performance of large-capitalization stocks, in which the Caisse traditionally invests most of its equity funds.

On the international scene, foreign equities, at almost 9.2% versus 8.6% in 1990, continued to account for an increasingly larger proportion of the Caisse's total investments. The portfolio yielded a return of 20.2%, surpassing the 18.3% posted by the Morgan Stanley Capital International world index. This positive spread reflected the exceptional performance of U.S. equities, which were overweighted in the Caisse's total foreign equities portfolios.

With respect to corporate investments, the Caisse is committed to being a medium- and long-term partner. The close collaboration between the Caisse, other shareholders and corporate management helped the Caisse's partners to weather the more difficult economic conditions that prevailed during 1991, with more than encouraging results. The year's highlights included the consolidation and sale of certain investments, participation in certain industry restructuring efforts and in expanding the network of venture capital funds to provide seed money for small business development, as well as increase its network of partners abroad. As at December 31, 1991, the Caisse's corporate investments portfolio amounted to $1.8 billion at market value.

Mortgages generated an 18% return versus the reference index's 19.3%. However, the reference index is comprised exclusively of residential mortgages, whereas the Caisse's diversified portfolio includes residential, commercial and industrial mortgages, making the comparison difficult. Despite unfavourable conditions, the Caisse granted $278.8 million of mortgage loans in 1991. The institution also took part, through its representatives, in the gouvernement du Québec *Mon taux, mon toit* program. The mortgage portfolio, which represented 5.2% of total investments, amounted to $2.1 billion at market value at December 31, 1991.

As for short-term investments, the drop in interest rates which affected the money market prompted the Caisse to take portfolio positions that generated significant gains. The portfolio thus posted a 10.2% return, compared to 9.8% for the index of 91-day Canada Treasury bills. The volume of the Caisse's currency operations increased by 66.6% as a result of the international diversification of the bond and equity portfolios and the application of the exchange risk hedging policy to all its foreign investments. At year-end, the short-term investments portfolio stood at $1.80 billion, or 4.4% of total investments.

In the real estate sector, several major acquisitions brought the Caisse's total net real estate investments to $1.83 billion at market value, or close to 4.5% of total investments. The return on the specific real estate investments portfolio was -3.8% in 1991, as a result of the decline in rental income and in certain property values due to the sluggish market. For the past 10 years, however, real estate investments posted a 13% annualized return, outperforming such asset categories as equities and short-term investments.

During 1991, the Caisse increased its use of baskets of Canadian equities, in the form of equities indexed to the TSE 35, as well as of futures indexed to the Standard and Poor's 500 index and of other derivative products available to institutional investors. Asset-mix managers' timely execution of transactions in relatively better performing markets contributed to the Caisse's success in the past year.

The Caisse pursues first and foremost medium- and long-term objectives. An analysis of results for the past 10 years shows that returns for the two principal asset categories at the Caisse surpassed those of the reference index: 16.6% versus 15.1% for the ScotiaMcLeod - Universe bond index, and 11.2% versus 10% for the TSE 300 index of Canadian equities.

These results attest to the expertise and efficiency of the Caisse, and, in particular, its staff. With a view to maintaining these qualities in its pursuit of excellence and innovation, the Caisse will continue equipping itself with leading-edge investment and support tools. It will also continue to invest in staff training so as to provide its employees with dynamic growth and career fulfillment opportunities, and to keep itself at the forefront of the rapidly-changing investment industry.

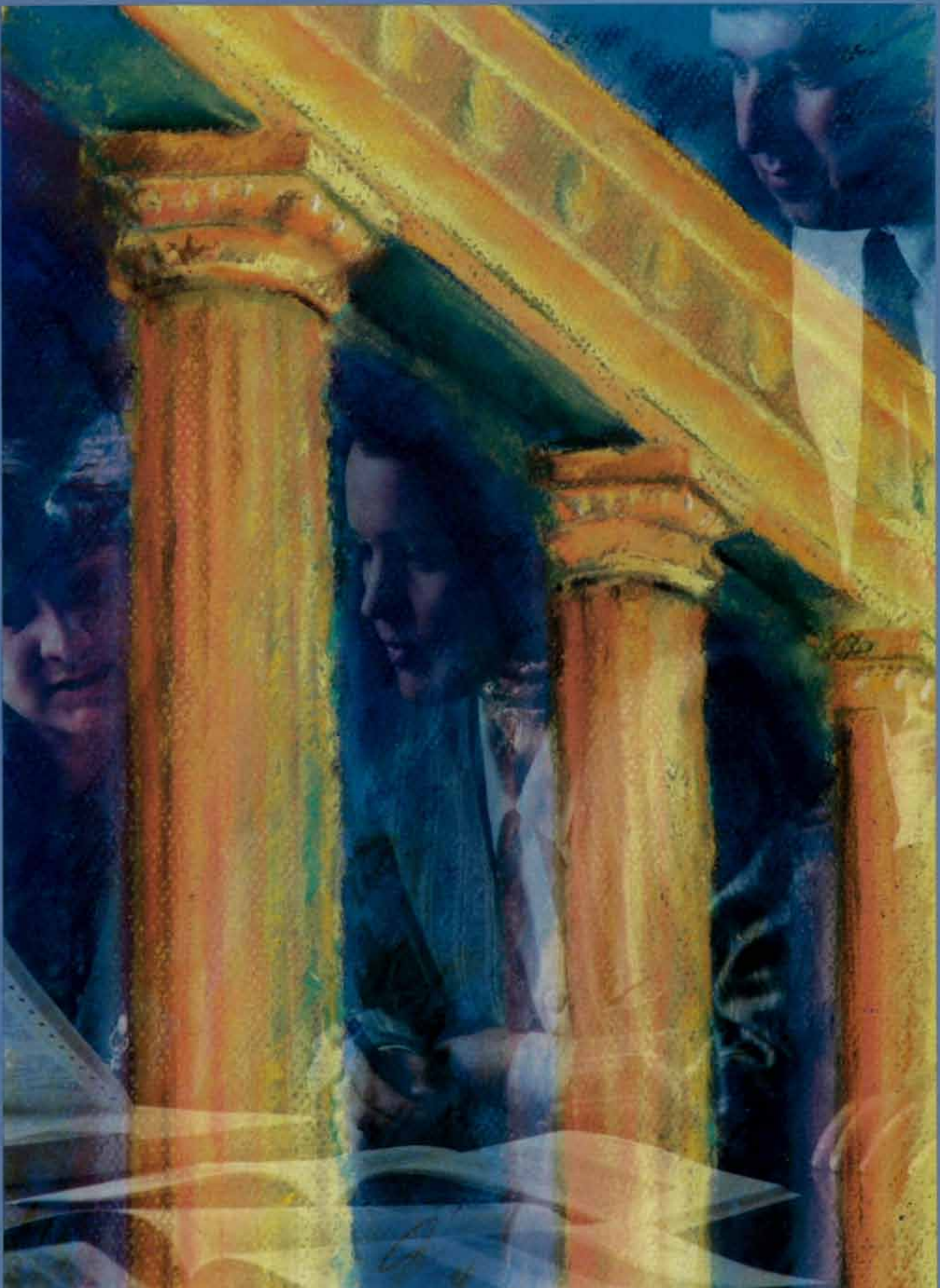
In seeking ways to contribute to Québec's economic development, the Caisse will place more emphasis on harmonizing its actions and efforts with those of the main economic agents in Québec. It will share its expertise with private, public and cooperative sector representatives and work with them to further define growth objectives, identify key sectors, reduce market inefficiencies, support development of regional activities and promote joint investments with financial and industrial partners.

In conclusion, I would like to thank all of the Caisse's personnel for their effective and sustained contribution. Their support and their leadership enabled the Caisse to achieve its highly satisfactory overall results in 1991. It is my hope that their contribution will, in the long run, directly or indirectly also help to enhance the standard of living of all Québecers.

Guy Savard
President and
Chief of Operations

Montréal, February 21, 1992

*Their key element
was light.*



IN THE SAME WAY AS THE IMPRESSIONISTS' STROKES DEPICTED OBJECTS ACCORDING TO THE LIGHT OF DAY, THE CAISSE ADAPTS ITS INVESTMENTS TO THE EVER-CHANGING REALITIES OF THE ECONOMIC AND FINANCIAL WORLD.

International Environment

The year 1991 marked the end of the recession in Canada, the United States and the United Kingdom, although the weakness of the recovery was the highlight during the second half of the year. Despite the significant easing of monetary policy in all three countries, consumers were reluctant to revert to their normal pattern of spending growth, and confidence levels remained low at year-end. This contrasted with the situation in Japan, Germany and France, where the anti-inflation policies adopted in 1990 and 1991 led to slower growth without tipping these economies into a recession.

In Japan, sluggish growth combined with financial market problems and a liquidity shortage prompted the central bank to gradually reduce short-term interest rates throughout the year. However, this had little impact on economic activity, which continued to slow during 1991, notably because of the marked decline in investment spending growth.

In Germany, monetary and fiscal policies alike were particularly tight. Not only did interest rates remain high throughout 1991, but substantial mid-year increases in income tax rates and in indirect taxation to finance the enormous costs of reunification curbed growth in the second half. In France and the U.K., the European Monetary System's exchange rate mechanism did not allow for adoption of more expansionary measures, even though economic conditions in these countries were weaker than in Germany.

In the U.S., the Persian Gulf war had a definite impact on economic activity. Consumer spending, after plummeting in late 1990 and early 1991, picked up moderately during the following months as consumer confidence rebounded. However, this buoyancy was short-lived. U.S. consumers quickly realized that the war's end had not resolved the crisis in the country's financial system or reduced the debt level of consumers, businesses or governments. Moreover, the dismal employment picture and numerous layoffs did nothing to dispel the gloom.

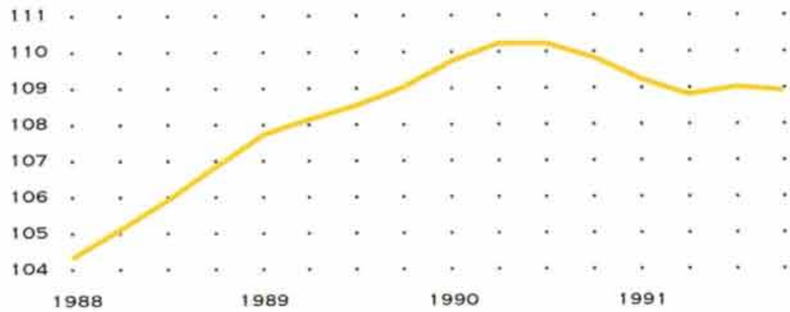
Furthermore, the budget problems of local governments led to cuts in public spending, and companies scaled down production to reduce inventory. The financial crisis, in addition to limiting the availability of credit to these businesses, also took its toll on the housing sector, where activity remained very hesitant despite a substantial drop in interest rates.

However, the recovery eased inflationary pressures substantially. With more room to manoeuvre, the U.S. Federal Reserve responded by adopting a much more relaxed monetary policy throughout 1991. Nevertheless, the recovery was still shaky at year-end, even though short-term interest rates were at a 20-year low.

In this context, the U.S. dollar was extremely volatile in 1991, characterized by marked highs and lows. After recording strong 21% growth in the first half of the year, the U.S. dollar took a nosedive, closing the year at DM 1.5, down roughly 17% from its July high. This spectacular decline was touched off by the substantial reduction in interest rates as a result of the anemic recovery. The downward movement was further intensified by the joint intervention of the central banks in July.

One of the characteristics of the recession in Canada was its disproportionate impact on corporate profits, which had not been as low as a percentage of national income since the 1930s. Sagging profits led to more layoffs than the decline in output might have suggested, pointing to a slow recovery in employment. However, the relatively high level of investment spending for machinery and equipment which accompanied this weak recovery augurs well for the medium term.

1 EVOLUTION OF EMPLOYMENT IN THE U.S. - EXCLUDING AGRICULTURE



in millions
Source:
U.S. Department of Labor

Canada

Canada experienced a more conventional recession than did the United States, since the economic slowdown came in response to the earlier tightening of fiscal and monetary policies. However, the Gulf war, the U.S. recession and, above all, the implementation of the goods and services tax (GST) accentuated the fluctuations.

The downturn, the second worst since World War II, ended in the spring with an unexpected, and unexpectedly strong, growth spurt. However, it turned out to be only temporary, and growth slumped again in the second half, in spite of continued gains in the housing sector. Precarious job market conditions, high consumer debt, the tight federal fiscal policy and the psychological effects of the GST on consumer confidence and purchasing power all inhibited economic activity in the second half of 1991.

The marked easing of inflationary pressures was another highlight of 1991. Implementation of the GST did inflate the January consumer price index, but subsequent price increases were minimal. In this context, the Bank of Canada's target inflation rate of 3% by the end of 1992 seemed realistic, and Canadian interest rates therefore declined significantly during 1991.

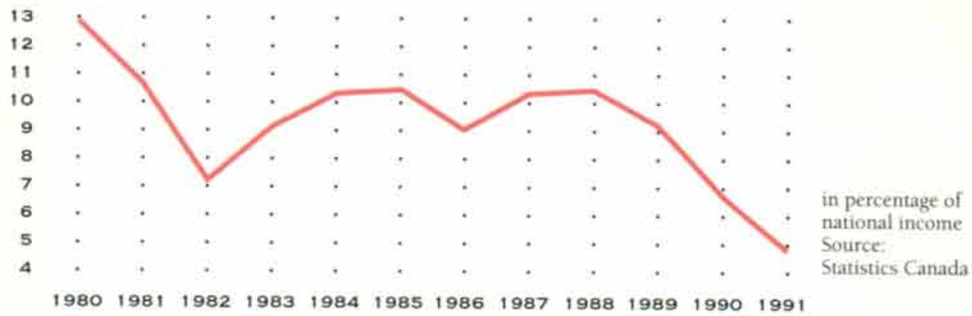
Between January and October, the Canadian dollar rose from U.S. 86.8 cents to 89.3 cents. After providing a safe haven for foreign investors during the Gulf crisis, it was in strong demand following massive international issues by Canadian provinces, municipalities and corporations. Canadian interest rate spreads, though narrower, were therefore still in Canada's favour, while the inflation rate had improved significantly, enhancing the credibility of the monetary authorities in their commitment to contain inflation. However, between November and December of 1991, the Canadian dollar depreciated by 3.1%, again reaching U.S. 86.5 cents, its early-1991 level.

Québec

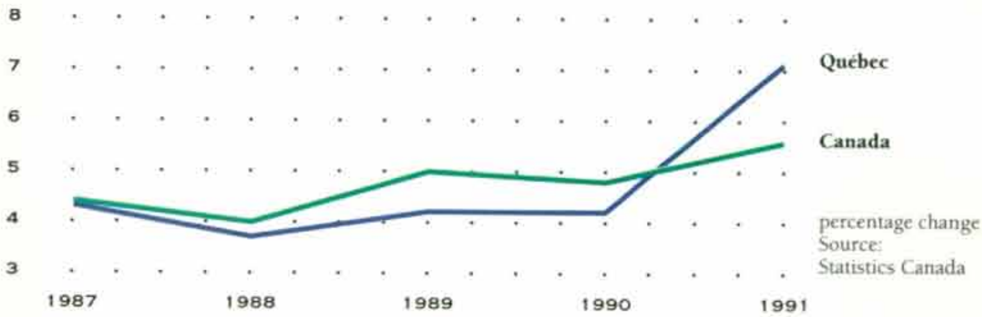
Québec is also slowly recovering from the recession. Growth turned sluggish at the beginning of the summer, as elsewhere in Canada. However, the projected 1.4% downturn in economic activity for the year was slightly deeper than the average for the country as a whole. Certain key sectors of the economy, such as pulp and paper and primary metals, were severely affected by the slowdown in addition to facing a series of structural problems.

The downturn in investment spending and housing was less pronounced than elsewhere in Canada, however. In the residential sector, activity bottomed out early in 1991, as in the rest of the country, but the number of housing starts dropped by only 7,000 units, largely because the *Mon taux, mon toit* government incentive program stemmed the decline. Strong investment spending growth at Hydro-Québec and the completion of many megaprojects offset the cyclical decline. Investment spending thus remained fairly high, which makes for a promising medium-term outlook.

2 EVOLUTION OF CANADIAN CORPORATE PROFITS BEFORE TAXES



3 COMPARATIVE EVOLUTION OF CONSUMER PRICE INDEX



The slowdown extended to all components of domestic demand. The lacklustre job market, meagre increases in personal disposable income, high consumer debt levels, although comparable to the national average, the introduction of the GST and changes to Québec's sales tax combined to dampen consumer spending considerably. Furthermore, because of the constraints imposed by the deficit and the recession, Québec had to apply a restrictive budgetary policy which also contributed to the economic slowdown.

Finally, as regards inflation, price increases were higher in Québec than in the other provinces, partially because of large increases in taxes and tariffs in 1991 and because house prices did not decline as steeply as in Ontario.

By harmonizing volume and colour, they recreated reality.

By combining financial vehicles and strategies, the Caisse achieves prosperity.

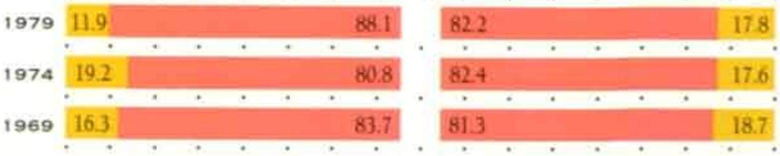
IN THE SAME WAY AS THE CUBISTS ILLUSTRATED ALL ASPECTS OF THE SAME OBJECT SO AS TO BETTER DISPLAY ITS COHESIVE STRUCTURE, THE CAISSE ANALYZES EVERY ANGLE OF FINANCIAL MARKETS SO AS TO MAKE MANAGEMENT DECISIONS DESIGNED TO OPTIMIZE THE RETURN ON INVESTMENTS.

The returns generated by funds under Caisse management depend on long-term asset mix strategy by investment vehicle and active management of the various asset categories.

It is therefore important to stress that the Caisse does not simply manage the funds entrusted to it, but it is also actively involved in the development of investment policies and reviews them every three years, defining, more specifically, the long-term benchmark portfolios which correspond to the various depositors' risk-return profile.

In 1991, the Caisse therefore helped formulate an investment policy for the Régime de retraite des techniciens ambulanciers œuvrant au Québec. It also took part in reviewing the investment policies of the government and public employees' retirement plans administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). The collaboration between the Caisse and the management and union representatives on the retirement plan committees produced considerable synergy.

4 EVOLUTION OF INVESTMENTS FOR TOTAL ASSETS UNDER MANAGEMENT



as at December 31
at book value - in percentage

as at December 31
at market value - in percentage

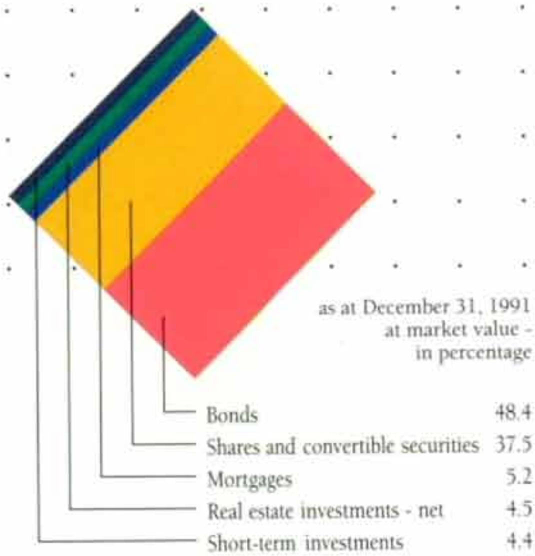
Variable-income securities
(shares, convertible securities, real estate investments - net)

Fixed-income securities
(bonds, mortgages, short-term investments)

[1] restated to conform with the presentation of 1991

5

BREAKDOWN OF ASSETS ACCORDING TO INVESTMENT CATEGORY



As an asset manager, the Caisse strives to add value to the return on its depositors' benchmark portfolios, and for this reason actively manages its investments.

The tactical asset mix is one type of active management designed to help the Caisse reach its objective of adding value. It involves departing from the target asset mix by choosing certain assets over others, on the basis of economic conditions and a relative evaluation of financial markets.

For the past three years, the Caisse has built its strategies around models which serve as guideposts in tactical decision-making. The models help to identify and capitalize on yield spreads among certain asset categories. In this context, the use of highly liquid instruments such as baskets of equities as well as futures and options market activities, enable the Caisse to quickly execute large-scale operations at a minimal cost to its depositors.

The managers responsible for the Caisse's tactical strategies thus succeeded in enhancing portfolio value by close to $250 million in 1990 and approximately $150 million in 1991. This exceptional achievement was the result of an astute selection of asset categories that delivered the highest returns because of substantial spreads in certain markets.

For instance, in 1990, while the Canadian equities market return dropped to almost -15%, short-term vehicles generated returns of more than 13%, a 28% spread. Furthermore, in 1991, while all markets posted positive results, it was possible to capitalize on spreads of over 15% between the return on Canadian long-term bonds and U.S. equities on the one hand, and the return on short-term investments on the other.

In sum, the tactical strategies used in 1991 were based on three options for capitalizing on major spreads between various North American financial markets. During the first half of 1991, the Caisse injected considerable amounts into the U.S. stock market through a fund indexed to the Standard and Poor's 500 index. This operation generated a return of over 16%, or an 8% positive spread for the six months compared to Canadian financial markets, and more than 10% compared to short-term securities. Then, during the second half of the year, bond markets allowed managers to take advantage of a more than 10% spread over the Canadian stock and short-term markets. Finally, in early December, the Caisse was able to establish a tactical position of $400 million on the U.S. stock market index futures market, which increased 12% during the last two weeks of the year.

Returns

In 1990, despite difficult financial market conditions, the Caisse succeeded in preserving the capital of its depositors. In 1991, it produced a remarkable 17.2% return. For the past five and 10 years, the results of 9.7% and 14.4% respectively compare favourably with the average of the Canadian investment industry. Adjusted for inflation, the return achieved by the Caisse's managers over the past decade was 9.6% in real terms.

These results are chiefly attributable to a careful selection of main asset categories in the benchmark portfolios. The Caisse has always chosen high-quality bonds for its portfolio. In the past 10 years, bonds generated an average return of 16.6%, while the Canadian equities market expanded an average of only 11.2% annually. Moreover, as part of the tactical operations, substituting more profitable vehicles for ones with less attractive prospective returns also helped add value. Finally, in every investment sector, the Caisse's managers outperformed the reference indices on numerous occasions.

In 1991, the bond portfolio generated a 22.9% return, surpassing the 22.1% return of the ScotiaMcLeod - Universe index, and coming close to the 23.6% of the ScotiaMcLeod - Medium-Term index. The narrow spreads are due to the fact that the mix of the reference indices is different from that of the Caisse's portfolio. While reference indices are comprised exclusively of Canadian securities, the Caisse's portfolio contains a certain proportion of foreign securities to ensure healthy diversification. However, the Australian and Canadian bond markets generated the highest returns in 1991. The Universe index has become the standard reference for the industry. It also provides a more appropriate basis for comparison from the standpoint of the Caisse's management method and the range of securities in which it invests. The Universe index reflects all parts of the bond curve, that is, maturities of two to 30 years, while the Medium-Term index concentrates on maturities of five to 10 years.

The short-term investments portfolio yielded a 10.2% return, compared to 9.8% for the index of 91-day Canada Treasury bills. This excellent performance reflects a very dynamic strategy in managing positions along the yield curve for maturities of less than one year.

As for equities, the Canadian portfolio generated an 11.6% return, compared to 12% for the TSE 300 index after dividend payout. This is the result of a poorer showing among large-capitalization stocks, such as those included in the TSE 35 index, compared to stocks overall. The block of shares indexed to the TSE 35 which is held by the Caisse generated a return of 11.2%, close to the return for the reference index.

In total, the foreign equities in the Caisse's portfolios produced a 20.2% return, while the Morgan Stanley Capital International hedged world index advanced 18.3% during 1991. This index, which is the standard the Caisse has now adopted for reference purposes, reflects hedging of exchange risk and net dividend reinvestment, two elements of the Caisse's management method.

The 1.9% positive spread is mainly attributable to the return on U.S. equities. Since the U.S. market ranked first among international stock markets in 1991, the gains were derived from the Caisse's overweighting of U.S. securities in its overall foreign equities portfolio in relation to the index.

Returns are expressed in Canadian dollars. The Caisse's policy with regard to foreign currencies is to protect its foreign securities portfolios from currency fluctuations. However, on certain occasions, it may modify its positions in order to capitalize, in a prudent manner, on an anticipated correction in another currency compared to the Canadian dollar.

Real estate investments, which act as stabilizers during cyclical periods, often post results that run counter to trends in other asset categories. While stock and bond markets were bullish, the market value of several properties fell in 1991. As well, rental income and other revenues from the specific real estate investments portfolio were lower in 1991 than in 1990: the anemic real estate market caused a number of property appraisals to be revised downward. These factors explain the -3.8% return in 1991. However,

6 COMPARISON OF RETURN ON INVESTMENTS AND FINANCIAL INDICES

		1991		Annual compound rate for the period 1987-1991 (5 years)		1982-1991 (10 years)	
Investments							
Bonds	ScotiaMcLeod Bond - Universe	**22.9**	**22.1**	11.5	11.1	16.6	15.1
Canadian shares	TSE 300	**11.6**	**12.0**	7.0	6.4	11.2	10.0
Foreign shares[1]	Morgan Stanley Capital International - World Index (MSCI-WI)	**20.2**	**18.3**	5.8	6.6	-	-
Mortgages	ScotiaMcLeod Mortgage (3 years)	**18.0**	**19.3**	12.4	11.9	14.6	14.3
Specific real estate investments portfolio		**(3.8)**	-	8.0	-	13.0	-
Short-term investments	ScotiaMcLeod - Canada Treasury bills (91 days)	**10.2**	**9.8**	-	-	-	-
Total investments		**17.2**	-	9.7	-	14.4	-
Current rate of return[2]		**10.0**	-	9.9	-	10.4	-

in percentage

[1] 1991 data include hedging of foreign exchange risk.

[2] The current rate of return is calculated at book value while the other rates of return are calculated at market value using the time-weighted method.

the specific real estate investments portfolio posted a 13% return for the past decade, outperforming such asset categories as equities and short-term investments.

Lastly, the 18% return on the mortgage portfolio is below the 19.3% of the reference index. However, the reference index is comprised exclusively of three-year residential mortgages, whereas the Caisse's diversified portfolio includes residential, commercial and industrial mortgages. In this context, a residential index would have been difficult to beat, yielding as it did the highest return in 1991.

The year's results aside, it must be remembered that for the Caisse and its depositors, the long-term return is of even greater importance. An analysis of results for the past 10 years shows that returns for three of the Caisse's asset categories surpassed those of the reference indices. These returns were 16.6% versus 15.1% for bonds, 11.2% versus 10% for Canadian equities, and 14.6% versus 14.3% for mortgages.

They created art out of everyday objects.

The Caisse makes finance a daily art.

LIKE THE POP ART MOVEMENT, THE CAISSE MAKES THE DAY-TO-DAY LIFE OF THE PEOPLE OF QUÉBEC THE FOCAL POINT OF ITS CONCERNS BY FULFILLING ITS RESPONSIBILITY OF MAKING PROFITABLE INVESTMENTS.

Under legislation adopted by the Québec National Assembly, the Caisse is entrusted with the funds contributed to various public pension and insurance plans by almost four million Québecers. Although the organizations concerned administer these plans, the Caisse has the legal responsibility and the mandate to ensure the investment, protection and growth of their respective assets.

The Caisse offers depositors the benefit of its expertise in finance, portfolio management and real estate. Through regular meetings, depositors are informed of the economic scenarios which guide the Caisse in its decision-making, the overall direction of its investment strategy and its returns on investments. Depositors receive complete status reports on their portfolios and a detailed analysis of results.

The Caisse receives funds in the form of demand, term or participation deposits. Demand and term deposits constitute indebtedness toward depositors and bear interest. Participation deposits give the holder a share in the net equity and net income of a particular fund, and so their value depends on the value of the fund to which they are allocated.

As at December 31, 1991, the book value of depositors' holdings with the Caisse was \$38.1 billion, up \$2.4 billion during the year. The increase is chiefly attributable to net income of close to \$3.7 billion, less net withdrawals of over \$1.2 billion. At market value, depositors' holdings were \$41.1 billion, or \$3 billion over book value.

In addition to reinvesting their investment income, certain depositors made contributions in 1991. The Commission administrative des régimes de retraite et d'assurances (CARRA) made a contribution of \$461 million through the Government and Public Employees Retirement Plan (RREGOP), and the Supplemental Pension Plan for Employees of the Québec Construction Industry contributed \$77 million. However, other depositors made withdrawals from their investment income in order to satisfy their liquidity requirements: the Régie des rentes du Québec withdrew \$1.2 billion; the Société de l'assurance automobile du Québec, \$328 million; and the Commission de la santé et de la sécurité du travail, \$226 million.

The Caisse has 10 funds: the General Fund and nine Individual Funds. The General Fund is a pooled fund with several depositors, whereas each Individual Fund has only one depositor.

The Caisse's principal depositor is the Régie des rentes du Québec (R.R.Q.) which was founded at the same time as the Caisse. It manages the public pension plan for Quebecers, and the number of its beneficiaries has risen from 3,000 in 1967 to over 800,000 today, and is expected to exceed 1,600,000 by the beginning of the 21st century. In 1991, even though the book value of its holdings increased by $281 million, the R.R.Q. had to withdraw $1.2 billion of its $1.5 billion income in order to satisfy current obligations.

In 1990, it withdrew $820 million, representing 71% utilization of its investment income, versus 82% in 1991. At year-end, its holdings amounted to $14.7 billion at book value and $15.9 billion at market value, or 38.6% of total depositors' holdings at market value. The 0.2% annual increase in the contribution rate, implemented in 1987, will bring the 1992 rate of 4.8% to 5.6% in 1996. Surplus investment income will thus slow the R.R.Q.'s rate of projected withdrawals and increase its holdings, albeit modestly, in future years.

The Government and Public Employees Retirement Plan (RREGOP) is the Caisse's second-largest depositor, but has posted the highest growth since 1987, and now accounts for 29.1% of total depositors' holdings at market value. The plan is managed by CARRA and covers public sector employees, including government employees as well as those of the education and social services sectors. Since the plan's creation, its book value has risen to $11.1 billion, or close to $12 billion at market value. In 1991, the plan's holdings increased by $1.4 billion; $461 million in new contributions was added to reinvested income. The RREGOP comprises two accounts: one for unionized employees, and one for non-unionized employees which also includes employers' contributions and supplemental pension plan transfers.

CARRA also administers other plans, including the Individual Plans, the General Retirement Plan for Mayors and Councillors of Municipalities and the Pension Plan for Elected Municipal Officers. Their assets total $40 million, $14 million and $55 million respectively at book value.

7 EVOLUTION OF INVESTMENTS

as at December 31
at book value -
in millions of dollars

Variable-income securities
(shares, convertible securities, real estate investments - net)

Fixed-income securities
(bonds, mortgages, short-term investments)

[1] restated to conform with the presentation of 1991

The Caisse's third-largest depositor is the Société de l'assurance automobile du Québec (SAAQ). It administers the general plan that provides insurance against bodily injuries caused by traffic accidents. Its principal mandate is to reduce the risk of traffic accidents by improving control of access to the road system, to promote road safety and to compensate victims of traffic accidents. In 1991, the SAAQ had to withdraw $329 million of its investment income of approximately $515 million, compared to a withdrawal of $275 million in 1990. The withdrawal is chiefly attributable to the SAAQ's five-year capital expenditure program to improve road safety. At December 31, 1991, the book value of the SAAQ's holdings was $4.9 billion, or $5.4 billion at market value. Its holdings represented 13.1% of total depositors' holdings and 25% of the General Fund at market value.

The Commission de la santé et de la sécurité du travail (C.S.S.T.) deposits with the Caisse all the funds it accumulates to pay out industrial-accident and occupational-disease benefits. It collects contributions from all employers providing insurance coverage against risks in their sectors of activity. As at December 31, 1991, the C.S.S.T. had assets of $3.7 billion at book value. The market value of its holdings increased by $427 million to a total of almost $4 billion, representing 9.7% of depositors' holdings.

B **DEPOSITORS**

	Abbreviation	First deposit	Number of contributors[1]	Depositors' holdings[2]
Régie des rentes du Québec	R.R.Q.	1966	3,127,000	15,887.3
Commission administrative des régimes de retraite et d'assurances	CARRA			
Government and Public Employees Retirement Plan	RREGOP	1973	485,000	11,973.2
General Retirement Plan for Mayors and Councillors of Municipalities		1975	-	14.7
Individual Plans		1977	100	40.8
Pension Plan for Elected Municipal Officers		1989	1,700	57.1
Société de l'assurance automobile du Québec	SAAQ	1978	4,118,000	5,392.9
Commission de la santé et de la sécurité du travail	C.S.S.T.	1973	175,532	3,985.5
Commission de la construction du Québec	C.C.Q.			
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	105,000	3,642.9
Fonds d'assurance-prêts agricoles et forestiers	FAPAF	1978	1	19.4
Régie des assurances agricoles du Québec		1968	42,235	7.6
Régie des marchés agricoles et alimentaires du Québec	R.M.A.A.Q.	1967	60	2.8
Régie de l'assurance-dépôts du Québec		1969	1,387	94.1
La Fédération des producteurs de bovins du Québec		1989	26,000	0.5
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	R.R.T.A.Q.	1990	2,951	12.9

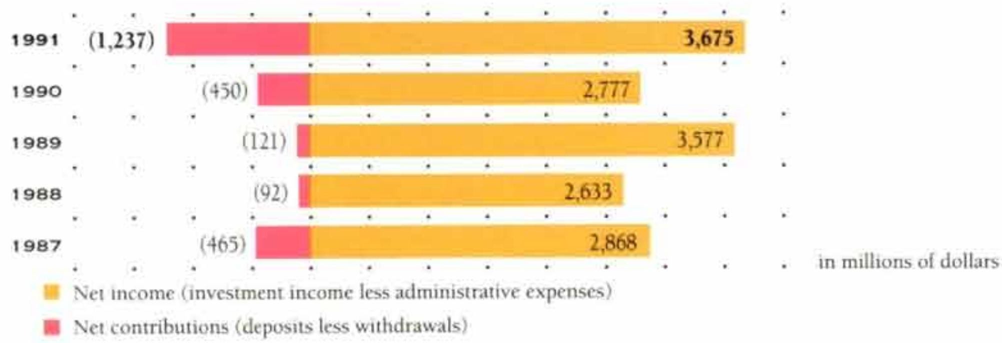
as at December 31, 1991

[1] estimate
[2] at market value - in millions of dollars

In order to fulfill its commitments, the C.S.S.T. withdrew $226 million of its $394 million income in 1991, partially because of the higher cost of compensation programs, the result mainly of longer benefit periods, and because of the lower contribution rate, which decreased from $2.75 in 1989, to $2.50 in 1990 and $2.32 in 1991.

The Caisse also manages the funds of certain other supplemental pension plans, including that of workers subject to the decree of the construction industry, administered by the Commission de la construction du Québec (C.C.Q.). Plan assets have almost tripled in the space of 10 years. As at December 31, 1991, they stood at $3.3 billion at book value, an increase of $352 million over the previous year, comprising $76 million of new contributions and $276 million of income. Their market value increased by $557 million to $3.6 billion. The plan is divided into three accounts: the active participants' account at $2.3 billion; the retired participants' account at close to $1 billion; and

9 **DISTRIBUTION OF TOTAL DEPOSITORS' NET INCOME AND CONTRIBUTIONS**



10 **BREAKDOWN OF TOTAL DEPOSITORS' HOLDINGS**

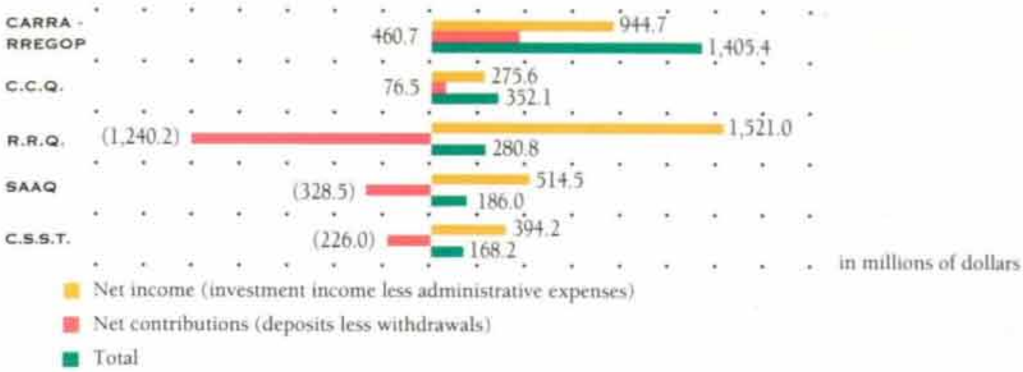
	1991	1990
Régie des rentes du Québec	**38.6**	40.4
Commission administrative des régimes de retraite et d'assurances - RREGOP	**29.1**	27.5
Société de l'assurance automobile du Québec	**13.1**	13.5
Commission de la santé et de la sécurité du travail	**9.7**	9.9
Commission de la construction du Québec and other depositors	**9.5**	8.7

as at December 31
at market value - in percentage

the additional contributions account of certain workers at $0.3 billion.

The Fonds d'assurance-prêts agricoles et forestiers (FAPAF), the Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec (R.R.T.A.Q.) and the Régie des marchés agricoles et alimentaires du Québec (R.M.A.A.Q.) maintain a reserve of $24 million in the form of units in the General Fund, and their holdings total $35.1 million. The other depositors are the Régie des assurances agricoles du Québec, the Régie de l'assurance-dépôts du Québec and La Fédération des producteurs de bovins du Québec. Their funds consist exclusively of liquid assets in the form of demand or term deposits in the General Fund which total $102 million.

11 **Distribution of major depositors' net income and contributions in 1991**



Administrative Expenses
In 1991, an audit program was performed with the goal of optimizing resources, with its recommendations to be phased into the Caisse's organizational structure over a number of years.

The Caisse continued and even accelerated the development of automated management and investment systems, which, combined with higher business volumes and product and market diversification, led to an increase in personnel and operating expenses.

Thus in 1991, administrative expenses were $31.4 million, or 0.08% of assets under management, versus 0.07% in 1990. Expenses break down as follows: salaries, 58.9%; professional fees, 11.2%; rent, 9.8%; depreciation of fixed assets, 5.2%; and other expenses, 14.9%. Under the rules governing distribution of the Caisse's administrative expenses, the latter are allocated among the various funds on a pro rata basis, according to the market value of each fund's weighted assets.

In addition, the sum of $8.1 million was paid out to various financial institutions for direct investment management, processing and custodial services. Of this amount, $2.5 million was paid to Canadian financial institutions and $5.6 million to foreign institutions. These expenses are deducted from investment income.

Human Resources
The Caisse reviewed and updated certain management policies, including its training policy, to enable it to achieve excellence in all its activities. It also adopted a more flexible policy on working hours aimed at enhancing work quality and staff motivation.

The Caisse also revised the job descriptions of its technical and support staff and began evaluation of management and professional positions to ensure that the Caisse is competitive in terms of overall compensation.

During the year, it carried out various organizational studies dealing, among other things, with resource optimization, performance management, revision of the bonus program and analysis and selection of an automated human resources management system. It also launched a study on evaluation of potential and started drawing up a strategic plan to ensure succession for key positions and the continuation of its investment activities.

The Caisse has a total staff of 302: 40 management personnel, 150 professionals and 112 technical and support staff.

Information Resources
Given the importance of information management and the need for leading-edge processing capacity in today's competitive world, the Caisse continued to implement its three-year information systems master plan in 1991. The main components of the plan are administration of derivative products, portfolio management instruments and access to in-house and external investment data.

A number of information systems were installed during the year, including a program for managing derivative products such as swaps, forward rate agreements, options and other financial futures contracts. The Caisse also carried out studies to identify appropriate solutions in the area of tools for managing mortgage and real estate investments. Furthermore, it selected both the technological environment and software for its bond and short-term investment trading rooms.

In the area of technology, the Caisse continued setting up its local area network, and installed a more powerful mainframe.

Material Resources
During 1991, the Caisse demonstrated its concern for the environment by introducing a paper recycling program, with the goal of reducing paper consumption and promoting reuse. Throughout the year, it therefore encouraged the purchase of recycled paper for its various needs.

During the year, the Caisse also continued to monitor application of *An Act respecting the protection of non-smokers in certain public places* by following up on requests relating to compliance with the Act.

Public Affairs:
The Caisse's First Quarter-Century
In 1991, the Caisse commemorated the 25th anniversary of its founding in its communications, advertising, sponsorships, business and financial publications and press kits, among others.

It also organized special events for business partners and staff. On February 14, 1991, some 550 active and retired employees and their spouses gathered to celebrate the anniversary of the Caisse's first financial transaction exactly 25 years earlier, the purchase of a $500,000 bond from the International Bank for Reconstruction and Development.

The guests of honour, invited by Messrs. Jean-Claude Delorme and Guy Savard, were those people who had guided the Caisse through its first quarter-century: Mrs. Anne Prieur, representing her husband Mr. Claude Prieur, who died during his term of office; Mr. Marcel Cazavan; and Mr. Jean Campeau.

A second event was held on October 22, 1991 at the Montréal Convention Centre. More than 1,500 businesspeople from both inside and outside Québec gathered to celebrate the Caisse's 25th anniversary with prominent figures from a great many sectors.

In 1991, the Caisse also sponsored various organizations active in economics and finance, continuing its relationship with the Savings and Investment Marketplace in Montréal and Québec City to promote consumer education of the economy, sustaining job creation through its contribution to the Forum pour l'emploi, joining forces with the National Bank in the Nouveaux Performants program to encourage management development and excellence, and sponsoring the annual convention of the Fondation de l'Entrepreneurship to support entrepreneurs and their activities.

They aimed to be as accurate as a compass' needle.

The Caisse's vision is as far-reaching as the compass' circle.

THROUGH ITS MEDIUM- AND LONG-TERM STRATEGIES AND ITS DIVERSIFIED INVESTMENT VEHICLES, THE CAISSE EVOKES THE SPIRIT OF CONSTRUCTIVISM WHERE NOTHING IS LEFT UNCHECKED AND EVERY PLANE IS FORMALLY ORGANIZED.

Bonds

The weak economy caused interest rates to fall substantially during 1991. By year-end, rates on 10-year Canadian bonds reached their lowest level since the first quarter of 1975. One favourable consequence of the lower rates, however, was that the profile of the Canadian yield curve shifted from negative to positive. The Bank of Canada's policies on interest rates and the dollar served to enhance the Canadian bond market's appeal, and of all the markets in which the Caisse is active, it was the bond market that by far yielded the best results in 1991.

In this context, investors showed considerable interest in the secondary market for Québec public sector securities. During the year, the Caisse therefore traded close to $22 billion of bonds on the secondary market, or approximately triple the amount in 1990. This upsurge in activity increased the liquidity of securities issued or guaranteed by the gouvernement du Québec, which in turn made them more attractive and raised their relative value, since they could be bought or sold without any price concessions on investors' part. At the start of the year, 10-year bonds issued by the gouvernement du Québec and Hydro-Québec were

12 SUMMARY OF ACQUISITIONS OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC AND QUÉBEC PUBLIC SECTOR IN 1991

	Amount of issues			Acquisitions by the Caisse on the Canadian market	
	Canadian market	Other markets	Total	($)	(%)
Gouvernement du Québec					
Regular issue	1,754	3,852	5,606		
Refunding	1,208	658	1,866		
	2,962	4,510	7,472	1,450	49.0
Hydro-Québec and other provincial crown corporations					
Regular issue	630	4,493	5,123		
Refunding	497	1,257	1,754		
	1,127	5,750	6,877	535	47.5
Municipalities and guaranteed by grants					
Regular issue and refunding	2,575	572	3,147	122	4.7
	6,664	**10,832**	**17,496**	**2,107**	**31.6**

at par value - in millions of dollars

trading 112 basis points above Government of Canada bonds. However, at year-end, the margin had narrowed to 84 basis points. This change resulted in a $1.85 premium per $100 invested. Responding to heightened demand, the Caisse made significant gains on net sales of more than $2.5 billion of Québec public sector securities during the year.

These cash resources enabled the Caisse to increase its new investments on the primary market by $689 million over 1990. The investments, made in the form of Québec public sector bonds, amounted to almost $2.2 billion in 1991: approximately $1.5 billion was invested in bonds issued by the gouvernement du Québec, $500 million in Hydro-Québec bonds and $132 million in bonds of other issuers in this sector, such as the Corporation d'hébergement du Québec and the Communauté urbaine de Montréal.

On the international front, the Caisse continued to be represented on European markets. It traded the equivalent of CA $11.6 billion of European securities on the French, German and British markets, compared to $11.5 billion in 1990. In addition to being an active player on the Canadian bond futures market of The Montréal Exchange, the Caisse began trading U.S. Treasury bill futures in order to enhance the flexibility of its portfolio management.

The bond portfolio comprises securities purchased on a permanent investment basis, but actively managed, and securities acquired on a temporary basis. The latter, which are very liquid, are used mainly for controlling the duration factor, as well as for facilitating operations in the Québec public sector securities market and allowing a more vigorous asset mix for the Caisse overall. As at December 31, 1991, securities held on a temporary basis represented 15.6% of the total bond and mortgage portfolios, with the remainder held on a permanent investment basis.

At year-end, the bond portfolio had a market value of $19.7 billion, an average maturity of 10.4 years, an average coupon rate of 8.53% and a modified duration of 5.74 years. At book value, the portfolio amounted to $18.5 billion, compared to $17.7 billion a year earlier.

13

SUMMARY OF BOND AND MORTGAGE PORTFOLIOS ACCORDING TO TYPE OF ISSUER

Securities	At market value (in millions of dollars)	At market value (%)	Average nominal rate[1] (%)	Average maturity[1] (years)	Modified duration[2] (volatility)
Permanent investment basis					
Issued by the gouvernement du Québec	8,808.0	40.5	8.53	8.83	5.47
Government issued or guaranteed	4,894.2	22.5	8.14	14.81	7.03
Guaranteed by grants, municipalities and school boards	2,439.3	11.2	11.09	7.77	4.96
Corporate and other	139.4	0.6	11.41	11.38	5.03
	16,280.9	74.8	8.77	10.61	5.86
Mortgages	2,104.9	9.6	11.16	3.09	2.31
	18,385.8	84.4	9.03	9.79	5.45
Temporary investment basis					
Government issued or guaranteed					
Canada	1,125.7	5.2	8.93	6.19	3.77
United States	813.4	3.7	4.95	15.55	7.66
France	669.9	3.1	7.25	10.55	5.53
Germany	423.4	1.9	8.66	4.93	4.03
England	326.2	1.5	9.83	6.81	5.04
Other	30.4	0.2	8.66	1.78	1.10
	3,389.0	15.6	7.47	9.69	5.18
	21,774.8	**100.0**	**8.76**	**9.77**	**5.41**

as at December 31, 1991

[1] weighted as per nominal value
[2] weighted as per market value

Short-Term Investments

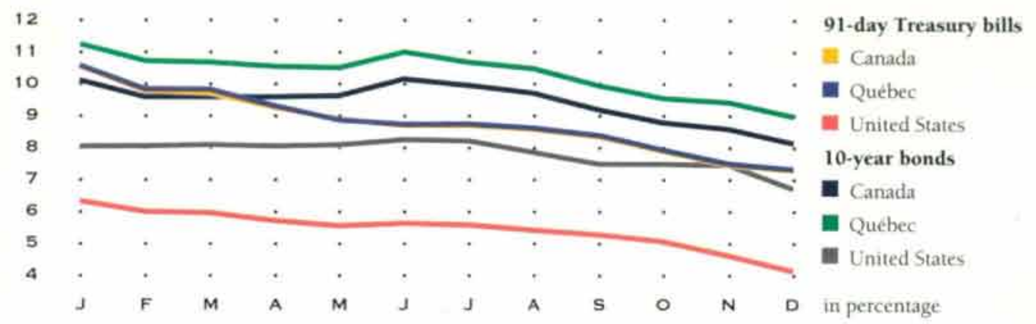
The strong downward pressure on interest rates also affected the money market, prompting the Caisse to take portfolio positions that generated substantial gains. Furthermore, the prime lending rate declined from 12.25% at the start of the year to 8% in December 1991.

The downtrend in interest rates and the dollar's appreciation reflected economic conditions in Canada and the U.S., and strong foreign demand for Canadian dollar-denominated securities.

The economic context also prompted the Caisse to raise its credit rating criteria. Most of the commercial paper held in the portfolio during the year thus met the higher rating.

As at December 31, the aggregate short-term investments portfolios totalled $1.84 billion at par value, or $1.81 billion at book value. Synthetic and derivative products, recorded as off-balance-sheet items, represented a theoretical gross value of 13.9% of the short-term investments portfolio.

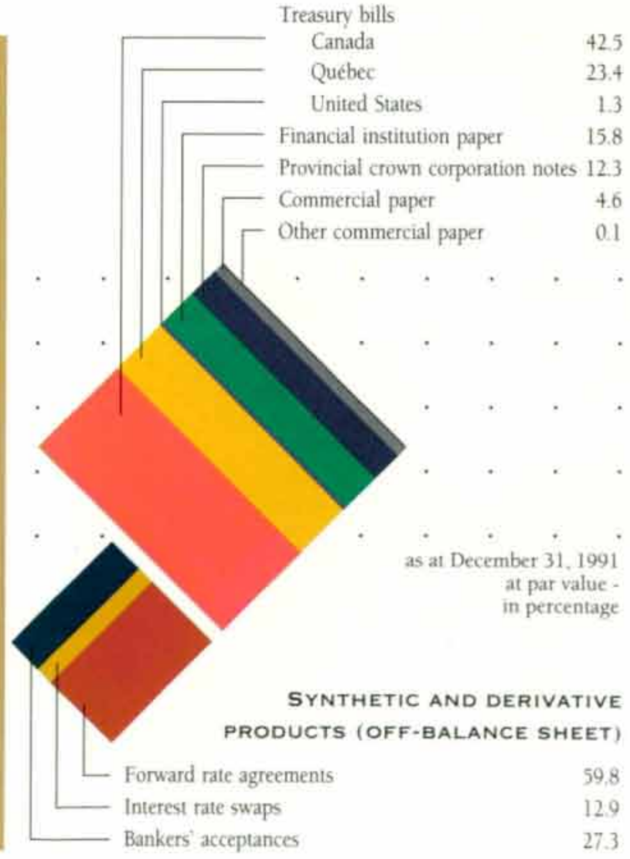
14 EVOLUTION OF YIELD IN 1991



It was in this context that the Caisse's volume of operations in 1991 reached a record $345.8 billion. The sizeable impact of these operations on the Caisse's treasury management led to the creation of a treasury portfolio to regulate and harmonize cash flows, which at times can reach a billion dollars a day. The anticipated return on this portfolio takes into account the need for sufficient cash resources to cover scheduled payables, as well as other requirements.

In addition, a short-term investment portfolio was constituted to meet the requirements of each depositor's asset mix strategies. The aim is to maximize return on investments in short-term securities, without any liquidity constraints. Some investments involved combining securities maturing in one or sometimes two years, as well as series of forward rate agreements traded on stock exchanges, notably The Montréal Exchange, or over the counter. By year-end, the return on the portfolio had increased by several basis points, adding to the Caisse's considerable gains as a result of its favourable positioning on the interest rate yield curve.

15 BREAKDOWN OF SHORT-TERM INVESTMENTS



Currency Markets

The Caisse's activities in managing foreign investments are structured around the concept of risk, primarily exchange risk, basically defined as the risk to which an institution is exposed as a result of currency fluctuations. A negative fluctuation can translate into a loss in the source currency, in this instance, the Canadian dollar.

Strong currency fluctuations therefore encourage institutions with international operations to develop policies and strategies for managing exchange risk. The globalization of trade and financial markets has produced a multiplicity of new instruments for managing both foreign exchange and interest rate risk: forward rate agreements, currency options, currency swaps, currency forward contracts traded on stock markets, and many more.

The Caisse's foreign exchange operations had a modest beginning in 1983, and were aimed at hedging the exchange risk on investments in U.S. Treasury bills. As a result of the international diversification of the equity portfolio in 1985 and the significant increase in positions in 1989, foreign exchange operations were expanded in a number of countries. A policy was then adopted to hedge against exchange risk for all foreign investments, which accelerated the growth of spot and forward market transactions, making the Caisse as active in the currency market as in other investment sectors. Finally, foreign exchange operations were centralized for all foreign investment activities in order to hedge against risk in accordance with established policy.

The Caisse actively managed its portfolios during the year, using a wide range of derivative instruments and an optimization technique by country based on a basket of currencies. Furthermore, it selected hedging terms that allowed it to take advantage of fluctuating interest rate spreads between countries. These strategies enabled the Caisse to record a gain of $75.5 million. It thus intends to continue developing efficient and appropriate practices for managing and controlling exchange risk, based on sound and prudent policies.

In 1991, the Caisse's currency operations expanded significantly over 1990, with volumes increasing by 66.6%.

For the year as a whole, currency volumes bought and sold reached over CA $77.2 billion in regard to foreign bond, equity and short-term investments, representing 15% of the Caisse's total investments or $6.1 billion at market value.

16 EVOLUTION OF CANADIAN DOLLAR IN 1991

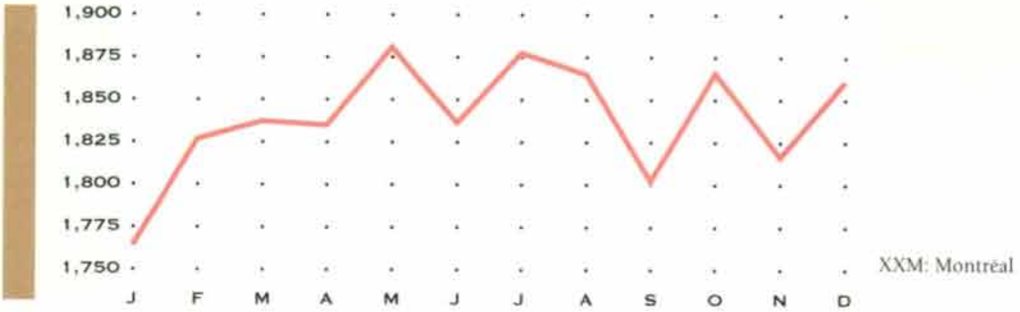
Canadian Stock Markets

Canadian-listed companies recorded a spectacular 61.9% decline in earnings in 1991, after a drop of 24.6% in 1990. Their dividends were again lower, down 10.4% compared to 3.3% in 1990. However, because of improved economic conditions, the TSE 300 composite index posted a total return of 12% in 1991, versus -14.8% in 1990, while the Montréal portfolio index reached 11.9% in 1991, compared to -11.4% the previous year.

uncertainty on natural gas markets, generated a return of only 6.6%. Conglomerates had to be content with a 2.6% rise because of the cyclical activities of Canadian Pacific, notably in forestry and transportation.

Golds ended the year at -13%. Real estate and construction, hampered by the excess capacity accumulated during the 1980s and sluggish retail sales, registered a -13.5% return. The combination of lower demand and structural

17 XXM INDEX IN 1991



The gains in the TSE 300 composite index can be attributed chiefly to five sectors of activity. Consumer products led the way with a return of 36.4%, particularly because of a strong rise in the shares of Magna, the auto parts manufacturer. Second place went to financial services at 30.7%, followed by utilities at 26.7%. Industrial products were up 23.9%, mainly as a result of increased international prospects for Bombardier, as well as for communications equipment specialist Northern Telecom. The 13% performance of metals and minerals reflected investor confidence that the Inco-dominated nickel market would eventually recover.

The contribution of other sectors, which was negative in some cases, remained relative. Communications generated a 12% return, identical to that of the TSE 300, chiefly because of the booming cellular telephone communications industry and Vidéotron's penetration of the British cable market. Distribution and services, which include retail trade, itself hard hit by the recession, were up 11.4%. Paper and forest products closed out the year at 6.7% because of excess capacity and exceptionally weak demand. Pipelines, which were severely affected by a lack of growth in volumes of natural gas liquids and

oversupply affected oil and gas, which finished the year at -17.2%. Finally, the transition period in the waste management industry and its effects on Laidlaw, as well as cyclical activity in the airline industry, caused transportation to close out the year at -42.6%.

During 1991, the Caisse therefore restructured its Canadian equities portfolio, positioning itself to take advantage of the expected economic recovery. In selecting securities for investment, it sought out businesses that were leaders in their respective markets and which had a global presence. Other criteria such as low-cost production, a relatively low debt level and a strong profit outlook also guided the Caisse in its investment decisions.

The main net purchases per sector can be broken down as follows: $128 million was allocated to oil and gas stocks, $93 million to transportation, $86 million to conglomerates, $78 million to distribution and services and $71 million to metals and minerals. At year-end, the market value of the Canadian equities portfolio was $11.5 billion.

With respect to the portfolio's financial and stock market ratios, the price-earnings multiple was 28.1, the price-book value ratio was 1.69, the dividend yield was 3.05% and the debt ratio (debt-common shareholders' equity) was 0.60. It should also be noted that risk exposure for the total portfolio was evaluated at 180 basis points above or below its average long-term return, with a 66.7% probability, or two years out of three.

The Caisse's investments on Canadian stock markets also include a block of equities indexed to the TSE 35, which comprises the securities of 35 large-capitalization Canadian companies. These blue-chip equities, which are traded in blocks for liquidity and strategic reasons among others and are passively managed, amounted to $1 billion at year-end.

Lastly, at the end of 1991, a portfolio of securities issued by small-capitalization Canadian listed companies was created with a view to earning superior yields on a long-term horizon. The target companies have an average free capitalization of between $15 million and $225 million.

International Stock Markets

During the year, the Caisse invested $930 million on the international markets, bringing the market value of its specific foreign equity investments portfolio to $3.7 billion as at December 31, or 9.2% of the Caisse's total investments, compared to 6.6% a year earlier. At book value, the portfolio amounted to $3.6 billion, compared to $2.6 billion in 1990. The geographical distribution of the specific portfolio at market value was as follows: United States, 41.6%; United Kingdom, 13.3%; France, 3.5%; Germany, 2.8%; other European countries, 9%; Japan, 26.8%; and other Asian countries and Oceania, 3%.

The specific foreign equity investments portfolio is managed according to three different methods. External managers are given a global mandate, subject to specific restrictions, to invest anywhere except in Canada. A fund of U.S. equities is managed by an in-house team. Funds whose proportions are controlled by the in-house team are indexed to the U.S., U.K., German, French, other European, Japanese and other Asian countries and Oceania sub-indices of the world index. At year-end, the market value of these funds was $540 million, $985 million and $2.2 billion respectively.

In addition to the specific foreign equity investments portfolio, the Caisse invested up to $850 million throughout the year in baskets of U.S. equities indexed to Standard and Poor's 500, for tactical management purposes.

18 STOCK MARKET INDICES IN 1991

Indices	Location	In local currency	In Canadian dollars
XXM	Montréal	11.9	11.9
TSE 300	Toronto	12.0	12.0
Standard & Poor's 500	United States	30.6	30.1
MSCI-WI			
Sub-index	United Kingdom	19.8	15.9
Sub-index	Germany	9.8	7.5
Sub-index	Japan	0.1	8.2

total return in percentage

A currency forward contracts portfolio created in 1989 is used in conjunction with the geographical allocation to improve the efficiency of the asset mix selection process as well as enhance returns. This currency forward contracts portfolio, also called the tactical hedging portfolio, is managed by the in-house team, and its performance is included in that of the specific foreign equity investments portfolio.

As a result of studies on the advantages for a Canadian investor of diversifying into foreign equities, the Caisse concluded that a portfolio of foreign equities hedged against exchange risk could offer a better risk-return profile than an unhedged portfolio. It therefore decided to fully hedge its specific foreign equity portfolio against such risk from the beginning of 1991. This strategic hedging is performed automatically and protects the entire portfolio against currency fluctuations. It is independent from the tactical hedging which enables the manager to take advantage of currency fluctuations while assuming a reasonable risk.

20 **Geographical breakdown of the specific foreign equity investments portfolio**

as at December 31, 1991
at market value -
in percentage

United States	41.6
United Kingdom	13.3
France	3.5
Germany	2.8
Other European countries	9.0
Japan	26.8
Other Asian countries and Oceania	3.0

19 **Evolution of investments in foreign shares as part of total investments**

Foreign shares
Total investments

as at December 31
at market value -
in millions of dollars

[1] restated to conform with the presentation of 1991

Corporate Investments

Set up during the 1980s, the corporate investments portfolio expanded during the long favourable economic cycle which marked that decade in Québec. The 1991 recession which put an end to the cycle was therefore the first one to affect this portfolio of close to 130 businesses. As a result, the Caisse's portfolio management during the past year was characterized by consolidation and careful monitoring of its investments.

In July, along with the Société québécoise d'initiatives pétrolières (SOQUIP), the Caisse respected its commitment to buy the Noverco shares held by Canam Manac. Through Noverco, the Caisse and SOQUIP then changed Gaz Métropolitain's status to that of a limited partnership and invited proposals from potential industrial partners. These transactions were intended to help Noverco and its components position themselves to realize their full potential.

21 EVOLUTION OF CORPORATE INVESTMENTS PORTFOLIO

Managing corporate investments calls for close cooperation between the Caisse, other shareholders and corporate management, to help companies weather difficult times while turning in the best results possible. In 1991, the Caisse therefore consolidated certain investments by injecting new capital or by actively developing solutions appropriate to each company's circumstances. On the national front, it made investments in Domtar, the Compagnie de location d'équipement Clé and Glaverbec, among others. This afforded the Caisse's partners the opportunity to strengthen their financial bases with a view to the future, since all of the companies, for different reasons related to the economy, had recourse to their shareholders to improve their financial position.

Consolidating a portfolio also involves some industry restructuring. In this regard, the Caisse, together with the other shareholders concerned, took part in a major reorganization in the furniture industry. As part of this operation, the Caisse increased its equity investment in Artopex following the company's purchase of the assets of BNI, owned by Groupe Canam Manac. The Caisse also completed a transaction in the energy sector involving Canam Manac.

Managing a portfolio also means adjusting its mix from time to time. The Caisse carried out certain transactions in response to offers made to shareholders of companies. It thus accepted Marion Merrell Dow's purchase offer relative to the Caisse's 14.6% interest in Nordic Laboratories, a company in which Marion Merrell Dow already had a controlling interest. Marion Merrell Dow intends to continue the expansion of Nordic in Québec. The Caisse also made an equity investment in Bio-Research Laboratories, buying 30% of its shares directly from France's Institut Mérieux. In the related field of pharmaceutical distribution, the redemption of the debenture held by the Caisse in Groupe Pharmaceutique Focus was negotiated, and because of market conditions, two convertible debentures issued by La Financière Desjardins and Cascades were redeemed at maturity rather than being converted into shares. In addition, in order to enhance the liquidity of its portfolio, the Caisse exchanged its Brascade shares for Noranda shares. Lastly, it sold half of the John Labatt debentures in its national corporate investments portfolio on the market, and transferred the other half to the Canadian equities portfolio.

Furthermore, the Caisse took advantage of market conditions to increase its ownership of Cambior to almost 6%. It also subscribed for a private offering of Vidéotron shares in order to participate in its international expansion, raising its stake in the company by $37.5 million.

With respect to regional funds, the Caisse, together with other financial partners, created Investissements Gaspésie-les-Îles-de-la-Madeleine, a venture capital enterprise that will help provide the region with seed money for business development. The Caisse also had a role in forming the new joint-venture limited partnership Canadian Pension Equity and Company III.

At year-end, the market value of the national corporate investments portfolio amounted to $1.23 billion compared to $1.15 billion in 1990, and its book value was $1.08 billion versus $1.12 billion in 1990.

The Caisse continued to enhance its international presence by joining forces with a Québec partner, Corporation financière Intermédia, to invest $1.2 million of a $2.5 million aggregate commitment in Com 2i, a European communications investment company. This investment increased the market value of the international corporate investments portfolio to $32 million.

As at December 31, 1991, the market value of the aggregate corporate investments portfolio, which represents 4.4% of the Caisse's total investments, amounted to $1.80 billion, compared to almost $1.89 billion in 1990. The reduction in the portfolio is further to redemptions and sales of investments totalling $255 million, while the total value of the portfolios grew by $115 million and new investments amounted to $55 million.

Mortgages

Mortgage rates tumbled in 1991 as monetary policy eased. Their decline was most evident in the residential loans sector, with five-year mortgage rates dropping below 10% at year-end.

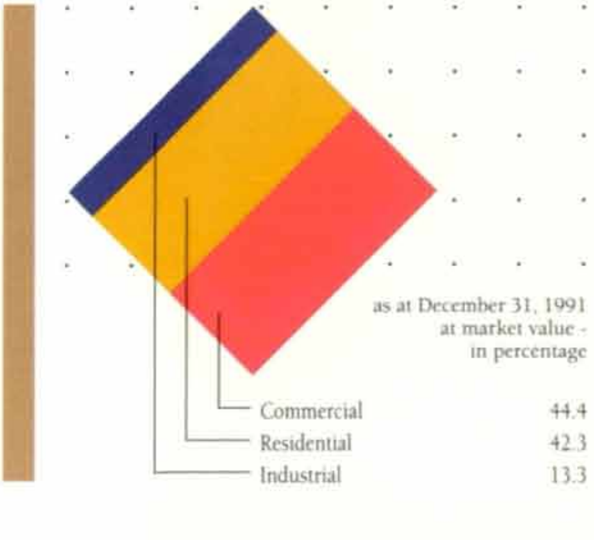
In spite of favourable rates, mortgage lending operations slowed considerably. In the residential loans sector, housing starts were significantly down. Statistics on the resale market as well as credit demand revealed a similar trend. Demand for commercial and industrial mortgages was also down, reflecting the difficult economic times, and vacancy rates were high.

Despite these conditions, the Caisse granted $278.8 million of mortgage loans in 1991, of which $169.6 million was earmarked for properties outside Montréal and Québec City.

The Caisse's main achievements in 1991 included the financing of two shopping centres, one for $5.7 million in Magog and the other for $5.3 million in Trois-Rivières-Ouest, as well as the refinancing of three other centres for $28 million in Granby, $11.2 million in Valleyfield and $9.5 million in Cap-de-la-Madeleine. The Caisse also financed two office buildings, one in Sainte-Foy and the other in Vanier, for $7.5 million and $5 million respectively, and refinanced an office building in Montréal for $5 million.

With regard to multi-unit residential buildings, the Caisse refinanced a 121-unit apartment building in Charlesbourg for $3.5 million and financed a 120-unit housing complex in Lasalle

22 BREAKDOWN OF MORTGAGES



with a $3.1 million mortgage, as well as a 15-building complex with a total of 210 units in Laval for an aggregate amount of $4.3 million.

As in the past, the Caisse mandated such financial institutions as Desjardins Trust, General Trust of Canada and Trust Prêt et Revenu to carry out most of its residential mortgage investments. By making use of their expertise and branch networks, the Caisse was able to offer credit in every region of Québec.

Through its representatives, the Caisse also took part in the gouvernement du Québec's *Mon taux, mon toit* program to stimulate residential construction with an investment in the order of $50 million. Under the program, new-home buyers are offered a three-year mortgage at 8.5%, or a cash grant equal to 4.5% of the purchase price.

The Caisse also invested in mortgage-backed securities guaranteed under the *National Housing Act* (NHA), which represent an undivided share of a pool of residential first mortgages covered by credit insurance. Issued under a Canadian Mortgage and Housing Corporation program launched in 1987, these securities provide timely guaranteed payments by the federal government. They are traded on the secondary market and are liquid, which helps the Caisse manage its treasury and the structure of each depositor's mortgage portfolio maturities more efficiently.

Finally, two interest rate swaps were performed during the year to adjust the durations of certain depositors' funds.

As at December 31, the Caisse's mortgage investments totalled $2.02 billion at book value; their market value was $2.1 billion, or 5.2% of total assets. The mortgage portfolio can be broken down as follows: commercial, 44.4%; residential, 42.3%; and industrial, 13.3%. The average coupon rate was 11.2%, the average maturity was 3.1 years and the modified duration was 2.3 years.

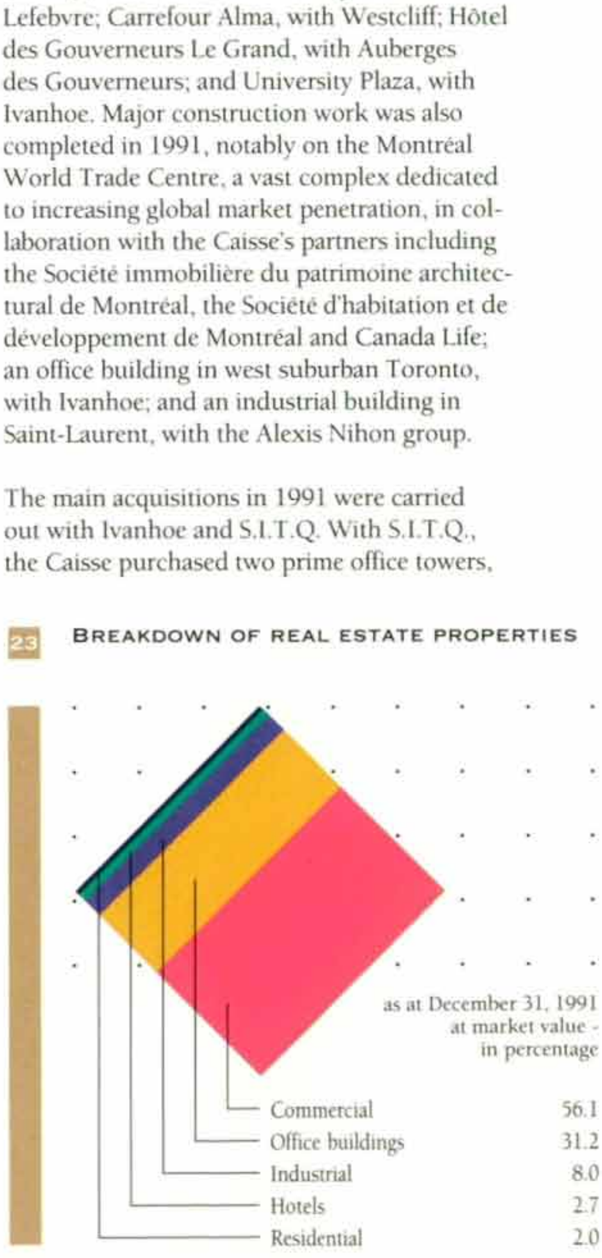
Real Estate Investments

The past year was marked by depressed national and international real estate markets, especially in the U.S. Given this context, the Caisse's real estate group, comprising its wholly-owned subsidiaries, as well as Ivanhoe and Société Immobilière Trans-Québec (S.I.T.Q.), chose to closely manage its current real estate holdings and acquire prime property in Québec and Ontario. It also carried out specific studies on the real estate sector with regard both to organizational structure and international diversification.

A number of properties were extensively renovated, including the Tour de la Place-Victoria, in collaboration with Magil Laurentian; the Trois-Rivières-Ouest shopping centre, with S.I.T.Q.; Place Laval, with Groupe Gendron Lefebvre; Carrefour Alma, with Westcliff; Hôtel des Gouverneurs Le Grand, with Auberges des Gouverneurs; and University Plaza, with Ivanhoe. Major construction work was also completed in 1991, notably on the Montréal World Trade Centre, a vast complex dedicated to increasing global market penetration, in collaboration with the Caisse's partners including the Société immobilière du patrimoine architectural de Montréal, the Société d'habitation et de développement de Montréal and Canada Life; an office building in west suburban Toronto, with Ivanhoe; and an industrial building in Saint-Laurent, with the Alexis Nihon group.

The main acquisitions in 1991 were carried out with Ivanhoe and S.I.T.Q. With S.I.T.Q., the Caisse purchased two prime office towers,

23 **BREAKDOWN OF REAL ESTATE PROPERTIES**



located on downtown Montréal's most prestigious avenue. The two properties were Place Mercantile, in which the Caisse has a 74% interest, and 1981 McGill College, in which the Caisse has an 80% interest. Other acquisitions included 55 University in Toronto, wholly-owned by Ivanhoe; the Cobourg shopping centre, in Ontario and the Galeries Rive-Nord shopping centre in Repentigny, both 50% owned by Ivanhoe. The real estate group also increased its stake in the Mail Champlain shopping mall, in which Ivanhoe has a 76% interest.

Aggregate capital expenditures and acquisitions for the year totalled $480 million, less sales of $15.6 million.

As at December 31, 1991, total real estate investments were $1.83 billion at market value, representing close to 4.5% of the Caisse's total assets. Net holdings in the specific real estate investments portfolio, which amounted to $1.9 billion at market value, were the result of investments which totalled $2.80 billion at book value, and $2.77 billion at market value, less third-party minority interests as well as related bank and mortgage loans totalling $905.5 million.

Pursuant to the Caisse's policy, the market value of the specific portfolio is determined through an independent assessment of a strict and prudent valuation of real estate investments.

Overall, real estate values declined in 1991, reflecting prevailing economic conditions in Québec and Ontario, where most of the investments of the real estate group are located, the glut on Montréal and Toronto markets and expectations of high returns on the part of real estate investors.

The underlying quality of the portfolio has not changed despite economic factors, and returns are anticipated to be high in the medium term, which is characteristic of the real estate sector. Current income stood at 5.2%, at market value.

Apart from properties held by the companies whose assets are consolidated in the portfolio, and which account for 92.3% of the market value of the specific real estate investments portfolio, the portfolio breaks down as follows: bonds of real estate companies, 1.8%; stocks, 3.8%; mortgages, 1.6%; and short-term investments, 0.5%.

As at December 31, 1991, the breakdown of real estate holdings at market value was as follows: office buildings, 31.2%; commercial, 56.1%; industrial, 8%; residential, 2%; and hotels, 2.7%.

Board of Directors

* Jean-Claude Delorme
Chairman of the Board
and Chief Executive Officer

Guy Savard
President and Chief of Operations

* Claude Legault
Deputy Chairman of the Board
and President
Régie des rentes du Québec

* Claude Béland
President
La Confédération des caisses populaires et d'économie Desjardins du Québec

Gisèle Desrochers
Deputy Minister
Ministère du Loisir, de la Chasse et de la Pêche

Louis Laberge
Chairman of the Board
Fonds de solidarité des travailleurs du Québec (FTQ)

* Pierre Michaud
Chairman of the Board and Chief Executive Officer
Groupe Val Royal Inc.

Jacques O'Bready
President
Commission municipale du Québec

Gabriel Savard
President and General Manager
Société de développement industriel du Québec

Claude Séguin
Deputy Minister
Ministère des Finances

Raymond Sirois
Chairman of the Board and Chief Executive Officer
Québec-Téléphone

André Trudeau
Deputy Minister
Ministère de l'Environnement

* *also a member of the audit committee*

Senior Management

Jean-Claude Delorme
Chairman of the Board
and Chief Executive Officer

Guy Savard
President and Chief of Operations

Carmen Crépin
Corporate Secretary

Senior Vice-Presidents:

Claude Ferland
Fixed-Income Investments and Strategic Affairs

Michel Nadeau
Stock Markets and Investment Planning

Serge Rémillard
Administration and Control

Jean-Claude Scraire
Legal and Corporate Affairs
and Real Estate Investments

Vice-Presidents

Yves Benoit - Data Processing
Pierre Bouvier - Bond Investments
Serge Desjardins - Internal Audit
Réal Desrochers - International Corporate Investments
André Duchesne - Money Market Investments
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Walter Murkens - Depositors' Affairs
Normand Provost - National Corporate Investments
Adel Sarwat - International Stock Markets
Alain Tessier - Finance

Combined Balance Sheet
As at December 31, 1991

	1991	1990
	(in millions of dollars)	
ASSETS		(Note 3)
Investments (Notes 4 and 5)		
Bonds	**18,502**	17,731
Shares and convertible securities (Note 6)	**13,480**	12,423
Mortgages	**2,020**	2,012
Real estate investments	**2,531**	2,090
Short-term investments	**1,811**	1,825
	38,344	36,081
Investment income, accrued and receivable	**586**	552
Other assets	**105**	80
	39,035	36,713
LIABILITIES		
Deposits on loans of securities	-	364
Bank loans and notes payable	**253**	109
Mortgage loans payable	**483**	377
Other liabilities	**110**	119
Non-controlling interests	**83**	76
	929	1,045
DEPOSITORS' HOLDINGS (Note 7)	**38,106**	35,668
	39,035	36,713

On behalf of the Board of Directors,
Jean-Claude Delorme
Claude Legault

Auditor's Report

I have audited the combined balance sheet of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 1991, the combined statement of income, and the combined statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Caisse's Management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of these Funds as at December 31, 1991 and the results of their operations and changes in net assets for the year then ended in accordance with the accounting policies disclosed in Note 2. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these policies have been applied, after giving retroactive effect to the change in the method of accounting for real estate investments in real estate companies controlled by the Caisse and not wholly-owned as explained in Note 3, on a basis consistent with that of the preceding year.

Compliance of Financial Statements with An Act Respecting the Caisse de dépôt et placement du Québec
As mentioned in Note 3, the accounts of real estate companies controlled by the Caisse and not wholly-owned are consolidated. This accounting method is in accordance with generally accepted accounting principles. However, it deviates from section 47 of the Act creating the Caisse which states that for the purposes of the annual report, all investments shall be entered at cost price or, in the case of bonds and immoveables, at amortized cost price. In the case of these real estate investments, the cost price is $970 million ($894 million in 1990). The effect of this accounting method is thus to reduce depositors' holdings as at December 31, 1991 by $38 million ($11 million in 1990).

Guy Breton, F.C.A.
Auditor General of Québec
Québec City, February 28, 1992

COMBINED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1991

	1991	1990
	(in millions of dollars)	
INCOME		(Note 3)
Investment income		
Interest on bonds	**1,869**	1,922
Dividends, interest on convertible securities	**479**	446
Interest on mortgages	**218**	227
Income from real estate investments	**91**	102
Interest on short-term investments - net	**219**	285
	2,876	2,982
Gains (losses) on sale of investments - net		
Bonds	**489**	(327)
Shares and convertible securities	**329**	140
Other investments	**16**	11
	834	(176)
Other income	**1**	1
	3,711	2,807
EXPENDITURE		
Administrative expenses (Note 8)	**31**	25
	3,680	2,782
INCOME BEFORE THE FOLLOWING ITEM		
Non-controlling interests	**5**	5
NET DEPOSITORS' INCOME	**3,675**	2,777

COMBINED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 1991

	1991	1990
	(in millions of dollars)	
		(Note 3)
NET ASSETS, BEGINNING OF YEAR	**35,668**	33,341
Net depositors' income		
Demand and term deposit holders	**44**	51
Participation deposit holders	**3,631**	2,726
	3,675	2,777
Excess depositors' withdrawals over deposits	**1,237**	450
Increase in net assets for the year*	**2,438**	2,327
NET ASSETS, END OF YEAR	**38,106**	35,668
*Increase in net assets for the year		
Investments		
Bonds	**771**	655
Shares and convertible securities	**1,057**	1,968
Mortgages	**8**	44
Real estate investments	**441**	451
Short-term investments	**(14)**	(675)
	2,263	2,443
Other assets and liabilities	**175**	(116)
	2,438	2,327

1 CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec is a corporation within the meaning of the Civil Code, created by a special act (R.S.Q., chapter C-2 and amendments). It receives funds, the deposit of which is provided for under a particular act.

GENERAL FUND

The General Fund is a pooled fund for demand, term and participation deposits. The General Fund's net equity and net income as at December 31 were shared among participation deposit holders as follows:

	1991		1990	
	Number of units	**%**	Number of units	%
Régie des rentes du Québec	**18,321,906**	**74.5**	18,189,689	75.0
Société de l'assurance automobile du Québec	**6,259,256**	**25.4**	6,037,050	24.9
Fonds d'assurance-prêts agricoles et forestiers	**12,871**	**0.1**	12,871	0.1
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	**12,052**	**-**	7,711	-
Régie des marchés agricoles et alimentaires du Québec	**3,103**	**-**	2,693	-
	24,609,188	**100.0**	24,250,014	100.0

INDIVIDUAL FUNDS

The Individual Funds each have only one depositor who exclusively makes participation deposits therein. The various Individual Funds are:

Fund 301
For the Government and Public Employees Retirement Plan - contributions from unionized employees - administered by the Commission administrative des régimes de retraite et d'assurances.

Fund 302
For the Government and Public Employees Retirement Plan - contributions from non-unionized employees, contributions from employers and transfers from supplemental pension plans - administered by the Commission administrative des régimes de retraite et d'assurances.

Fund 303
For the Individual Plans, administered by the Commission administrative des régimes de retraite et d'assurances.

Fund 304
For the General Retirement Plan for Mayors and Councillors of Municipalities, administered by the Commission administrative des régimes de retraite et d'assurances.

Fund 305
For the Pension Plan for Elected Municipal Officers, administered by the Commission administrative des régimes de retraite et d'assurances.

Fund 311
For the Supplemental Pension Plan for Employees of the Québec Construction Industry - active participants - administered by the Commission de la construction du Québec.

Fund 312
For the Supplemental Pension Plan for Employees of the Québec Construction Industry - retired participants - administered by the Commission de la construction du Québec.

Fund 313
For the Supplemental Pension Plan for Employees of the Québec Construction Industry - additional contributions - administered by the Commission de la construction du Québec.

Fund 330
For the Commission de la santé et de la sécurité du travail.

SPECIFIC PORTFOLIOS

All Funds can subscribe participation units of specific portfolios which are pooled funds grouping investments of the same category. As at December 31, 1991, two specific portfolios were in operation, one for foreign equity investments and another for real estate investments. The net equity and net income of these portfolios as at December 31 were distributed as follows:

Specific foreign equity investments portfolio

	1991		1990	
	Number of units	**%**	Number of units	%
General Fund	**1,791,815**	**47.9**	1,496,863	53.4
Individual Fund 301	**1,050,306**	**28.1**	629,100	22.5
Individual Fund 302	**235,149**	**6.3**	132,121	4.7
Individual Fund 303	**3,939**	**0.1**	2,840	0.1
Individual Fund 304	**1,400**	**-**	1,879	0.1
Individual Fund 305	**5,470**	**0.1**	2,177	0.1
Individual Fund 311	**180,451**	**4.8**	181,454	6.5
Individual Fund 312	**74,063**	**2.0**	56,898	2.0
Individual Fund 313	**14,164**	**0.4**	12,157	0.4
Individual Fund 330	**383,558**	**10.3**	287,106	10.2
	3,740,315	**100.0**	2,802,595	100.0

Specific real estate investments portfolio

	1991		1990	
	Number of units	**%**	Number of units	%
General Fund	**834,983**	**47.4**	809,031	51.8
Individual Fund 301	**474,339**	**26.9**	349,163	22.3
Individual Fund 302	**82,309**	**4.7**	71,267	4.5
Individual Fund 303	**1,674**	**0.1**	1,572	0.1
Individual Fund 304	**702**	**0.1**	1,211	0.1
Individual Fund 305	**2,694**	**0.1**	957	0.1
Individual Fund 311	**128,589**	**7.3**	123,563	7.9
Individual Fund 312	**53,861**	**3.1**	38,008	2.4
Individual Fund 313	**18,338**	**1.0**	14,346	0.9
Individual Fund 330	**164,349**	**9.3**	154,195	9.9
	1,761,838	**100.0**	1,563,313	100.0

2 ACCOUNTING POLICIES

The combined financial statements of the Caisse have been prepared by Management on the accrual basis and according to the accounting policies disclosed below. These statements include amounts based on best judgement and estimates.

a) COMBINED FINANCIAL STATEMENTS

The combined financial statements of the Caisse comprise the accounts of the General Fund and those of the Individual Funds, as well as those of the specific foreign equity and real estate investments portfolios. In addition, the accounts of subsidiaries owned by the Caisse's Funds are consolidated when these financial statements are prepared.

The accounts of each of these Funds and portfolios are reflected in separate financial statements audited by the Auditor General of Québec.

b) INVESTMENTS

Investments in bonds, mortgages, buildings and short-term securities are carried at amortized cost. Shares, land and convertible securities are carried at cost.

Purchases and sales of investments are recorded as at the settlement date, except for transactions involving shares and convertible securities which are recorded as at the commitment date.

c) FOREIGN CURRENCY TRANSLATION

Current assets and liabilities in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Investments in shares are translated at the rates in effect on the dates of each transaction while investments in bonds and short-term securities are translated at the average rate of foreign financial risk hedging instruments prevailing at the end of the fiscal year.

Income is translated at the average rate prevailing in each of the fiscal periods of the various Funds. Foreign exchange gains and losses are included in investment income, except those gains and losses relating to shares, which are deferred and included in gains and losses on the sale of shares when these investments are realized. Deferred gains and losses are disclosed under Investments - shares and convertible securities.

d) FINANCIAL FOREIGN EXCHANGE AND INTEREST RATE RISK HEDGING INSTRUMENTS
Various financial instruments such as foreign exchange contracts and forward rate agreements, futures and options as well as foreign currency and interest rate swaps are used to hedge against risks associated with fluctuations in exchange and interest rates. The market value of these financial instruments at year-end is included in the market value of each hedged investment category.

Gains and losses from foreign exchange risk hedging operations are accounted for as indicated in Note c) while gains and losses resulting from interest rate risk hedging operations are included in the income of each hedged investment category.

e) DIVIDEND INCOME
Dividend income is accounted for on the record date.

f) INTEREST ON SHORT-TERM INVESTMENTS - NET
This item includes interest earned on short-term investments and interest expenses on loans.

g) FIXED ASSETS
Material and equipment purchases are charged to administrative expenses, except those costs related to the purchase of telephone, computer and office automation equipment, which are capitalized and depreciated over their useful lives. Set-up costs for the premises and other leasehold improvement costs are amortized over the term of the lease. These fixed assets are presented under the item Other assets.

h) ADMINISTRATIVE EXPENSES
Administrative expenses are paid out of the General Fund and charged to the various Funds on a pro rata basis according to the market value of the weighted assets of each.

3 CHANGE IN ACCOUNTING POLICY

The accounts of real estate companies controlled by the Caisse and not wholly-owned are now consolidated. Previously, these companies' accounts were accounted for using the equity method or the proportionate consolidation method.

The effect of this change, which was applied retroactively, is to increase the amount of the following items in the financial statements:

	1991	1990
	(in millions of dollars)	
ASSETS		
Investments	**561**	412
Other assets	**74**	56
LIABILITIES	**635**	468

This change has no impact on depositors' holdings as at December 31, 1991 and 1990 or on depositors' net income for the years then ended.

4 INVESTMENTS - AT MARKET VALUE

The market value of investments at year-end represents the amount the Caisse could obtain from the sale of all of its investments under normal market conditions, without taking into account the impact of a sale of this materiality. Closing prices of the major stock exchanges as well as those provided by recognized brokerage firms, specific independent valuations, comparative analyses and any other commonly used valuation method can be used to evaluate the different investment categories presented below:

	1991	1990
	(in millions of dollars)	
Bonds	**19,670**	17,392
Shares and convertible securities	**15,229**	13,231
Mortgages	**2,105**	1,984
Real estate investments	**2,563**	2,240
Short-term investments	**1,803**	1,825
	41,370	36,672

5 Investments - Foreign Securities

	1991		1990	
	(in millions of dollars)			
	At book value	At market value	At book value	At market value
Bonds	2,240	2,282	1,830	1,834
Shares	3,670	3,757	3,336	3,116
Short-term investments	74	70	416	416
	5,984	6,109	5,582	5,366

The foreign exchange position for investments in foreign securities, excluding transactions under securities loan agreements, is hedged by financial instruments whose net total maturity value was $6,079 million as at December 31, 1991 ($4,739 million in 1990).

6 Shares and Convertible Securities

	1991	1990
	(in millions of dollars)	
Shares and convertible securities held directly by the Funds	9,855	9,799
Shares held through the specific foreign equity investments portfolio	3,625	2,624
	13,480	12,423

7 Depositors' Holdings

Demand and term deposits constitute the Caisse's indebtedness toward the depositors and bear interest.

Participation deposits are expressed in units and each unit gives its holder a proportionate share in the net equity and net income of a particular Fund. At the end of the fiscal period of a Fund, the net income is distributed to participation deposit holders. At the beginning of the following period, this net income is paid out to the depositors' demand deposit accounts. The fiscal period of the General Fund is one month and that of the other Funds is three months.

	1991	1990
	(in millions of dollars)	
Indebtedness toward depositors		
Demand deposits	242	153
Term deposits	121	50
Interest on demand and term deposits	3	3
Net income to be paid out	647	468
	1,013	674
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	34,994	32,590
Units issued	2,582	2,412
Units cancelled	(483)	(8)
Balance, end of year	37,093	34,994
	38,106	35,668

8 Administrative Expenses

	1991	1990
	(in millions of dollars)	
Salaries and employee benefits	18	15
Professional fees	4	2
Premises and material	4	4
Depreciation of fixed assets	2	1
Other	3	3
	31	25

9 Comparative Figures

Certain figures from the 1990 financial statements have been restated to conform with the presentation of 1991.

SUPPLEMENTARY INFORMATION

SUMMARY FINANCIAL STATEMENTS FOR THE FUNDS

BALANCE SHEET
AS AT DECEMBER 31, 1991

	GENERAL FUND		301	
	1991	1990	1991	1990
	(in millions of dollars)			
ASSETS				
Investments				
Bonds	**10,438.7**	10,651.5	**4,300.1**	3,458.5
Shares and convertible securities	**6,223.3**	6,111.3	**3,652.3**	3,354.5
Mortgages	**702.5**	677.1	**274.8**	355.8
Real estate investments	**882.7**	852.2	**550.6**	403.0
Short-term investments	**1,538.3**	1,297.6	**183.9**	255.6
Demand deposits in the General Fund	**-**	-	**97.9**	153.3
	19,785.5	19,589.7	**9,059.6**	7,980.7
Investment income, accrued and receivable	**305.2**	297.9	**142.8**	117.1
Other assets	**11.1**	6.2	**-**	-
	20,101.8	19,893.8	**9,202.4**	8,097.8
LIABILITIES				
Demand deposits	**486.4**	478.2	**-**	-
Term deposits	**120.5**	49.9	**-**	-
Income to be paid out to depositors	**188.0**	156.7	**241.9**	150.2
Deposits on loans of securities	**-**	215.0	**-**	65.8
Other liabilities	**19.8**	6.5	**5.8**	2.4
	814.7	906.3	**247.7**	218.4
PARTICIPATION DEPOSIT HOLDERS' HOLDINGS	**19,287.1**	18,987.5	**8,954.7**	7,879.4
	20,101.8	19,893.8	**9,202.4**	8,097.8

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1991

INCOME				
Investment income				
Interest on bonds	**1,088.5**	1,171.2	**390.1**	377.4
Dividends, interest on convertible securities	**234.6**	221.9	**132.7**	124.4
Interest on mortgages	**75.5**	73.8	**37.9**	38.0
Income from real estate investments	**46.7**	63.0	**24.5**	25.0
Interest on short-term investments - net	**157.2**	197.2	**33.2**	33.4
Interest on deposits in the General Fund	**-**	-	**10.7**	5.2
	1,602.5	1,727.1	**629.1**	603.4
Gains (losses) on sale of investments - net	**497.2**	(122.3)	**163.4**	(21.3)
Other income	**0.6**	0.4	**0.1**	0.1
Total income	**2,100.3**	1,605.2	**792.6**	582.2
EXPENDITURE				
Administrative expenses	**16.1**	13.5	**7.6**	5.8
Interest on demand and term deposits - net	**75.6**	71.4	**-**	-
NET INCOME	**2,008.6**	1,520.3	**785.0**	576.4

MARKET VALUE OF INVESTMENTS
AS AT DECEMBER 31, 1991

Bonds	**11,081.3**	10,417.4	**4,577.5**	3,416.4
Shares and convertible securities	**7,208.4**	6,637.6	**4,136.6**	3,561.2
Mortgages	**732.5**	670.6	**288.1**	350.9
Real estate investments	**901.9**	957.3	**512.4**	413.2
Short-term investments	**1,532.0**	1,298.3	**184.0**	255.7
Demand deposits in the General Fund	**-**	-	**97.9**	153.3
	21,456.1	19,981.2	**9,796.5**	8,150.7

INDIVIDUAL FUNDS							
302		303		304		305	
1991	1990	**1991**	1990	**1991**	1990	**1991**	1990
(in millions of dollars)							
798.1	757.6	**12.8**	12.5	**5.6**	10.6	**21.7**	10.4
800.3	653.7	**12.9**	11.0	**4.6**	7.9	**24.9**	2.0
55.0	74.6	**6.0**	5.3	**1.5**	2.5	**2.0**	-
94.8	81.7	**1.9**	1.8	**0.8**	1.4	**3.2**	1.2
47.2	62.5	**4.0**	3.1	**0.5**	1.1	**1.0**	8.0
64.1	8.0	**1.4**	2.9	**0.8**	0.8	**1.5**	6.5
1,859.5	1,638.1	**39.0**	36.6	**13.8**	24.3	**54.3**	28.1
29.1	25.2	**0.5**	0.4	**0.2**	0.3	**0.7**	0.3
-	-	-	-	-	-	-	-
1,888.6	1,663.3	**39.5**	37.0	**14.0**	24.6	**55.0**	28.4
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
50.3	33.3	**1.0**	0.8	**0.4**	0.5	**1.3**	0.8
-	17.6	-	0.1	-	0.1	-	0.1
2.5	0.5	-	0.1	-	-	**0.4**	-
52.8	51.4	**1.0**	1.0	**0.4**	0.6	**1.7**	0.9
1,835.8	1,611.9	**38.5**	36.0	**13.6**	24.0	**53.3**	27.5
1,888.6	1,663.3	**39.5**	37.0	**14.0**	24.6	**55.0**	28.4

80.5	79.0	**1.4**	1.4	**0.7**	1.2	**1.9**	0.4
26.7	23.0	**0.4**	0.4	**0.2**	0.2	**0.7**	-
7.8	8.3	**0.6**	0.5	**0.2**	0.2	**0.2**	-
4.5	5.3	**0.1**	0.1	-	0.1	**0.1**	-
6.1	11.0	**0.1**	0.5	-	0.2	**0.3**	0.3
2.6	2.1	**0.3**	0.3	**0.1**	0.1	**0.3**	0.3
128.2	128.7	**2.9**	3.2	**1.2**	2.0	**3.5**	1.0
31.9	(6.4)	**0.5**	(0.1)	**0.3**	-	**0.8**	-
0.1	-	-	-	-	-	-	-
160.2	122.3	**3.4**	3.1	**1.5**	2.0	**4.3**	1.0
1.5	1.2	-	-	-	-	**0.1**	-
-	-	-	-	-	-	-	-
158.7	121.1	**3.4**	3.1	**1.5**	2.0	**4.2**	1.0

860.0	745.7	**13.8**	12.4	**6.1**	10.5	**23.6**	10.5
884.9	686.3	**13.5**	10.6	**4.7**	7.6	**25.5**	1.9
58.3	73.6	**5.9**	5.3	**1.5**	2.5	**2.0**	-
88.9	84.4	**1.8**	1.8	**0.8**	1.4	**2.9**	1.2
46.7	62.5	**3.9**	3.1	**0.5**	1.1	**1.0**	8.0
64.1	8.0	**1.4**	2.9	**0.8**	0.8	**1.5**	6.5
2,002.9	1,660.5	**40.3**	36.1	**14.4**	23.9	**56.5**	28.1

INDIVIDUAL FUNDS							
311		312		313		330	
1991	1990	**1991**	1990	**1991**	1990	**1991**	1990
(in millions of dollars)							
521.3	549.3	**233.1**	171.3	**121.9**	84.2	**1,970.5**	1,956.2
811.4	731.4	**360.7**	231.2	**46.6**	28.8	**1,321.8**	1,155.2
590.9	543.9	**233.4**	170.6	**77.8**	60.8	**111.4**	123.9
149.6	143.7	**64.1**	45.4	**21.9**	17.3	**189.7**	177.4
28.8	56.2	**6.8**	34.7	**10.2**	9.1	**48.3**	90.5
25.0	54.2	**8.2**	38.4	**1.4**	13.5	**30.6**	45.8
2,127.0	2,078.7	**906.3**	691.6	**279.8**	213.7	**3,672.3**	3,549.0
27.8	25.7	**11.9**	8.0	**4.8**	3.2	**59.6**	55.4
0.1	-	-	-	-	-	-	-
2,154.9	2,104.4	**918.2**	699.6	**284.6**	216.9	**3,731.9**	3,604.4
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
47.4	41.3	**19.2**	14.7	**6.4**	4.8	**96.9**	71.0
-	10.7	-	7.8	-	3.2	-	43.3
3.6	0.5	**3.3**	0.2	**0.3**	0.1	**3.2**	0.6
51.0	52.5	**22.5**	22.7	**6.7**	8.1	**100.1**	114.9
2,103.9	2,051.9	**895.7**	676.9	**277.9**	208.8	**3,631.8**	3,489.5
2,154.9	2,104.4	**918.2**	699.6	**284.6**	216.9	**3,731.9**	3,604.4

56.6	55.3	**21.6**	17.4	**9.8**	7.6	**207.8**	202.1
28.6	25.0	**10.9**	7.9	**1.3**	0.7	**43.8**	39.4
61.3	64.8	**20.6**	20.0	**6.6**	6.4	**13.6**	16.0
7.2	9.7	**2.7**	3.0	**1.0**	1.1	**9.4**	10.9
5.3	11.4	**4.0**	5.4	**1.5**	1.3	**11.2**	24.6
3.0	1.7	**2.2**	1.0	**0.8**	0.5	**4.9**	3.1
162.0	167.9	**62.0**	54.7	**21.0**	17.6	**290.7**	296.1
23.9	(3.4)	**7.3**	(0.5)	**2.3**	(0.6)	**106.4**	(24.8)
0.1	-	**0.2**	0.1	-	-	**0.1**	-
186.0	164.5	**69.5**	54.3	**23.3**	17.0	**397.2**	271.3
2.1	1.7	**0.8**	0.6	**0.2**	0.1	**3.0**	2.4
-	-	-	-	-	-	-	-
183.9	162.8	**68.7**	53.7	**23.1**	16.9	**394.2**	268.9

561.9	539.2	**248.4**	166.2	**129.6**	82.4	**2,117.5**	1,921.6
906.5	757.2	**390.4**	238.0	**48.0**	27.4	**1,439.5**	1,184.8
617.5	537.3	**246.5**	170.2	**79.9**	59.9	**116.2**	121.6
138.9	146.2	**59.4**	46.2	**19.8**	17.0	**177.5**	182.5
28.9	56.2	**6.8**	34.7	**10.1**	9.1	**47.9**	90.6
25.0	54.2	**8.2**	38.4	**1.4**	13.5	**30.6**	45.8
2,278.7	2,090.3	**959.7**	693.7	**288.8**	209.3	**3,929.2**	3,546.9

The following employees appear in the photographs:

from left to right

Front cover
Hélène Bélanger and Robert Coallier,
Managers, National Corporate Investments

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Line Boisvert,
Consulting Analyst, Chairman of the Board and Chief Executive Officer's Office
Caroline Verge,
Economist, Economics
Richard Lesage,
Vice-President, Economics

Page 12
Achille Desmarais,
Analyst and Investment Manager, Canadian Stock Markets
Yves Moquin,
Vice-President, Asset Mix
Serge Beugré,
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Page 18
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