Annual Report 2003

CDP
Caisse de dépôt et placement
du Québec

Our first concern:

A leading Québec institution and the largest institutional investor in Canada, the Caisse de dépôt et placement du Québec works to protect and increase the assets of 19 depositors, currently valued at $89 billion. Its depositors are primarily public-sector pension and insurance plans and, like the Caisse, they are an integral part of Québec's history and social fabric.

working for you.

▪ Fonds du Régime de rentes du Québec	1966
▪ Fonds d'assurance-garantie	1967
▪ La Financière agricole du Québec	1968
▪ Régie de l'assurance-dépôts du Québec	1969
▪ Supplemental Pension Plan for Employees of the Québec Construction Industry	1970
▪ Health and Work Safety Fund	1973
▪ Government and Public Employees Retirement Plan	1973
▪ Pension Plan for Management	1973
▪ Individual Plans	1977
▪ Société de l'assurance automobile du Québec	1978
▪ La Fédération des producteurs de bovins du Québec	1989
▪ Pension Plan for Elected Municipal Officers	1989
▪ Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	1990
▪ Office de la protection du consommateur	1992
▪ Fonds d'amortissement des régimes de retraite	1994
▪ Société des alcools du Québec	1994
▪ Régime de rentes de survivants	1997
▪ Commission des valeurs mobilières du Québec	1998
▪ Fonds de garantie des producteurs de tabac jaune du Québec	2001

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General notes

The Caisse's operations comply with the requirements of the *Act respecting the Caisse de dépôt et placement du Québec* and with industry practices. Its financial statements are prepared in accordance with generally accepted accounting principles in Canada. The Auditor General of Québec, to the extent that he deems it appropriate, conducts the financial audit and ensures that the Caisse's operations comply with laws, regulations, policies and guidelines, and with the systems and procedures set up to control and protect the assets.

The tables of composites and calculations of returns as at December 31, 2003, relating to the depositor account composites of the Caisse (see *Annual Report 2003 – Additional Information*) have been audited by Deloitte & Touche LLP and comply with the AIMR-PPS®, the version of the Global Investment Performance Standards (GIPS®) that applies in Canada and the United States. This audit covers the period from January 1, 1998, to December 31, 2003, for the existing composites, and from January 1, 1999, to December 31, 2003, for the new composites created at the end of 2003.

1. *The terms "depositors' holdings" and "depositors' net assets" are equivalent.*
2. *Net assets correspond to the net holdings of unit holders in specialized portfolios, plus earnings to be paid, or minus losses to be recovered, in order to take into consideration the performance evaluation requirements.*
3. *Unless otherwise indicated, returns are presented before operating expenses. They include the return on cash and cash equivalents and take into account a foreign exchange hedging position.*
4. *Unless otherwise indicated, all figures are given in Canadian dollars.*
5. *Totals may vary due to the rounding of figures.*
6. *Many of the financial terms used in this Annual Report are defined in the* Glossary *section.*

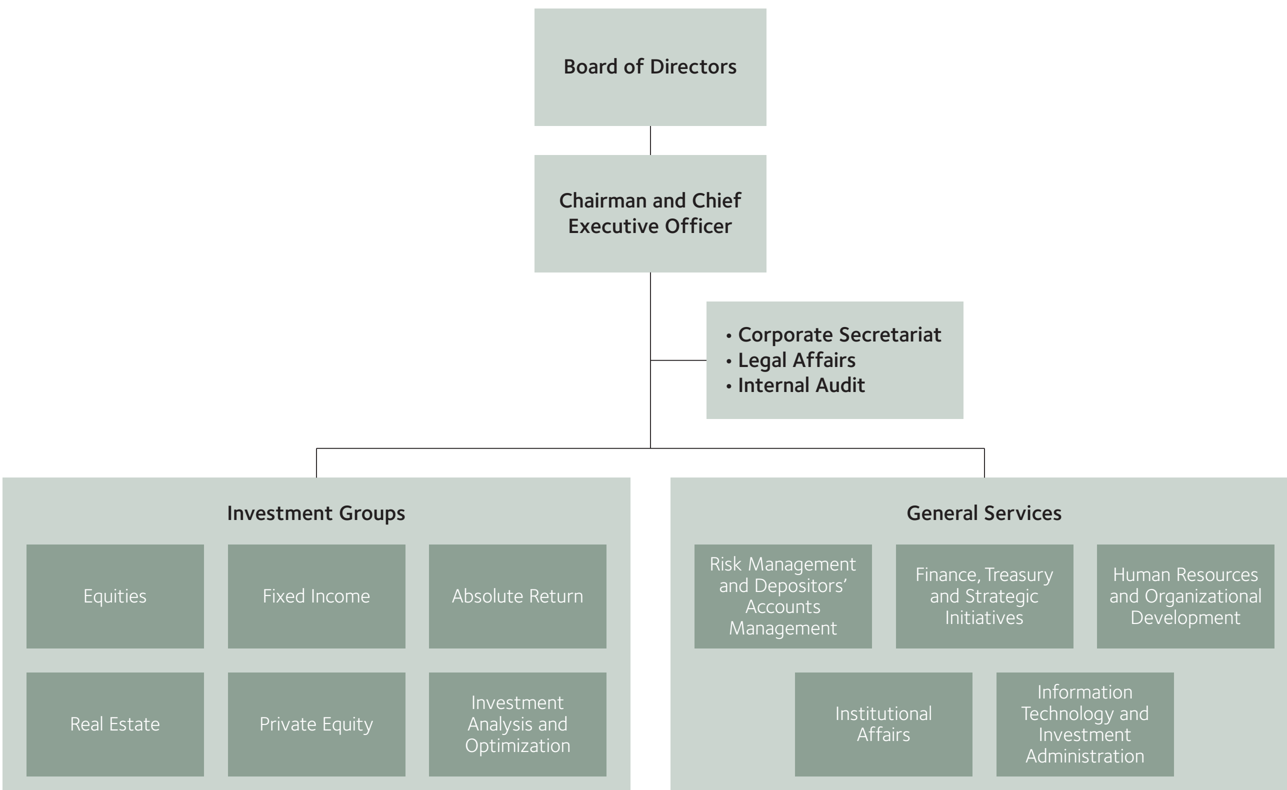
Profile

Created in 1965 by an Act of the National Assembly of Québec, the Caisse de dépôt et placement du Québec (the Caisse) is an institution that actively manages the funds of its depositors in accordance with their investment policies. It conducts its operations mainly from its business office in Montréal and its head office in Québec City.

The Caisse has six investment groups: Equities, Fixed Income, Absolute Return, Real Estate, Private Equity, and Investment Analysis and Optimization. These groups are supported by five general services teams: Risk Management and Depositors' Accounts Management; Finance, Treasury and Strategic Initiatives; Human Resources and Organizational Development; Institutional Affairs; and Information Technology and Investment Administration. The investment groups and general services units are represented on the Caisse's Management Committee.

The Corporate Secretariat, Legal Affairs and Internal Audit also report to the Chairman and Chief Executive Officer of the Caisse.

1 – ORGANIZATION CHART OF THE CAISSE



THE COMPOSITION OF TOTAL ASSETS UNDER MANAGEMENT

The Caisse's net assets under management ($110.9 billion) are composed of the net assets of its depositors ($89.4 billion) and the assets of clients, mainly of the subsidiaries of the Real Estate and Private Equity groups ($21.5 billion). To optimize the return on the net assets of its depositors ($89.4 billion), the Caisse incurs liabilities ($29.4 billion) that allow for an increase in the volume of its investment activities. Clients' assets ($21.5 billion) are composed of assets under management ($7.7 billion) and assets under administration ($13.8 billion). The Caisse's total assets under management ($140.3 billion) include depositors' total assets ($118.8 billion) and clients' assets ($21.5 billion).

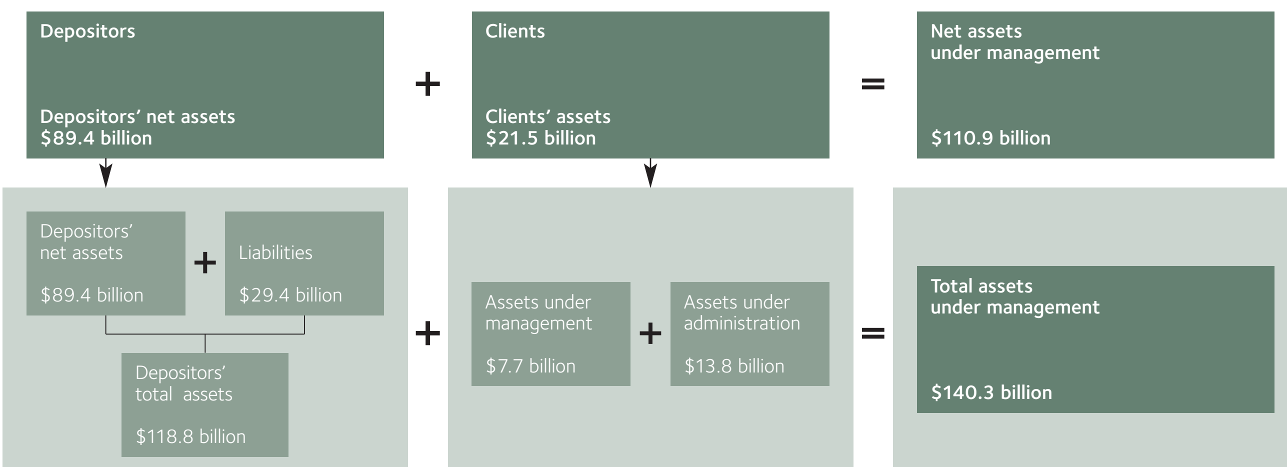
2 – HIGHLIGHTS

in millions of dollars

	2003	2002
Investment activities		
Net investment revenue	**3,457**	3,496
Cumulative profits (losses) on sale of investments	**2,324**	(6,068)
Total realized revenue	**5,781**	(2,572)
Plus (minus) unrealized value	**5,743**	(5,981)
Total investment activities	**11,524**	(8,553)
Depositors' net deposits	**192**	962
Increase (decrease) in net assets	**11,716**	(7,591)
Depositors' holdings (net assets)	**89,398**	77,682
Depositors' total assets	**118,838**	107,416
Total assets under management	**140,334**	129,673
Operating expenses	**205**	258
Weighted average return on depositors' funds (overall portfolio of the Caisse)[1]	**15.2%**	-9.6%

[1] The weighted average return on depositors' funds is significantly influenced by the investment policy of each depositor and its weighting in the Caisse's net assets. In their individual investment policies, depositors allocate different weightings to asset classes depending on the nature of their activities and their need for liquidity. For depositors with short-term liquidity needs, funds are invested exclusively or primarily in fixed-income securities. For those whose activities are growing and whose need for liquidity is less immediate, funds are invested primarily in asset classes with potential for higher return in the long term. In 2003, the individual return on depositors' funds ranged from 5.5% and 16%.

3 – COMPOSITION OF TOTAL ASSETS UNDER MANAGEMENT



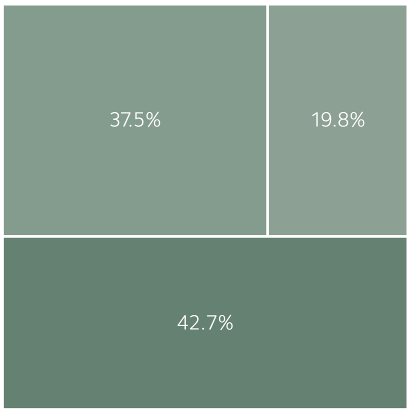
Assets under management: Assets that belong to partners or clients of certain Caisse subsidiaries and are managed by one of the Caisse's subsidiaries or affiliated companies. The teams that manage these assets are involved in investment and disinvestment decisions and receive fees in consideration for services rendered.

Assets under administration: Assets for which the Caisse's subsidiaries provide administrative services on behalf of the clients who own them. The subsidiaries that administer these assets are not involved in investment and disinvestment decisions and receive payment in the form of fees.

Liabilities: Liabilities related mainly to investments, such as mortgage loans, repurchase agreements and shorted securities.

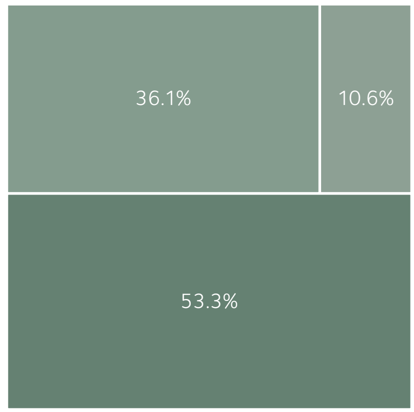
4 – BREAKDOWN OF DEPOSITORS' NET ASSETS BY INVESTMENT TYPE

as at December 31, 2003



42.7% VARIABLE INCOME
37.5% FIXED INCOME
19.8% OTHER INVESTMENTS

as at December 31, 2002



53.3% VARIABLE INCOME
36.1% FIXED INCOME
10.6% OTHER INVESTMENTS

Fixed income	
Short-Term Investments	2.7%
Bonds	31.2%
Mortgages	3.6%
	37.5%
Variable income	
Canadian Equity (excluding private equity)	17.5%
U.S. Equity (excluding private equity)	8.3%
EAFE Foreign Equity (excluding private equity)	9.1%
Emerging Markets Equity (excluding private equity)	1.0%
Québec International	6.8%
	42.7%
Other investments	
Hedge Fund Partnership Units	1.1%
Investments and Infrastructures	3.0%
Private Equity	6.8%
Real Estate	8.7%
Asset Allocation and Currencies	0.2%
	19.8%
Total	**100.0%**

Fixed income	
Short-Term Investments	2.1%
Bonds	29.5%
Mortgages	4.5%
	36.1%
Variable income	
Canadian Equity (including private equity)	25.2%
U.S. Equity (including private equity)	9.4%
EAFE Foreign Equity (including private equity)	10.8%
Emerging Markets Equity (including private equity)	1.4%
Québec International	6.5%
	53.3%
Other investments	
Diversified, Strategic and Tactical Investments	0.3%
Real Estate	10.3%
	10.6%
Total	**100.0%**

THE CAISSE'S DEPOSITORS

Originally, the Caisse managed only the funds of the Régime de rentes du Québec. Over the years, many depositors have been added to the RRQ, which has increased the pool of funds managed by the Caisse. On December 31, 2003, the Caisse had 19 depositors: pension funds, insurance plans as well as various other types of funds. The depositors have a common objective: to make a profit on the funds entrusted to them by their contributors in order to respond to future needs – for example, to pay pensions or compensation in the case of an accident.

The seven main depositors of the Caisse represent 98.6% of depositors' net assets.

The **Government and Public Employees Retirement Plan** is the Caisse's main depositor. This plan consists primarily of contributions by employees who work in Québec's health and social services network, education system and public sector. The plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA).

The **Fonds du Régime de rentes du Québec** contributes to the income security of Quebecers by providing for payment of a retirement pension. Administered by the Régie des rentes du Québec (RRQ), the plan is mandatory, and contributions to the fund are made by employees and employers.

The **Fonds d'amortissement des régimes de retraite (FARR)** provides for payment of retirement benefits that are the responsibility of the government, according to the provisions of the retirement plans for the public and parapublic sectors. This fund is financed by the Québec government and is administered by the ministère des Finances.

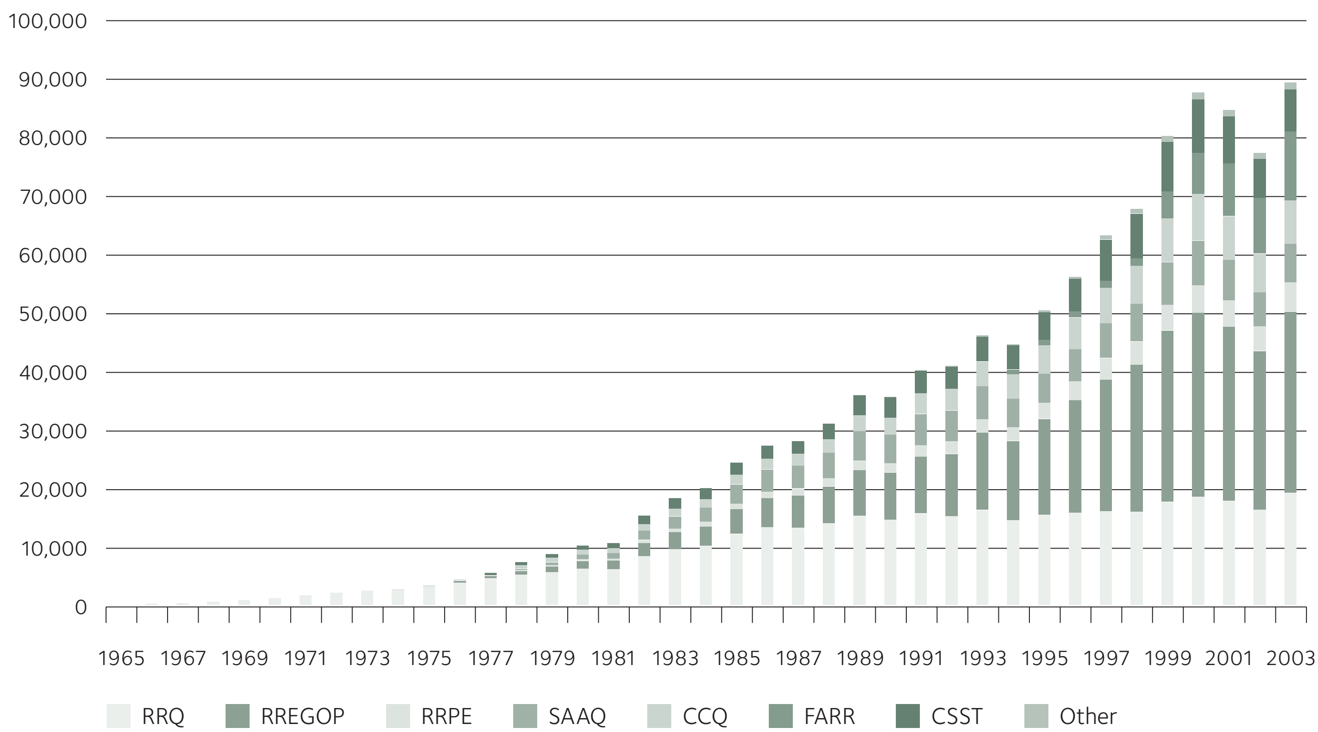
The **Supplemental Pension Plan for Employees of the Québec Construction Industry** is administered by the Commission de la construction du Québec (CCQ). The contributions to the plan are paid by construction industry employers and employees.

The **Health and Work Safety Fund** compensates workers who have had a work-related accident and contributes to their rehabilitation. The Fund is administered by the Commission de la santé et de la sécurité du travail (CSST) and financed by contributions from Québec employers.

The mission of the **Société de l'assurance automobile du Québec (SAAQ)** is to protect citizens against the risks associated with driving. To that end, it oversees the compensation and rehabilitation of accident victims, promotes traffic safety, manages access to Québec's road network and controls the transport of people and merchandise. The SAAQ is financed primarily by the fees it collects for driver's licenses and vehicle registration.

The **Pension Plan for Management** consists of contributions by management employees in the public and parapublic sectors. The plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA).

5 – CHANGES IN DEPOSITORS' NET ASSETS SINCE THEIR ARRIVAL AT THE CAISSE
as at December 31, 2003 – in millions of dollars



6 – THE CAISSE'S DEPOSITORS – HIGHLIGHTS

fair value as at December 31, 2003 – in millions of dollars

	Symbol	First deposit	Number of participants[1]	Depositors' holdings 2003 $	%	2002 $	%
PENSION PLANS							
Régie des rentes du Québec	RRQ						
Fonds du Régime de rentes du Québec		1966	3,570,000	19,161	21.4	16,329	21.0
Commission de la construction du Québec	CCQ						
Supplemental Pension Plan for Employees of the Québec Construction Industry		1970	107,650	7,497	8.4	6,729	8.7
Commission administrative des régimes de retraite et d'assurances	CARRA						
Government and Public Employees Retirement Plan	RREGOP	1973	470,000	30,997	34.7	27,168	35.0
Pension Plan for Management	RRPE	1973	24,800	4,939	5.5	4,214	5.4
Individual Plans		1977	290	183	0.2	164	0.2
Pension Plan for Elected Municipal Officers		1989	1,675	109	0.1	100	0.1
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	RRTAQ	1990	3,976	152	0.2	127	0.2
Fonds d'amortissement des régimes de retraite	FARR	1994	1	11,753	13.1	9,510	12.2
INSURANCE PLANS							
Régie des marchés agricoles et alimentaires du Québec	RMAAQ						
Fonds d'assurance-garantie		1967	78	5	—	4	—
La Financière agricole du Québec		1968	*	135	0.2	112	0.2
Régie de l'assurance-dépôts du Québec		1969	650	297	0.3	268	0.4
Commission de la santé et de la sécurité du travail	CSST						
Health and Work Safety Fund		1973	181,985	7,237	8.1	6,709	8.6
Société de l'assurance automobile du Québec	SAAQ	1978	4,857,438	6,575	7.4	5,916	7.6
La Fédération des producteurs de bovins du Québec		1989	22,328	3	—	2	—
Régime de rentes de survivants		1997	1	333	0.4	301	0.4
Office des producteurs de tabac jaune du Québec							
Fonds de garantie des producteurs de tabac jaune du Québec		2001	56	—	—	—	—
OTHER DEPOSITORS							
Office de la protection du consommateur	OPC	1992	984	4	—	3	—
Protégez-Vous magazine[2]		1994	—	—	—	2	—
Société des alcools du Québec[3]	SAQ	1994	—	—	—	—	—
Commission des valeurs mobilières du Québec[3]	CVMQ	1998	—	18	—	24	—
TOTAL				**89,398**	**100.0**	**77,682**	**100.0**

** Fonds d'assurance-prêts agricoles et forestiers*	*17,239*
Fonds d'assurance-stabilisation des revenus agricoles	*18,517*
Fonds d'assurance-récolte	*13,296*

[1] *Estimate.*

[2] *No longer a Caisse depositor in 2003.*

[3] *These depositors use only the Caisse's treasury management services.*

Message from the Chairman and Chief Executive Officer

For the Caisse de dépôt et placement du Québec, 2003 was a decisive year in many respects.

Fundamentally, the Caisse continued to refocus on its mission as an asset manager serving its depositors. Changes were made to its management structure, the structure of the specialized portfolios and its risk management operations to reflect this strategic orientation. These changes resulted in the signing of service agreements at year-end between the Caisse and its main depositors, to create new relationships of trust.

In the same vein, the Caisse strove in 2003 to re-establish its status as one of Canada's best institutional investors, a position it intends to maintain. To do so, the Caisse adopted a long-term performance plan that will underlie its development in the years ahead. The plan began with a benchmarking exercise vis-à-vis the top-performing institutional fund managers in North America and Western Europe. New capabilities in absolute return operations and improved strengths in investment analysis and optimization are among the outcomes of this exercise, along with the adoption of more targeted active management strategies for equities.

The past year also saw lower operating expenses and a decrease in the financing costs incurred by the Caisse, which issued its own securities. It should also be noted that while it was making all these changes in 2003, the Caisse also delivered added value, which, although not a historic performance, was more in line with depositors' expectations.

A RETURN ABOVE THE MEDIAN FOR CANADIAN FUND MANAGERS

After two difficult years, the weighted average return on depositors' funds was 15.2% in 2003. This return brings the Caisse back to a return that is higher than the median for Canadian fund managers and close to the first quartile. Investment activities generated a gain of $11.5 billion in 2003 compared with losses of $8.6 billion in 2002 and $4.7 billion in 2001. As at December 31, 2003, depositors' net assets totalled $89.4 billion, an increase of $11.7 billion compared with the previous year. Depositors' total assets, which include $29.4 billion of liabilities contracted by the Caisse to optimize returns, increased by $11.4 billion in 2003, to $118.8 billion at year-end. Lastly, total assets under management, comprising depositors' total assets and assets managed or administered on behalf of clients, were $140.3 billion at the end of 2003, an increase of $10.7 billion over 2002.

In the short term, this is a satisfactory performance. The challenge will be to reproduce it and improve on it in coming years, to attain the medium- and long-term goal we have set ourselves: to post a consistently high relative return.

When making an objective judgment of the Caisse's returns, we should bear in mind that its returns are determined by four key factors: the depositors' investment policies, the relative weighting of each depositor in the overall portfolio, market trends and the Caisse's active management of each specialized portfolio. In their investment policies, depositors allocate their holdings among various asset classes, as a function of the nature and time horizon of their financial obligations, as well as their liquidity needs. In 2003, the returns on each individual depositor's fund ranged from 5.5% to 16%, reflecting the diversity of their needs and objectives.

The weighted average return on depositors' funds was 15.2% in 2003. This return brings the Caisse back to a return that is higher than the median for Canadian fund managers and close to the first quartile.

All the Caisse's specialized portfolios saw significant growth in 2003: 59.2% of the total gains of $11.5 billion came from the Equities group; 18.0% from the Fixed Income group (short-term investments and bonds), 12.8% from the Private Equity group, 7.3% from the Real Estate group (including mortgages) and 2.7% from the Absolute Return group.

More specifically, the Canadian Equity portfolio, excluding private equity, returned 27.7% in 2003, outperforming the Toronto Stock Exchange composite index (S&P/TSX) by 101 basis points. The Emerging Markets Equity portfolio also surpassed its market index, with a return of 28.2%. The Québec International, U.S. Equity and EAFE (Europe, Australasia and Far East) Foreign Equity portfolios achieved absolute returns of 31.0%, 27.4% and 19.0% respectively. These returns are, however, 0.4%, 3.0% and 2.3% below those of their respective market indexes. Generally speaking, the international equities results can be attributed to two phenomena. The first, which is a fundamental trend, is the increasing difficulty of outperforming indexes in stock markets that have become very efficient. The second, more specific to 2003, is related to the "value" approach adopted by the portfolio managers in response to the stock market turnaround.

All the Caisse's specialized portfolios saw significant growth in 2003.

As regards the Caisse, the stock market rally should be put into perspective, since the phenomenon that led to a very disappointing relative return in 2001 and especially in 2002 has little to do with the performance in 2003. In last year's Annual Report, I explained that the -9.6% return recorded in 2002, which is 3.9% below the benchmark portfolio's return, was the result of overweighting the technology, media and telecommunications (TMT) sector, especially illiquid private equity investments. In 2001 and 2002, the losses associated with investments in the TMT sector alone totalled $6 billion – $4.5 billion of which was in private equity –, representing 45% of the $13.2 billion of losses that the Caisse incurred in those two years. In 2003, the net gain from private equity in the TMT sector represented only 3.5% of the total gains of $11.5 billion.

All the Caisse's other specialized portfolios – Short-term Investments, Bonds, Asset Allocation and Currencies, Hedge Fund Partnership Units, Private Equity, Investments and Infrastructures, Real Estate and Mortgages – achieved returns above their market indexes or their short-term return thresholds.

Also in 2003, major fluctuations occurred in the foreign exchange markets. The Caisse and its depositors had implemented measures to protect the portfolios against the rapid depreciation of the U.S. dollar. More specifically, all private equity, all real estate investments and all investments in the Québec International portfolio were fully hedged against currency risks. Moreover, specific protection measures for the U.S. Equity and EAFE Foreign Equity portfolios had a positive impact of 108 basis points on the weighted average return on depositors' funds.

LOWER BORROWING COSTS AND OPERATING EXPENSES

In 2003, with the highest credit ratings from Dominion Bond Rating Service, Standard & Poor's and Moody's Investors Service, the Caisse, for the first time in its history, successfully completed two offerings with a total value of $4.5 billion, of which $3.2 billion was outstanding as at December 31, 2003. These offerings made it possible to reduce the cost of the debt carried by the Caisse's subsidiaries, primarily that of the real estate subsidiaries.

Total operating expenses amounted to $205 million in 2003, a decrease of $16 million (7.2%) compared with the recurring operating expenses in 2002 and a decrease of $53 million compared with the total operating expenses for the same year, which included $37 million of non-recurring restructuring costs. Expressed in relation to $100 of depositors' average net assets, the Caisse's recurring operating expenses decreased from 27.3 cents in 2002 to 24.4 cents in 2003.

SERVING DEPOSITORS' NEEDS MORE EFFECTIVELY

2003 was the first full year of the Caisse's renewed focus on its basic role as an asset manager serving its depositors. Numerous decisions ensued. First, the Caisse significantly curtailed its efforts to increase assets under management by developing external clienteles. Only the Real Estate and Private Equity groups continue to pursue this strategy, according to proven, targeted business plans.

Moreover, in the interests of meeting depositors' needs more effectively, the Caisse made a major change, effective July 1, 2003, by isolating all its private equity investments in two new specialized portfolios: Private Equity, and Investments and Infrastructures. Until this year, private equity investments did not form a separate asset class. This separation now makes it possible for depositors to determine their private equity strategy more effectively in the context of their individual investment policies, since this type of investment has specific characteristics in terms of return, risk and liquidity.

The creation of these two portfolios also provided an opportunity to make changes to the performance objectives for the private equity managers. Studies conducted by the Caisse in 2003 on the top private equity managers in North America pointed up the importance of setting high return thresholds to ensure that investors obtain a substantial return premium, over an investment horizon of five to 10 years, relative to investments in market indexes. The Caisse now uses two series of benchmarks to evaluate the performance of these portfolios: predetermined short-term return thresholds and long-term return indexes. The managers' annual performance will therefore be evaluated on the basis of predetermined short-term return thresholds (for example, 12% for the specialized Private Equity portfolio), independent of annual market fluctuations but established to produce substantial value added over five years compared with the return on the relevant market indexes. The Caisse also implemented this approach for the Real Estate portfolio, the Investments and Infrastructures portfolio and absolute return operations, which also offer diversification solutions as compared with liquid investments.

2003 was the first full year of the Caisse's renewed focus on its basic role as an asset manager serving its depositors. Numerous decisions ensued.

During a year in which the focus was largely on depositor relations, the Caisse continued to set up an elaborate system of checks and balances to ensure sound risk management. It also continued to implement its integrated risk management policy, which limits the maximum risk of a transaction, among other things. Moreover, tightened the investment policies that govern risks assumed by the management teams responsible for the various specialized portfolios.

At the end of 2003, these initiatives culminated in the signing of service agreements with the Caisse's main depositors: the Government and Public Employees Retirement Plan, the Régie des rentes du Québec for the Fonds du Régime de rentes du Québec, the Commission de la santé et de la sécurité du travail for the Health and Work Safety Fund, the Société de l'assurance automobile du Québec and the Pension Plan for Management. The Commission de la construction du Québec has a management agreement. The holdings of these depositors represent 85.5% of the net assets of the Caisse's depositors.

A service agreement spells out the roles and responsibilities of the Caisse as a fund manager, and those of the depositor with respect to its investment policy, which includes decisions to allocate funds among the various asset classes. The agreement also specifies the terms and conditions for performance reporting and evaluation of the Caisse's performance.

Finally, the Caisse's management structure was simplified to reflect the renewed focus on its core mission. The investment teams were reorganized into six groups corresponding to the major asset classes offered to depositors. The people who head these groups are all members of the Management Committee, as are those who head the units responsible for general services.

STRIVING FOR EXCELLENCE

In 2003, to make systematic progress toward a superior and sustainable level of performance, the Caisse established a long-term performance plan and a business model that target clear priorities and are open to the industry's best practices. This plan, which will underlie the Caisse's activities in the years ahead, focuses on four elements: excellence in human resources, rigorous and disciplined risk management, state-of-the-art financial research capabilities and operating efficiency.

In this context, the Caisse carried out an in-depth analysis of industry trends along with a detailed benchmarking exercise that examined the top-performing North American and European institutional investors.

This exercise led to the creation of a new investment group, called Absolute Return, whose role is to carry out investment operations with the common characteristic of generating returns that are less closely correlated to traditional market cycles, in the areas of currencies, commodities, arbitrage and hedge funds. Management also created the Investment Analysis and Optimization group that unites resources previously dispersed throughout the organization and whose role will be to develop the Caisse's own perspective on the state of the financial markets and to make the

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most of it within the overall parameters defined in the depositors' investment policies. This group also has a mandate to develop the infrastructure, processes and simulation tools needed to support investment functions.

In the same spirit, given that for several years the Caisse's relative performance with its equity portfolios had been declining, we conducted a benchmarking exercise involving investment practices used for equities. To meet the challenges presented by increasingly efficient stock markets, the Caisse modified its approach at year-end with the goal of ensuring more targeted and dynamic active management, in the context of responsible risk management.

The vision shared by all members of the organization, which is the foundation for everything we do, is that of an institution that is successfully fulfilling its mission and that consistently ranks among the top institutional fund managers in Canada.

CORPORATE GOVERNANCE AND THE CAISSE'S MISSION

Lastly, in 2003, the Caisse's Board of Directors announced its recommendations concerning the governance of our institution. The recommendations included clarifying the Caisse's mission and entrenching it in its incorporating act as follows: "*The Caisse's mission is to manage the collective assets of its depositors by seeking to generate returns on capital in accordance with individual investment policies. In pursuing that objective, the Caisse contributes to the economic development of Québec.*"

Drawing inspiration from the role proposed by Jean Lesage, who was the Premier of Québec when the Caisse was founded in 1965, this mission statement is based on the conviction that the role of the Caisse in Québec's development is, above all, that of a world-class institutional investor that combines a return on its depositors' capital with a local presence that other investors would not be able to achieve with the same scope and depth.

The Board's recommendations also include changes to the *Act respecting the Caisse de dépôt et placement du Québec*, which are aimed at better oversight of management, notably by separating the positions of Chairman and Chief Executive Officer and giving more means to the Board of Directors to carry out its mandate. Generally, the report proposes the introduction of a full, detailed accountability regime to clarify the roles of all stakeholders, namely the government, the Board of Directors, senior management and the depositors.

More specifically, the report recommends that the Board be fully accountable for the Caisse's performance to the depositors, the government and the National Assembly. The report also contains recommendations for performance reporting and formalization of service agreements with depositors. All these recommendations are aimed at ensuring the Caisse complies with international governance standards and principles while taking the institution's specific nature into account.

OUTLOOK FOR 2004

The success of the measures introduced in 2003 depends on the energy and competency of the Caisse's employees. For that reason, we will continue to focus on recruitment, retention and professional development of our human resources in 2004.

We will also continue to develop and enter into service agreements with depositors to strengthen the collective savings and management regime they form together with the Caisse. Lastly, we will continue with the systematic implementation of changes to our structures and processes.

As a result of the initiatives launched in 2003, rigorous evaluation of our performance, benchmarking of our practices and ongoing improvements to the way we work will continue to be important elements of our overall business strategy in the years ahead. The vision shared by all members of the organization, which is the foundation for everything we do, is that of an institution that is successfully fulfilling its mission and that consistently ranks among the top institutional fund managers in Canada.

ACKNOWLEDGMENTS

At the end of a year marked by numerous changes to all aspects of our institution, I would like to express my gratitude to all those who work at the Caisse for the solidarity they demonstrated. As a result of their dedication, 2003 was rich in developments of all kinds. I also extend my heartfelt thanks to the Board of Directors for their constructive support and the close attention they gave to the Caisse's business throughout this year of transition.

Henri-Paul Rousseau

Henri-Paul Rousseau
Chairman and Chief Executive Officer

Management of depositors' holdings

THE PRIMARY FOCUS OF THE CAISSE

In 2003, the Caisse refocused on its fundamental mission: managing funds on behalf of its depositors. During the year, the Caisse held many meetings and information sessions with the goal of building closer ties with its depositors and implementing a series of measures to meet their needs and expectations more effectively. These measures include:

- creation of individual funds for five depositors previously included in the General Fund;
- reorganization of the Diversified, Strategic and Tactical Investments portfolio, which became the specialized Hedge Fund Partnership Units portfolio on April 1;
- creation of a specialized Asset Allocation and Currencies portfolio on May 1;
- creation of two new specialized portfolios on July 1 to separate private equity from the other asset classes;
- adoption of investment policies to oversee the risks assumed by the management teams responsible for the various specialized portfolios;
- adoption of an integrated risk management policy that limits such elements as the maximum risk of a transaction at each level of the management structure;
- service agreements with six of the Caisse's main depositors, whose holdings represent 85.5% of depositors' net assets.

RESPONSIBILITIES OF THE CAISSE AND ITS DEPOSITORS

The service agreement sets forth the role and responsibilities of the Caisse as an investment adviser and asset manager, and those of the depositor with respect to development and implementation of its investment policy. The agreement also spells out the Caisse's reporting requirements and covers evaluation of the depositors' level of satisfaction with the Caisse's services.

7 – RELATIONSHIP BETWEEN THE CAISSE AND ITS DEPOSITORS

RESPONSIBILITIES OF THE DEPOSITOR:	RESPONSIBILITIES OF THE CAISSE:
• Management of actuarial liabilities • Development of the investment policy • Evaluation of the Caisse	• Product development • Advisory services • Portfolio management • Reporting

RESPONSIBILITIES OF THE DEPOSITOR

Each depositor, through its pension committee, investment committee or board of directors, is responsible for managing its actuarial liabilities, i.e. the sum of its financial obligations. It also develops and updates its investment policy and transfers funds to the Caisse for active management. The depositor also requires adequate reporting from the Caisse to fulfill its mandate as trustee for its contributors or clients.

RESPONSIBILITIES OF THE CAISSE

The Caisse provides advisory services during the development or review of the depositor's investment policy. For example, the Caisse prepares economic and financial analyses and economic forecasts used to monitor the investment policy. It periodically provides the depositor with risk and return forecasts for each asset class. It also conducts risk and return simulations based on the various asset allocations.

In addition, the Caisse prepares studies and presentations on subjects and issues related to the depositor's investment policy, such as the possibility of adding new asset classes. It also offers training and information sessions on portfolio management and on the structure and operations of the Caisse.

As part of its responsibilities as a portfolio manager, the Caisse designs products adapted to its depositors' needs and manages the portfolios in accordance with the depositors' investment policies.

Lastly, the Caisse is responsible for reporting to the depositors, focusing primarily on portfolio management proper. On a monthly, half-yearly and annual basis, the Caisse reports to the depositor on the return obtained, the source of the return, the value added or lost in relation to the market and the risk assumed, along with a comparison with other asset managers.

The Caisse also reports on its strategic orientations, structure, policies and any other subject of interest. With this information, the depositor can closely monitor the Caisse's activities and convey its needs and concerns to the managers of the institution.

PROCESS USED TO MANAGE DEPOSITORS' FUNDS

DEVELOPMENT OF THE DEPOSITOR'S INVESTMENT POLICY

By pooling their capital at the Caisse, the depositors have, over the years, availed themselves of a broad range of investment vehicles, as well as the financial research expertise required to identify attractive investment opportunities. In this context, they have been able to develop investment policies that are better adapted to their specific needs.

Today, a depositor's investment policy is the result of its own expertise and advice from the Caisse. It is based on the depositor's needs, time horizon and risk tolerance and is at least revised every three years. It precisely defines the depositor's profile and characteristics, the benchmark portfolio and the market indexes for the specialized portfolios that comprise it, the depositor's expected return and the level of risk it is prepared to assume.

ESTABLISHING THE BENCHMARK PORTFOLIO

To fulfill their financial obligations, depositors determine a long-term return assumption. On the basis of this assumption and the characteristics of the plan, the Caisse applies its expertise and state-of-the-art research to develop various scenarios for asset allocation, i.e. the different weighting of the specialized portfolios (asset classes) in which a depositor plans to invest its holdings.

Each scenario reflects not only an expected return but also a level of risk related to market volatility. This risk, which is termed "absolute," depends directly on the weighting of each of the specialized portfolios included in the scenario.

As a general rule, a higher proportion of equities in a portfolio implies a higher long-term return, at the risk of periodic stock market declines. On the other hand, a higher proportion of fixed-income securities (e.g. short-term investments and bonds) ensures steady income at lower risk, but with expectations of a lower return over the long term.

The experts at the Caisse then work closely with the depositor to establish the asset allocation scenario that provides the best risk-return ratio. This scenario provides upper and lower limits to monitor any future changes to the weighting of each specialized portfolio.

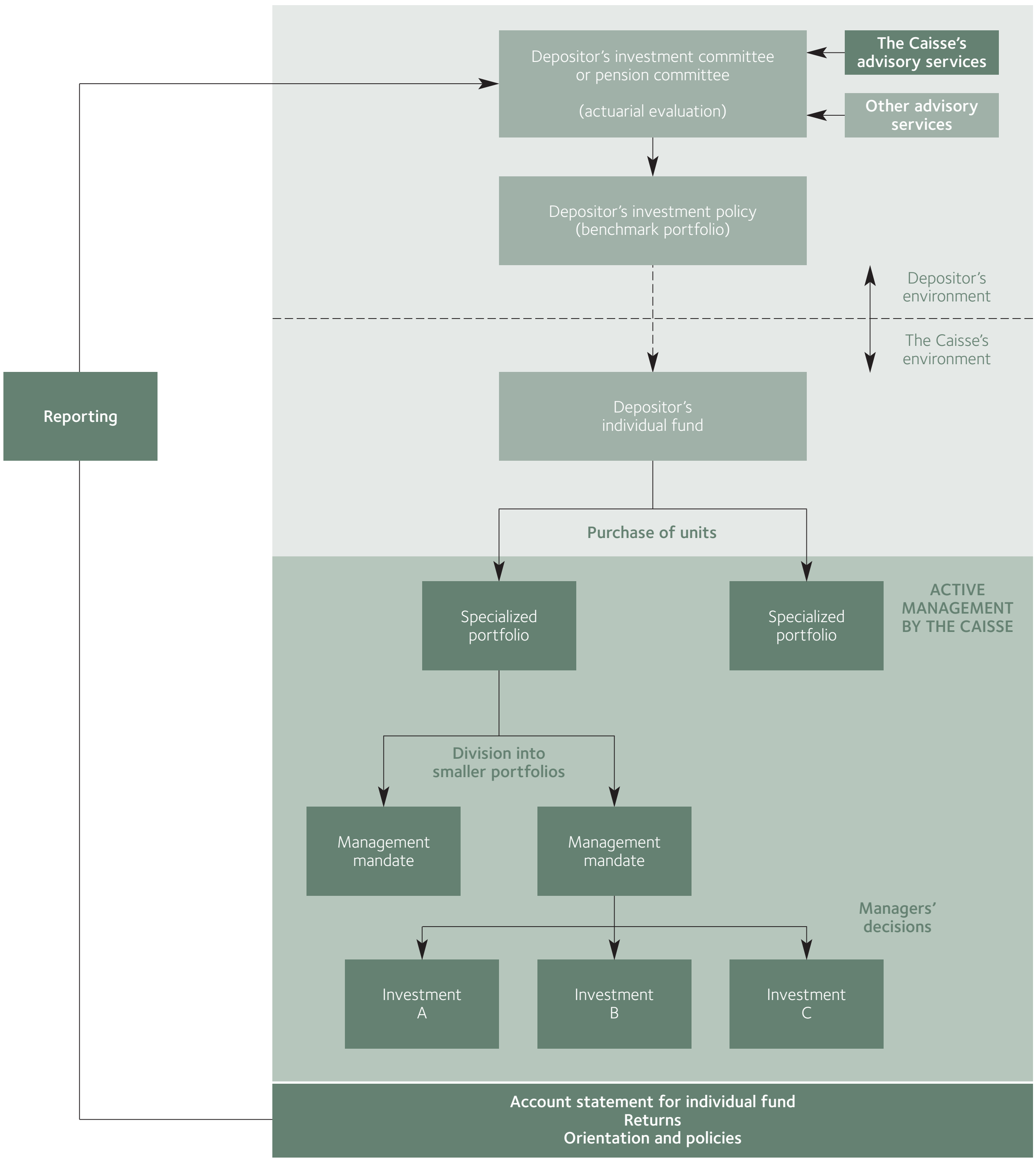
The market index associated with each of the specialized portfolios is used to evaluate the return in light of market developments. The whole forms the depositors' benchmark portfolio.

Table 8 shows the composition of a fictitious depositor's benchmark portfolio.

8 – COMPOSITION OF A FICTITIOUS DEPOSITOR'S BENCHMARK PORTFOLIO

Specialized portfolios	Lower limit %	Benchmark weight %	Upper limit %	Market index
Liquid investments				
Fixed income				
Short-Term Investments	0	5	15	SC 91-Day Canadian T-Bill
Mortgages	0	5	8	SC Universe
Bonds	25	30	42	SC Universe
Subtotal		**40**		
Variable income				
Canadian Equity	7	15	22	S&P/TSX capped
U.S. Equity (hedged)	2	5	10	S&P 500 hedged
U.S. Equity (unhedged)	2	4	8	S&P 500 unhedged
EAFE Foreign Equity (hedged)	2	5	10	MSCI EAFE hedged
EAFE Foreign Equity (unhedged)	2	5	10	MSCI EAFE unhedged
Emerging Markets Equity	0	2	5	MSCI EMF unhedged
Québec International	0	5	10	Québec International
Subtotal		**41**		
Other investments				
Hedge Fund Partnership Units	0	1	2	SC 91-Day Canadian T-Bill
Investments and Infrastructures	0	3	7	S&P/TSX adjusted
Private Equity	3	7	9	S&P 600 adjusted
Real Estate	5	8	12	Aon – Real estate
Asset Allocation and Currencies				
Subtotal		**19**		
Total		**100**		

9 – DEPOSITORS' HOLDINGS MANAGEMENT PROCESS



The return on the benchmark portfolio for each depositor corresponds to the return on long-term market indexes of the constituent specialized portfolios, in proportion to their respective weighting. The same applies to the overall benchmark portfolio, or the "Caisse's benchmark portfolio," which is the compilation of the components of the depositors' benchmark portfolios and their relative weighting.

ACTIVE MANAGEMENT OF SPECIALIZED PORTFOLIOS

The specialized portfolios consist of a group of securities with shared characteristics – product type, currency, market behaviour, etc. As shown in Figure 9, depositors purchase units of these portfolios, much as an individual invests in a mutual fund. Each specialized portfolio is assigned to an investment group that divides it into small portfolios known as management mandates. These mandates are in turn assigned to specific managers, either in-house or external.

The philosophy underlying specialized portfolio management is spelled out in a specialized portfolio investment policy, which also describes the portfolio's organization and structure, investment universe, short- and long-term return thresholds, management style, currency hedging, allocation criteria and risk management.

ACTIVE MANAGEMENT AND ACTIVE RISK

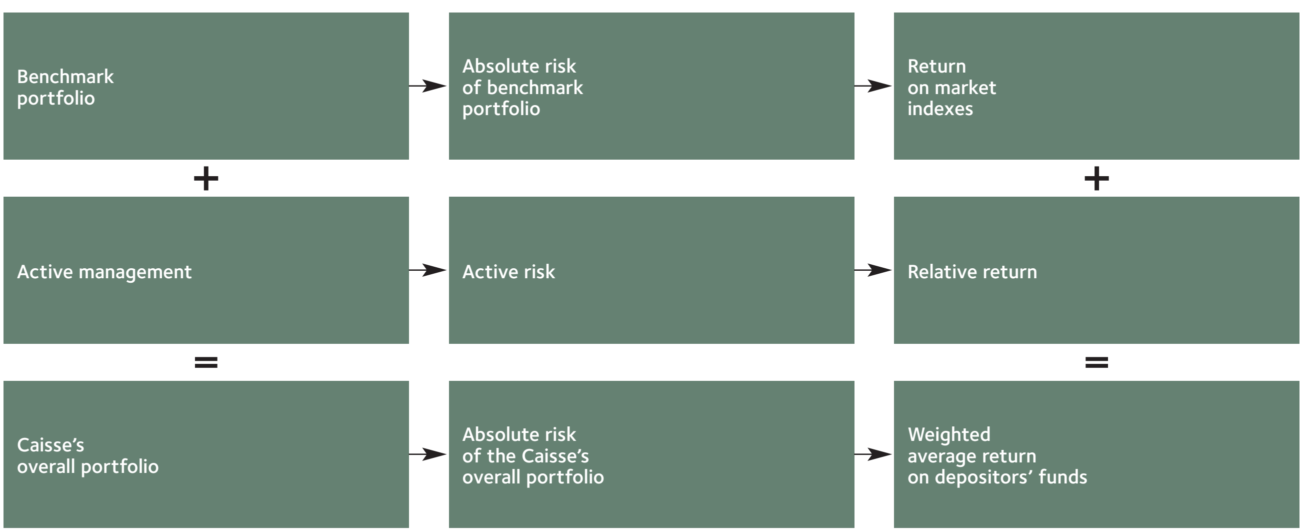
Since the depositors expect the Caisse to outperform their benchmark portfolios, the institution is obliged to manage their holdings in an active way. Figure 10 shows the Caisse's active management process.

Unlike index management, active management of a specialized portfolio involves departing from the composition of its market index and therefore assuming active risk, with the goal of exceeding its return. This risk is rigorously managed by setting units at all levels of the Caisse's management structure.

These risk limits, which are associated with added-value objectives, were established to promote effective risk allocation. An active risk limit has been established for the portfolio of each depositor, for each specialized portfolio and for the Caisse's overall portfolio. These levels of risk constitute the limits of the Depositor/Client Account Management and Integrated Risk Management Committee (see the section on *Risk Management, Internal Audit and Financial Governance*). Similar limits, but lower than those set by the Committee, have also been assigned to the specialized portfolio managers.

A team of specialists, independent of the portfolio management teams, evaluates and monitors management mandate risk. This monitoring then serves to evaluate the risk of each specialized portfolio and the Caisse's overall portfolio, as well as to determine the best way to diversify

10 – ACTIVE MANAGEMENT AND ACTIVE RISK



The combination of the absolute risk of benchmark portfolio and the active risk taken by the Caisse and its managers gives the absolute risk of the Caisse's overall portfolio. Each of these three risks is measured periodically.

the specialized portfolios to achieve the optimal balance between acceptable level of risk and expected return. In addition, these specialists advise fund managers who are assigned a risk budget in order to obtain optimal risk status for the Caisse's overall portfolio.

A MODERN COLLECTIVE SAVINGS AND MANAGEMENT SYSTEM

The collective savings and management system formed by the depositors and the Caisse has evolved dramatically since its creation. Over time, the Caisse has offered its depositors an increasingly comprehensive and diverse range of investment vehicles. For example, in a specialized portfolio called Québec International, 80% of the capital is invested in Québec government bonds, but the return reflects variations in world stock markets, all denominated in Canadian dollars and therefore without exchange risk. Another example is the development of hedge fund activities for depositors in recent years.

The Caisse has been able to offer this broader range of asset classes primarily because of the size of its depositors as a group. In this way, the Caisse can act on investment opportunities in markets that are accessible only to major players and develop cutting-edge expertise and quality information that are available only to them.

As a result, the Caisse has enabled its depositors to define investment policies that are increasingly tailored to their specific needs. The development of these investment policies is the result of a rigorous process in which the Caisse and its depositors complement each other. While the Caisse can today offer its depositors an unprecedented choice of investment strategies, the depositors are also better equipped to conduct their own analyses.

CHANGES IN THE ASSET CLASSES OFFERED TO DEPOSITORS

The Caisse's investment methods have evolved steadily since its very first bond investments in 1966. Its size, its mandate to earn superior returns for depositors and its will to minimize the overall risk of its portfolio have prompted the Caisse to diversify across an increasingly broad range of asset classes.

THE 1960s

Initially, the Caisse's portfolio comprised mainly Québec government bonds. To its first investments in equities and mortgage loans, the institution added its first private equity investments, including shares of Couvrette et Provost ltée, one of the companies that went on to become Provigo.

THE 1970s

During the 1970s, the Caisse's assets under management grew from $1 billion to $10 billion. This growth enabled the institution to look for new ways to generate returns. While continuing to support the Québec government's borrowing program, the Caisse enhanced its expertise in mortgage loans and corporate debt. The Caisse also increased its equity portfolio in an inflationary economic environment.

THE 1980s

As assets under management, grew steadily, reaching $37 billion at the end of the decade, the Caisse expanded and diversified its equity portfolio by investing not only in international markets, but also in many types of private equity investments in Québec companies. In addition, the institution increased its real estate holdings, which resulted in the creation of its first real estate subsidiary, SITQ, the acquisition of the Steinberg real estate portfolio and the creation of the first specialized portfolio for depositors. The diversification of the Caisse's investment vehicles stepped up the development of financial expertise in Québec.

THE 1990s

Growth in total assets under management – to more than $100 billion in 1999 – and the specialization of its operations led the Caisse to create new specialized portfolios and to reorganize its subsidiaries and investment teams. The Caisse's Real Estate Group was created in 1992 and the Private Equity unit was established in 1995, at the same time as other new subsidiaries.

The 1990s were characterized by market globalization and significant growth of global asset managers. The Caisse participated in this phenomenon by increasing its capacity to invest on international stock markets. Amendments to its incorporating act enabled the institution to increase the portion of its overall portfolio invested in equities from 30% to 70%.

2000-2003

At the beginning of the new millennium, the Caisse pursued its investment activities by organizing them around three major areas: liquid markets, real estate and private equity.

In 2003, after detailed benchmarking of its business practices in comparison with top-performing institutional managers in North America and Europe, the institution restructured its investment teams according to the main asset classes offered to depositors. Two new groups – Absolute Return, and Investment Analysis and Optimization – were added to the Equities, Fixed Income, Real Estate and Private Equity groups.

The benchmarking exercise showed the need to combine into one group (Absolute Return) all investment activities used to generate returns not correlated to traditional market cycles, notably in areas such as currencies, commodities arbitrage and hedge funds. The Caisse also created an Investment Analysis and Optimization group, whose role is to develop the Caisse's own perspective on the state of the financial markets and to take advantage of it within the overall limits dictated by the depositors' investment policies. This group also develops the infrastructure, processes and simulation tools needed to support investment functions.

2003 Economic context

WAR, TAX BREAKS AND STOCK MARKET RECOVERY

2003 saw many events that were hostile to investment. The first half of the year was marked by the beginning of armed conflict in Iraq and the resulting political tensions, particularly between the United States and France. In this tense and uncertain context, the fragile global recovery crumbled, and layoffs continued on both sides of the Atlantic. Despite the difficult economic circumstances, and problems with the U.S. occupation of Iraq, investors remained confident. The short duration of the hostilities proved them right. As soon as the conflict ended, the improved economic conditions and rebounding earnings did not disappoint. Thus 2003 put an end to a three-year of a severe market corrections and was a godsend for the financial industry, which is struggling to recover from the bursting of the speculative bubble and numerous scandals.

WORLDWIDE ECONOMIC CONDITIONS

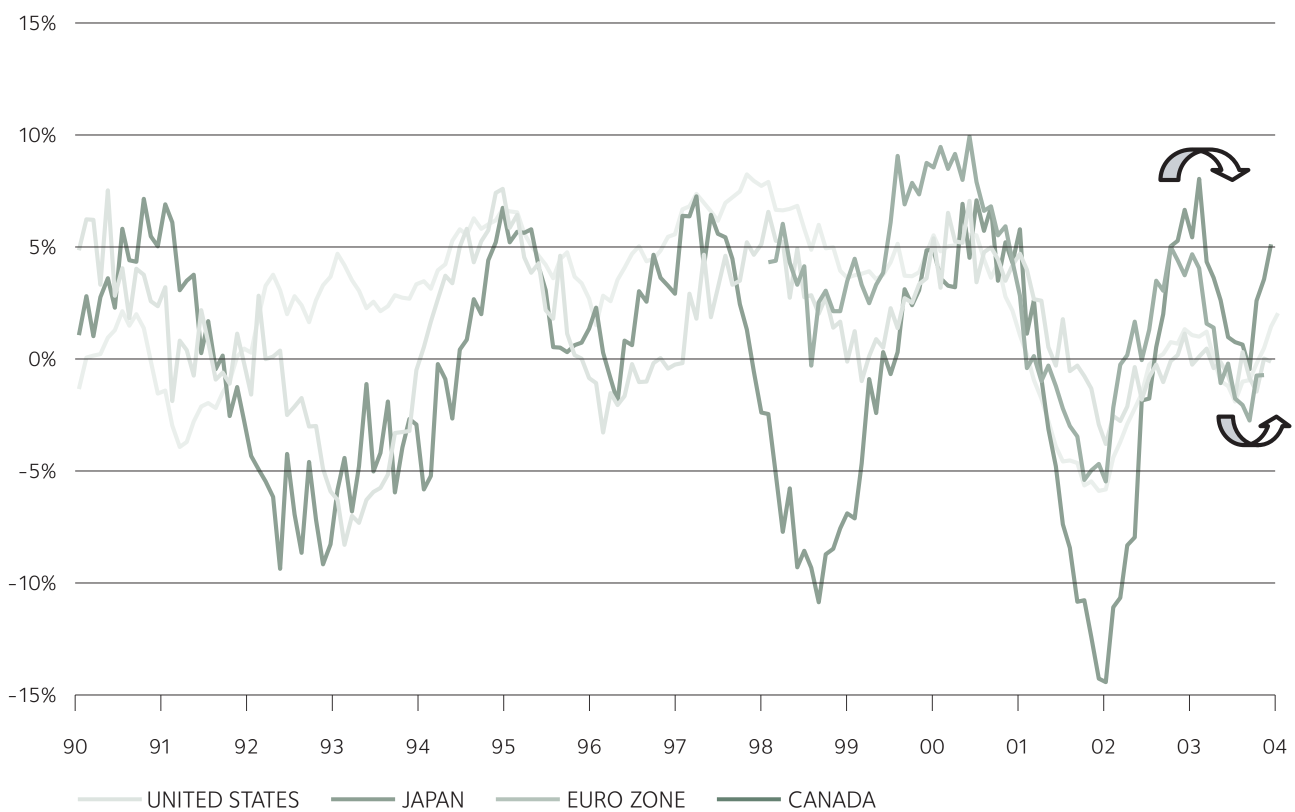
In the first months of 2003, many economic indicators reflected a significant downturn in activity. During the Iraq war, various indicators of the business climate also showed pessimism at recession levels. Worldwide industrial production shrank, leading to fears of a double-dip recession (see figure 11). In April, when the war ended, very low interest rates and increased production dispelled the gloom of early 2003. Toward year-end, economic indicators once again pointed to strong, sustained growth worldwide. The drastic imbalances, excessive indebtedness, widespread excess production capacity, high energy prices and geopolitical tensions were relegated to the back burner amid this resurgence of optimism.

NORTH AMERICA

The U.S. economy was virtually stagnant in the first half of 2003. Excluding the statistical anomaly that artificially inflated corporate investment, GDP growth was less than 2%. In this context, the hemorrhaging on the labour market, which had barely ended, resumed with even greater intensity, and 300,000 jobs, especially in manufacturing, were eliminated. Faced with evidence that the fragile recovery was threatened, the

11 – INDUSTRIAL PRODUCTION: UNITED STATES, JAPAN, EURO ZONE, CANADA

annual variation

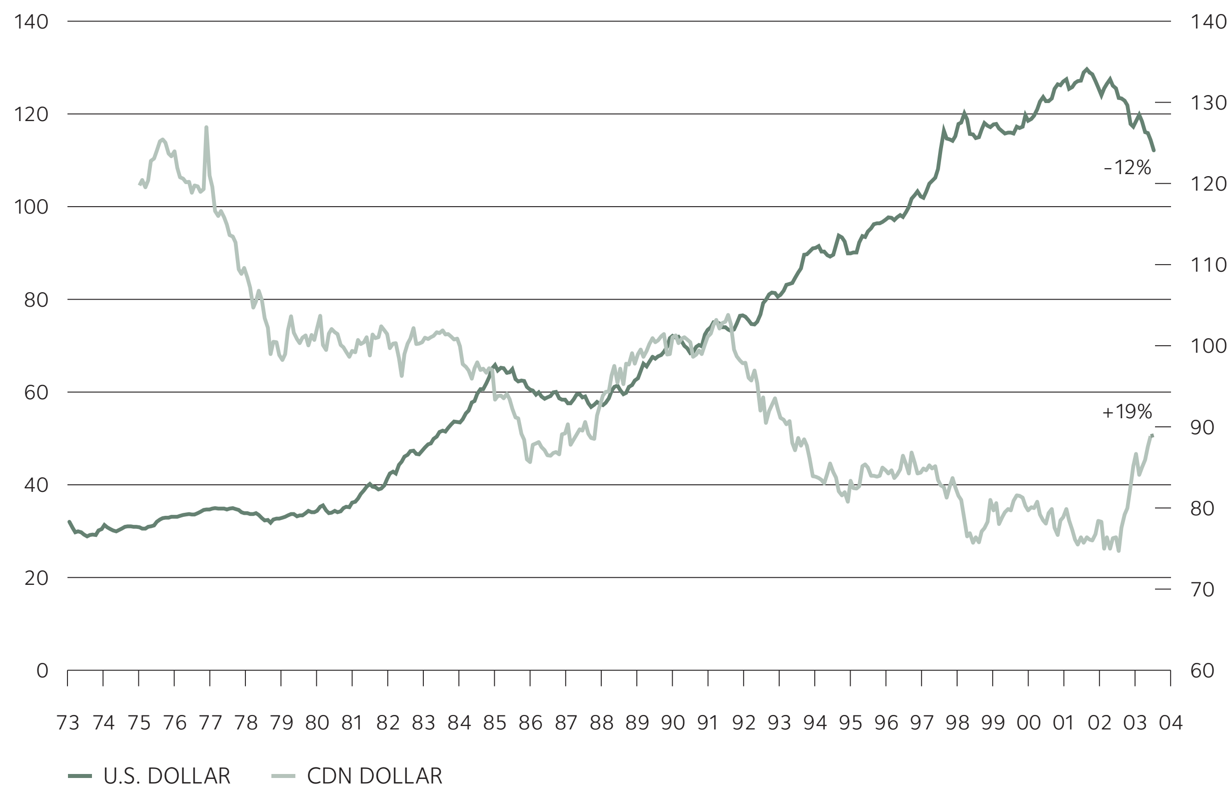


Sources: Analyse macroéconomique, Datastream

Federal Reserve cut its already-low key rate to 1%, its lowest level in more than 40 years. The Bush administration was also called upon to actively stimulate the economy in the short term. It chose to step up the implementation of planned tax cuts and to mail a "tax refund" cheque to consumers in the summer. These measures, coupled with a flourishing real estate market, the continued consumers' fervour for credit, strong, sustained car sales and rising military spending, produced a significant upturn in the U.S. GDP. However, the U.S. will probably not get the same boost from these factors going forward.

The Canadian economy, on the other hand, slowed down. Growth declined from 3.3% in 2002 to 1.7% in 2003. GDP even shrank slightly in the second quarter before staging a modest recovery in the following quarter. Several exogenous factors, some of them non-recurrent and others more persistent, had a negative impact on the Canadian economy in 2003. The SARS crisis and the blackout that crippled Ontario, along with the discovery of a case of mad cow disease are among the one-time events that slowed activity. Still, weak demand in the U.S. combined with a sharp rise in the value of the Canadian dollar (figure 12), had a much more important and lasting economic impact. Canada is the world's most open industrial economy, with exports representing 40% of its total output. With 85% of exports destined for the United States, the health of the U.S. economy and the value of the Canadian dollar are decisive factors for Canadian businesses. With respect to internal demand, household spending remained strong. Employment held steady and interest rates remained attractive. In addition, as in the United States, massive reliance on credit fuelled consumer spending and residential construction.

12 – EXCHANGE RATE OF THE U.S. AND CANADIAN DOLLARS
trade-weighted



Sources: Analyse macroéconomique, Federal Reserve, Datastream

EUROPE

In the Euro Zone, economic growth was practically nil in 2003. Germany, France and Italy, which make up two-thirds of the zone's GDP, were particularly sluggish in the first half of the year. The recession in Germany, which began in late 2002, did not end until the third quarter of 2003 and saw half a million workers lose their jobs. The economy in the Euro Zone picked up in the second half of the year, but growth was very modest. The Europeans did not enjoy interest rates as low as those in the U.S., nor did they get any major tax cuts. While the budgetary austerity imposed by the Stability Pact abated somewhat, governments had practically no leeway to stimulate growth through spending or tax reductions. Lastly, weak external demand along with the appreciating euro significantly hampered growth in 2003.

ASIA

The Japanese economy was surprisingly energetic in 2003. External demand was sufficiently strong to compensate for the chronic lethargy in domestic consumption. This unexpected performance can be attributed to a large degree to strong, sustained growth in demand in China. China has taken over from Japan as the engine of regional growth, and its economic vitality is producing benefits for a number of neighbouring countries. Increasingly, China's rise is being compared to that of Japan in the 1960s and 1970s. Foreign companies are embracing this concept and are trying their hand at the Chinese adventure: China is now attracting 75% of the world's direct foreign investment in emerging countries. In fact, China's growth is so rapid that some observers fear its economy will overheat.

Analysis of depositors' overall return

In 2003, the weighted average return on depositors' funds was 15.2%, versus -9.6% in 2002. Investment activities generated total gains of $11.5 billion compared with total losses of $8.6 billion in 2002.

The individual returns on depositors' funds range from 5.5% to 16%. The differences are attributable to the fact that, according to their benchmark portfolios, depositors allocate a different weighting to the specialized portfolios, depending on the nature of their activities and their need for liquidity. Depositors with a short-term need for liquidity invest exclusively or primarily in fixed-income securities. Depositors whose activities are growing and whose need for liquidity is less immediate invest in asset classes with a higher potential for return in the long term.

Figure 13 shows the contribution to the weighted average return on depositors' funds made by each investment group. The cumulative results of $11.5 billion break down as follows: 59.2% for Equities, 18.0% for Fixed Income, 12.8% for Private Equity, 7.3% for Real Estate and 2.7% for Absolute Return.

BENCHMARK PORTFOLIO AND ACTIVE RISK

DEVELOPMENT OF THE CAISSE'S BENCHMARK PORTFOLIO

The Caisse's benchmark portfolio is the result of components of the depositors' benchmark portfolios and their relative weighting. Table 14 presents the composition of the Caisse's benchmark portfolio as at December 31, 2003, as well as the actual allocation of the Caisse's overall portfolio as at December 31, 2002, and December 31, 2003.

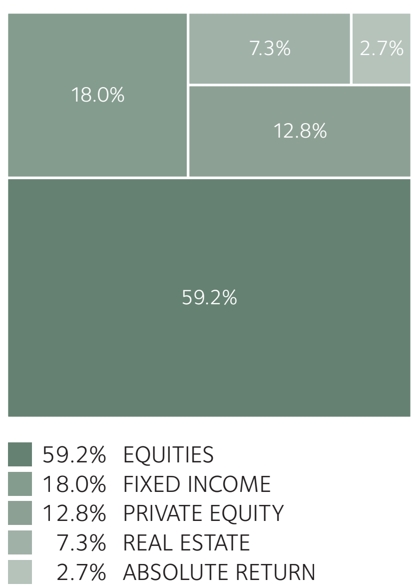
In 2003, the Caisse divided its Diversified Strategic and Tactical Investments portfolio into two specialized portfolios. On April 1, hedge fund activities were placed in the specialized Hedge Fund Partnership Units portfolio. On May 1, the other diversified, strategic and tactical investments were transferred to the new specialized Asset Allocation and Currencies portfolio.

In 2002, the real estate portion in the Caisse's overall portfolio rose slightly above the upper limit of the benchmark portfolio, partially as a result of declining stock markets. In 2003, sales of assets and the stock market rally brought the weighting of the specialized Real Estate portfolio back within the limits specified in the benchmark portfolio.

To enable depositors to determine their private equity strategy more effectively, on July 1, 2003, the Caisse placed all its private equity holdings in two new specialized portfolios: Private Equity, and Investments and Infrastructures. This separation is important for depositors, since private equity has its own characteristics in terms of return, risk and liquidity. Private equity was previously allocated to the specialized portfolios holding bonds and listed equities (Canadian Equity, U.S. Equity, EAFE Foreign Equity and Emerging Markets Equity). This transfer creates the appearance of a lower percentage of listed equities and a higher percentage of private equity in the Caisse's overall portfolio.

13 – BREAKDOWN BY THE INVESTMENT GROUPS TO THE 2003 RETURN

for the period ended December 31, 2003



ACTIVE RISK IN THE CAISSE'S OVERALL PORTFOLIO

In 2003, the Caisse adopted an integrated risk management policy to properly monitor and manage the risks assumed in the active management of its various portfolios. The section titled *Risk Management, Internal Audit and Financial Governance* presents a detailed description of this policy.

The Caisse's systems for risk measurement and analysis serve to monitor the composition of the active risk assumed to manage depositors' net assets by measuring variations in the Caisse's overall portfolio against the benchmark portfolio and its indexes.

In early 2003, this active risk came primarily from the specialized Canadian Equity and Real Estate portfolios. Two events then changed the proportion of risk attributable to each specialized portfolio. First, the decision to place private equity in two distinct specialized portfolios made it possible to isolate risk measurement for this type of investment in the Caisse's overall portfolio. Second, the Caisse perfected a measurement for real estate risk by more accurately evaluating the volatility of the fair value of real estate securities. At the same time, the sale of real estate assets during the year reduced the weighting of real estate in the Caisse's overall portfolio, which reduced real estate risk in relation to the other risks that make up the active risk of the Caisse's overall portfolio.

14 – COMPOSITION OF THE BENCHMARK PORTFOLIO AND CHANGES IN THE CAISSE'S OVERALL PORTFOLIO

Caisse's overall portfolio as at December 31, 2003		Benchmark portfolio* as at December 31, 2003			Caisse's overall portfolio as at December 31, 2002	
		Upper limit	Benchmark portfolio	Lower limit		
	%	%	%	%	%	
Liquid investments						
Fixed income						**Fixed income**
Short-Term Investments	2.7	0.2	2.5	11.5	2.1	Short-Term Investments
Bonds and Mortgages	34.8	32.2	38.3	45.8	34.0	Bonds and Mortgages
Subtotal	37.5		40.8		36.1	**Subtotal**
Variable income						**Variable income**
Canadian Equity (excluding private equity)	17.5	12.2	18.0	24.3	25.2	Canadian Equity (including private equity)
U.S. Equity (excluding private equity)	8.3	3.3	8.3	13.8	9.4	U.S. Equity (including private equity)
EAFE Foreign Equity and Emerging Markets Equity (excluding private equity)	10.1	5.3	10.2	15.7	12.2	EAFE Foreign Equity and Emerging Markets Equity (including private equity)
Québec International	6.8	4.3	6.6	9.1	6.5	Québec International
Subtotal	42.7		43.1		53.3	**Subtotal**
Other investments						
					0.3	Diversified, Strategic and Tactical Investments
Hedge Fund Partnership Units	1.1	—	0.8	—		
Investments and Infrastructures	3.0	—	3.2	—		
Private Equity	6.8	—	6.0	—		
Real Estate	8.7	3.2	6.1	10.2	10.3	Real Estate
Asset Allocation and Currencies	0.2	—	—	—		
Subtotal	19.8		16.1		10.6	**Subtotal**
TOTAL	**100.0**		**100.0**		**100.0**	**TOTAL**

** Note: The benchmark portfolio and its upper and lower limits are the result of the weighted average of the depositors' benchmark portfolio.*

MANAGERS' ACTIVE MANAGEMENT

In addition to the Caisse's benchmark portfolio, the weighted average return on depositors' funds is affected by the managers' active management. The return that the Caisse's overall portfolio would have recorded using index management alone corresponds to the return on the market indexes. The difference between the two returns is the value added or subtracted by the Caisse's managers in the short or long term.

MEASUREMENT OF MANAGERS' PERFORMANCE

	Short-term return thresholds	Long-term return thresholds
Liquid investments		
Equities	Market indexes	Market indexes
Fixed Income		
Other investments		
Absolute Return	Predetermined return thresholds	Market indexes or recognized indexes
Real Estate		
Private Equity		

In 2003, new measurements for the returns on specialized portfolios were introduced as part of the performance plan adopted during the year. These measurements also resulted from a benchmarking exercise carried out vis-à-vis the top-performing North American and European managers. The managers at the Caisse are evaluated in relation to short- or long-term performance thresholds or in relation to the performance of other institutional fund managers.

For liquid investments (variable income and fixed income), the managers' performance continues to be evaluated on the basis of market indexes, which are the same for the short and long term; the challenge for these managers is to beat the market indexes that apply to their areas of specialization. In the long term, the information ratio makes it possible to measure the stability of a manager's performance over a five-year period.

For "Other investments" (absolute return operations, Real Estate, Private Equity), the managers' goal is to add substantial value over a five-year period in relation to the market indexes, without specifically beating the long-term indexes for the current year. To reflect this particular objective, their annual performance is therefore evaluated on the basis of predetermined short-term return thresholds, independent of the annual fluctuations in the markets but established to produce the expected level of value added over five years. The search for substantial added value with respect to market indexes over five years reflects the higher risk premium that depositors expect from these less liquid investments.

Lastly, the performance of the Caisse's managers is compared with that of other managers with similar mandates. This method serves to classify them according to the returns they obtain in the short, medium and long terms.

ESTABLISHING THE PREDETERMINED SHORT-TERM RETURN THRESHOLDS FOR THE "OTHER INVESTMENTS"

Predetermined short-term return thresholds are established on the basis of three components:

1) EXPECTED LONG-TERM RATE OF RETURN ON GOVERNMENT BONDS
This component is generally measured by the yield to maturity for 10-year Government of Canada bonds.

2) PLUS THE RISK PREMIUM FOR STOCK MARKETS
This component, which is widely discussed in financial publications, corresponds to the additional return expected on the stock markets, given the added risk compared with holding long-term government bonds.

3) PLUS THE RISK PREMIUM RELATED TO "OTHER INVESTMENTS"
The comparison parameters for the "Other investments", i.e. databases providing the distribution of returns earned by other managers, are used to calibrate the third component. The average return drawn from these distributions provides information on the additional historical return from these operations in comparison with the stock markets. The additional historical return is a benchmark for determining the short-term return expected on "Other investments," namely the return on stock markets plus a risk premium reflecting the additional systematic risks associated with these activities (lower liquidity, less diversification, additional leverage, manager selection risk, additional operating risks).

For example, the predetermined short-term threshold of the specialized Private Equity portfolio was established at 12.0% in 2003:

- expected return on long-term government bonds: 4.5%;
- plus stock market risk premium: 2.5%;
- plus risk premium related to "Other investments:" 5.0%.

OVERALL PERFORMANCE ANALYSIS IN RELATION TO SHORT-TERM RETURN THRESHOLDS

This section presents a retrospective of portfolio performance compared with short-term return thresholds. The detailed analysis of specialized portfolio performance can be found in the section *Investment Operations and Performance Analysis*. For portfolios that included private equity until June 30, 2003, two performance measures are presented: with and without the private equity component.

In 2003, the managers exceeded their short-term return thresholds by 147 basis points (1.5%). Table 15 presents the different elements of this performance.

15 – PERFORMANCE BY SHORT-TERM RETURN THRESHOLDS

for the period ended December 31, 2003 – in percentage unless otherwise indicated

Specialized portfolios

Liquid investments	Return	Index	Spread	Market index
Fixed Income				
Short-Term Investments	3.2	2.9	0.3	SC 91-Day T-Bill
Mortgages	9.6	6.7	2.9	SC Universe
Bonds[1,2]	7.5	6.7	0.9	SC Universe
Variable income				
Canadian Equity[1,2]	27.3	26.7	0.6	S&P/TSX capped
U.S. Equity (hedged)[1,2]	26.7	30.5	-3.7	S&P 500 hedged
U.S. Equity (unhedged)[1,2]	1.7	5.3	-3.5	S&P 500 unhedged
EAFE Foreign Equiy (hedged)[1,2]	18.8	21.3	-2.5	MSCI EAFE hedged
EAFE Foreign Equity (unhedged)[1,2]	10.8	13.4	-2.6	MSCI EAFE unhedged
Emerging Markets Equity[1,2]	32.4	27.5	5.0	MSCI EMF
Québec International	31.0	31.4	-0.4	Québec International

Other investments	Return	Threshold	Spread	Predetermined return threshold
Hedge Fund Partnership Units *(portfolio created April 1, 2003)*	11.2	5.3	5.9	SC 91-Day T-Bill + 4%
Investments and Infrastructures[3] *(portfolio created July 1, 2003)*				9%
	19.9	11.0	8.9	
Private Equity[3] *(portfolio created July 1, 2003)*				12%
Real Estate	15.5	9.0	6.5	9%
Asset Allocation and Currencies	$160 million	—	$160 million	—
Weighted average return on the depositors' funds[1,4]	**15.2**	**13.8**	**1.5**	

[1] These returns take into account the fact that private equity investments were recorded in the specialized Bonds portfolio and the variable-income portfolios (with the exception of Québec International) in the first half of 2003 and in the specialized Investments and Infrastructures and Private Equity portfolios in the second half of the year.

[2] Excluding the weight of private equity investments recorded in the specialized portfolios, as stated in note 1, for the first half of 2003, the performance of these portfolios for 2003 is as follows: 7.4% for Bonds; 27.7% for Canadian Equity; 27.4% for U.S. Equity (hedged); 19.0% for EAFE Foreign Equity (hedged) and 28.2% for Emerging Markets Equity.

[3] The specialized Investments and Infrastructures and Private Equity portfolios were created on July 1, 2003, whereas the predetermined short-term return threshold of 11% for 2003 was set at the beginning of that year for all private equity investments. The combined return on private equity, calculated on the same basis as the objective of 11%, is 19.9% for 2003 as a whole.

[4] Possible discrepancies in the total may be due to rounding off to one decimal point. For example, the composite average return on the depositors' funds is 15.23%, whereas that for the market indexes/predetermined short-term return thresholds is 13.76%, for a difference of 147 basis points, or 1.5% when rounded off to one decimal point.

SPECIALIZED FIXED-INCOME PORTFOLIOS

In 2003, the Short-Term Investments portfolio returned 3.2% (0.3% above its market index) and the Mortgages portfolio returned 9.6% (2.9% above its market index). The Bonds portfolio posted a return of 7.5%; without private equity, which was included in this portfolio until June 30, 2003, the return is 7.4% (0.7% above its market index).

SPECIALIZED VARIABLE-INCOME PORTFOLIOS

Beginning in March 2003, the stock market rally contributed significantly to the returns on the equity portfolios. In Canada, for example, the Toronto Stock Exchange's composite index (S&P/TSX) finished the year up 26.7%. In the U.S., the S&P 500 Index advanced 28.7% and the NASDAQ Index 50.0% (in U.S. dollars). All the specialized equity portfolios benefited from the rally.

The Canadian Equity portfolio achieved a return of 27.3%. Without private equity, which was included in this portfolio until June 30, 2003, the return was 27.7%. The Canadian equity managers outperformed their benchmark index (26.7%) by 1.0%.

The U.S. Equity portfolio (hedged) achieved a return of 26.7%. Without private equity, which was included in this portfolio until June 30, 2003, the return was 27.4%. The U.S. equity managers therefore produced a return 3.0% below the return on their benchmark index (30.5%).

The EAFE Foreign Equity portfolio (Europe, Australasia, Far East) (hedged) achieved a return of 18.8%. Without private equity, which was included in this portfolio until June 30, 2003, the return was 19.0%, or 2.3% lower than the return on the benchmark index (21.3%).

The underperformance of the U.S. Equity and EAFE Foreign Equity portfolios is due mainly to two phenomena. The first, a major trend, is the growing difficulty of outperforming benchmark indexes in stock markets that have become very efficient. The second, more specific to 2003, pertains to the "value" approach that these portfolio managers adopted in response to the rally. As a result of the benchmarking exercise conducted during the year, last November the institution adopted a more targeted active management model for these markets, to improve the relative long-term performance of these portfolios.

The Emerging Markets Equity portfolio advanced 32.4%. Without private equity, which was included in this portfolio until June 30, 2003, the return was 28.2%. The value added by the emerging markets equity managers in 2003 in relation to their benchmark index (27.5%) was 0.7%.

Lastly, the Québec International portfolio returned 31.0% in 2003 compared with 31.4% for its benchmark index.

IMPACT OF CURRENCY HEDGING

The strong depreciation of the U.S. dollar against the Canadian dollar and major currencies such as the euro, the British pound and the yen also had a major impact on the average weighted return on depositors' funds. The U.S. Equity portfolio hedged against exchange risk returned 26.7%, while the unhedged portfolio generated 1.7%. The difference in the returns on these two portfolios reflects the 22.2% appreciation of the Canadian dollar against the U.S. dollar in 2003. Similarly, the hedged foreign equities portfolio returned 18.8%, while the unhedged portfolio was up 10.8%. The difference in the returns on these two portfolios is due mainly to the strength of the Canadian dollar against the yen and the British pound.

OTHER SPECIALIZED PORTFOLIOS

In 2003, private equity as a whole produced a return of 19.9%. The managers of these portfolios exceeded their short-term return threshold, which was 11.0%.

The Real Estate portfolio returned 15.5% in 2003, 6.5% above its short-term threshold. Over the past five years, the 14.0% average return on the real estate portfolio is the highest of the Caisse's specialized portfolios for this period.

The Hedge Fund Partnership Units portfolio achieved a return of 11.2% since inception on April 1, 2003 (5.9% over its short-term benchmark return threshold).

Finally, the Asset Allocation and Currencies portfolio produced profits of $160 million.

OVERALL ANALYSIS OF PERFORMANCE COMPARED WITH LONG-TERM RETURN THRESHOLDS

The detailed analysis of returns by specialized portfolios compared with long-term return thresholds can be found in the section *Investment Operations and Performance Analysis.*

Table 17 presents the returns for specialized portfolios that have existed for at least one year, compared with market or recognized indexes. For more information, refer to the document *Additional Information, 2003 Annual Report*.

The weighted average return on depositors' funds in 2003 was 15.2%, for a positive difference of 8 basis points (0.1%) compared with the return on the long-term benchmark portfolio. When combined with the returns for 2001 and 2002, this result brings the weighted average return on depositors' funds annualized over three years to -0.3% and over five years to 4.1%, compared with 2.3% and 5.2% respectively for the return on the benchmark portfolio. The year 2003 therefore largely offsets the negative results of the two previous years.

It will be recalled that, in 2002, the relative performance of the Caisse's overall portfolio was -3.9%. This negative relative performance is due primarily to overweighting the technology, media and telecommunications (TMT) sector, especially illiquid private equity investments. In 2001 and 2002, the losses related to investments in the TMT sector alone totalled $6 billion – $4.5 billion of which was in private equity – or 45% of the $13.2 billion in losses recorded by the Caisse in those two years. In comparison, the gain from TMT sector private equity was $0.4 billion in 2003, which represents 3.5% of the total gain of $11.5 billion recorded the same year.

Finally, the measures taken by the Caisse and its depositors to hedge against the rapid depreciation of the U.S. dollar are another highlight of 2003. All private equity, real estate and investments in the Québec International portfolio are fully hedged against currency risk. As for the U.S. Equity portfolio and the EAFE Foreign Equity portfolio, the protective measures related to these portfolios had a positive impact on the weighted average return on depositors' funds (108 basis points), increasing it from 14.1% to 15.2%.

COMPARISON WITH OTHER CANADIAN ASSET MANAGERS

In 2003, the Caisse reverted to a performance superior to the median for Canadian fund managers, with a 15.2% return that approached the first-quartile threshold. According to the surveys consulted by the Caisse, the median return for these asset managers in 2003 ranged from 13.5% to 15.1%, and the first-quartile threshold from 15.3% to 16.2%. Table 16 shows that the Caisse's fixed-income managers achieved excellent results compared with other Canadian asset managers. The return on bonds and short-term investments is in the first quartile over three and five years.

As for the equity portfolios, the results achieved by the Caisse's managers are superior to the median for Canadian equities over one year, Emerging markets equities over three years and U.S. equities over five years. Over five years, the managers of Canadian equities, EAFE foreign equities and Emerging markets equities added value but were below the median of the other Canadian asset managers. Although the first-quartile information ratio indicates that the Caisse's asset managers produced more stable added value over five years than other Canadian managers, they took less active risk.

Generally speaking, the liquid market teams demonstrated their talent for transforming risk into added value. These teams exceeded the median information ratio of Canadian managers over a five-year period, with the exception of foreign equities.

16 – COMPARISON OF THE CAISSE'S RETURNS WITH OTHER CANADIAN ASSET MANAGERS (EQUITIES AND FIXED INCOME)

for periods ended December 31, 2003 – in percentage

	1 year					3 years					5 years				
			Quartile					Quartile					Quartile		
Portfolio	Caisse	Ranking	1st	Median	3rd	Caisse	Ranking	1st	Median	3rd	Caisse	Ranking	1st	Median	3rd
Bonds	7.4	1	7.4	6.9	6.6	8.8	1	8.4	7.9	7.7	7.1	1	6.8	6.5	6.4
Short-Term Investments	3.2	1	3.1	3.0	3.0	3.7	1	3.5	3.5	3.4	4.4	1	4.3	4.2	4.2
Canadian Equity	27.7	2	28.2	26.0	23.5	-0.6	3	6.0	1.8	-0.7	8.3	3	12.6	10.1	6.7
U.S. Equity[1]	2.9	4	8.7	5.8	3.7	-9.1	3	-4.2	-8.4	-9.5	-3.3	2	-0.8	-3.4	-4.5
EAFE Foreign Equity[1]	11.3	3	15.4	12.8	9.8	-9.1	3	-4.9	-7.6	-9.6	-3.1	4	1.5	-1.3	-2.9
Emerging Markets Equity[1]	28.2	3	32.6	29.4	27.8	8.4	2	9.6	8.3	7.4	7.2	3	9.4	8.3	6.7

Source: Survey on mutual funds as at December 31, 2003 – Watson Wyatt.

[1]*These mandates are presented unhedged against foreign exchange risk.*

17 – RETURN BY LONG-TERM INDEXES

for periods ended December 31, 2003

Specialized portfolios	Net assets $M	1 year Return %	1 year Index %	1 year Spread %	3 years Return %	3 years Index %	3 years Spread %	5 years Return %	5 years Index %	5 years Spread %	Market or recognized index
Liquid investments											
Fixed income											
Short-Term Investments	2,412	3.2	2.9	0.3	3.7	3.4	0.3	4.4	4.1	0.3	SC 91-Day Canadian T-Bill
Mortgages	3,254	9.6	6.7	2.9	10.1	7.8	2.3	8.6	6.4	2.1	SC Universe
Bonds[1]	27,831	7.5	6.7	0.9	8.7	7.8	0.8	7.1	6.4	0.7	SC Universe
Variable income											
Canadian Equity[1]	15,630	27.3	26.7	0.6	-5.2	0.5	-5.7	4.9	8.3	-3.3	S&P/TSX capped[2]
U.S. Equity (hedged)[1]	2,646	26.7	30.5	-3.7	-5.0	-3.7	-1.3	-0.1	-0.8	0.7	S&P 500 hedged[3]
U.S. Equity (unhedged)[1]	4,836	1.7	5.3	-3.5	-10.1	-8.7	-1.3	—	—	—	S&P 500 unhedged[3]
EAFE Foreign Equity (hedged)[1]	2,598	18.8	21.3	-2.5	-10.6	-9.6	-1.0	-0.7	-1.1	0.4	MSCI EAFE hedged
EAFE Foreign Equity (unhedged)[1]	5,517	10.8	13.4	-2.6	-8.9	-7.7	-1.3	n.a.	n.a.	n.a.	MSCI EAFE unhedged
Emerging Markets Equity[1]	957	32.4	27.5	5.0	1.8	7.1	-5.3	4.1	7.7	-3.7	MSCI EMF[4]
Québec International	6,079	31.0	31.4	-0.4	-2.5	-2.5	0.1	n.a.	n.a.	n.a.	Québec International[5]
Other investments											
Hedge Fund Partnership Units (portfolio created April 1, 2003)[10]	954	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	SC 91-Day Canadian T-Bill
Investments and Infrastructures[10]	2,665	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	S&P/TSX adjusted[6]
Private Equity[10]	6,106	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	S&P 600 adjusted[7]
Real Estate	7,717	15.5	10.5	5.0	12.4	9.6	2.8	14.0	10.2	3.8	Aon – Real Estate[8]
Asset Allocation and Currencies[11]	141	$160M	n.a.	n.a.	$-241M	n.a.	n.a.	$-100M	n.a.	n.a.	n.a.[11]
Weighted average return on depositors' funds[12]	**89,337**	**15.2**	**15.2**	**0.1**	**-0.3**	**2.3**	**-2.6**	**4.1**	**5.2**	**-1.1**	**Overall index (Caisse's benchmark portfolio)[9]**

[1] These returns take into account the fact that private equity was accounted for in the specialized Bonds portfolio and the specialized variable income portfolios (except for Québec International) during the first half of 2003 and in the specialized Investments and Infrastructures and Private Equity portfolios during the second half of the year.

[2] Before November 2000, the benchmark index was the TSE 300 uncapped. Between November 2000 and January 2001, that index was replaced by the TSE 300 capped, which was in turn replaced by the S&P/TSX capped in May 2002. The index for these periods is a combination of the three indexes.

[3] Does not take into account the withholding tax applied to foreigners not covered by a double taxation agreement.

[4] Before January 2000, the index was hedged against the fluctuation risk of the U.S. dollar. Hedging was gradually brought to zero between January 1 and June 30, 2000.

[5] Index created by the Caisse and based 80% on the SC Provincial Québec Subindex and 20% on the SC 91-Day Canadian T-Bill Index plus a predetermined basket of futures contracts based on global equity indexes.

[6] The S&P/TSX Composite (total return) weighted according to stock market capitalization is used and includes only the following sectors: materials, consumer staples, consumer discretionary, financials, utilities and industrials.

[7] The S&P 600 Composite (total return), hedged against foreign exchange risk and adjusted to sectors, is used and only includes the following sectors: consumer staples, consumer discretionary, health care, information technology, telecommunications and industrials.

[8] This composite is formed in the following way: [(70% IPD Canada + 30% NCREIF American hedged) (1 + debt/equity)] – [(debt/equity)* Scotia Short-term All Corporate Index]. The debt/equity ratio of the index is 40/60.*

[9] Index created by the Caisse. Weighted average of the depositors' benchmark indexes.

[10] These portfolios were created in 2003; this is why no return is presented. The Investments and Infrastructures and Private Equity holdings were part of the equity portfolio before the creation of the new portfolios.

[11] Portfolios created on May 1. Its activities were previously included in the Diversified, Strategic and Tactical Investments portfolio. The return is based on this activity, including cash decisions. The objective of the specialized Asset Allocation and Currencies portfolio is to improve overall return. Its results are evaluated in absolute terms and in dollars. The results are annualized for periods greater than one year.

[12] Totals may vary due to the rounding of figures. For example, the average compound return on depositors' funds is 15.23%, while that of its long-term return index is 15.15%, a spread of 8 basis points or 0.1% when rounded to the nearest tenth.

Note: Net assets correspond to the net holdings of unit holders in the specialized portfolios plus earnings to be paid or losses to be deducted in order to take into account requirements for measuring returns.

Investment operations and analysis of returns

To add value to the overall portfolio, the Caisse first allocates assets among the specialized portfolios and then according to management mandates within each portfolio.

The portfolio managers of the investment groups are responsible for meeting the objectives of the specialized portfolios and the management mandates by making choices involving securities and currencies. In addition, whatever the nature of their mandate, the managers may use the Caisse's borrowing power to finance part of an investment, according to well-defined rules, in order to increase the return.

18 – SPECIALIZED PORTFOLIOS BY INVESTMENT GROUP

Investment group	Specialized portfolio
Equities	Canadian Equity U.S. Equity EAFE Foreign Equity Emerging Markets Equity Québec International
Fixed Income	Bonds Short-Term Investments
Absolute Return	Asset Allocation and Currencies Hedge Fund Partnership Units
Real Estate	Real Estate Mortgages
Private Equity	Private Equity Investments and Infrastructures

In 2003, the Caisse managed depositors' net assets through five investment groups: Equities, Fixed Income, Absolute Return, Real Estate and Private Equity. Table 18 gives the investment groups as well as the specialized portfolios they manage.

The following sections focus on investment operations and analysis of returns by group.

ABSOLUTE RETURN OPERATIONS

In a context in which long-term stock market returns are expected to be lower than in the past, notably because of low interest rates and reduced risk premiums, arbitrage activities (absolute return operations) are likely to improve the performance of the specialized portfolios. In 2003, the Caisse therefore decided to increase the absolute return operations within certain specialized portfolios to preserve capital more effectively and to harmonize the managers' efforts with the long-term return objectives set by the depositors.

In addition, activities such as currency and hedge fund management involving the Caisse's overall portfolio were folded into the Absolute Return group to improve efficiency.

EQUITIES

MARKET REVIEW

The year 2003 was characterized by a strong stock market rally. At the beginning of the year, investors' risk aversion was particularly high as a result of the markets' mediocre performance during the three previous years and the worrisome political situation in the Middle East. The rapid outcome of the conflict in Iraq, combined with unprecedented fiscal and monetary stimulus in the U.S., brought the markets to a turning point in March, causing a rally that continued for the rest of the year.

The major cost-cutting efforts of companies over the past three years translated into substantial increases in profits. In addition, as investors anticipated sustained profit growth, price earnings ratios increased. In particular, shares of companies with high systematic risk, i.e. risk greater than that of the market as a whole, benefited from the influx of capital and saw their valuations rise significantly.

ROLE

The Equities group actively manages the Caisse's specialized equity portfolios with the goal of long-term capital appreciation. The portfolios cover four markets: Canadian equities, U.S. equities, EAFE (Europe, Australasia, Far East) foreign equities and emerging markets equities.

The fund managers' objective is to outperform their benchmark indexes, while respecting their assigned risk limits. These limits are determined in such a way as to optimize the allocation of capital among managers. The levels of risk assumed are measured frequently, and risk analysis allows the Caisse to track any concentration by country, sector or security for each specialized portfolio as well as for each fund manager.

HIGHLIGHTS

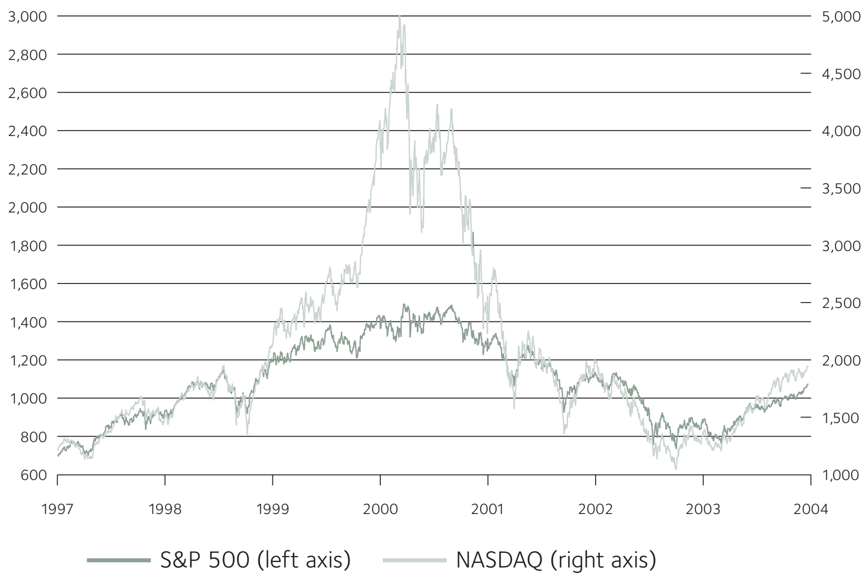
In November 2003, after a rigorous evaluation and benchmarking process, the Equities group announced it would gradually modify its management approach to focus more on its strengths, getting inspired by certain practices used by the best institutional fund managers.

In 2004, one way this important shift will manifest itself is the strengthening of the team that manages the Canadian equity portfolio. This team can now count on additional resources to carry out fundamental analysis, as well as bottom-up analysis geared to the medium term.

The group will also strengthen its specialized foreign equities team with new resources and more dynamic management of active risk, which will be allocated according to the strengths of the managers and the niches where the potential for added value is the highest. In addition, a new internal team will select and monitor the external managers who are given foreign equity management mandates.

Finally, the group will see to the continued development of other investment activities and, in general, will emphasize disciplined, analytical management of risks assumed.

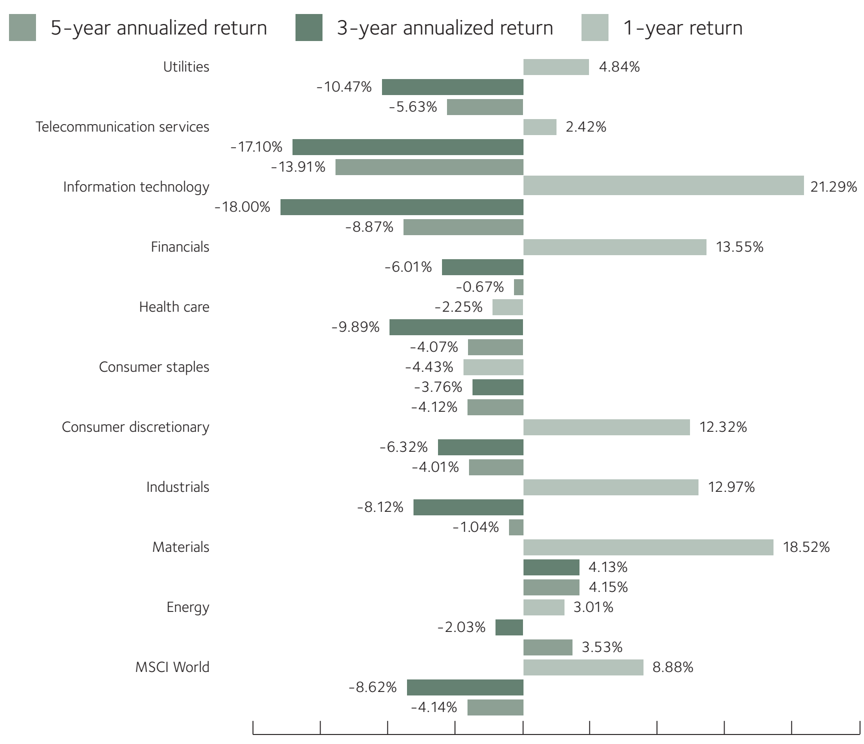
19 – CHANGES IN THE S&P 500 AND NASDAQ INDEXES



Sources: Analyse macroéconomique, Datastream

20 – ANNUALIZED SECTOR RETURNS FOR WORLD STOCK MARKETS

for periods ended December 31, 2003



Note: Returns in unhedged Canadian dollars.

SPECIALIZED PORTFOLIOS

Capital under management in the specialized equity portfolios is invested according to a fundamental approach. Quantitative and technical analyses also contribute to the decision-making process.

For specialized portfolios, such as Canadian Equity, U.S. Equity and EAFE Foreign Equity, analysis is predominantly bottom-up and emphasizes knowledge of a company's operations, analysis of its financial statements, a relative evaluation and meetings with management. As a complement, top-down analysis provides economic scenarios as well as financial and quantitative analysis of the market.

SPECIALIZED CANADIAN EQUITY PORTFOLIO

The specialized Canadian Equity portfolio, which is managed internally, provides broad coverage of the Canadian market with diversified management styles, as well as by sector and by niche. The S&P/TSX capped Index limits to 10% the proportion of any given stock in the index.

SPECIALIZED U.S. EQUITY PORTFOLIO

U.S. equities are divided into two specialized portfolios: hedged and unhedged against exchange risk. This structure permits exchange risk exposure specific to each depositor, according to its investment policy.

The portfolios are managed internally and externally and favour complementary niches.

SPECIALIZED EAFE FOREIGN EQUITY PORTFOLIO

EAFE (Europe, Australasia, Far East) foreign equities are divided into two specialized portfolios: hedged and unhedged against exchange risk. This structure permits exchange risk exposure specific to each depositor, according to its investment policy.

21 – RETURN THRESHOLD OF THE SPECIALIZED CANADIAN EQUITY PORTFOLIO

Depositors' net assets	Short-term and long-term return threshold (Market index)
$15.63 billion	S&P/TSX capped

22 – RETURN THRESHOLDS OF THE SPECIALIZED U.S. EQUITY PORTFOLIOS

Depositors' net assets	Short-term and long-term return thresholds (Market indexes)
$7.48 billion	S&P 500 hedged and S&P 500 unhedged

23 – RETURN THRESHOLDS OF THE SPECIALIZED EAFE FOREIGN EQUITY PORTFOLIOS

Depositors' net assets	Short-term and long-term return thresholds (Market indexes)
$8.12 billion	MSCI EAFE hedged and MSCI EAFE unhedged

The portfolios are managed internally and externally and focus on niches and regional specializations. The managers and analysts on the internal team do most of the research related to their mandates, with support from an international network of external analysts.

SPECIALIZED EMERGING MARKETS EQUITY PORTFOLIO

The specialized Emerging Markets Equity portfolio is managed internally and externally and favours niches. It is not hedged against exchange risk owing to the illiquidity of emerging countries' currencies on the foreign exchange markets.

Top-down analysis takes precedence over bottom-up analysis with this portfolio. The managers use each country's weighting in the index as a benchmark and then determine the most promising countries and sectors by analyzing the economic aspects of monetary and fiscal policies. Finally, the team does a rigorous analysis of individual companies to determine those that are most attractive in terms of valuation, quality and growth outlook.

SPECIALIZED QUÉBEC INTERNATIONAL PORTFOLIO

The specialized Québec International portfolio has a hybrid structure. It consists of fixed-income securities in Canadian dollars, which implicitly protect it against exchange risk. Added to these securities is a basket of futures contracts based on world stock markets. These futures contracts produce a stock index return rather than a return on short-term investments.

The goal of this portfolio is to increase the exposure of the Caisse's overall portfolio to foreign stock markets in order to provide greater diversification and to obtain superior returns.

ANALYSIS OF RETURNS[1]

CANADIAN EQUITY

In 2003, the return on the Canadian Equity (without private equity) was 1.0% higher than the return on the S&P/TSX capped index, which was 26.7% in 2003. Over five years, the spread vis-à-vis the index is 1.8%. The information ratio of 1.3 shows that this result was achieved with relatively low risk.

At the beginning of the year, the portfolio was positioned for a typical economic recovery. The managers were partial to cyclical stocks, particularly raw materials. This strategy paid off, since overweighting this sector and shrewd stock picking enabled the Caisse to outperform the portfolio's benchmark index. Absolute return activities also contributed significantly to the added value of the Canadian Equity.

24 – RETURN THRESHOLD OF THE SPECIALIZED EMERGING MARKETS EQUITY PORTFOLIO

Depositors' net assets	Short-term and long-term return threshold (Market index)
$0.96 billion	MSCI EMF unhedged

25 – RETURN THRESHOLD OF THE SPECIALIZED QUÉBEC INTERNATIONAL PORTFOLIO

Depositors' net assets	Short-term and long-term return threshold (Recognized index)
$6.08 billion	Québec International*

** The Québec International index was developped by the Caisse. The reference for cash assets is composed of 80% of the Scotia Capital Provincial Québec Index and 20% of the Scotia Capital 91-Day Canadian T-Bill Index. These proportions are maintained monthly. The stock market futures portfolio index is updated once a year taking into consideration the weightings of the MSCI World Index excluding Canada according to a pre-established formula. In addition, a liquidity constraint is imposed on the stock market futures. During the updating of the market index, a given market position must not exceed 5% of the daily volume or 20% of open interest.*

U.S. EQUITY

The spectacular recovery of the U.S. stock market translated into a return of 30.5% for the hedged S&P 500 index. The return on the U.S. Equity hedged (without private equity) was 27.4%, 3.0% below the index's return. This return, however, remains above its market index over a period of five years.

In 2003, U.S. monetary and fiscal policies renewed investors' appetite for risk. They turned massively to stocks with high systematic risk, such as technology and small cap issues, leading to a strong stock market turnaround.

26 – RETURNS ON CANADIAN EQUITY (WITHOUT PRIVATE EQUITY)

for periods ended December 31, 2003

1 year			3 years				5 years			
Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio	Return %	Index* %	Spread %	Information ratio
27.7	26.7	1.0	-0.6	-1.0	0.4	0.4	8.3	6.5	1.8	1.3

**Before November 2000, the benchmark index was the TSE 300 uncapped. Between November 2000 and January 2001, that index was replaced by the TSE 300 capped, which was in turn replaced by the S&P/TSX capped in May 2002. The index for these periods is a combination of the three indexes.*

[1] Before July 1, 2003, private equity was accounted for partially in the Equities group portfolios except for Québec International. Return analysis of the current section excludes private equity.

The lower return on U.S. equities in 2003 in comparison with the indexes can be explained as follows: at the beginning of the year, the fund managers were convinced that the recovery would be short-lived. As a result, they adopted a cautious strategy and preferred defensive, high-quality stocks that met their investment criteria. The portfolio therefore comprised stocks with low systematic risk. Still, stocks with high systematic risk appreciated significantly during the year.

EAFE FOREIGN EQUITY

The return on EAFE Foreign Equity hedged (without private equity) was 19.0% in 2003, versus 21.3% for the market index. Over five years, the return slightly exceeds that of the index.

The Caisse was not the only Canadian manager to have difficulties with this market in 2003. Most median fund managers underperformed significantly the market index.

European markets followed the same trend as the U.S. market, drawing their momentum from surging technology issues.

The spread between the return earned by the Caisse's managers and the index can be explained primarily by a prudent selection of stocks in three sectors: information technology, financials and industrials. In fact, stocks with higher risk than the market as a whole were underweighted owing to their negative earnings outlook.

In 2003, Japan benefited from China's strong economic growth. For the first time in its history, Japan exported more to China than it did to the United States. The traditional cyclical sectors benefited from this phenomenon. In addition, as in the United States and Europe, technology stocks rose strongly. The decision, by internal and external managers alike, to underweight materials, technology and small caps contributed to a return that was below the index.

EMERGING MARKETS EQUITY

The return on Emerging Markets Equity (without private equity) was 28.2% in 2003, or 0.7% more than the return on the benchmark index. Over five years, it outperformed the index by 0.2%.

The managers successfully positioned the portfolio for the global economic recovery, which traditionally favours emerging markets. The relative performance of the portfolio comes essentially from wise stock selection, especially in two sectors: financials and materials.

QUÉBEC INTERNATIONAL

The return on the Québec International portfolio was to 31.0% in 2003, 0.4% below its benchmark index, which returned 31.4%. Still, the portfolio's 31.0% performance is more than satisfactory, given that it is higher than the majority of international stock indexes.

27 – RETURNS ON U.S. EQUITY (HEDGED) (WITHOUT PRIVATE EQUITY)

for periods ended December 31, 2003

1 year			3 years				5 years			
Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio	Return %	Index* %	Spread %	Information ratio
27.4	30.5	-3.0	-3.8	-3.7	-0.1	0.5	0.2	-0.8	1.0	0.5

**S&P 500 hedged*

28 – RETURNS ON EAFE FOREIGN EQUITY (HEDGED) (WITHOUT PRIVATE EQUITY)

for periods ended December 31, 2003

1 year			3 years				5 years			
Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio	Return %	Index* %	Spread %	Information ratio
19.0	21.3	-2.3	-11.2	-9.6	-1.6	-1.2	-0.9	-1.1	0.2	0.1

**MSCI EAFE hedged. The provisional index was used from October 2001 to May 2002.*

29 – RETURNS ON EMERGING MARKETS EQUITY (WITHOUT PRIVATE EQUITY)

for periods ended December 31, 2003

1 year			3 years				5 years			
Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio	Return %	Index* %	Spread %	Information ratio
28.2	27.5	0.7	8.4	7.1	1.3	0.5	7.9	7.7	0.2	0.1

MSCI EMF unhedged since July 1, 2000.

30 – RETURNS ON QUÉBEC INTERNATIONAL

for periods ended December 31, 2003

1 year			3 years				Since its creation			
Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio	Return %	Index* %	Spread %	Information ratio
31.0	31.4	-0.4	-2.5	-2.5	0.1	0.1	-0.6	-0.8	0.2	0.2

Index created by the Caisse and based 80% on the SC Provincial Québec Subindex and 20% on the SC 91-Day Canadian T-Bill Index plus a predetermined basket of futures based on global equity indexes.

FIXED INCOME

MARKET REVIEW

At the beginning of 2003, the concerns about deflation expressed by the Federal Reserve caused long-term bond rates to fall in the United States.

By mid-year, the economic data began indicating a degree of strength in the economy, sending rates back up. At the same time, the burgeoning deficit increased the supply of U.S. treasury bonds in the market, which was largely offset by demand on the part of central banks that were trying to cope with the U.S. dollar's rapid decrease in value.

In Canada, a more restrictive monetary policy compared with that of the U.S. first kept short-term rates higher. In a context characterized by rising prices for raw materials, advantageous Canadian bond rates relative to U.S. bonds, and the expectation that the U.S. dollar would continue to fall, the Canadian dollar became the natural choice for foreign investors. Then, in July, the Bank of Canada's decision to reduce its rates confirmed the downward trend, and narrowed the spreads between Canadian and U.S. bonds.

Finally, a return to corporate financial health led to expectations of rising earnings, which pushed the stock markets higher and narrowed the spread between corporate bonds and Canadian government bonds.

ROLE

The Fixed Income group aims to outperform the market indexes while taking into account the risk limits defined in the depositors' investment policies. The fund managers manage risk within these limits by using various diversification methods and by setting loss limits. The group's operations involve two specialized portfolios: Bonds and Short-Term Investments.

HIGHLIGHTS

In the spring of 2003, the Fixed Income group completely reviewed its structure and methods, which resulted in the creation of six teams with mandates determined by the benchmark indexes and specific risk limitations. The group also created a basis for asset allocation that allows the managers to under- or overweight sectors where investments are made for tactical reasons, and to act on market opportunities by taking positions outside the index. These organizational changes were accompanied by steps toward implementation of new automated risk management systems and daily monitoring of the various management mandates.

In 2004, the group will continue to develop its management teams, while focusing on increased use of its management tools and market information from independent sources.

SPECIALIZED PORTFOLIOS

The portfolios are actively managed according to a fundamental approach that favours top-down analysis. The fund managers use quantitative tools and derivatives. The main investment decisions involve asset allocation, positioning on the curve, duration, credit spreads and security selection.

SPECIALIZED BOND PORTFOLIO

The specialized Bond portfolio aims to outperform the market index by taking advantage of short- and mid-term trends involving all fixed-income products. It consists of five main management mandates based on the structure of the Scotia Capital Universe Bond Index, which is designed to reflect the overall return on the Canadian bond market.

One team performs overall management of the portfolio in relation to this market index with support from two teams responsible for provincial and corporate bonds. A fourth team, specializing in international bonds, works on the basis of recognized market indexes. Finally, a team of specialists focuses on absolute return activities.

SPECIALIZED SHORT-TERM INVESTMENTS PORTFOLIO

This portfolio aims to preserve invested capital and maintain liquidity levels for the various fund managers, while producing an appreciable rate of return. The capital under management is invested on the basis of an analysis of money market trends.

31 – RETURN THRESHOLD OF THE SPECIALIZED BOND PORTFOLIO

Depositors' net assets	Short-term and long-term return threshold (Market index)
$27.83 billion	SC Universe

32 – RETURN THRESHOLD OF THE SPECIALIZED SHORT-TERM INVESTMENTS PORTFOLIO

Depositors' net assets	Short-term and long-term return threshold (Market index)
$2.41 billion	SC 91-Day Canadian T-Bill

ANALYSIS OF RETURNS

During the year, the strategies and investment activities of the Fixed Income group produced excellent results, in the bond and money markets alike.

BONDS[1]

In 2003, the 7.4% return on Bonds (without private equity) surpassed the index by 0.7%. Over three- and five-year periods, this return exceeds the index by 0.9% and 0.7% respectively.

In 2003, the fund management teams added value by anticipating the steepening of the yield curve as a result of lower short-term interest rates. They counted on the Canadian market to perform better than the U.S. market and they took large positions in the European and Japanese markets. They also increased their positions in the corporate bond market, substantially reducing their underweighting of this sector. Over all, the team took advantage of the pronounced steepening of the curves.

SHORT-TERM INVESTMENTS

In 2003, the Short-Term Investments portfolio beat its index by 0.3% with a return of 3.2%. The portfolio's added value over a five-year period is also excellent, at 4.4% versus the benchmark's return of 4.1%.

In 2003, the fund managers properly anticipated rising interest rates in Canadian money markets, followed by lower interest rates in the second part of the year. The narrowing of the spreads between corporate bonds and Government of Canada bonds also contributed to the portfolio's performance.

[1] Before July 1, 2003, private equity was partially accounted for in the Bond portfolio. The analysis of returns in this section excludes private equity.

33 – RETURNS ON BONDS (WITHOUT PRIVATE EQUITY)
for periods ended December 31, 2003

1 year			3 years				5 years			
Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio	Return %	Index* %	Spread %	Information ratio
7.4	6.7	0.7	8.8	7.8	0.9	1.7	7.1	6.4	0.7	1.0

**SC Universe*

34 – RETURNS ON SHORT-TERM INVESTMENTS
for periods ended December 31, 2003

1 year			3 years				5 years			
Return %	Index* %	Spread %	Return %	Index* %	Spread %	Information ratio	Return %	Index* %	Spread %	Information ratio
3.2	2.9	0.3	3.7	3.4	0.3	1.2	4.4	4.1	0.3	1.4

**SC 91-Day Canadian T-Bill*

ABSOLUTE RETURN

ROLE

The Absolute Return group has a mandate to strengthen, institutionalize and enhance the Caisse's absolute return expertise, to provide depositors with sustainable, value-creating returns that complement other sources of added value. The group manages two specialized portfolios: Asset Allocation and Currencies, and Hedge Fund Partnership Units.

HIGHLIGHTS

In the spring of 2003, the growing importance of absolute return strategies in the Caisse's investment activities led to the restructuring of the Asset Allocation and Currencies portfolio and the Hedge Fund Partnership Units portfolio. Later, during the restructuring of all the Caisse's investment groups, the teams that manage these two portfolios were combined to form the Absolute Return group.

In addition to the Currencies and Fund of Hedge Funds teams, this group also includes teams specializing in interest rates, commodities and global macro arbitrage. The development of these specialized teams will continue in 2004 with, for example, the creation of new internal hedge funds.

In 2003, the Absolute Return group was also responsible for managing asset allocation at the Caisse. This activity is to be taken over by the Investment Analysis and Optimization group in 2004.

During the year, the Fund of Hedge Funds team created the specialized Hedge Fund Partnership Units portfolio and developed its investment policy designed to offer depositors a well-defined and stable product that can achieve their expected returns. The four funds of hedge funds managed by the team were readjusted to include new fund managers so as to improve the range of management styles. For example, the association with several international hedge funds helped improve returns and also broadened the team's business network. In 2004, the team will further develop these funds of funds by seeking out promising external managers and ensuring the industry's best practices are adopted internally.

SPECIALIZED PORTFOLIOS

SPECIALIZED ASSET ALLOCATION AND CURRENCIES PORTFOLIO

The specialized Asset Allocation and Currencies portfolio aims to improve the weighted average return on depositors' funds. Its contribution is measured in millions of dollars and is not compared with an index. The portfolio is managed by three teams.

Asset allocation management allocates funds among the Caisse's various classes and subclasses of investments according to expected risks and returns, with due regard for preservation of capital. The team achieves its investment objectives by under- or overweighting the various specialized cash portfolios, or by using currency, equity-index and bond-index derivatives. In making these decisions, the managers rely primarily on macroeconomic analysis and overall investment strategies for management of active risk and absolute risk as well as preservation of capital.

Currency management adds value by generating absolute returns on the currency markets. To reach its objectives, the team allocates active risk according to complementary investment styles and strategies. The team also uses a range of financial instruments reflecting different maturities and diversified geographical areas. These managers use fundamental, technical and quantitative approaches to security selection.

Absolute return aims to create a weak-relative-risk portfolio while exposing it to opportunities for high regular returns. This active hedge-fund-type management uses directional and relative-value strategies in various markets while striving to control portfolio risk.

The majority of the investment activities are managed internally and include positions taken by managers who, for tactical reasons, use different investment strategies for stocks, bonds, currencies and commodities, as well as global stock and bond indexes. The team analyzes and takes advantage of macroeconomic trends and significant relative mispricings in the structure of the financial markets.

The investment universe includes all securities in the specialized portfolios of liquid assets as well as derivative products and futures contracts related to global stock and bond indexes, sector and industry indexes, interest rates, currencies and commodities.

The relative-value approach to absolute return management aims to develop strategies to maximize asymmetries between potential profit and loss within the very structure of a transaction. The funds managers use an advanced analytical platform to generate ideas while maintaining sound risk management.

SPECIALIZED HEDGE FUND PARTNERSHIP UNITS PORTFOLIO

The specialized Hedge Fund Partnership Units portfolio aims to generate added value through hedge-fund-type investments that have a low correlation with returns on traditional assets. It is actively managed, emphasizing a bottom-up approach to select fund managers and a top-down approach to select management styles.

The team responsible for the portfolio allocates assets to a selection of external hedge fund managers that constitute four funds of funds based on similarities in investment styles: multi-strategy, opportunistic, global macro and strategic. By ensuring diversification at all levels, this method allows for exposure to the potentially high returns of individual hedge funds while maintaining better control of the risks associated with them.

The Multi-Strategy Fund comprises hedge funds whose managers favour various strategies such as arbitrage involving convertible and fixed-income securities, mergers and acquisitions. The fund managers that make up the Opportunity Fund use unhedged long and short positions on stocks. The Global Macro Fund brings together hedge funds whose managers use currency and interest rate derivatives to anticipate how certain macro-economic events will affect these markets. Finally, the Strategic Fund seeks not only to benefit from the potential return on the funds of funds that it invests in, but also to associate itself with hedge fund industry leaders to acquire best practices.

ANALYSIS OF RETURNS

ASSET ALLOCATION AND CURRENCIES

At the beginning of 2003, the real estate weighting in the Caisse's overall portfolio exceeded the upper limit of the Caisse's benchmark portfolio, mainly because of the reduced value of the liquid portfolios in 2002. The specialized Real Estate portfolio was therefore overweighted by about 4% while the specialized Bonds and Short-Term Investments portfolios were underweighted by 2% each. In July, the Real Estate overweighting was reduced to 2%. This decision contributed significantly to the asset allocation results.

35 – RETURN THRESHOLDS OF THE SPECIALIZED HEDGE FUND PARTNERSHIP UNITS PORTFOLIO

Depositors' net assets	Short-term return threshold (Predetermined return threshold)	Long-term return threshold (Market index)
$0.95 billion	SC 91-Day Canadian T-Bill + 4%	SC 91-Day Canadian T-Bill*

**The long-term return objective is 1% more than the short-term return threshold.*

The tactical and strategic positions taken by the Currencies team generated gains of $66 million. The team created value at the beginning of the year through euro-against-yen positions, and in the following months took advantage of the weakness of the U.S. dollar against the main currencies, such as the euro, the yen, the British pound and the Canadian dollar. In addition, trades involving interest rate differentials between various countries also produced excellent results.

36 – RETURNS ON ASSET ALLOCATION AND CURRENCIES

for periods ended December 31, 2003 – in millions of dollars

		Annualized Return	
	1 year	**3 years**	**5 years**
Activities			
Currencies (strategic and tactical)	66	62	48
Asset allocation (portfolio and cash decisions)	94	-303	-148
Total	**160**	**-241**	**-100**

Before May 1, the operations were carried out within the Diversified, Strategic and Tactical Investments portfolio, which was renamed Hedge Fund Partnership Units portfolio.

HEDGE FUND PARTNERSHIP UNITS

In 2003, the return on the specialized Hedge Fund Partnership Units portfolio was 11.2% over a nine-month period.

It was a generally positive year for hedge fund strategies. Most fund managers took advantage of arbitrage opportunities involving interest rates, credit spreads, emerging markets and market volatility. Currency and commodity trends also contributed to the sector's generally positive performance. Over all, hedge funds delivered a very satisfactory performance in a context of robust demand for this type of product.

REAL ESTATE

REVIEW OF MARKETS

2003 was characterized by sustained real estate values despite weak leasing conditions in the North American office-building sector and the U.S. residential sector. The abundance of available capital and unusually favourable financing conditions kept the number of transactions and prices at high levels. Over all, returns for most investors were higher in 2003 than in the previous year.

The Canadian real estate financing market was also very active in 2003, stimulated by the arrival of new lenders and the success of securitization activities. This competitive environment led to a tightening of interest rates and overbidding by some lenders, which means that 2004 could be difficult for the industry.

ROLE

The Real Estate group's role is to invest in real estate holdings that perform well and that are diversified in terms of geography and products. It manages the specialized Real Estate and Mortgages portfolios by co-ordinating the activities of its member companies: Ivanhoe Cambridge, SITQ, CDP Capital – Real Estate Advisory and CDP Capital – Mortgages.

HIGHLIGHTS

In 2003, the Real Estate group was especially active in the sale of real estate assets, the underwriting of a large volume of mortgage loans and the issuance of commercial mortgage-backed securities (CMBS). In addition, there were three major events during the year.

First, the sale of major real estate assets made it possible to rebalance the weighting of the specialized Real Estate portfolio in the Caisse's overall portfolio. It was 8.7% as at December 31, 2003, versus 10.3% at the end of 2002. The group sold several holdings in a context in which demand remained strong despite the fragility of markets worldwide, and property values continued to increase in most regions and sectors.

The profile of the mortgage financing portfolio was then modified so that to include up to 20% of it could consist of subordinated debt, primarily CMBS tranches and, to a lesser degree, mezzanine loans. This major change rounds out the series of actions, such as the acquisition of specialized companies in Canada and the United States, taken to ensure that mortgage financing as an asset class outperforms returns on conventional fixed-income securities.

Finally, at the end of 2003, CDP Capital – Real Estate Advisory and MCAP, a Canadian mortgage investment company, reached an agreement in principle to integrate the mortgage financing operations of CDP Capital – Mortgages and MCAP Financial into a new entity, in which CDP Capital – Real Estate Advisory will hold a majority interest. Future projects include extending the firm's securitization activities to other geographic markets, especially the United States.

In 2003, the Group continued to provide management services for third parties, through the CDP Capital – Real Estate

Ivanhoe Cambridge is a manager, developer and investor specializing in regional and super-regional shopping centres in cities in Canada, the United States and Europe. The company owns its properties outright or in partnership with other investors and provides asset-management services for syndicated properties in Canada.

SITQ is a developer, investor and manager specializing in office buildings in downtown locations in Canada, the United States and Europe. The company owns its properties outright or in partnership with other investors and provides asset-management services for syndicated properties in Canada.

CDP Capital – Real Estate Advisory is involved in merchant banking and investment management around the world. The company invests in equity and debt instruments in public and private markets, primarily in Canada, the United States, Europe and Asia. Its investments include opportunistic products that are generally held for less than three years. It also offers advisory services and structured finance services.

CDP Capital – Mortgages specializes in real estate financing in the form of mortgage loans, interim financing and mortgage securities. It acts as a mortgage lender, mortgage securities holder, loan servicer, and originator and underwriter of mortgage securities.

Advisory network of "platforms" a group of companies owned in partnership with local entrepreneurs who handle the management functions.

The Real Estate group is now in an excellent position to capitalize on new business opportunities for its two portfolios. In 2004, the group will ensure that it maintains a high level of performance, by carrying out active, judicious management of the risk associated with the leverage of the Real Estate portfolio, as well as stepping up its diversified growth by attracting external partners. In addition, the group will use its increased mortgage financing volume to intensify and diversify its debt underwriting and securitization operations.

SPECIALIZED PORTFOLIOS

SPECIALIZED REAL ESTATE PORTFOLIO

The specialized Real Estate portfolio holds conventional and opportunistic investments. Conventional holdings include high-quality office buildings in downtown locations and regional shopping centres in urban settings. They provide stable revenues and are acquired for the long term. Opportunistic investments are acquired to take advantage of market conditions. They are held for a shorter period than conventional investments and are intended to generate a high return.

The portfolio is actively managed on the basis of real estate and financial cycles in the various regions of the world, as well as market opportunities. The overall strategy focuses primarily on investments in quality buildings with a high return. Outside Canada, this strategy is carried out with partners or managers who have solid experience in their markets. Financial leverage is also used to optimize the portfolio's return.

The Real Estate group uses different strategies to manage risk effectively and to obtain a maximum return on its investments. Management of geographic and sector risks is based on a thorough analysis of markets, an annual independent valuation of properties, exit strategies that take advantage of real estate cycles, and a high volume of purchases and sales. The managers reduce the risks associated with real estate construction by limiting the number of projects and by setting pre-leasing and pre-sales objectives. They limit credit and default risks by diversifying tenants and lease-expiry dates. They manage the risk associated with the financial leverage strategy by targeting a maximum indebtedness rate of 50% for the overall portfolio, by staggering loan-maturity dates and by balancing fixed-rate and variable-rate debt. In addition, to limit the risk of fluctuating foreign exchange rates, the group uses foreign exchange forward contracts for its foreign investments.

37 – RETURN THRESHOLDS OF THE SPECIALIZED REAL ESTATE PORTFOLIO

Depositors' net assets	Short-term return threshold (Predetermined return threshold)	Long-term return threshold (Market index)
$7.72 billion	9% after operating expenses[1]	Aon – Real Estate

[1] *This threshold was established to produce value added that exceeds the market index on a five-year horizon.*

SPECIALIZED MORTGAGES PORTFOLIO

The goal of the specialized Mortgages portfolio is to offer a fixed-income product with a duration comparable to that of its market index, but with higher risk-return characteristics that are consistent with the risks associated with mortgage financing. It comprises three main activities: mortgage loans, subordinated debt, and management of mortgage loans and repossessions.

The portfolio is built on extensive experience in real estate debt underwriting, from low-risk investments such as first ranking mortgages to higher-risk activities such as subordinated debt. With a historical performance that is above the market average, the result is a rigorous, ongoing underwriting process.

The Real Estate group handles the overall management of the portfolio with respect to asset allocation so as to achieve the return objectives and to ensure the overall investment policy is respected. Bottom-up analysis is carried out by subsidiaries portfolio managers. The group limits credit and default risks associated with financing operations by diversifying in terms of borrower, geographic location and property type.

TOTAL ASSETS UNDER MANAGEMENT

As at December 31, 2003, the total assets under management in the specialized Real Estate and Mortgages portfolios amounted to $43 billion, a decrease of $3 billion from 2002. Depositors' assets totalled $22.3 billion and property under administration and property under management stood at $20.7 billion, compared with $24.8 billion and $21.2 billion respectively last year.

38 – RETURN THRESHOLD OF THE SPECIALIZED MORTGAGES PORTFOLIO

Depositors' net assets	Short- and long-term return threshold (Market index)
$3.25 billion	SC Universe

In 2003, the Real Estate group effected transactions with a total value of $7.2 billion, through its member companies: $3.4 billion of divestitures, $2.1 billion of acquisitions, construction and renovation projects, and investments in real estate securities, companies and funds, as well as $1.7 billion of mortgage financings.

SPECIALIZED REAL ESTATE PORTFOLIO

In the specialized Real Estate portfolio, total depositors' assets were $18.2 billion and total property under management and property under administration was $19.1 billion, bringing total assets under management to $37.3 billion.

In 2003, the portfolio managers were again able to take advantage of the real estate cycle, carrying out $3.4 billion of divestitures, $1.5 billion of acquisitions, and investments in real estate securities, companies and funds, as well as $560.1 million of construction, renovation and leasehold improvement projects. In total, the volume of transactions was $481 million higher than in 2002.

In the retail sector, the total volume of Ivanhoe Cambridge's transactions was $971.6 million as at December 31, 2003, with $744 million of divestitures, $29.2 million of acquisitions and $198.4 million of construction, renovation and leasehold improvement projects.

The office building and business park sector saw $1.4 billion of divestitures, $256.6 million of acquisitions and $331.7 million of construction, renovation and leasehold improvement projects, which brought SITQ'S total transaction volume to $2.0 billion.

39 – BREAKDOWN OF TOTAL ASSETS UNDER MANAGEMENT – REAL ESTATE GROUP

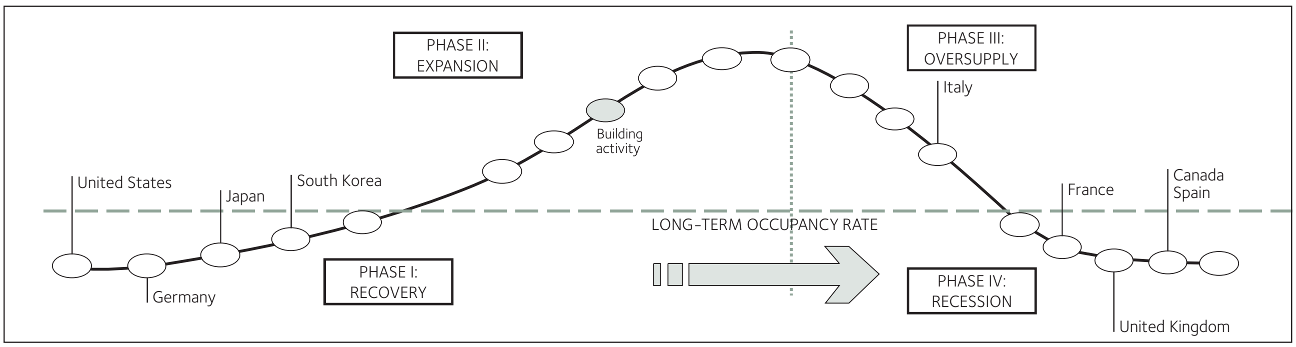
fair value as at December 31, 2003 – in billions of dollars

	Depositors' total assets	Property under management or under administration	Total assets under management	%
SITQ	8.5	5.9	14.4	33.5
Ivanhoe Cambridge	6.8	1.0	7.8	18.1
CDP Capital – Real Estate Advisory	2.9	12.2	15.1	35.1
Real Estate	**18.2**	**19.1**	**37.3**	**86.7**
CDP Capital – Mortgages	4.0	1.6	5.6	13.0
CDP Capital – Real Estate Advisory	0.1	—	0.1	0.3
Mortgages	**4.1**	**1.6**	**5.7**	**13.3**
	22.3	**20.7**	**43.0**	**100.0**

40 – THE COMMERCIAL REAL ESTATE CYCLE

at year-end 2003

Phase I RECOVERY	Phase II EXPANSION	Phase III OVERSUPPLY	Phase IV RECESSION
Decline in vacancy rates	Decline in vacancy rates	Increase in vacancy rates	Increase in vacancy rates
Negative growth in rental rates, below inflation	Rapid increase in occupation rates justifying building activity	Increase in rental rates although slower	Decline in rental rates, below inflation
New building activity	High growth in rental rates in tighter markets	Building activity	Building activity, increased competition

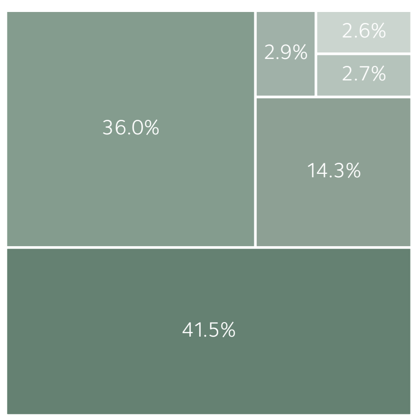


Finally, in opportunistic products and residential buildings, CDP Capital – Real Estate Advisory's transactions totalled $2.5 billion, with $1.3 billion of divestitures, $1.2 billion of investments and acquisitions, and $30 million of construction, renovation and leasehold improvement projects.

The geographical breakdown of the specialized Real Estate portfolio ensures effective diversification of assets. In 2003, the weighting of assets in the United States decreased with the sale of various shopping centres.

41 – SECTOR BREAKDOWN OF THE SPECIALIZED REAL ESTATE PORTFOLIO

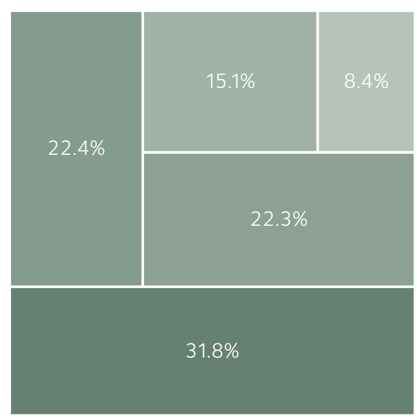
fair value as at December 31, 2003



- 41.5% OFFICES AND BUSINESS PARKS
- 36.0% RETAIL
- 14.3% EQUITIES AND CONVERTIBLE SECURITIES
- 2.9% OTHER REAL ESTATE
- 2.7% MORTGAGE FINANCING
- 2.6% RESIDENTIAL AND HOTELS

42 – GEOGRAPHICAL BREAKDOWN OF THE SPECIALIZED REAL ESTATE PORTFOLIO

fair value as at December 31, 2003



- 31.8% CANADA OUTSIDE QUÉBEC
- 22.4% UNITED STATES
- 22.3% QUÉBEC
- 15.1% EUROPE
- 8.4% ASIA

SPECIALIZED MORTGAGES PORTFOLIO
In the specialized Mortgages portfolio, total depositors' assets and property under management and property under administration were $4.1 billion and $1.6 billion, respectively, for $5.7 billion of total assets under management.

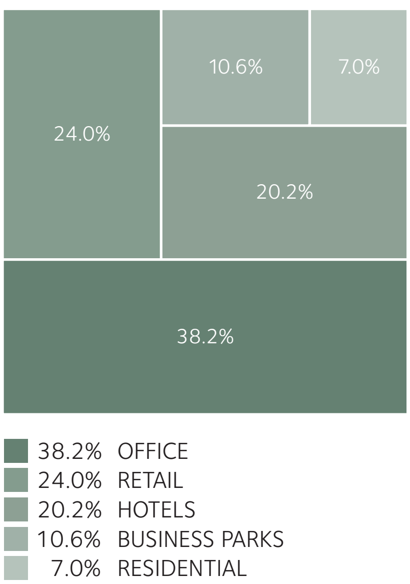
In 2003, a large number of mortgage loans were underwritten for a wide variety of clients and for different types of building. The loan amounts ranged from $0.1 million to $158 million, and the transactions totalled $1.7 billion, up $500 million from 2002.

Three CMBS issues were also completed in 2003, for a total of $1.4 billion, including $254.1 million of redeemed bonds.

The portfolio's geographical and sector breakdown reflects effective diversification. In sector terms, the share of office buildings decreased by 25.4% in 2003, while that of retail space increased by 6.3%.

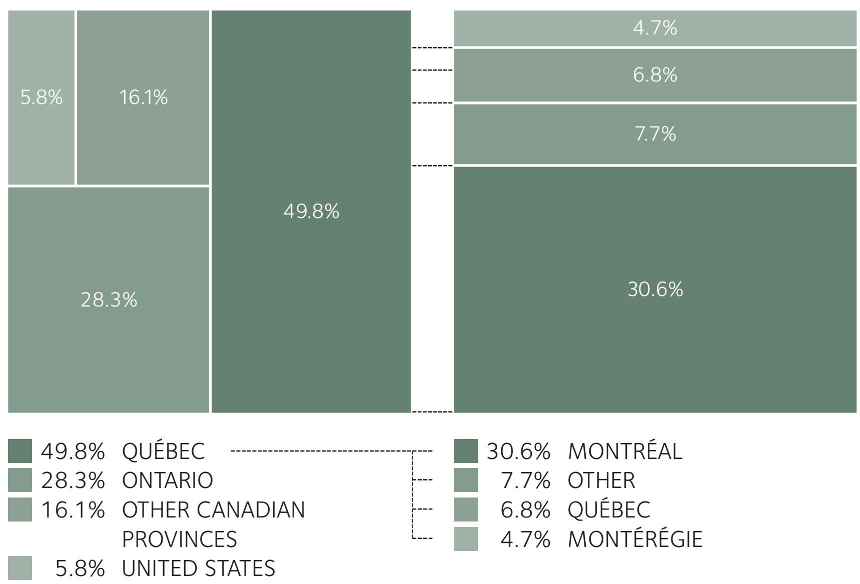
43 – SECTOR BREAKDOWN OF THE SPECIALIZED MORTGAGES PORTFOLIO – EXCLUDING CMBS

fair value as at December 31, 2003



44 – GEOGRAPHICAL BREAKDOWN OF THE SPECIALIZED MORTGAGES PORTFOLIO – EXCLUDING CMBS

fair value as at December 31, 2003



ANALYSIS OF RETURNS

This section presents an analysis of the returns on the specialized portfolios managed by the Real Estate group. This analysis is based on depositors' net assets attributed to these portfolios.

SPECIALIZED REAL ESTATE PORTFOLIO
For the year ended December 31, 2003, the specialized Real Estate portfolio recorded a return of 15.5%, or 5.0% more than the Aon Real Estate index, which posted 10.5%. Over five years, the return on the portfolio is 5% above its predetermined return threshold of 9%.

The portfolio's returns for 2003 resulted primarily from investors' preference for real estate products over other types of investment and the strong performance by opportunistic products.

45 – RETURNS ON THE SPECIALIZED REAL ESTATE PORTFOLIO

for periods ended December 31, 2003

1 year			3 years			5 years		
Return	Index*	Spread	Return	Index*	Spread	Return	Index*	Spread
%	%	%	%	%	%	%	%	%
15.5	10.5	5.0	12.4	9.6	2.8	14.0	10.2	3.8

**Aon – Real Estate*

46 – RETURNS ON THE SPECIALIZED MORTGAGES PORTFOLIO
for periods ended December 31, 2003

1 year			3 years			5 years		
Return	Index*	Spread	Return	Index*	Spread	Return	Index*	Spread
%	%	%	%	%	%	%	%	%
9.6	6.7	2.9	10.1	7.8	2.3	8.6	6.4	2.1

***SC Universe**

In mid-2002, the Real Estate group began a major divestiture program, at a time when demand for quality buildings was very high and prices were attractive. In 2003, the Group continued this strategy by selling investments that had reached their return objectives. The Adria Tower in the La Défense district of Paris and shopping centres in the United States are among these divestitures. A portion of the proceeds will be used to acquire new investments in certain markets in 2004.

SPECIALIZED MORTGAGES PORTFOLIO

In 2003, the specialized Mortgages portfolio outperformed its index by 2.9%, for a total return of 9.6%. The five-year return of 8.6% exceeds that of the index by 2.1%.

The significant spread between the return on the portfolio and its index is due to effective asset underwriting, the low number of impaired loans and repossessions, profits from arbitrage related to securitization and the return on subordinated debt.

PRIVATE EQUITY

REVIEW OF MARKETS

Since the technology bubble burst in 2000, activity in the private equity industry has been sluggish in North America and Western Europe, as seen by the sharp drop in disbursements to investment funds and the slowdown in initial public offerings (IPOs) as well as mergers and acquisitions. Funds still have substantial amounts of uninvested capital. At the end of 2003, however, there was a partial resumption of IPOs, mergers and acquisitions, and this trend should continue and perhaps even intensify in the next few years.

The average transaction volume of leveraged buyouts also improved, as major companies sold off less strategic operations.

ROLE

The Private Equity group's main objective is to achieve long-term capital appreciation by taking advantage of the expertise and experience of its management teams. Its investments are characterized by a risk-return ratio that is complementary to that of the stock markets, which promotes better diversification of the Caisse's overall portfolio and a higher anticipated long-term return.

The group manages risk primarily through stringent analysis and monitoring of its investments. In addition, private equity is diversified on the basis of industrial sectors, geographic areas, financial products and company development stages. The group also pays particular attention to exit strategies.

The group's managers practice active management by seeking out the best business opportunities in order to surpass their predetermined short-term return thresholds. Over the long term, the results are compared with a market index.

Investments are made directly or indirectly. Direct investments are negotiated by mutual agreement and include both publicly traded and privately held companies. Indirect investments involve investments in merchant banks, limited partnerships, and Canadian and foreign investment funds.

THE J CURVE

The J curve is an industry standard that reflects the expected rate of return on private equity, particularly venture capital investments. The inflexion of the curve is due to the fact that young companies that make up a venture capital portfolio may experience difficulties before their potential translates into higher returns. Once this period has passed, such investments begin to reflect their true value.

That is why private equity does not follow the same return cycle as the stock market. The stock market anticipates economic recovery whereas private companies effect their first IPOs and mergers and acquisitions when the public market is stronger. The return cycle for private equity is therefore not in sync with that of the stock market. Still, it has been demonstrated historically that private equity can generate better returns than public markets over the long term.

HIGHLIGHTS

For the Private Equity group, 2003 was a year of transition and consolidation. On July 1, 2003, the group's investments were divided by investment area into two specialized portfolios: Private Equity and Investments and Infrastructures. Previously, these investments were accounted for in the traditional specialized equity and bond portfolios. The new nomenclature will enable depositors to weigh the importance of these investments against the other specialized portfolios.

As a result of the significant decline in the stock market and the economic slowdown of recent years, private equity investors curtailed their investment activities, especially since companies were more concerned with cleaning up their balance sheets than with raising new funds. In this context, the Private Equity group opted for a cautious strategy of preserving capital and enhancing the value of the investments in the portfolio.

Two events in 2003 are worthy of mention: the agreement for the acquisition of Bombardier Recreational Products and the strategic alliance with the Business Development Bank of Canada, which includes creation of a $300-million investment fund to support the growth of small and medium-sized businesses in Canada. New investments include Les Aliments Multibar, Alimentation Couche-Tard, Innodia, a company specializing in treatments for diabetes, and Evergreen Solar, a world leader in solar energy.

In the fall of 2003, CDP Capital – Americas was assigned responsibility for the Asia portfolio, which had a fair value of $388 million as at December 31, 2003.

Lastly, the Caisse decided to combine the operations of CDP Capital – Communications with those of CDP Capital – Americas, effective January 2004, to pool specific expertise and to maximize synergies and knowledge sharing among the various teams. The Private Equity group now consists of two subsidiaries: CDP Capital – Americas and CDP Capital – Technology Ventures.

SPECIALIZED PORTFOLIOS

SPECIALIZED PRIVATE EQUITY PORTFOLIO

The specialized Private Equity portfolio consists of direct investments, negotiated by in-house teams and indirect investments made through funds, primarily in North America and Europe, and is divided into three investment areas.

Venture-capital investments take the form of shares of companies that are generally not listed on a stock exchange and are in the start-up or early stage of development. This type of investment is attractive for its high potential returns. Investments are usually made in stages, and any additional financing is provided only if the company reaches the agreed-upon objectives. The private equity group can also waive subsequent investments.

47 – RETURN THRESHOLDS FOR THE SPECIALIZED PRIVATE EQUITY PORTFOLIO

Depositors' net assets	Short-term return threshold (Predetermined return threshold)	Long-term return threshold (Recognized index)
$6.11 billion	12% after operating expenses[1]	S&P 600 hedged and adjusted by sector according to predetermined weighting

[1] *This threshold was established to produce value added that exceeds the market index on a five-year horizon.*

48 – RETURN THRESHOLDS FOR THE SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO

Depositors' net assets	Short-term return threshold (Predetermined return threshold)	Long-term return threshold (Recognized index)
$2.66 billion	9% after operating expenses[1]	S&P/TSX composite adjusted for sectors and weighted by market capitalization

[1] This threshold was established to produce value added that exceeds the market index on a five-year horizon.

Leveraged buyouts are high-return investments, typically involving a company that wishes to acquire a controlling interest in a third company that is generally well established and profitable.

Mezzanine debt investments involve an unsecured loan made directly to a company that is usually not listed on the stock exchange. The return on such loans is based on a fixed return to which is added variable compensation.

SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO

The specialized Investments and Infrastructures portfolio is invested primarily in Canada through direct investments as well as debt and equity underwriting to maintain or develop well-established companies in traditional sectors. Since the portfolio's risk level is not as high as that of the specialized Private Equity portfolio, the long- and short-term return thresholds are lower. The portfolio focuses on four types of investment.

Development – Capital investments involve the purchase of shares or bonds issued by an established public or private company seeking to develop through organic growth or an acquisition. This category also includes total or partial buyback of a shareholder's shares for the transfer of ownership.

Debt investments (senior debt) are made directly in a company that usually provides first-ranking guarantees and reimbursement according to the term.

Infrastructure investments involve the purchase of shares or bonds issued by a company created to manage a specific project. This financing is characterized by a lower risk profile because of the stable and predictable nature of long-term revenues.

Accumulation investments involve the purchase of shares in a company that is well known to the investment teams, is listed on a stock exchange and is active in a traditional sector. This activity is intended to take advantage of exceptional market opportunities in targeted sectors that meet the portfolio's long-term objectives.

TOTAL ASSETS UNDER MANAGEMENT

Assets under management in the specialized Private Equity and Investments and Infrastructures portfolios totalled $10.3 billion as at December 31, 2003. The depositors' assets represented $9.9 billion and assets under management and assets under administration, $0.4 billion.

As at December 31, 2003, direct investments represented 72% of the fair value of the Private Equity group's investments, versus 28% for indirect investments, reflecting the high level of active management by the in-house teams.

The value of the group's investments was $9.3 billion as at December 31, 2003, down $2.0 billion from the year-earlier date. The decrease is due to the combined effect of acquisitions valued at $1.6 billion, dispositions valued at $4.0 billion and a $0.4-billion increase in investment value.

49 – TOTAL ASSETS UNDER MANAGEMENT – PRIVATE EQUITY GROUP

fair value as at December 31, 2003 – in billions of dollars

	Depositors' total assets	Assets under management or under administration	Total assets under management	%
Private Equity	6.2	0.4	6.6	64.1
Investments and Infrastructures	3.7	—	3.7	35.9
	9.9	**0.4**	**10.3**	**100.0**

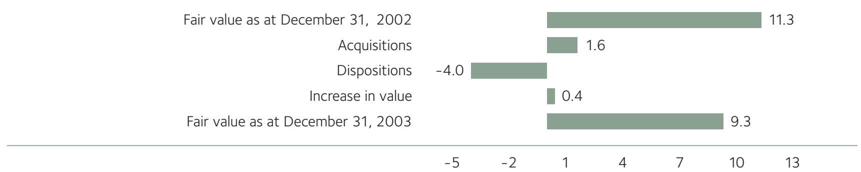
SPECIALIZED PRIVATE EQUITY PORTFOLIO
As at December 31, 2003, the fair value of the investments in the specialized Private Equity portfolio was $5.9 billion, distributed among 577 companies and funds. The portfolio consists mainly of investments in leveraged buyouts and venture capital holdings.

The vast majority of the venture capital investments are the responsibility of CDP Capital – Technology Ventures, while the investments in leveraged buyouts, mezzanine loans, etc. are made primarily by CDP Capital – Communications and CDP Capital – Americas, with 37% and 59% respectively.

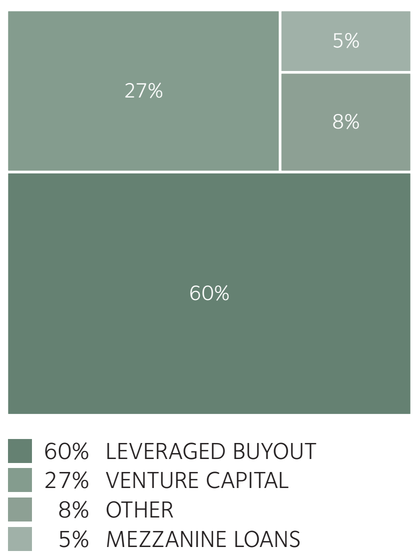
The fair value of investments in Canada totalled nearly $1.9 billion, or 31% of the portfolio, with $1.7 billion, or 28%, invested in Québec companies. For investments outside Canada, which represent 69% of the portfolio, the group's strategy essentially targets two types of investment. Investments are made through venture capital funds and leveraged buyouts or through direct investments in foreign companies, always in partnership with other investors or local funds recognized for their competence and expertise.

As seen in figure 53, the investments in companies that make up this portfolio are committed to numerous sectors, especially the consumer discretionary sector. Investments in private equity funds are not broken down by sector and are presented separately.

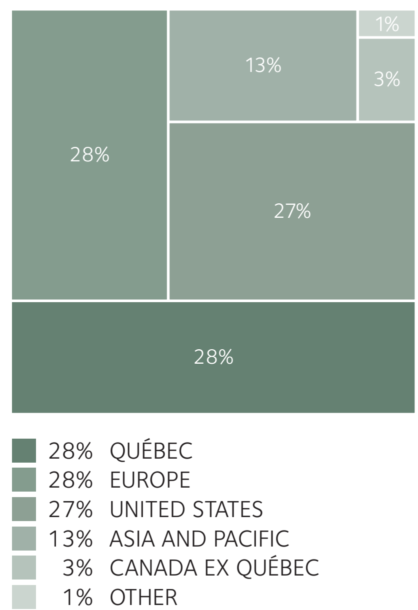
50 – VALUE OF THE INVESTMENTS HELD BY THE PRIVATE EQUITY GROUP
in billions of dollars



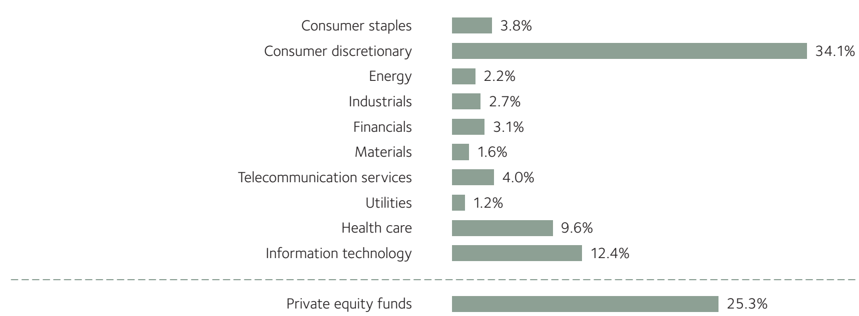
51 – BREAKDOWN OF THE SPECIALIZED PRIVATE EQUITY PORTFOLIO BY INVESTMENT AREA
fair value as at December 31, 2003



52 – GEOGRAPHICAL BREAKDOWN OF THE SPECIALIZED PRIVATE EQUITY PORTFOLIO
fair value as at December 31, 2003



53 – SECTOR BREAKDOWN OF THE SPECIALIZED PRIVATE EQUITY PORTFOLIO
fair value as at December 31, 2003



SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO

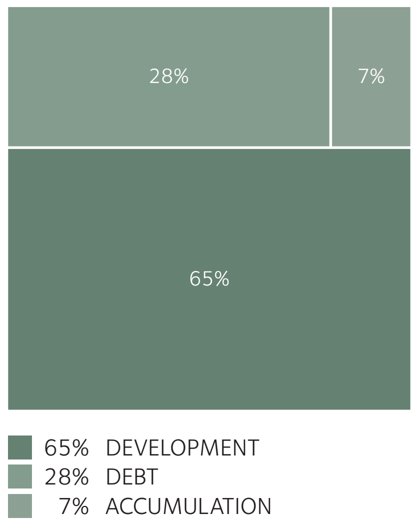
As at December 31, 2003, the fair value of the investments in the specialized Investments and Infrastructures portfolio was $3.4 billion, distributed among 162 companies and funds.

The portfolio is invested primarily in Québec (72%) and geared to development capital and debt for medium-sized and large companies. In the years ahead, investments in infrastructure project financing will take on greater importance.

The specialized Investments and Infrastructures portfolio concentrates primarily on the following sectors: financials, materials, industrials and consumer discretionary.

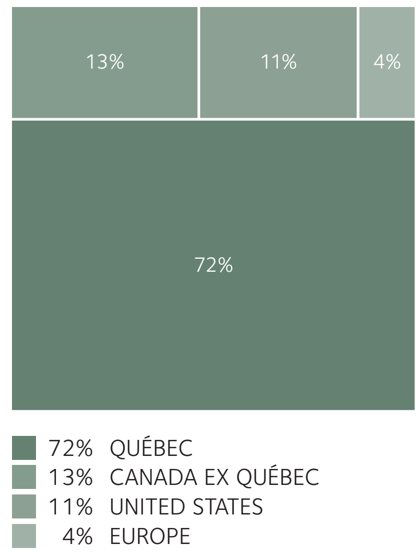
54 – BREAKDOWN OF THE SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO BY INVESTMENT AREA

fair value as at December 31, 2003



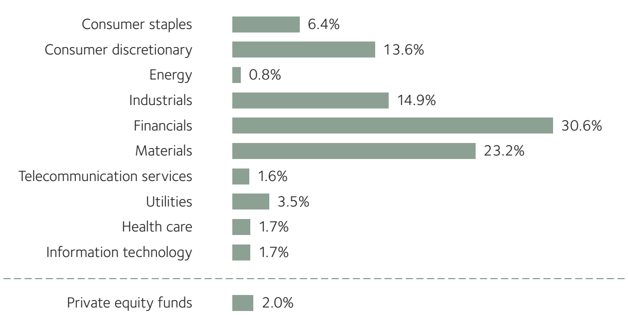
55 – GEOGRAPHICAL BREAKDOWN OF THE SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO

fair value as at December 31, 2003



56 – SECTOR BREAKDOWN OF THE SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO

fair value as at December 31, 2003



ANALYSIS OF RETURNS

As a result of the creation of two specialized portfolios for the Private Equity group in 2003, it is difficult to analyze the returns. For the first six months of 2003, private equity investments were included in the specialized Bonds, Canadian Equity, U.S. Equity and EAFE Foreign Equity and Emerging Markets Equity portfolios, whereas for the second half of the year, they were included in the specialized Investments and Infrastructures and Private Equity portfolios created on July 1, 2003.

Annualized returns by specialized portfolio will be presented in 2004, once they have existed for at least one year.

With all private equity investments combined into a single hypothetical portfolio in 2003, the Private Equity group achieved a return of 19.9% on depositors' net assets allocated to private equity.

This variance in relation to the main stock markets in 2003 demonstrates the historically observed divergence between the progression of listed equities and that of private equity during a recovery. IPOs, mergers and acquisitions, which provide the best opportunities to unlock the value of private equity, have recently intensified, and this phenomenon should continue in 2004.

In 2003, the Private Equity group did, however, achieve positive performances, especially in traditional sectors and communications. The debt portfolio also performed well, primarily because of profit taking associated with a strategy of high-yield bond sales and the fact that no new provisions were needed for debt securities.

The technology sector had a transition year, characterized by a recovery for publicly traded securities and stabilized value for private securities. The investments in this sector saw a significant slowdown in declining values resulting from down-rounds and the lag before private equity benefits from a stock market upturn.

INVESTMENT ANALYSIS AND OPTIMIZATION

The Investment Analysis and Optimization group, created in November 2003, has a mandate to develop the Caisse's own perspective on the state of the financial markets and to derive benefit from it. The group also has the important mission of developing the infrastructure, processes and simulation tools needed to support the investment functions. The group brings together the teams responsible for macroeconomic analysis and information management, management of absolute risk and preservation of capital as well as the dynamic management of active risk. It also includes teams responsible for portfolio management and data reconciliation systems, along with a team that manages external suppliers of brokerage and research services.

The group is slated to take charge of asset allocation activities in 2004. It will therefore act on the Caisse's overall portfolio by seeking to manage absolute risk and to preserve capital. Lastly, it will provide dynamic management of the active risk budget of the Caisse's fund managers.

Analysis of combined financial statements and financing activities

ANALYSIS OF COMBINED FINANCIAL STATEMENTS

The financial statements of the Caisse de dépôt et placement du Québec are combined, which means they include the accounts of subsidiaries controlled by the Caisse, the General Fund, the Individual Funds and the specialized portfolios.

Depositors' holdings presented in the Combined Statement of Net Assets reflect the combination of the net account value of each Caisse depositor.

The combined financial statements are prepared according to generally accepted accounting principles in Canada, as provided for by the Caisse's statute and according to current practices in the field of mutual funds, such as the presentation of these investments at fair value.

As at December 31, 2003, close to 76% of the Caisse's investments, mainly those in liquid markets, are evaluated on the basis of quoted market prices from organized or recognized financial markets.

Approximately 24% of investments involve private equities and real estate investments for which the fair value is determined by following a valuation process that corresponds to the best practices in their respective industries. This process is reviewed annually and requires the participation of internal managers, as well as valuators and independent professionals. The work and findings of the latter are reviewed by the Caisse's Audit Committee in the case of private equity and, for real estate investments, by the Audit Committee of each subsidiary.

CHANGES IN TOTAL ASSETS

Depositors' total assets grew from $107.4 billion to $118.8 billion, an increase of $11.4 billion. This is essentially due to the positive variation of $12.2 billion of the "Investments" item and the net reduction of $0.8 billion of the other asset items. Table 57 shows that the proportion of fixed-income securities increased considerably, growing from 44.5% as at December 31, 2002 to 51.2% as at December 31, 2003 while, for the same period, the proportion of stocks and convertible securities and

INVESTMENT VALUATION PROCESS

LIQUID INVESTMENTS

The fair value of investments is established by means of valuation methods used in capital markets, such as the discounting of future cash flows at the current interest rate, the closing prices of major stock exchanges, as well as those provided by recognized securities brokers.

PRIVATE EQUITY

The fair value of investments in private equity is established annually on December 31. The valuation is based on an institutional policy and is first determined by the managers responsible for the files concerned. It is then approved by the senior managers of the Private Equity group.

Investments for which the fair value is higher than a pre-established material threshold must be submitted to an independent valuation committee that includes external auditors of the subsidiary and the Auditor General of Québec. Given the specialized nature of private equity investments, several valuating committees exist. These committees, which report to the Caisse's Audit Committee, are composed of valuation professionals. The annual valuation process is supplemented internally by periodic valuations and as events occur.

REAL ESTATE INVESTMENTS

For the specialized Real Estate portfolio, external chartered appraisers certify the fair value of real estate assets. For other real estate investments, fair value is usually determined by externalmanagers and, for debt associated with real estate investments, by internal managers. In both cases, the subsidiaries' external auditors participate in the review of the fair values. As part of its audit of the Caisse's books and accounts, the Auditor General of Québec relies on the work of external auditors.

In the case of the specialized Mortgages portfolio, the fair value of mortgage loans and subordinate debt is established according to the discounted value of future contractual cash flows at the market interest rate. This is the rate that can be obtained for loans or securities with similar conditions and maturity dates. In situations where cash flow spread cannot be estimated reasonably and reliably, the fair value corresponds either to the fair value of any asset given as collateral for the security, after deductingforeseeable realization costs and any amount legally owed to the borrowers, or to the security's market price.

57 – GEOGRAPHICAL BREAKDOWN OF INVESTMENTS (BEFORE AMOUNTS TO BE RECEIVED FROM INVESTMENTS)

in billions of dollars unless otherwise specified

				2003				2002
	Canada	International	Total	%	Canada	International	Total	%
Fixed-income securities	52.7	5.4	58.1	51.2	38.9	5.4	44.3	44.5
Equities and convertible securities	16.7	24.8	41.5	36.6	16.1	22.4	38.5	38.6
Real estate assets	8.9	5.0	13.9	12.2	9.1	7.7	16.8	16.9
	78.3	35.2	113.5	100	64.1	35.5	99.6	100
Geographic distribution	69.0 %	31.0 %	100.0 %		64.0 %	36.0 %	100.0 %	

that of real estate assets decreased to 36.6% (38.6% as at December 31, 2002) and 12.2% (16.9% as at December 31, 2002), respectively.

From a geographical point of view, 69% of the Caisse's investments came from Canadian issuers as at December 31, 2003, compared to 64% at the end of the previous year.

Investment activities may engender borrowing or other commitments of amounts payable, such as securities sold under buyback agreements, short selling of securities, or mortgage loans for real estate investments. These liabilities are related to investments and, in many cases, provide good leverage to increase investment revenue through a judicious use of financial instruments, in order to secure financing costs that are lower than the returns realized on the investments. As at December 31, 2003, total liabilities were $29.4 billion, down $0.3 billion compared to the previous fiscal year. This decrease is mainly explained by a decrease in short-selling activity.

DEPOSITORS' HOLDINGS (NET ASSETS)

The $11.7 billion increase in depositors' holdings comes from $11.5 billion in investment activities and $0.2 billion of depositors' net contributions, compared to $1.0 billion in 2002.

COMBINED EARNINGS

Combined earnings for 2003 reached $11.5 billion, compared to a net loss of $8.6 billion in 2002. The performance in 2003 results from $3.5 billion in net investment income, $2.3 billion in net gains from the sale of investments and a $5.7 billion net unrealized increase in the value of investments. In comparison, the loss in 2002 was due to the combined effect of net losses of $6.1 billion upon the sale of investments and a net unrealized decrease in the value of investments of $6.0 billion, partially compensated by net investment income of $3.5 billion.

In 2003, investment income reached $2.1 billion for fixed-income securities and $1.5 billion for variable-income securities, compared to $2.3 billion and $1.4 billion in 2002, respectively. The spreads observed between 2003 and 2002 are due to a variation in the average volume of investments. Gains from the sale of investments reached $736 million for fixed-income securities and $1.6 billion for variable-income securities, compared to gains of $261 million and losses of $6.3 billion in 2002, respectively.

The net unrealized increase in the value of investments rose to $5.7 billion, composed of a decrease in value of $858 million for fixed-income securities and an increase in value of $6.6 billion for variable-income and other securities. In 2002, the net unrealized decrease in value of investments was $6.0 billion, an increase in value of $753 million for fixed-income securities and a decrease in value of $6.8 billion for variable-income and other securities. The spreads observed between 2003 and 2002 can be explained mainly by the general recovery of financial markets in 2003.

Total operating expenses of the Caisse reached $205 million in 2003, compared to $258 million in 2002. However, 2002 expenses included non-recurring restructuring costs of $37 million. On a recurring basis, operating expenses decreased by 7.2%, compared to the previous year.

ANALYSIS OF OPERATING EXPENSES

The Caisse's operating expenses group together management and administrative expenses related to portfolio management. They exclude operating expenses related to real estate property and the real estate holdings of the Caisse's three real estate subsidiaries. However, the operating expenses related to the team that oversees the management of the Caisse's Real Estate portfolio are included, as this team's main mandate is to secure a return on the management of the specialized Real Estate portfolio, unlike the mandate of the real estate subsidiaries, which involves achieving a return on the operations of their respective real estate holdings.

The Caisse's operating expenses amounted to $205 million in 2003, down $16 million in comparison to the recurring operating expenses of 2002 and down $53 million in comparison to the total operating expenses of 2002. The 2002 operating expenses included non-recurring restructuring costs of $37 million.

This favourable spread of $16 million in terms of recurring operating expenses can be explained by a reduction in personnel, the closing of several foreign offices, the abandonment of asset management activities on behalf of third parties in liquid markets, the slowdown of private equity activities and its impact on professional services and travel expenses.

In addition, operating expenses were unfavourably affected by an increase in information technology, leasing and equipment costs.

OPERATIONAL EFFICIENCY

It is essential that the Caisse ensure the efficiency of operations by periodically reviewing its procedures and by maintaining strict control of operating expenses. The goal of the Caisse's management team is to keep, making due allowances for the composition of investments, operating expenses at a level comparing favourably with asset managers of its size that conduct similar activities.

It is common practice for asset managers to express operating expenses in basis points, that is, expenses in cents incurred to manage $100 of average net assets. However, this measure is not ideally suited to the Caisse, since the institution distinguishes itself from other managers by assuming costs for the active management of a major liability program related to investments and for the management and administration of assets, which are valued at $21.5 billion in the case of external client accounts. As a result, for operating expenses that involve all of its activities, the Caisse expresses its total operating expenses according to the average total assets under management.

Table 58 shows recurring operating expenses expressed in cents per $100 of assets for the years 2002 and 2003.

Expressed per $100 of depositors' average net assets, the Caisse's recurring operating expenses went from 27.3 cents in 2002 to 24.4 cents in 2003. This favourable spread reflects the combined effect of a decrease in total operating expenses and an increase in depositors' average net assets between January 1, 2002 and December 31, 2003.

Expressed per $100 of average total assets under management, the Caisse's recurring operating expenses went from 16.7 cents in 2002 to 15.9 cents in 2003. This favourable spread reflects the combined effect of a decrease in operating expenses, an increase in fees related to the management and administration of holdings under management, and the positive variation of average total assets under management between January 1, 2002 and December 31, 2003.

The Caisse has participated for many years in benchmarking exercises for costs per asset category. In general, the institution maintains costs relatively low, due to its decision to rely on internal management more than other North American managers and the magnitude of its activities, which enables the Caisse to benefit from economies of scale.

58 – RECURRING OPERATING EXPENSES EXPRESSED IN CENTS PER $100 OF ASSETS

(excluding the non-recurrent provision of $37 million for restructuring in 2002)

	2003	2002
For depositors' average net assets	**24.4**	27.3
For average total assets under management	**15.9**	16.7

CDP FINANCIAL FINANCING ACTIVITIES

The role of CDP Financial, a wholly owned subsidiary of the Caisse, is to develop financing programs to respond to the needs of the institution's investment groups, as well as to issue various forms of debt instruments on a continual basis. CDP Financial is also responsible for maintaining relations with ratings agencies and providing them with any information necessary to obtain or maintain a credit rating.

In 2003, the Caisse's Board of Directors authorized a diversified financing program that would enable CDP Financial to borrow an amount not to exceed at any time 7.5% of depositors' net assets. Financing programs issued by CDP Financial are guaranteed by the Caisse de dépôt et placement du Québec.

CDP Financial carried out two financing programs in 2003: a commercial paper program and a program for fixed-rate notes maturing in five years.

In June 2003, CDP Financial began issuing commercial paper on the Canadian market as part of a $3 billion program. As at December 31, 2003, issues outstanding totalled $2.4 billion or 2.7% of depositors' net assets. Figure 59 indicates the average geographical breakdown of the commercial paper issues program in 2003.

In October 2003, the subsidiary launched a first issue of fixed rate notes maturing in five years for a total of $750 million. This issue was part of a medium-term notes program that allowed the subsidiary to issue on the Canadian market fixed – or variable – rate notes with maturities ranging from one to 10 years, for a total amount of $1.5 billion. Figure 60 indicates the geographical breakdown of the October 2003 issue of the program for fixed-rate notes maturing in five years.

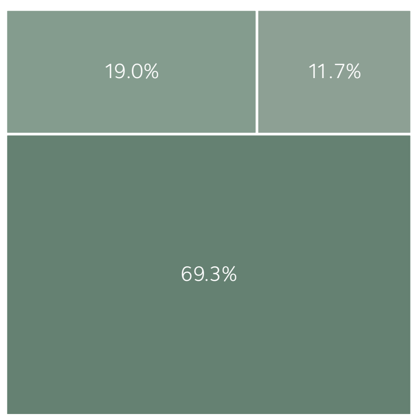
These financing activities enabled the Caisse to diversify its sources of liquidity and to optimize financing costs of part of its operations by substituting a portion of its investment groups' existing debt. The positive impact of these refinancings on the Caisse's borrowing costs translated into major savings for its depositors. In 2004, CDP Financial will continue its mission with the Caisse's investment groups in order to adequately meet their financing needs.

CREDIT RATINGS

CDP Financial has been assigned the highest issuer credit ratings by the credit ratings agencies Dominion Bond Rating Service (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's (S&P).

59 – GEOGRAPHICAL BREAKDOWN OF THE COMMERCIAL PAPER PROGRAM

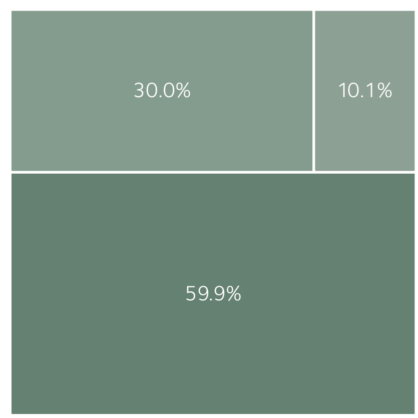
average for the period June to December 2003



69.3% ONTARIO
19.0% QUÉBEC
11.7% WEST

60 – GEOGRAPHICAL BREAKDOWN OF THE PROGRAM FOR FIXED-RATE NOTES MATURING IN FIVE YEARS

as a percentage upon issue



59.9% ONTARIO
30.0% QUÉBEC
10.1% WEST

61 – CDP FINANCIAL'S CREDIT RATINGS

	Short term	Long term
DBRS	R-1 high	AAA
Moody's	Prime-1 (Aaa)	Aaa
S&P	A-1+	AAA
	A-1 high	

Combined financial statements

Management's responsibility for combined financial reporting

The combined financial statements of the Caisse de dépôt et placement du Québec were prepared by management, which is responsible for the integrity and accuracy of such data. This responsibility includes selecting the appropriate accounting policies in accordance with generally accepted accounting principles in Canada. The combined financial statements may contain information based on the management best estimates and judgment and considers their relative importance.

The management is also responsible for the information and declarations disclosed in other sections of the Operations report, and ensures that the financial information presented elsewhere in this annual report is consistent with that shown in the financial statements.

The management maintains internal accounting control systems which are designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded in an appropriate and timely manner, that they are duly authorized and allow for the preparation of reliable financial statements. The internal audit team reviews the internal controls on a regular basis to ensure that they are adequate and applied consistently by the Caisse.

The Caisse is aware of its responsibility to manage its operations in accordance with the rules and regulations that govern the institution.

The Board of Directors supervises the manner in which management assumes its responsibility regarding financial information, and it has approved the combined financial statements. The Board of Directors is assisted by the Audit Committee, of which all members are outside directors. The Audit Committee meets with management and the auditor, examines the financial statements and recommends their approval by the Board of Directors.

The combined financial statements of the Caisse are audited by the Auditor General of Québec, who conducted his audit in accordance with generally accepted auditing standards in Canada. The auditor's report covers the nature and scope of the audit and expresses the auditor's opinion on the financial statements. The Auditor General has unrestricted access to the Audit Committee to discuss any matter relating to his audit.

Henri-Paul Rousseau
Chairman of the Board and
Chief Executive Officer

Ghislain Parent
Executive Vice-President
Finance, Treasury and
Strategic Initiatives

Montréal, February 12, 2004

Auditor's report

To the National Assembly:

I have audited the combined statement of net assets of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 2003, along with the combined statement of income and 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 of these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in Canada. These standards require that I plan and perform an audit in such a way as to obtain reasonable assurance that 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 the significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my opinion, these combined financial statements present fairly, in all material aspects, the financial position of these as at December 31, 2003, as well as the results of their operations and the changes in their net assets for the year then ended, in accordance with accounting principles generally accepted in Canada. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Doris Paradis

Doris Paradis, CA
Acting Auditor General
Québec City
February 12, 2004

Combined statement of net assets

AS AT DECEMBER 31, 2003

(in millions of dollars)	**2003**	2002
ASSETS		
Investments at fair value *(note 3a)*	**116,085**	103,863
Advances to depositors	**987**	1,157
Investment income, accrued and receivable	**802**	764
Transactions being settled	**110**	665
Other assets	**854**	967
	118,838	107,416
LIABILITIES		
Liabilities related to investments *(note 3b)*	**26,125**	27,070
Transactions being settled	**1,604**	854
Other liabilities	**796**	889
Non-controlling interests *(note 3c)*	**915**	921
	29,440	29,734
DEPOSITORS' HOLDINGS *(note 4)*	**89,398**	77,682

COMMITMENTS *(note 10)*

The accompanying notes are an integral part of the combined financial statements.

For the Board of Directors,

Henri-Paul Rousseau

Jean-Claude Bachand

Combined statement of income and changes in net assets

FOR THE YEAR ENDED DECEMBER 31, 2003

(in millions of dollars)	2003	2002
Investment income *(note 5a)*	**3,662**	3,754
Less:		
Operating expenses *(note 6)*	**205**	258
Net investment income	**3,457**	3,496
Gains (losses) on sale of investments *(note 5c)*	**2,324**	(6,068)
Total realized income	**5,781**	(2,572)
Unrealized increase (decrease) in the value of investments and liabilities related to investments *(note 5d)*	**5,743**	(5,981)
Total investment operations	**11,524**	(8,553)
Excess depositors' deposits over withdrawals	**192**	962
INCREASE (DECREASE) IN COMBINED NET ASSETS	**11,716**	(7,591)
COMBINED NET ASSETS, BEGINNING OF YEAR	**77,682**	85,273
COMBINED NET ASSETS, END OF YEAR	**89,398**	77,682

The accompanying notes are an integral part of the combined financial statements.

Combined funds

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2003

1 – CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec, is a legal person within the meaning of the Civil Code, created by a special act (R.S.Q., chapter C-2). It receives funds, the deposit of which is provided under the act. Pursuant to both the federal and provincial income tax acts, the Caisse is not subject to income taxes.

GENERAL FUND (CONSOLIDATED STATEMENTS)
The General Fund is comprised of diversified investments and 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:

	2003		2002	
	Number of units	**%**	Number of units	%
Régie des rentes du Québec				
Fonds du Régime de rentes du Québec	**22,642,577**	**100.0**	21,734,582	98.2
Régime de rentes de survivants	**—**	**—**	396,952	1.8
La Financière agricole du Québec	**—**	**—**	—	—
Office de la protection du consommateur				
Fonds des cautionnements des agents de voyages				
Cautionnements collectifs				
Retailers	**—**	**—**	3,258	—
Cautionnements individuels	**—**	**—**	1,117	—
Magazine Protégez-Vous	**—**	**—**	2,100	—
Régie des marchés agricoles et alimentaires du Québec				—
Fonds d'assurance-garantie	**—**	**—**	5,236	—
Fédération des producteurs de bovins du Québec	**—**	**—**	2,662	—
	22,642,577	**100.0**	22,145,907	100.0

On January 1st, 2003, the share of net assets of the Fédération des producteurs de bovins du Québec, the Régime de rentes des survivants, the Fonds d'assurance-garantie and the Fonds des cautionnements des agents de voyages (cautionnements collectifs détaillants et cautionnements individuels) in the General Fund, which represented a portion of the net holdings of participation deposit holders of such fund, was transferred into individual funds, created at that date for these depositors. The fair value of the net assets transferred, established on December 31, 2002, was $307 million. Depositor Magazine Protégez-Vous cancelled all its General Fund units as at January 1st, 2003.

INDIVIDUAL FUNDS
The individual funds are composed of diversified investments and each fund has only one depositor that exclusively makes participation deposits therein. The various individual funds are:

FUND 301
For the Government and Public Employees Retirement Plan administered by the Commission administrative des régimes de retraite et d'assurances;

FUND 302
For the Pension Plan for Management administered by the Commission administrative des régimes de retraite et d'assurances;

FUND 303
For individual plans 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 306
For the Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec;

FUND 307
For the Société de l'assurance automobile du Québec;

FUND 311
For the Supplemental Pension Plan for Employees of the Québec Construction Industry – general account – administered by the Commission de la construction du Québec;

FUND 312
For the Supplemental Pension Plan for Employees of the Québec Construction Industry – retirees account – administered by the Commission de la construction du Québec;

FUND 313
For the Supplemental Pension Plan for Employees of the Québec Construction Industry – supplementary account – administered by the Commission de la construction du Québec;

FUND 314
For the Régie de l'assurance-dépôts du Québec;

FUND 315
For the Fonds d'assurance-prêts agricoles et forestiers administered by La Financière agricole du Québec;

FUND 316
For the Fonds d'amortissement du régime de retraite – RREGOP administered by the Ministère des Finances, de l'Économie et de la Recherche, Government of Québec;

FUND 317
For the Fonds d'amortissement du régime de retraite – RRPE administered by the Ministère des Finances, de l'Économie et de la Recherche, Government of Québec;

FUND 318
For the Fonds d'amortissement des autres régimes de retraite administered by the Ministère des Finances du Québec;

FUND 325
For the Fonds d'assurance-stabilisation des revenus agricoles administered by La Financière agricole du Québec;

FUND 326
For the Fonds d'assurance récolte administered by La Financière agricole du Québec;

FUND 327
For the Fédération des producteurs de bovins du Québec;

FUND 328
For the Régime de rentes de survivants administered by the Conseil du trésor, Government of Québec;

FUND 329
For the Fonds d'assurance-garantie administered by the Régie des marchés agricoles et alimentaires du Québec;

FUND 330
For the Commission de la santé et de la sécurité du travail;

FUND 332
For the Fonds des cautionnements des agents de voyages – cautionnements individuels, administered by the Office de la protection du consommateur;

FUND 333
For the Fonds des cautionnements des agents de voyages – cautionnements collectifs : détaillants, administered by the Office de la protection du consommateur.

SPECIALIZED PORTFOLIOS
The specialized portfolios are pooled funds for participation deposits of the various Funds. The specialized portfolios are the following:

- Bonds
- Quebec International
- Canadian Equity
- Hedge Fund Partnership Units (consolidated statements) (previously known as Diversified, Strategic and Tactical Investments)
- U.S. Equity – hedged
- U.S. Equity – unhedged
- Emerging Markets Equity
- EAFE Foreign Equity – hedged
- EAFE Foreign Equity – unhedged
- Mortgages (consolidated statements)
- Real Estate (consolidated statements)
- Short-Term Investments
- Asset Allocation and Currencies (created on May 1st, 2003)
- Private Equity (consolidated statements) (created on July 1st, 2003)
- Investments and Infrastructures (consolidated statements) (created on July 1st, 2003)

2 – ACCOUNTING POLICIES

The combined financial statements of the Caisse have been prepared by management in accordance with generally accepted accounting principles in Canada. These statements include amounts based on best judgement and estimates.

A) COMBINED FINANCIAL STATEMENTS
The combined financial statements include the accounts of the Caisse's subsidiaries, along with those of the General Fund, the Individual Funds, and the specialized portfolios. The accounts of each fund and each portfolio are presented in financial statements audited by the Auditor General of Québec.

B) INVESTMENTS AND JOINT OPERATIONS
Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value that would be agreed in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act, established at year-end.

FIXED-INCOME SECURITIES
Fixed-income securities comprise short-term investments, bonds, and mortgages. These securities are recorded as at the commitment date, except mortgages, which are recorded as at the date of agreement.

i) valuation method

The fair value of fixed-income securities is determined by means of valuation methods used in capital markets, such as the annualization of future cash flows at the current interest rate and the closing prices of the major stock exchanges as well as those provided by recognized financial institutions. In addition, certain valuations are made according to commonly used valuation methods, or on the basis of similar arm-length transactions.

ii) investment income and gains and losses on the sale of investments

Investment income from fixed-income securities includes amortization of the premium and the discount, which makes it possible to maintain a constant real return until maturity.

Gains and losses on the sale of investments represent the difference between the unamortized cost and the net realizable fair value on the sale of investments. The unamortized cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments, and is restated in order to take into account amortization of the premium or the discount.

VARIABLE-INCOME SECURITIES

Variable-income securities comprise equities and convertible securities as well as real estate holdings. Equities and convertible securities are recorded as at the commitment date whereas real estate holdings are recorded as at the date of agreement.

i) valuation method

The fair value of equities traded on a stock exchange is determined from the closing prices on major stock exchanges as well as those provided by recognized financial institutions. For equities not traded on a stock exchange and real estate holdings, valuations are made by independent valuators, while others are made according to commonly used valuation methods or on the basis of similar arm's-length transactions. The valuations of equities and convertible securities that are not publicly traded are reviewed annually by an independent valuation committee.

ii) investment income and gains and losses on the sale of investments

Dividend income is recognized on the ex-dividend date. Income from real estate holdings is reduced by operating expenses related to real estate holdings, operation expenses and loan financial expenses under the item Investment income – Variable-income securities.

Gains and losses on the sale of investments represent the difference between the cost and the net realizable value on the sale of investments. The cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments.

DERIVATIVE FINANCIAL INSTRUMENTS

Pursuant to its investment operations management, the Caisse conducts transactions involving various derivative financial instruments in order to manage the risks associated with exchange rate, interest rate and market fluctuations.

Derivative financial instruments whose fair value is favourable are recorded in the item Investments, while those whose fair value is unfavourable are recorded in Liabilities related to investments.

i) valuation method

Derivative financial instruments are recorded at their fair value at year-end. These values are established from closing prices on the major stock exchanges as well as those provided by recognized financial institutions. In the case of unlisted instruments, certain valuations are made on the basis of similar arm's-length transactions, or according to recognized, commonly used models.

ii) investment income and gains and losses on the sale of investments

Investment income from derivative financial instruments is included in Income from fixed-income and variable-income securities, whereas gains and losses relative to derivative financial instruments are included in Gains (losses) on the sale of investments as a function of the underlying investments. As of December 31, 2001, the balance of deferred gains and losses on derivative financial instruments used to hedge foreign exchange risks is recorded in Gains and losses on the sale of investments based on disposal of foreign investments.

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS

The Caisse conducts security borrowing operations involving short-term investments and bonds in order to cover short sales or to generate additional income from security borrowing operations. These security borrowing operations are recorded under Securities acquired under reverse repurchase agreements. Interest earned on reverse repurchase agreements is recorded as interest income under the item Investment income – Fixed-income securities.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Caisse conducts security lending operations involving short-term investments and bonds in order to generate cash flow liquidity or to generate additional income from security lending operations. These security lending operations are recorded under Securities sold under repurchase agreements. Interest paid on repurchase agreements is reduced by Investment income – Fixed-income securities.

SHORT SELLING OF SECURITIES

Short selling of securities represents the commitment by the Caisse to purchase securities that it did not hold at the time of the sale. Interest related to commitments involving short selling of short-term investments and bonds is recorded under Investment income – Fixed-income securities, while costs related to commitments involving short selling of equities are recorded under Investment income – Variable-income securities.

Gains and losses on commitments related to short selling of short-term investments and bonds are recorded in Gains and losses on the sale of investments – Fixed-income securities, while those related to short selling of equities are recorded in Gains and losses on the sale of investments – Variable-income securities.

C) ADMINISTERED PROPERTY AND PROPERTY UNDER MANAGEMENT

Some subsidiaries of the Caisse administer and manage property entrusted to them by clients and on their behalf. This property is not included in the combined statement of net assets of the Caisse. Some subsidiaries of the Caisse receive fees in return for the portfolio management services and administrative services provided, which include administration of real estate properties and management of securitized loans.

D) FOREIGN CURRENCY TRANSLATION

The fair value of investments and any other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

The cost of investments in securities and that of real estate holdings from integrated foreign operations and the unamortized costs of investments in bonds, mortgages and short-term investments are translated at the rate prevailing on the acquisition date. The cost of investments from self-sustaining foreign operations is translated at the rate prevailing at year-end.

Income is translated at the rate of exchange prevailing on the transaction date, with the exception of income from the specialized real estate portfolio which is translated at the average rate for the year-end.

E) LOAN SECURITIZATION

The Caisse periodically securitizes loans by selling loans to a collateralized security entity, which then issues securities to investors. Such transactions are recorded as sales where the Caisse is deemed to have abandoned control over such assets and to have received compensation other than the beneficial rights attached to the assets disposed of, in accordance with Accounting Guideline No.12. At the time of securitization, no beneficial right attached to the securitized loans is retained. Any gains and losses deriving from such transactions are recorded under Gains (losses) on sale of investments – Mortgages.

The Caisse usually continues to manage loans after disposition. Since management fees are established based on market demands, no assets or liabilities under management have been recorded as of the date of disposition.

F) OPERATING EXPENSES

Operating expenses cover all expenses related to investment operations, including expenses paid to external financial institutions, and are presented under a specific item, with the exception of those related to real-estate management and operation expenses, which are deducted from the real-estate holding investment income.

3 – INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A) INVESTMENTS

(in millions of dollars)		2003		2002
	Fair Value	**Cost**	Fair Value	Cost
Fixed-income securities				
Short-term investments				
Canadian	**10,429**	**10,448**	4,427	4,460
Foreign	**912**	**929**	1,245	1,261
	11,341	**11,377**	5,672	5,721
Bonds				
Securities issued or guaranteed by:				
Canadian government	**14,250**	**14,103**	7,650	7,386
Province of Québec	**12,901**	**11,778**	12,919	11,792
Other Canadian provinces	**253**	**244**	271	266
Municipalities and other Canadian bodies	**1,201**	**1,085**	1,377	1,227
Canadian government corporations	**5,576**	**4,739**	5,032	4,200
U.S. government	**1,518**	**1,570**	633	584
Other foreign governments	**931**	**935**	204	180
Mortgage securities	**532**	**529**	97	92
Canadian corporations	**5,138**	**5,092**	3,941	4,044
Foreign corporations	**866**	**1,414**	1,941	2,371
	43,166	**41,489**	34,065	32,142
Mortgages				
Canadian	**3,248**	**3,166**	3,896	3,748
Foreign	**376**	**380**	648	625
	3,624	**3,546**	4,544	4,373
Total fixed-income securities	**58,131**	**56,412**	44,281	42,236
Variable-income securities				
Equities and convertibles securities				
Canadian	**16,703**	**16,577**	16,118	19,407
U.S.	**10,845**	**12,362**	9,720	12,072
Foreign and emerging markets	**11,686**	**11,542**	10,194	11,851
Other	**2,237**	**2,510**	2,472	2,685
	41,471	**42,991**	38,504	46,015
Real estate holdings				
Canadian	**8,859**	**8,848**	9,100	9,360
Foreign	**5,031**	**5,128**	7,665	7,226
	13,890	**13,976**	16,765	16,586
Total variable-income securities	**55,361**	**56,967**	55,269	62,601
Amounts to be received in respect of investments				
Canadian securities acquired under reverse repurchase agreements	**413**	**413**	1,111	1,111
Foreign securities acquired under reverse repurchase agreements	**806**	**816**	2,038	2,011
Amount pertaining to Canadian derivative products	**191**	**10**	202	12
Amount pertaining to foreign derivative products	**1,183**	**356**	962	196
	2,593	**1,595**	4,313	3,330
TOTAL INVESTMENTS	**116,085**	**114,974**	103,863	108,167

B) LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)

	2003		2002	
	Fair Value	**Cost**	Fair Value	Cost
Canadian securities sold under repurchase agreements	**9,567**	**9,566**	9,403	9,401
Foreign securities sold under repurchase agreements	**2,258**	**2,290**	2,161	2,143
Commercial paper payable	**2,376**	**2,376**	—	—
Medium-term note	**752**	**750**	—	—
Canadian loans payable	**420**	**419**	563	565
Foreign loans payable	**34**	**34**	127	137
Canadian commercial mortgage-backed securities	**628**	**599**	646	608
Short selling of Canadian securities	**4,143**	**3,691**	4,421	4,470
Short selling of foreign securities	**342**	**317**	1,553	1,568
Canadian mortgage loans payable	**2,026**	**1,893**	2,422	2,307
Foreign mortgage loans payable	**2,569**	**2,546**	4,035	3,981
Amount pertaining to Canadian derivative products	**103**	**24**	219	36
Amount pertaining to foreign derivative products	**907**	**319**	1,520	164
	26,125	**24,824**	27,070	25,380

C) NON-CONTROLLING INTERESTS

(in millions of dollars)

	2003		2002	
	Fair Value	**Cost**	Fair Value	Cost
Canadian	**400**	**434**	430	489
Foreign	**515**	**340**	491	343
	915	**774**	921	832

D) SUMMARY GEOGRAPHIC BREAKDOWN AT MARKET VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)

	2003			2002		
	Canadian	**Foreign**	**Total**	Canadian	Foreign	Total
Investments						
Fixed-income securities	**52,751**	**5,380**	**58,131**	38,916	5,365	44,281
Equities and convertible securities	**16,703**	**24,768**	**41,471**	16,118	22,386	38,504
Real estate holdings	**8,859**	**5,031**	**13,890**	9,100	7,665	16,765
Amounts to be received in respect of investments	**604**	**1,989**	**2,593**	1,313	3,000	4,313
	78,917	**37,168**	**116,085**	65,447	38,416	103,863
Liabilities related to investments	**20,015**	**6,110**	**26,125**	17,674	9,396	27,070
Non-controlling interests	**400**	**515**	**915**	430	491	921

E) SUMMARY OF MATURITIES OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS AT PAR VALUE

(in millions of dollars)					2003		2002
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effective Interest Rate	Total Par Value	Effective Interest Rate
Fixed-income securities							
Short-term investments							
Canadian	8,892	1,482	120	10,494	3.0%	4,472	3.4%
Foreign	236	353	323	912	4.2%	1,291	5.2%
	9,128	1,835	443	11,406	3.1%	5,763	3.8%
Bonds							
Securities issued or guaranteed by:							
Canadian government	3,958	2,956	6,639	13,553	4.1%	7,049	5.0%
Province of Québec	1,497	2,711	7,213	11,421	6.3%	11,470	6.4%
Other Canadian provinces	—	50	193	243	5.5%	247	5.7%
Municipalities and other Canadian bodies	337	380	329	1,046	7.1%	1,168	7.2%
Canadian government corporations	283	796	3,621	4,700	6.5%	4,230	7.5%
U.S. government	41	370	1,328	1,739	4.6%	826	5.3%
Other foreign governments	59	286	659	1,004	3.5%	308	5.7%
Mortgage securities	3	32	494	529	8.6%	92	7.5%
Canadian corporations	604	2,970	1,277	4,851	5.6%	3,929	6.3%
Foreign corporations	244	314	933	1,491	4.9%	2,272	6.3%
	7,026	10,865	22,686	40,577	5.4%	31,591	6.2%
Mortgages							
Canadian	865	827	1,474	3,166	7.0%	3,748	7.2%
Foreign	267	—	113	380	8.6%	625	9.4%
	1,132	827	1,587	3,546	7.2%	4,373	7.5%
	17,286	13,527	24,716	55,529	5.0%	41,727	6.0%
Amounts to be received in respect of investments							
Canadian securities acquired under reverse purchase agreements	465	—	—	465	2.8%	1,104	2.7%
Foreign securities acquired under reverse purchase agreements	807	—	—	807	0.9%	2,195	1.3%
	1,272	—	—	1,272	1.6%	3,299	1.8%
Liabilities related to investments							
Securities sold under repurchase agreements	11,552	—	—	11,552	2.5%	12,558	2.5%
Commercial paper payable	2,388	—	—	2,388	2.7%	—	—
Medium-term note	—	750	—	750	4.1%	—	—
Loans payable	466	—	—	466	3.1%	701	3.2%
Canadian commercial mortgage-backed securities	18	15	566	599	6.4%	608	6.6%
Short selling of securities	88	207	1,725	2,020	4.8%	2,783	4.4%
Mortgage loans payable	837	2,389	1,285	4,511	6.5%	6,295	6.0%
	15,349	3,361	3,576	22,286	3.7%	22,945	3.8%

The balance of losses on derivative financial foreign exchange risk hedging instruments reported in the cost of investment as of December 31, 2001, was $263 million as at December 31, 2003 ($540 million in 2002).

The fair value of investments in short-term investments, bonds, equities and convertible securities includes investments in private companies, in the amount of $1,061 million, $478 million and $5,710 million respectively as at December 31, 2003 ($1,525 million in short term investments, $771 million in bonds, and $5,373 million in equities and convertible securities in 2002), for which market prices are not available.

In addition, the $2,324 million ($6,068 million of losses in 2002) of gains on the sale of investments presented in the combined statement of changes in net assets includes $1,024 million in foreign exchange gains ($317 million in foreign exchange losses in 2002).

4 – DEPOSITORS' HOLDINGS

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

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 each monthly period for the General Fund and the Individual Funds, the net investment income and gains and losses on the sale of investments are distributed to participation deposit holders. At the beginning of the following period, the amounts distributed are paid out to (recovered from) the depositors' demand deposit accounts.

(in millions of dollars)	**2003**	2002
Caisse's indebtedness towards depositors		
Demand deposits	**36**	155
Term deposits	**18**	23
Interest on demand and term deposits	**(1)**	(1)
Net income to be paid out to participation deposit holders	**184**	195
	237	372
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of period	**84,702**	80,190
Units issued	**3,983**	5,107
Units cancelled	**(1,479)**	(595)
Balance, end of period	**87,206**	84,702
Amount not allocated with respect to real estate holdings*	**47**	56
Unrealized increase (decrease) in value allocated following interfund transactions	**73**	22
Amount not allocated following gains and losses on the sale of investments in the specialized portfolios**	**2,166**	(1,387)
Unrealized increase (decrease) in the value of investments and other related assets and liabilities	**(331)**	(6,083)
	89,161	77,310
DEPOSITORS' HOLDINGS	**89,398**	77,682

** Represents the restated amount of accumulated amortization of real estate properties resulting from the recording of investments at fair value. This amount will be allocated upon the sale of the properties.*

*** Represents the gains and losses on the sale of investments in the specialized portfolios that are not distributed at year-end. This amount will be allocated upon the sale of the participation units in portfolios.*

5 – INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A) INVESTMENT INCOME

(in millions of dollars)	**2003**	2002
Fixed-income securities		
Short-term investments	**249**	208
Bonds	**1,629**	1,856
Mortgages	**267**	259
	2,145	2,323
Variable-income securities		
Equities and convertible securities	**869**	696
Real estate holdings *(note 5b)*	**678**	736
	1,547	1,432
Other income	**33**	56
Non-controlling interests	**(63)**	(57)
	3,662	3,754

B) NET INCOME FROM REAL ESTATE HOLDINGS

(in millions of dollars)	**2003**	2002
Income from real estate holdings	**2,163**	2,360
Less:		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	**1,085**	1,166
Operation expenses	**51**	66
Loan financial expenses	**356**	403
	1,492	1,635
Other income	**7**	11
	678	736

C) GAINS (LOSSES) ON SALE OF INVESTMENTS

(in millions of dollars)	**2003**	2002
Fixed-income securities		
Short-term investments	**(101)**	186
Bonds	**740**	66
Mortgages	**97**	9
	736	261
Variable-income securities		
Equities and convertible securities	**1,135**	(6,317)
Real estate holdings	**458**	(10)
	1,593	(6,327)
Non-controlling interest	**(5)**	(2)
	2,324	(6,068)

D) UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	**2003**	2002
Fixed-income securities		
Short-term investments	**(108)**	164
Bonds	**(632)**	524
Mortgages	**(93)**	76
Securities acquired under reverse repurchase agreements	**(25)**	(11)
	(858)	753
Variable-income securities		
Equities and convertible securities	**6,367**	(6,185)
Real estate holdings	**(103)**	(226)
	6,264	(6,411)
Total investments	**5,406**	(5,658)
Less		
Liabilities related to investments		
Medium-term note	**2**	—
Loans payable	**13**	(2)
Commercial mortgage-backed securities	**(9)**	22
Securities sold under repurchase agreements	**(51)**	(8)
Short selling of securities	**541**	(352)
Mortgage loans payable	**(13)**	93
Derivative financial instruments	**(872)**	550
Non-controlling interests	**52**	20
	(337)	323
	5,743	(5,981)

6 – OPERATING EXPENSES

(in millions of dollars)	**2003**	2002
Salaries and employee benefits	**101**	101
Professional fees	**42**	48
Premises and equipment	**13**	8
Depreciation of fixed assets	**20**	19
External – management and safekeeping of securities	**16**	14
Other	**13**	31
	205	221
Reorganization costs *(note 7)*	**—**	37
	205	258

The Caisse changed the presentation of operating expenses in 2003. First, management and administration expenses, which were previously presented separately, are now reported together under Operating expenses. Secondly, operation expenses incurred directly by the real estate subsidiaries are charged against income from real estate holdings, while operation expenses incurred by the Caisse for the management of real estate and mortgage portfolios are now included in operating expenses. Figures for the year 2002 were reclassified in order to conform to the new presentation.

7 – REORGANIZATION COSTS

The combined results for 2002 include reorganization costs in the amount of $37 million charged to operating expenses. These costs derive from the reorganization of investment operations, corporation functions and institutional services carried out in December 2002. Costs include termination allowances, professional services, including consultant contracts cancelled due to the downsizing of some foreign operations, professional services in connection with the corporate appraisal process, and other costs, such as lease and equipment rental contracts cancelled. The year-end residual balance as at December 31, 2003 is recorded under Other liabilities in the combined statement of net assets.

(in millions of dollars)

	Reorganization costs incurred	Amount Paid	Residual balance at Dec. 31, 2003	Residual balance at Dec. 31, 2002
Termination allowances	11	11	—	10
Other termination allowances for permanent and contractual employees due to downsizing some foreign operations	11	8	3	11
Professional fees	10	8	2	9
Other	5	2	3	4
	37	29	8	34

8 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates as a function of the underlying security, and which do not require holding or delivery of the underlying good itself. The underlying good may be of a financial nature (interest rate, foreign currency, stock market security, or index) or a commodity (precious metal, foodstuff, oil).

The notional amount of a derivative financial instrument represents the value of the theoretical capital to which a rate or a price applies in order to determine the exchange of future financial returns, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include those described below:

Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying good, the quantity and price of which are determined in the contract by a predetermined delivery date. A forward contract involves customized conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.

A swap is a transaction whereby two parties agree to exchange financial returns on predetermined conditions that include a notional amount and a term.

An option is a contract negotiated by mutual agreement or traded on an organized market, that gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies as well as related derivative financial instruments. In order to manage the exchange risk, the Caisse uses instruments negotiated with banks; maturities generally range from one to three months in the case of forward exchange contracts and options, and from one to two years for foreign currency swaps. Upon maturity, new derivative financial instruments are negotiated in order to maintain effective long-term management of foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

Moreover, swaps, futures contracts and options negotiated with counterparties are also used to manage the interest rate and market risks of the total investment portfolio, as well as to generate additional income or expenses, which is included under Investment income from fixed-income and variable-income securities.

These transactions are negotiated with counterparties whose credit rating is established by a recognized credit rating agency and operational limits are duly approved by management, which supports signing compensation agreements in order to limit credit risks.

A) SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)

	2003				2002
		Fair Value			
	Notional amount	Assets	Liabilities	Net amount	Net amount
Foreign exchange risk management					
Foreign currency swaps	465	3	106	(103)	(217)
Forward contracts	14,681	387	86	301	(630)
Over-the-counter foreign currency options					
Purchases	1,026	60	—	60	5
Sales	420	—	47	(47)	(4)
	16,592	450	239	211	(846)
Interest rate and market risk management					
Interest rate and foreign currency swaps	44,006	176	360	(184)	(133)
Equity swaps	5,462	168	1	167	17
Forward contracts	18,170	218	175	43	291
Futures contracts	12,331	—	—	—	—
Exchange-traded options					
Purchases	2,746	5	—	5	19
Sales	5,373	—	5	(5)	(15)
Over-the-counter options					
Purchases	50,540	357	—	357	218
Sales	36,563	—	230	(230)	(126)
	175,191	924	771	153	271
Total derivative financial instrument contracts	191,783	1,374	1,010	364	(575)

B) SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS MATURITIES

(in millions of dollars)

				2003	2002
				Notional Amount – Maturity	Notional Amount
	Less than 2 years	**2 to 5 years**	**More than 5 years**	**Total**	
Foreign exchange risk management					
Foreign currency swaps	**20**	**96**	**349**	**465**	570
Forward contracts	**14,681**	**—**	**—**	**14,681**	28,425
Over-the-counter foreign currency options					
Purchases	**1,011**	**15**	**—**	**1,026**	712
Sales	**420**	**—**	**—**	**420**	499
	16,132	**111**	**349**	**16,592**	30,206
Interest rate and market risk management					
Interest rate and foreign currency swaps	**7,758**	**8,390**	**27,858**	**44,006**	29,659
Equity swaps	**2,984**	**2,474**	**4**	**5,462**	4,057
Forward contracts	**18,170**	**—**	**—**	**18,170**	22,972
Futures contracts	**11,991**	**340**	**—**	**12,331**	22,062
Exchange-traded options					
Purchases	**2,746**	**—**	**—**	**2,746**	5,529
Sales	**5,373**	**—**	**—**	**5,373**	15,599
Over-the-counter options					
Purchases	**45,910**	**2,089**	**2,541**	**50,540**	20,845
Sales	**33,994**	**1,473**	**1,096**	**36,563**	13,282
	128,926	**14,766**	**31,499**	**175,191**	134,005
Total derivative financial instrument contracts	**145,058**	**14,877**	**31,848**	**191,783**	164,211

9 – SECURITIZATION

During the year, the Caisse securitized commercial mortgages in the amount of $1,392.8 million through the issuance of commercial mortgage-backed securities ($335.5 million in 2002). Some of these loans do not respect all of the criteria for transfers of receivables set out in the Accounting Guideline No. 12; therefore, the corresponding assets and liabilities are presented in the combined statement of net assets, for an amount of $31.2 million, under Mortgages and Commercial mortgage-backed securities. Commercial mortgage-backed securities in the amount of $1,512.4 million were issued in 2003 ($352.5 million in 2002). The Caisse received net proceeds of $1,493.9 million ($346.1 million in 2002). A net gain of $87.4 million, net of transaction costs, was recorded under Gains (losses) on sale of investments – Mortgages ($7.6 million in 2002).

Commercial mortgage-backed securities acquired by the Caisse are recorded in the combined statement of net assets, Mortgage securities. As at December 31, 2003, these securities amounted to $261.0 million ($34.0 million in 2002). Securitization allowed the Caisse to generate $0.8 million in 2003 ($0.2 million in 2002). No losses are expected due to the nature and quality of the loans.

10 – COMMITMENTS

The Caisse is committed to acquiring investments that will be settled during the coming years, under the terms and conditions of the agreements. As at December 31, 2003, these commitments totalled $4,903 million ($7,255 in 2002).

11 – COLLATERALS

In the normal course of business, the Caisse conducts transactions involving the lending and borrowing of securities in exchange for collaterals or assets with various counterparties, with which clearing agreements have been signed in order to limit credit risk. In its securities-lending operations, the Caisse received assets as collateral. As at December 31, 2003, the Caisse pledged and received as collateral securities and other assets for amounts of $12,315 million ($12,561 million in 2002) and $3,468 million ($5,197 million in 2002) respectively. The amount of the assets pledged as collateral consists of assets with a value of $513 million ($704 million in 2002), which were pledged to participate in clearing and payment systems, and deposited with depositories.

12 – COMPARATIVE FIGURES

Certain figures from the 2002 financial statements have been reclassified in order to conform with the presentation adopted in 2003.

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE FUNDS

(in millions of dollars)

	GENERAL FUNDS		INDIVIDUAL FUNDS							
			301		302		303		305	
NET ASSETS AS AT DECEMBER 31	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
ASSETS										
Investments at fair value										
Bonds	**7,834.9**	6,700.7	**12,665.8**	10,340.2	**2,159.2**	1,550.3	**61.5**	57.6	**36.4**	35.0
Equities and convertible securities	**8,081.4**	7,004.1	**13,774.7**	12,162.7	**2,035.0**	1,932.9	**94.3**	81.2	**55.0**	49.3
Mortgage loans	**578.8**	692.7	**1,264.1**	1,389.8	**196.8**	193.2	**6.5**	5.1	**3.8**	3.1
Real estate investments	**1,905.6**	1,921.8	**2,468.9**	2,743.8	**441.9**	458.0	**16.3**	17.5	**9.9**	10.6
Short-term investments	**1,544.2**	754.9	**1,754.5**	489.9	**256.8**	77.5	**10.6**	2.3	**7.1**	1.4
Demand deposits in the General Fund	**—**	—	**7.0**	10.7	**0.2**	—	**—**	—	**0.2**	—
	19,944.9	17,074.2	**31,935.0**	27,137.1	**5,089.9**	4,211.9	**189.2**	163.7	**112.4**	99.4
Other assets	**3,022.1**	4,373.9	**133.1**	133.0	**22.2**	20.7	**0.7**	0.7	**0.5**	0.4
	22,967.0	21,448.1	**32,068.1**	27,270.1	**5,112.1**	4,232.6	**189.9**	164.4	**112.9**	99.8
LIABILITIES										
Demand and term deposits	**2,944.9**	4,459.2	**—**	—	**—**	0.1	**—**	—	**—**	—
Notes payable	**669.4**	137.5	**1,087.2**	108.4	**173.4**	16.8	**6.4**	0.6	**3.8**	0.4
Derivative financial instruments	**0.4**	6.2	**0.6**	9.4	**0.1**	1.5	**—**	0.1	**—**	—
Other liabilities	**255.8**	241.6	**44.5**	80.4	**13.2**	12.5	**0.3**	0.4	**0.2**	0.3
	3,870.5	4,844.5	**1,132.3**	198.2	**186.7**	30.9	**6.7**	1.1	**4.0**	0.7
PARTICIPATION DEPOSIT HOLDERS' NET HOLDINGS	**19,096.5**	16,603.6	**30,935.8**	27,071.9	**4,925.4**	4,201.7	**183.2**	163.3	**108.9**	99.1
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31										
INCOME										
Investment income										
Bonds	**366.0**	436.8	**618.7**	704.7	**101.2**	101.7	**3.1**	3.9	**1.9**	2.4
Equities and convertible securities	**173.0**	127.4	**305.1**	227.8	**43.6**	34.7	**2.1**	1.5	**1.2**	0.9
Mortgage loans	**51.9**	55.8	**114.2**	110.4	**17.4**	15.1	**0.5**	0.5	**0.3**	0.3
Real estate investments	**147.0**	158.4	**190.5**	224.8	**34.1**	37.6	**1.3**	1.4	**0.7**	0.9
Short-term investments	**28.7**	21.8	**15.6**	4.8	**1.9**	0.7	**0.1**	0.1	**0.1**	—
Demand deposits (advances from) in the General Fund	**—**	—	**(0.2)**	0.1	**—**	—	**—**	—	**—**	—
	766.6	800.2	**1,243.9**	1,272.6	**198.2**	189.8	**7.1**	7.4	**4.2**	4.5
Other income	**3.3**	2.5	**—**	—	**—**	—	**—**	—	**—**	—
Total income	**769.9**	802.7	**1,243.9**	1,272.6	**198.2**	189.8	**7.1**	7.4	**4.2**	4.5
Operating costs	**3.0**	7.4	**—**	—	**—**	—	**—**	—	**—**	—
INCOME BEFORE THE FOLLOWING ITEM	**766.9**	795.3	**1,243.9**	1,272.6	**198.2**	189.8	**7.1**	7.4	**4.2**	4.5
Interest on demand and term deposits	**15.7**	14.7	**—**	—	**—**	—	**—**	—	**—**	—
NET INVESTMENT INCOME	**751.2**	780.6	**1,243.9**	1,272.6	**198.2**	189.8	**7.1**	7.4	**4.2**	4.5
CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31										
INVESTMENT OPERATIONS										
Net investment income	**751.2**	780.6	**1,243.9**	1,272.6	**198.2**	189.8	**7.1**	7.4	**4.2**	4.5
Gains (losses) on sale of investments	**(268.0)**	(55.4)	**(283.5)**	(14.8)	**(100.4)**	(1.3)	**(2.0)**	(0.5)	**(0.8)**	—
Unrealized increase (decrease) in value of investments and liabilities	**2,119.1**	(2,654.4)	**3,012.8**	(3,911.5)	**541.7**	(635.5)	**18.9**	(24.9)	**10.9**	(15.3)
Total investment operations	**2,602.3**	(1,929.2)	**3,973.2**	(2,653.7)	**639.5**	(447.0)	**24.0**	(18.0)	**14.3**	(10.8)
Participation deposits	**373.8**	1,031.1	**851.1**	1,205.2	**182.0**	298.0	**1.0**	5.0	**(1.1)**	7.3
Net income allocated to participation deposit holders	**(483.2)**	(725.2)	**(960.4)**	(1,257.8)	**(97.8)**	(188.5)	**(5.1)**	(6.9)	**(3.4)**	(4.5)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**2,492.9**	(1,623.3)	**3,863.9**	(2,706.3)	**723.7**	(337.5)	**19.9**	(19.9)	**9.8**	(8.0)
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**16,603.6**	18,226.9	**27,071.9**	29,778.2	**4,201.7**	4,539.2	**163.3**	183.2	**99.1**	107.1
CONSOLIDATED NET ASSETS, END OF YEAR	**19,096.5**	16,603.6	**30,935.8**	27,071.9	**4,925.4**	4,201.7	**183.2**	163.3	**108.9**	99.1
INVESTMENTS AND CERTAIN LIABILITIES AT COST AS AT DECEMBER 31										
ASSETS										
Investments										
Bonds	**7,833.0**	7,563.8	**12,076.8**	10,492.4	**2,082.2**	1,623.6	**57.3**	55.7	**34.0**	34.0
Equities and convertible securities	**7,753.0**	7,862.1	**13,288.0**	13,768.1	**1,924.0**	2,179.8	**95.8**	98.0	**55.1**	58.1
Mortgage loans	**560.5**	674.3	**1,225.4**	1,353.4	**191.2**	188.3	**6.2**	4.9	**3.7**	3.0
Real estate investments	**1,727.1**	1,879.1	**2,158.9**	2,598.8	**390.6**	437.6	**14.0**	16.2	**8.7**	10.0
Short-term investments	**1,542.3**	753.9	**1,751.2**	488.0	**256.2**	77.3	**10.5**	2.3	**7.1**	1.3
Demand deposits in the General Fund	**—**	—	**7.0**	10.7	**0.2**	—	**—**	—	**0.2**	—
	19,415.9	18,733.2	**30,507.3**	28,711.4	**4,844.4**	4,506.6	**183.8**	177.1	**108.8**	106.4
LIABILITIES										
Term deposits	**18.2**	23.3	**—**	—	**—**	—	**—**	—	**—**	—
Notes payable	**668.9**	135.8	**1,086.4**	105.7	**173.3**	16.4	**6.4**	0.6	**3.8**	0.4
Derivative financial instruments	**—**	0.5	**—**	—	**—**	—	**—**	—	**—**	—

INDIVIDUAL FUNDS															
306		307		311		312		313		314		315		316	
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
80.6	68.4	1,838.9	1,661.7	903.4	880.1	1,000.3	897.0	377.9	337.3	143.7	130.2	49.8	35.8	2,176.3	1,602.4
59.9	47.7	3,779.2	3,280.8	1,652.4	1,475.0	1,817.3	1,491.2	688.8	560.2	—	—	28.9	20.0	2,325.3	1,838.3
—	—	217.8	272.4	104.7	86.0	114.5	87.0	43.6	32.7	—	—	10.6	5.3	215.6	210.1
7.2	7.7	569.5	590.9	243.1	274.4	255.5	263.1	96.0	98.4	—	0.5	5.5	2.1	379.3	337.7
8.3	2.8	376.0	112.0	175.2	46.9	182.4	54.6	74.5	20.7	152.7	128.4	16.6	27.4	346.3	115.2
—	—	—	—	0.1	—	0.1	—	0.1	—	—	—	—	0.1	0.2	—
156.0	126.6	6,781.4	5,917.8	3,078.9	2,762.4	3,370.1	2,792.9	1,280.9	1,049.3	296.4	259.1	111.4	90.7	5,443.0	4,103.7
0.5	0.5	26.0	25.6	11.7	12.0	12.7	11.9	4.8	4.5	0.8	0.9	0.5	0.4	21.9	18.9
156.5	127.1	6,807.4	5,943.4	3,090.6	2,774.4	3,382.8	2,804.8	1,285.7	1,053.8	297.2	260.0	111.9	91.1	5,464.9	4,122.6
—	—	1.9	1.7	—	—	—	0.1	—	—	—	—	—	—	—	0.1
5.3	0.5	230.4	23.7	103.7	11.0	115.3	11.1	42.8	4.2	10.3	1.0	3.8	0.4	185.2	16.4
—	—	0.1	2.0	0.1	1.0	—	1.0	—	0.4	—	0.1	—	—	0.1	1.4
0.2	0.4	8.9	12.5	2.9	6.0	6.8	6.8	1.3	2.2	0.8	1.0	0.4	0.3	6.7	12.1
5.5	0.9	241.3	39.9	106.7	18.0	122.1	19.0	44.1	6.8	11.1	2.1	4.2	0.7	192.0	30.0
151.0	126.2	6,566.1	5,903.5	2,983.9	2,756.4	3,260.7	2,785.8	1,241.6	1,047.0	286.1	257.9	107.7	90.4	5,272.9	4,092.6
4.1	4.5	93.4	121.6	44.8	62.4	53.7	62.5	18.6	23.3	7.6	8.2	2.5	2.5	97.6	100.3
1.3	0.9	82.5	61.2	35.1	27.5	41.1	27.3	14.6	10.2	—	—	0.6	0.3	47.6	31.6
—	—	19.9	22.2	8.1	7.7	9.5	7.7	3.4	2.9	—	—	0.7	0.4	17.9	15.7
0.5	0.6	44.0	48.4	18.7	22.5	19.7	21.5	7.4	8.0	—	—	0.4	0.2	29.3	27.5
0.1	—	3.4	0.8	1.5	0.4	1.7	0.5	0.6	0.2	4.6	3.2	0.5	0.7	2.9	1.3
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6.0	6.0	243.2	254.2	108.2	120.5	125.7	119.5	44.6	44.6	12.2	11.4	4.7	4.1	195.3	176.4
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6.0	6.0	243.2	254.2	108.2	120.5	125.7	119.5	44.6	44.6	12.2	11.4	4.7	4.1	195.3	176.4
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6.0	6.0	243.2	254.2	108.2	120.5	125.7	119.5	44.6	44.6	12.2	11.4	4.7	4.1	195.3	176.4
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6.0	6.0	243.2	254.2	108.2	120.5	125.7	119.5	44.6	44.6	12.2	11.4	4.7	4.1	195.3	176.4
6.0	6.0	243.2	254.2	108.2	120.5	125.7	119.5	44.6	44.6	12.2	11.4	4.7	4.1	195.3	176.4
(1.2)	0.2	(56.6)	19.9	(26.8)	(3.1)	(58.4)	(1.8)	(17.2)	(1.2)	(1.4)	0.3	(1.8)	(0.1)	(105.6)	(28.3)
12.2	(12.8)	662.6	(1,024.9)	285.9	(441.1)	359.6	(444.8)	127.2	(165.4)	3.2	1.9	7.1	(4.7)	545.8	(526.3)
17.0	(6.6)	849.2	(750.8)	367.3	(323.7)	426.9	(327.1)	154.6	(122.0)	14.0	13.6	10.0	(0.7)	635.5	(378.2)
12.6	14.1	—	—	(58.4)	(19.8)	115.3	147.3	67.4	59.4	25.0	27.5	10.2	3.1	634.5	1,090.3
(4.8)	(6.2)	(186.6)	(274.1)	(81.4)	(117.4)	(67.3)	(117.7)	(27.4)	(43.4)	(10.8)	(11.7)	(2.9)	(4.0)	(89.7)	(148.1)
24.8	1.3	662.6	(1,024.9)	227.5	(460.9)	474.9	(297.5)	194.6	(106.0)	28.2	29.4	17.3	(1.6)	1,180.3	564.0
126.2	124.9	5,903.5	6,928.4	2,756.4	3,217.3	2,785.8	3,083.3	1,047.0	1,153.0	257.9	228.5	90.4	92.0	4,092.6	3,528.6
151.0	126.2	6,566.1	5,903.5	2,983.9	2,756.4	3,260.7	2,785.8	1,241.6	1,047.0	286.1	257.9	107.7	90.4	5,272.9	4,092.6
73.9	63.6	1,671.1	1,524.7	834.1	818.0	919.0	832.4	348.2	313.1	133.8	123.5	47.2	34.3	2,108.3	1,643.3
60.4	58.0	3,682.6	3,772.6	1,645.3	1,728.6	1,814.6	1,812.3	722.1	707.7	—	—	29.8	26.5	2,707.4	2,625.5
—	—	210.8	265.4	101.6	83.5	110.9	84.3	42.2	31.6	—	—	10.3	5.1	209.0	204.2
6.2	7.3	504.5	566.7	213.0	260.7	218.1	242.6	83.1	92.1	—	1.0	5.0	2.1	346.2	334.1
8.3	2.8	375.3	111.5	174.9	46.7	182.0	54.4	74.3	20.7	151.3	126.5	16.6	27.2	345.8	114.8
—	—	—	—	0.1	—	0.1	—	0.1	—	—	—	—	0.1	0.2	—
148.8	131.7	6,444.3	6,240.9	2,969.0	2,937.5	3,244.7	3,026.0	1,270.0	1,165.2	285.1	251.0	108.9	95.3	5,716.9	4,921.9
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5.3	0.5	230.3	23.1	103.7	10.8	115.2	10.9	42.8	4.1	10.3	1.0	3.8	0.4	185.1	16.0
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE FUNDS (continued)

(in millions of dollars)

	INDIVIDUAL FUNDS									
	317		318		325 (inactive since Jan. 31, 03)		326 (created on Nov. 1st, 02)		327 (created on Jan. 1st, 03)	
NET ASSETS AS AT DECEMBER 31	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
ASSETS										
Investments at fair value										
Bonds	**320.4**	239.2	**2,351.9**	1,832.8	**—**	—	**11.5**	7.4	**1.6**	—
Equities and convertible securities	**342.2**	276.0	**2,525.2**	2,144.8	**—**	—	**6.6**	8.0	**0.6**	—
Mortgage loans	**31.7**	31.5	**232.6**	245.1	**—**	—	**1.1**	0.8	**0.2**	—
Real estate investments	**55.9**	53.3	**424.5**	466.0	**—**	1.8	**1.7**	2.1	**0.2**	—
Short-term investments	**49.5**	16.0	**339.6**	98.1	**—**	—	**1.6**	0.4	**0.2**	—
Demand deposits in the General Fund	**—**	—	**0.2**	—	**0.1**	—	**0.1**	—	**—**	—
	799.7	616.0	**5,874.0**	4,786.8	**0.1**	1.8	**22.6**	18.7	**2.8**	—
Other assets	**3.2**	2.9	**24.0**	23.2	**—**	0.4	**0.6**	0.1	**—**	—
	802.9	618.9	**5,898.0**	4,810.0	**0.1**	2.2	**23.2**	18.8	**2.8**	—
LIABILITIES										
Demand and term deposits	**—**	—	**—**	0.1	**—**	—	**—**	—	**—**	—
Notes payable	**27.2**	2.5	**199.9**	19.1	**—**	—	**0.7**	0.1	**0.1**	—
Derivative financial instruments	**—**	0.2	**0.1**	1.7	**—**	—	**—**	—	**—**	—
Other liabilities	**1.0**	1.8	**6.4**	14.0	**0.1**	—	**—**	—	**—**	—
	28.2	4.5	**206.4**	34.9	**0.1**	—	**0.7**	0.1	**0.1**	—
PARTICIPATION DEPOSIT HOLDERS' NET HOLDINGS	**774.7**	614.4	**5,691.6**	4,775.1	**—**	2.2	**22.5**	18.7	**2.7**	—
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31										
INCOME										
Investment income										
Bonds	**14.6**	15.2	**111.5**	121.2	**—**	0.1	**0.4**	0.1	**0.1**	—
Equities and convertible securities	**7.1**	4.8	**54.3**	39.0	**—**	—	**0.2**	—	**—**	—
Mortgage loans	**2.7**	2.4	**20.4**	19.1	**—**	—	**0.1**	—	**—**	—
Real estate investments	**4.3**	4.3	**32.8**	38.1	**—**	—	**—**	—	**—**	—
Short-term investments	**0.4**	0.2	**3.0**	0.9	**—**	—	**0.1**	—	**—**	—
Demand deposits (Advances from) in the General Fund	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
	29.1	26.9	**222.0**	218.3	**—**	0.1	**0.8**	0.1	**0.1**	—
Other income	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Total income	**29.1**	26.9	**222.0**	218.3	**—**	0.1	**0.8**	0.1	**0.1**	—
Operating costs	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
INCOME BEFORE THE FOLLOWING ITEM	**29.1**	26.9	**222.0**	218.3	**—**	0.1	**0.8**	0.1	**0.1**	—
Interest on demand and term deposits	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
NET INVESTMENT INCOME	**29.1**	26.9	**222.0**	218.3	**—**	0.1	**0.8**	0.1	**0.1**	—
CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31										
INVESTMENT OPERATIONS										
Net investment income	**29.1**	26.9	**222.0**	218.3	**—**	0.1	**0.8**	0.1	**0.1**	—
Gains (losses) on sale of investments	**(17.0)**	(4.2)	**(166.6)**	(51.3)	**(0.4)**	(2.9)	**(2.1)**	—	**(0.1)**	—
Unrealized increase (decrease) in value of investments and liabilities	**82.3**	(80.0)	**658.1**	(624.1)	**0.4**	3.3	**3.8**	0.1	**0.3**	—
Total investment operations	**94.4**	(57.3)	**713.5**	(457.1)	**—**	0.5	**2.5**	0.2	**0.3**	—
Participation deposits	**78.0**	136.5	**258.4**	507.7	**(2.6)**	(1.1)	**—**	18.6	**2.4**	—
Net income allocated to participation deposit holders	**(12.1)**	(22.7)	**(55.4)**	(167.0)	**0.4**	2.8	**1.3**	(0.1)	**—**	—
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**160.3**	56.5	**916.5**	(116.4)	**(2.2)**	2.2	**3.8**	18.7	**2.7**	—
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**614.4**	557.9	**4,775.1**	4,891.5	**2.2**	—	**18.7**	—	**—**	—
CONSOLIDATED NET ASSETS, END OF YEAR	**774.7**	614.4	**5,691.6**	4,775.1	**—**	2.2	**22.5**	18.7	**2.7**	—
INVESTMENTS AND CERTAIN LIABILITIES AT COST AS AT DECEMBER 31										
ASSETS										
Investments										
Bonds	**310.8**	246.1	**2,291.8**	1,904.3	**—**	—	**11.5**	9.2	**1.7**	—
Equities and convertible securities	**406.8**	401.7	**3,135.2**	3,248.5	**—**	—	**7.4**	9.9	**0.7**	—
Mortgage loans	**30.7**	30.6	**224.6**	237.3	**—**	—	**1.0**	0.9	**0.1**	—
Real estate investments	**50.5**	52.3	**377.5**	449.5	**—**	2.2	**1.6**	2.7	**0.2**	—
Short-term investments	**49.4**	15.9	**338.9**	97.5	**—**	—	**1.6**	0.5	**0.2**	—
Demand deposits in the General Fund	**—**	—	**0.2**	—	**0.1**	—	**0.1**	—	**—**	—
	848.2	746.6	**6,368.2**	5,937.1	**0.1**	2.2	**23.2**	23.2	**2.9**	—
LIABILITIES										
Term deposits	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Notes payable	**27.2**	2.4	**199.8**	18.6	**—**	—	**0.8**	0.1	**0.1**	—
Derivative financial instruments	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—

INDIVIDUAL FUNDS									
328		329		330		332		333	
(created on Jan. 1st, 03)		(created on Jan. 1st, 03)				(created on Jan. 1st, 03)		(created on Jan. 1st, 03)	
2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
145.7	—	**3.1**	—	**1,614.3**	1,402.5	**0.6**	—	**1.6**	—
136.5	—	**0.4**	—	**4,581.9**	4,193.0	**0.2**	—	**0.7**	—
10.3	—	**0.3**	—	**191.4**	235.9	**—**	—	**0.2**	—
25.4	—	**0.5**	—	**663.6**	758.6	**0.1**	—	**0.2**	—
22.3	—	**0.6**	—	**429.7**	120.3	**0.1**	—	**0.2**	—
—	—	**—**	—	**—**	0.5	**—**	—	**—**	—
340.2	—	**4.9**	—	**7,480.9**	6,710.8	**1.0**	—	**2.9**	—
1.4	—	**—**	—	**27.5**	27.6	**0.1**	—	**—**	—
341.6	—	**4.9**	—	**7,508.4**	6,738.4	**1.1**	—	**2.9**	—
0.2	—	**—**	—	**13.0**	—	**—**	—	**—**	—
11.6	—	**0.2**	—	**257.5**	26.9	**0.1**	—	**0.1**	—
—	—	**—**	—	**0.2**	2.3	**—**	—	**—**	—
0.7	—	**—**	—	**25.7**	9.5	**—**	—	**—**	—
12.5	—	**0.2**	—	**296.4**	38.7	**0.1**	—	**0.1**	—
329.1	—	**4.7**	—	**7,212.0**	6,699.7	**1.0**	—	**2.8**	—
7.2	—	**0.1**	—	**79.7**	106.5	**—**	—	**0.1**	—
3.0	—	**0.1**	—	**98.9**	77.2	**—**	—	**—**	—
0.9	—	**—**	—	**17.1**	20.2	**—**	—	**—**	—
1.8	—	**—**	—	**51.2**	62.3	**—**	—	**—**	—
0.3	—	**—**	—	**4.0**	1.1	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—
13.2	—	**0.2**	—	**250.9**	267.3	**—**	—	**0.1**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—
13.2	—	**0.2**	—	**250.9**	267.3	**—**	—	**0.1**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—
13.2	—	**0.2**	—	**250.9**	267.3	**—**	—	**0.1**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—
13.2	—	**0.2**	—	**250.9**	267.3	**—**	—	**0.1**	—
13.2	—	**0.2**	—	**250.9**	267.3	**—**	—	**0.1**	—
(17.2)	—	**(0.7)**	—	**(151.7)**	(25.5)	**(0.2)**	—	**(0.3)**	—
49.1	—	**1.0**	—	**844.3**	(1,317.9)	**0.3**	—	**0.5**	—
45.1	—	**0.5**	—	**943.5**	(1,076.1)	**0.1**	—	**0.3**	—
280.0	—	**3.7**	—	**(332.0)**	(18.4)	**0.7**	—	**2.3**	—
4.0	—	**0.5**	—	**(99.2)**	(241.8)	**0.2**	—	**0.2**	—
329.1	—	**4.7**	—	**512.3**	(1,336.3)	**1.0**	—	**2.8**	—
—	—	**—**	—	**6,699.7**	8,036.0	**—**	—	**—**	—
329.1	—	**4.7**	—	**7,212.0**	6,699.7	**1.0**	—	**2.8**	—
164.6	—	**2.9**	—	**1,489.4**	1,293.6	**0.5**	—	**1.5**	—
146.6	—	**0.3**	—	**4,805.4**	5,198.1	**0.3**	—	**0.7**	—
9.6	—	**0.3**	—	**184.7**	228.9	**—**	—	**0.2**	—
21.7	—	**0.4**	—	**587.9**	726.9	**0.1**	—	**0.2**	—
22.3	—	**0.7**	—	**429.0**	119.9	**0.1**	—	**0.2**	—
—	—	**—**	—	**—**	0.5	**—**	—	**—**	—
364.8	—	**4.6**	—	**7,496.4**	7,567.9	**1.0**	—	**2.8**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—
11.6	—	**0.2**	—	**257.3**	26.2	**0.1**	—	**0.1**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS

(in millions of dollars)

	BONDS		QUEBEC INTERNATIONAL		CANADIAN EQUITY		HEDGE FUND PARTNERSHIP UNITS[1]	
NET ASSETS AS AT DECEMBER 31	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
ASSETS								
Investments at fair value								
Bonds	**37,739.4**	30,203.9	**5,054.2**	4,131.5	**—**	310.0	**—**	—
Equities and convertible securities	**—**	—	**811.5**	758.1	**13,165.0**	18,424.9	**891.0**	973.0
Mortgage loans	**—**	—	**—**	—	**—**	—	**—**	—
Mortgage securities	**—**	—	**—**	—	**—**	—	**—**	—
Real estate holdings	**—**	—	**—**	—	**—**	—	**—**	—
Short-term investments	**1,747.3**	1,787.5	**1,200.2**	970.7	**4,849.2**	3,692.6	**667.6**	103.4
Demand deposits in the General Fund	**1,515.9**	3,325.4	**—**	—	**336.2**	—	**27.4**	—
Securities acquired under reverse repurchase agreements	**2,507.7**	3,598.8	**1,015.0**	1,137.6	**—**	—	**—**	—
	43,510.3	38,915.6	**8,080.9**	6,997.9	**18,350.4**	22,427.5	**1,586.0**	1,076.4
Other assets	**603.5**	623.3	**66.6**	613.4	**68.4**	138.2	**1.1**	5.1
	44,113.8	39,538.9	**8,147.5**	7,611.3	**18,418.8**	22,565.7	**1,587.1**	1,081.5
LIABILITIES								
Advances from the General Fund	**—**	—	**1,108.5**	1,751.5	**—**	41.2	**—**	755.6
Deposits on loans of securities	**12,012.5**	11,363.3	**771.2**	730.0	**—**	—	**—**	—
Commitments related to short selling of securities	**2,109.2**	3,013.1	**1.4**	3.1	**2,597.1**	2,782.2	**—**	29.4
Loans and notes payable	**—**	573.6	**—**	—	**—**	—	**—**	—
Mortgage loans payable	**—**	—	**—**	—	**—**	—	**—**	—
Commercial mortgage-backed securities	**—**	—	**—**	—	**—**	—	**—**	—
Derivative financial instruments	**634.0**	1,055.9	**1.0**	22.0	**2.3**	82.9	**631.4**	27.5
Other liabilities	**1,634.5**	818.4	**209.6**	40.5	**230.2**	132.4	**1.7**	15.6
Non-controlling interests	**—**	—	**—**	—	**—**	—	**—**	—
	16,390.2	16,824.3	**2,091.7**	2,547.1	**2,829.6**	3,038.7	**633.1**	828.1
NET HOLDINGS OF FUNDS	**27,723.6**	22,714.6	**6,055.8**	5,064.2	**15,589.2**	19,527.0	**954.0**	253.4
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31								
INCOME								
Investment income								
Bonds	**1,323.9**	1,509.3	**220.9**	252.2	**11.2**	44.5	**—**	—
Equities and convertible securities	**—**	—	**18.7**	12.6	**314.1**	365.2	**—**	19.9
Mortgage loans	**—**	—	**—**	—	**—**	—	**—**	—
Real estate holdings	**—**	—	**—**	—	**—**	—	**—**	—
Short-term investments	**64.6**	91.4	**31.9**	27.0	**134.1**	81.5	**0.9**	2.0
Demand deposits (advances from) in the General Fund	**23.4**	37.4	**(13.5)**	(21.7)	**2.2**	2.2	**(0.7)**	(10.1)
	1,411.9	1,638.1	**258.0**	270.1	**461.6**	493.4	**0.2**	11.8
Other income	**0.8**	14.0	**—**	—	**2.2**	9.6	**—**	0.7
Total income	**1,412.7**	1,652.1	**258.0**	270.1	**463.8**	503.0	**0.2**	12.5
Operation costs	**32.7**	29.9	**2.0**	1.2	**50.8**	79.5	**3.5**	17.6
INCOME BEFORE THE FOLLOWING ITEMS	**1,380.0**	1,622.2	**256.0**	268.9	**413.0**	423.5	**(3.3)**	(5.1)
Interests on notes payable	**9.2**	13.2	**—**	—	**—**	—	**—**	0.4
Non-controlling interests	**—**	—	**—**	—	**—**	—	**—**	—
NET INVESTMENT INCOME (LOSS)	**1,370.8**	1,609.0	**256.0**	268.9	**413.0**	423.5	**(3.3)**	(5.5)
CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31								
INVESTMENT OPERATIONS								
Net investment income (loss)	**1,370.8**	1,609.0	**256.0**	268.9	**413.0**	423.5	**(3.3)**	(5.5)
Gains (losses) on sale of investments	**559.0**	51.6	**1,103.1**	(1,379.5)	**1,129.6**	(2,465.0)	**205.7**	55.1
Unrealized increase (decrease) in value of investments and liabilities	**(126.5)**	502.8	**130.2**	(2.9)	**2,249.0**	(4,538.4)	**(96.1)**	969.9
Total investment operations	**1,803.3**	2,163.4	**1,489.3**	(1,113.5)	**3,791.6**	(6,579.9)	**106.3**	1,019.5
Participation units issued (cancelled)	**5,128.1**	(4,133.0)	**(241.7)**	977.8	**(1,033.6)**	3,611.7	**591.0**	173.9
Transfer from portfolios	**(551.6)**	—	**—**	—	**(6,282.8)**	2,363.4	**—**	(2,363.4)
Net income allocated to participation unit holders	**(1,370.8)**	(1,609.0)	**(256.0)**	(268.9)	**(413.0)**	(423.5)	**3.3**	5.5
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**5,009.0**	(3,578.6)	**991.6**	(404.6)	**(3,937.8)**	(1,028.3)	**700.6**	(1,164.5)
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**22,714.6**	26,293.2	**5,064.2**	5,468.8	**19,527.0**	20,555.3	**253.4**	1,417.9
CONSOLIDATED NET ASSETS, END OF YEAR	**27,723.6**	22,714.6	**6,055.8**	5,064.2	**15,589.2**	19,527.0	**954.0**	253.4
INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31								
ASSETS								
Investments								
Bonds	**35,548.2**	27,529.4	**4,802.9**	3,883.5	**—**	658.4	**—**	—
Equities and convertible securities	**—**	—	**839.7**	880.5	**10,897.8**	23,431.5	**961.2**	959.9
Mortgage loans	**—**	—	**—**	—	**—**	—	**—**	—
Mortgage securities	**—**	—	**—**	—	**—**	—	**—**	—
Real estate holdings	**—**	—	**—**	—	**—**	—	**—**	—
Short-term investments	**1,759.1**	1,775.9	**1,197.0**	970.5	**4,849.2**	3,694.5	**36.2**	65.0
Demand deposits in the General Fund	**1,515.9**	3,325.4	**—**	—	**336.2**	—	**27.4**	—
Securities acquired under reverse repurchase agreements	**2,516.7**	3,568.9	**1,007.3**	1,138.6	**—**	—	**—**	—
	41,339.9	36,199.6	**7,846.9**	6,873.1	**16,083.2**	27,784.4	**1,024.8**	1,024.9
LIABILITIES								
Deposits on loans of securities	**12,042.7**	11,345.8	**771.0**	729.6	**—**	—	**—**	—
Commitments related to short selling of securities	**2,098.3**	2,929.7	**1.3**	3.1	**2,151.6**	2,925.0	**—**	31.3
Loans and notes payable	**—**	573.6	**—**	—	**—**	—	**—**	—
Mortgage loans payable	**—**	—	**—**	—	**—**	—	**—**	—
Commercial mortgage-backed securities	**—**	—	**—**	—	**—**	—	**—**	—
Derivative financial instruments	**311.0**	235.2	**—**	—	**4.0**	2.9	**—**	—
Non-controlling interests	**—**	—	**—**	—	**—**	—	**—**	—

[1] Previously called Diversified strategic and tactical investments

U.S. EQUITY HEDGED		U.S. EQUITY UNHEDGED		EMERGING MARKETS EQUITY		EAFE FOREIGN EQUITY HEDGED		EAFE FOREIGN EQUITY UNHEDGED		MORTGAGES		REAL ESTATE	
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
—	74.4	—	—	—	—	—	90.2	—	—	—	—	16.4	17.5
7,532.2	7,003.3	—	—	962.2	1,081.3	8,608.3	8,352.9	—	—	—	—	2,500.3	1,962.8
—	—	—	—	—	—	—	—	—	—	3,665.4	4,428.9	307.0	389.2
—	—	—	—	—	—	—	—	—	—	394.9	103.1	140.5	174.0
—	—	—	—	—	—	—	—	—	—	10.7	13.9	14,091.1	16,644.4
—	6.7	4,904.4	5,008.0	16.9	—	—	55.4	5,400.4	5,661.7	—	—	107.0	55.3
31.6	343.2	62.7	—	—	46.7	—	604.8	268.6	17.7	—	—	207.3	—
—	—	—	—	—	—	—	—	—	—	—	10.3	—	—
7,563.8	7,427.6	4,967.1	5,008.0	979.1	1,128.0	8,608.3	9,103.3	5,669.0	5,679.4	4,071.0	4,556.2	17,369.6	19,243.2
17.6	32.3	7.5	11.4	5.2	9.6	16.9	105.4	3.9	12.9	64.9	98.3	849.0	928.5
7,581.4	7,459.9	4,974.6	5,019.4	984.3	1,137.6	8,625.2	9,208.7	5,672.9	5,692.3	4,135.9	4,654.5	18,218.6	20,171.7
—	—	—	81.3	5.7	—	132.5	—	—	—	22.1	170.1	—	95.7
—	—	—	—	—	—	341.2	618.5	—	—	—	—	—	—
14.7	0.1	—	—	20.1	—	50.8	136.4	—	—	—	10.3	3.4	—
4,902.7	4,923.8	—	—	—	—	5,319.8	5,451.6	—	—	—	—	3,888.6	3,479.5
—	—	—	—	—	—	—	—	—	—	—	—	4,938.9	6,879.3
—	—	—	—	—	—	—	—	—	—	794.9	831.6	—	—
3.2	119.0	137.8	—	—	7.1	129.2	300.7	153.9	1.4	21.3	84.3	214.5	212.4
17.5	36.2	6.2	8.9	1.9	2.9	53.0	44.1	0.8	1.0	73.0	67.6	687.8	744.2
—	—	—	—	—	—	—	—	—	—	—	—	914.7	921.3
4,938.1	5,079.1	144.0	90.2	27.7	10.0	6,026.5	6,551.3	154.7	2.4	911.3	1,163.9	10,647.9	12,332.4
2,643.3	2,380.8	4,830.6	4,929.2	956.6	1,127.6	2,598.7	2,657.4	5,518.2	5,689.9	3,224.6	3,490.6	7,570.7	7,839.3
5.1	10.1	—	—	—	—	4.1	5.7	—	—	—	—	1.6	1.3
114.9	101.5	—	—	25.5	18.4	268.8	151.5	—	—	—	—	30.0	26.5
—	—	—	—	—	—	—	—	—	—	285.1	284.6	54.6	51.7
—	—	—	—	—	—	—	—	—	—	—	—	547.2	611.9
—	10.5	80.3	82.3	0.4	—	0.1	0.4	191.3	129.4	—	—	22.8	30.7
2.1	2.3	(0.1)	(0.1)	0.1	(0.3)	7.0	18.9	0.1	0.1	4.1	1.0	(1.1)	(3.1)
122.1	124.4	80.2	82.2	26.0	18.1	280.0	176.5	191.4	129.5	289.2	285.6	655.1	719.0
0.3	1.0	—	—	—	0.6	5.3	23.3	—	—	8.0	6.3	—	—
122.4	125.4	80.2	82.2	26.0	18.7	285.3	199.8	191.4	129.5	297.2	291.9	655.1	719.0
6.8	5.6	13.0	11.3	7.4	15.7	9.3	18.2	18.7	38.7	12.1	11.5	7.8	5.8
115.6	119.8	67.2	70.9	18.6	3.0	276.0	181.6	172.7	90.8	285.1	280.4	647.3	713.2
80.3	82.3	—	—	—	—	191.3	129.4	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	63.3	56.8
35.3	37.5	67.2	70.9	18.6	3.0	84.7	52.2	172.7	90.8	285.1	280.4	584.0	656.4
35.3	37.5	67.2	70.9	18.6	3.0	84.7	52.2	172.7	90.8	285.1	280.4	584.0	656.4
165.1	323.8	(377.0)	(1,236.3)	(21.6)	(62.6)	(702.1)	(841.0)	(128.1)	(780.2)	75.0	20.2	481.2	85.4
367.8	(1,101.6)	373.7	(415.8)	257.6	(213.5)	1,028.0	(160.8)	472.7	(544.5)	(32.5)	40.9	9.9	(200.6)
568.2	(740.3)	63.9	(1,581.2)	254.6	(273.1)	410.6	(949.6)	517.3	(1,233.9)	327.6	341.5	1,075.1	541.2
35.1	407.8	512.6	1,018.3	(96.5)	57.9	(53.5)	1,084.6	171.5	541.8	(308.5)	555.8	(759.7)	595.9
(305.5)	—	(607.9)	—	(310.5)	—	(331.1)	—	(687.8)	—	—	—	—	—
(35.3)	(37.5)	(67.2)	(70.9)	(18.6)	(3.0)	(84.7)	(52.2)	(172.7)	(90.8)	(285.1)	(280.4)	(584.0)	(656.4)
262.5	(370.0)	(98.6)	(633.8)	(171.0)	(218.2)	(58.7)	82.8	(171.7)	(782.9)	(266.0)	616.9	(268.6)	480.7
2,380.8	2,750.8	4,929.2	5,563.0	1,127.6	1,345.8	2,657.4	2,574.6	5,689.9	6,472.8	3,490.6	2,873.7	7,839.3	7,358.6
2,643.3	2,380.8	4,830.6	4,929.2	956.6	1,127.6	2,598.7	2,657.4	5,518.2	5,689.9	3,224.6	3,490.6	7,570.7	7,839.3
—	126.8	—	—	—	—	—	113.6	—	—	—	—	13.3	15.4
7,234.7	7,932.1	—	—	794.9	1,459.6	7,777.4	9,635.3	—	—	—	—	2,080.0	1,689.7
—	—	—	—	—	—	—	—	—	—	3,556.5	4,233.4	306.9	369.7
—	—	—	—	—	—	—	—	—	—	389.4	98.4	140.9	174.0
—	—	—	—	—	—	—	—	—	—	16.5	20.1	13,809.1	16,280.1
—	6.7	4,655.2	5,270.3	17.2	—	—	54.9	5,144.2	6,030.6	—	—	107.0	55.3
31.6	343.2	62.7	—	—	46.7	—	604.8	268.6	17.7	—	—	207.3	—
—	—	—	—	—	—	—	—	—	—	—	10.3	—	—
7,266.3	8,408.8	4,717.9	5,270.3	812.1	1,506.3	7,777.4	10,408.6	5,412.8	6,048.3	3,962.4	4,362.2	16,664.5	18,584.2
—	—	—	—	—	—	346.9	614.7	—	—	—	—	—	—
14.4	0.3	—	—	18.7	—	47.2	138.9	—	—	—	9.6	2.9	—
4,655.2	5,270.0	—	—	—	—	5,144.2	6,031.5	—	—	—	—	3,885.1	3,477.5
—	—	—	—	—	—	—	—	—	—	—	—	4,756.3	6,683.2
—	—	—	—	—	—	—	—	—	—	755.7	782.1	—	—
—	0.5	—	—	—	0.1	3.0	—	—	—	21.3	42.7	43.7	28.2
—	—	—	—	—	—	—	—	—	—	—	—	773.9	832.5

SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS (continued)

(in millions of dollars)

	SHORT-TERM INVESTMENTS		ASSET ALLOCATION AND CURRENCIES (created on May 1st, 2003)		PRIVATE EQUITY (created on July 1st, 2003)		INVESTMENTS AND INFRASTRUCTURES (created on July 1st, 2003)	
NET ASSETS AS AT DECEMBER 31	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
ASSETS								
Investments at fair value								
Bonds	—	—	1.2	—	384.4	—	230.0	—
Equities and convertible securities	—	—	33.4	—	5,366.8	—	2,477.7	—
Mortgage loans	—	—	—	—	—	—	—	—
Mortgage securities	—	—	—	—	—	—	—	—
Real estate holdings	—	—	—	—	—	—	—	—
Short-term investments	9,700.6	5,037.7	154.1	—	275.7	—	785.1	—
Demand deposits in the General Fund	—	129.3	129.7	—	118.1	—	152.6	—
Securities acquired under reverse repurchase agreements	1,003.5	—	—	—	—	—	—	—
	10,704.1	5,167.0	318.4	—	6,145.0	—	3,645.4	—
Other assets	269.0	136.9	1.8	—	33.7	—	27.0	—
	10,973.1	5,303.9	320.2	—	6,178.7	—	3,672.4	—
LIABILITIES								
Advances from the General Fund	468.4	—	—	—	—	—	—	—
Deposits on loans of securities	1,996.0	449.7	—	—	—	—	—	—
Commitments related to short selling of securities	29.8	—	35.4	—	15.9	—	44.7	—
Loans and notes payable	6,046.1	2,824.0	—	—	0.8	—	949.8	—
Mortgage loans payable	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—
Derivative financial instruments	4.8	1.3	143.8	—	46.8	—	11.4	—
Other liabilities	20.1	409.2	0.6	—	20.4	—	6.0	—
Non-controlling interests	—	—	—	—	—	—	—	—
	8,565.2	3,684.2	179.8	—	83.9	—	1,011.9	—
NET HOLDINGS OF FUNDS	2,407.9	1,619.7	140.4	—	6,094.8	—	2,660.5	—
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31								
INCOME								
Investment income								
Bonds	—	—	2.6	—	16.4	—	16.7	—
Equities and convertible securities	—	—	(0.1)	—	76.8	—	20.3	—
Mortgage loans	—	—	—	—	—	—	—	—
Real estate holdings	—	—	—	—	—	—	—	—
Short-term investments	204.6	126.5	—	—	12.6	—	24.2	—
Demand deposits (advances from) in the General Fund	(6.0)	(0.4)	2.5	—	0.8	—	0.6	—
	198.6	126.1	5.0	—	106.6	—	61.8	—
Other income	—	—	—	—	9.2	—	2.7	—
Total income	198.6	126.1	5.0	—	115.8	—	64.5	—
Operation costs	1.5	2.5	2.8	—	33.6	—	8.7	—
INCOME BEFORE THE FOLLOWING ITEMS	197.1	123.6	2.2	—	82.2	—	55.8	—
Interests on notes payable	149.3	76.1	—	—	—	—	16.9	—
Non-controlling interests	—	—	—	—	—	—	—	—
NET INVESTMENT INCOME (LOSS)	47.8	47.5	2.2	—	82.2	—	38.9	—
CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31								
INVESTMENT OPERATIONS								
Net investment income (loss)	47.8	47.5	2.2	—	82.2	—	38.9	—
Gains (losses) on sale of investments	(2.8)	1.7	51.3	—	(230.9)	—	165.2	—
Unrealized increase (decrease) in value of investments and liabilities	(0.6)	(7.0)	(16.6)	—	778.7	—	225.9	—
Total investment operations	44.4	42.2	36.9	—	630.0	—	430.0	—
Participation units issued (cancelled)	791.6	(422.6)	105.7	—	(359.3)	—	(901.4)	—
Transfer from portfolios	—	—	—	—	5,906.3	—	3,170.8	—
Net income allocated to participation unit holders	(47.8)	(47.5)	(2.2)	—	(82.2)	—	(38.9)	—
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	788.2	(427.9)	140.4	—	6,094.8	—	2,660.5	—
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	1,619.7	2,047.6	—	—	—	—	—	—
CONSOLIDATED NET ASSETS, END OF YEAR	2,407.9	1,619.7	140.4	—	6,094.8	—	2,660.5	—
INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31								
ASSETS								
Investments								
Bonds	—	—	0.2	—	857.2	—	374.5	—
Equities and convertible securities	—	—	27.2	—	10,634.2	—	1,827.2	—
Mortgage loans	—	—	—	—	—	—	—	—
Mortgage securities	—	—	—	—	—	—	—	—
Real estate holdings	—	—	—	—	—	—	—	—
Short-term investments	9,693.3	5,032.4	55.6	—	281.8	—	796.2	—
Demand deposits in the General Fund	—	129.3	129.7	—	118.1	—	152.6	—
Securities acquired under reverse repurchase agreements	1,003.4	—	—	—	—	—	—	—
	10,696.7	5,161.7	212.7	—	11,891.3	—	3,150.5	—
LIABILITIES								
Deposits on loans of securities	1,994.5	449.6	—	—	—	—	—	—
Commitments related to short selling of securities	29.7	—	28.5	—	15.3	—	36.1	—
Loans and notes payable	6,046.1	2,824.0	—	—	0.8	—	949.7	—
Mortgage loans payable	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—
Derivative financial instruments	3.0	0.8	28.4	—	—	—	0.6	—
Non-controlling interests	—	—	—	—	—	—	—	—

Building on our human resources

The Caisse has developed a performance plan that focuses on optimizing the recruitment, retention and development of its human resources in the years ahead.

In 2003, the Caisse gave priority to reorganizing its structures and to redefining its salary and bonus programs to ensure that they correspond with depositors' interests, while remaining competitive.

REORGANIZED STRUCTURES

The reorganization first resulted in the assignment of teams and their human resources according to the new organizational priorities. As at December 31, 2003, the Caisse employed 712 people. Its subsidiary CDP Capital – Real Estate Advisory, as well as its subsidiaries Ivanhoe Cambridge and SITQ, both of which are involved in real estate management and administration, employed a total of 1,551 people.

SALARIES AND BONUSES

In 2003, the Caisse conducted a comprehensive evaluation of salary and bonus programs to benchmark them with the best industry practices.

The first program to be reviewed was that of the portfolio managers, analysts and traders in the Equities, Absolute Return and Fixed Income investment groups.

This program, which came into effect in 2003, has the following objectives:

- To better align employee salaries and bonuses more closely with the achievement of depositors' performance objectives;
- To reward outstanding performance by employees and their teams and to make them accountable for their results in the short and medium terms;
- To encourage and recognize the importance of teamwork and the sharing of information and expertise among employees;
- To recognize the profession of career analyst, since financial research is a key element in the Caisse's performance plan;
- To attract, retain and motivate the best candidates and employees;
- To ensure that each employee is treated equitably.

DEVELOPING HUMAN RESOURCES

The Caisse encourages its employees to enhance and update their knowledge and skills through specialized courses and seminars, in order to maintain a high level of expertise in the various investment professions.

For example, the Caisse supports employees who are enrolled in the Chartered Financial Analyst (CFA) program or in any other program that leads to a professional designation related to its activities. It also organizes in-house training sessions, which, in 2003, covered such topics as derivative products, the financial environment, risk calculation, management of legal risks, and accounting standards and practices.

In addition, an introductory seminar on portfolio management within the Caisse's specific context is offered to all employees who are not directly involved in investment activities. To complement this seminar, in 2003 the Caisse also provided employees with a glossary of specialized terms used in the investment industry.

Over the past three years, the institution has invested an annual average of 2.45% of its total payroll in professional training and education.

SUPPORTING A NEW GENERATION OF FINANCIAL MANAGEMENT PROFESSIONALS IN QUÉBEC

The Caisse contributes in various ways to training the coming generation of financial management professionals.

In 2003, the Caisse took on 47 interns in the areas of finance, economics and applied mathematics. It also enabled the hiring of 18 financial analysts by 11 brokerages firms, as part of its program for ensuring a new generation of Québec financial analysts. Funding for this program comes from soft dollar commissions by Canadian equities trading activities; it therefore comes from the specialized Canadian Equity portfolio, not the Caisse's operating budget. In 2003, a total of $428,000 in commissions was allocated to fund the program.

The Caisse also supports activities for university students, such as stock market simulations and mutual fund management, in order to foster the creation of a new generation of high-quality financial specialists.

OUTLOOK FOR 2004

In 2004, the Caisse will review all its human resources policies and procedures in light of its values and its renewed vision and mission.

The review of salary and bonus policies launched in 2003 will continue and will be complemented by the introduction of a program to recognize employee excellence and commitment. The Caisse will also compile an inventory of the profile and career aspirations of each employee, as well as an exact description of the skills required for each position. This will facilitate career planning for employees and will be useful in determining training and succession needs.

Better career and training plans will also help attract and retain candidates and existing employees.

These programs will be developed and introduced over a three-year period.

The Caisse relies on the diversified expertise of its highly qualified employees to carry out mandates received from its depositors. Its investment professionals, who are recruited from among the top talents in the country, are supported by solid, multidisciplinary teams.

- 64% of the Caisse's employees have a university degree; 27% have a master's degree and 2% have a doctorate.
- 93 employees hold the *Chartered Financial Analyst* (CFA) designation. 12 employees have passed the CFA program's Level I examination, while 9 have passed the Level II examination.
- 9 employees hold *Financial Risk Manager* (FRM) certification, which recognizes professional qualifications, experience and analytical skills, three elements crucial to success in the risk management field.

Moreover, many of the Caisse's employees are members of professional corporations or hold designations conferred by recognized organizations.

Risk management, internal audit and financial governance

RISK MANAGEMENT

In 2003, the Caisse adopted an integrated risk management policy to oversee and adequately manage the risks assumed in the active management of its various specialized portfolios.

The fundamental objective of this policy is to instill the appropriate culture and rigorous risk management practices to ensure that the Caisse fulfills its mandate with regard to its depositors. More specifically, the policy serves to define risk management governance within the organization, to avoid excessive losses by determining the acceptable level of risk, to relate this level of risk to value-added objectives and to promote effective risk allocation.

In addition to establishing risk limits for various portfolios, the integrated risk management policy sets forth limits for the maximum size of real estate transactions and private investments that the following decision-making levels can authorize, according to each subsidiary: the Management Committee of the subsidiary, its Board of Directors, the Chairman and Chief Executive Officer of the Caisse, and the Board of Directors of the Caisse.

To ensure objectivity and rigour in risk management, independent teams of portfolio managers are responsible for the definition and monitoring of the integrated risk management policy, as well as the investment policies for the specialized portfolios.

LEVELS OF AUTHORITY AND RESPONSIBILITY

The levels of authority and responsibility in integrated risk management have been structured on the basis of how investment recommendations flow within the organization, i.e. from the bottom to the top of the hierarchy. There are three of these levels.

1. HEADS OF INVESTMENT GROUPS

These managers must develop monitoring guidelines and set risk limits for each management mandate under their responsibility. They may also authorize overruns of these risk limits, in which case they must inform the DRC.

2. THE DEPOSITOR-CLIENT ACCOUNT MANAGEMENT AND INTEGRATED RISK MANAGEMENT COMMITTEE (DRC)

(See the *Governance and internal governance* section)

3. THE BOARD OF DIRECTORS AND ITS RISK MANAGEMENT COMMITTEE

(See the *Governance and internal governance* section)

GUIDING PRINCIPLES

The integrated risk management policy is based on four principles.

1. DEFINITION OF RISK

Risk is defined as active risk, the risk associated with active portfolio management. It concerns the risk that the manager may record a return that is below the portfolio's benchmark index. Risk is expressed in basis points and is standard information in the industry.

2. MEASURED RISKS

With the help of independent teams of portfolio managers, the DRC monitors and measures the following risks: market risk, credit risk, liquidity risk and operational risk.

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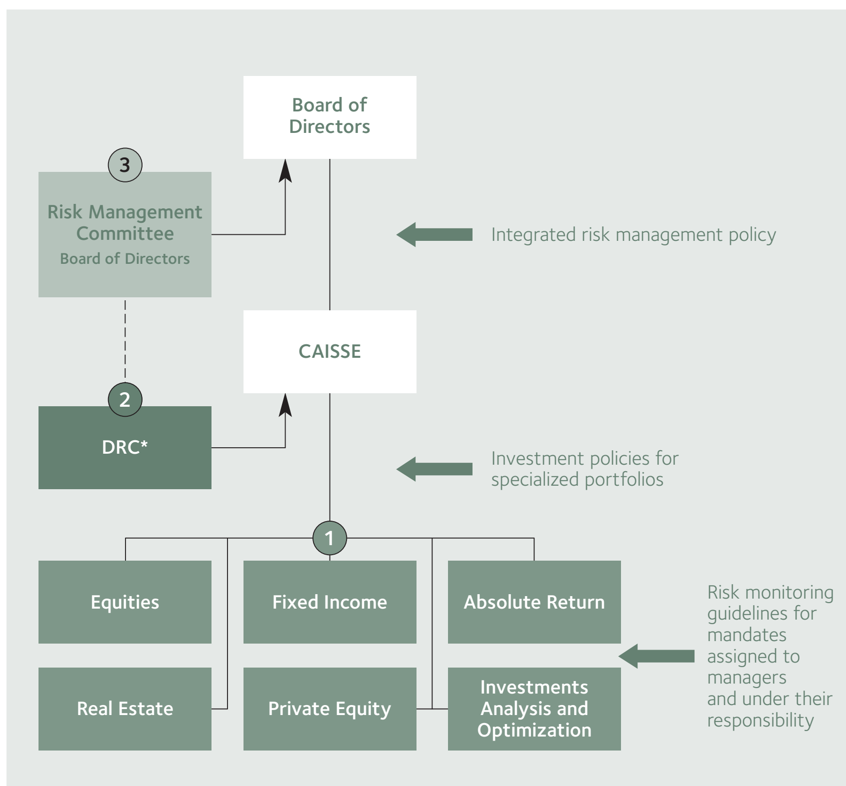

**Depositor-Client Account Management and Integrated Risk Management Committee*

3. INTEGRATION OF RISKS

Although each of the risks is distinctive, it is the DRC's aim to integrate them within a single analytical process.

4. BEST PRACTICES

To ensure that the monitoring and practice of the Caisse's integrated risk management comply with industry best practices, risk management policies are reviewed regularly, with a view to continual improvement. The DRC and the portfolio managers also receive support from internal and external experts, whose role is to improve risk evaluation methods.

INTERNAL AUDIT

The actions taken by the Caisse in 2003 to strengthen its internal auditing demonstrate the importance that the institution attributes to this function. First, the organizational structure was reviewed and modified in order to give the Internal Audit Department the independence it needs to carry out its role effectively. Second, the Caisse granted this department additional internal resources, who were also supported in the performance of their duties by professionals from a leading international accounting firm. Third, the Audit Committee of the Board of

RISK CATEGORIES

The risks managed by the DRC for the Caisse are grouped in four main categories of risk.

MARKET RISK

Market risk represents the risk of financial loss resulting from fluctuations in the price of financial instruments. The value of a financial instrument may also be affected by interest rate and foreign exchange fluctuations, as well as by variations in the price of shares and commodities.

The market risk to which portfolios are exposed is assessed periodically. It is measured according to the value at risk (VaR) method, which is based on a statistical evaluation of the volatility of individual market positions and their correlation. The Caisse uses risk-assessment methods associated with cash securities and derivative financial instruments.

CREDIT RISK

Credit risk is the risk of financial loss resulting from the inability of a counterparty to honour its obligations. The Caisse constantly monitors investments that are sensitive to credit risk.

- The analysis of concentration risk measures the fair value of all financial products related to a single issuer or a group of issuers with common characteristics (regions, sectors of activity, credit categories).
- The analysis of default risk measures the probability of default and the recovery rate on debt products held by the Caisse, taking into account the credit quality of each security.
- In the case of derivative products, the analysis of counterparty risk measures current credit exposure of the Caisse's counterparties for over-the-counter derivatives. This analysis takes creditworthiness into account to establish reasonable limits for each counterparty.
- The analysis of delivery risk measures the risk of default and liquidity in the settlement of transactions. This risk arises mainly from foreign exchange forward contract.

These four analyses provide an overview of the various aspects of credit risk.

LIQUIDITY RISK

Liquidity risk is related to the Caisse's ability to ensure that the invested funds are available and to discharge its financial obligations.

Compliance with established rules is monitored on a daily basis and the liquidity status is submitted to the DRC on a monthly basis. Risk management evaluates the liquidity situation in scenarios involving unfavourable movements in financial markets and recommends an acceptable level of liquidity.

OPERATIONAL RISK

Operational risk corresponds to the risk of direct or indirect financial loss arising from inadequate or failed processes, human resources and systems or from external events.

Legal risk is an operational risk related to the rights and obligations associated with the Caisse's activities and the legislative framework in which they are carried out. Important aspects of legal risk are related to compliance with the laws and regulations governing the Caisse and its management teams, and assurance that the agreements concluded by the institution properly reflect the planned operations and contain the appropriate provisions. A team of experts is responsible for providing managers with daily routine advisory and support services in legal matters. As part of its legal risk program, the Legal Affairs Division, with support from external consultants, identifies the risks in each sector of activity, suggests ways of raising awareness of these risks among employees and proposes methods based on the needs of decision-making centres.

Directors reviewed and approved the Internal Audit Charter, which sets out the mission and scope of the function's work, as well as its jurisdiction and duties.

The internal audit function will continue to be strengthened in 2004, with the addition of in-house resources.

The Internal Audit Department's mission is to provide independent and objective assurance and consultation services in order to increase the effectiveness and efficiency of the Caisse's activities. Through a systematic and methodical approach, it evaluates the Caisse's procedures and systems for risk management, control and corporate governance, as well as contributes to improving them by proposing ways to make them more effective. The Internal Audit Department also assists in the development of special projects by lending its expertise in internal control and risk management. Lastly, it supports the institution by identifying the best practices and trends in the industry.

The Internal Audit Department's annual planning process is approved by the Audit Committee, which can contact the department directly regarding any matter of concern. This planning process takes into consideration the major risks facing the Caisse. In order to do this, as well as improve the understanding of risk that it has gained through its auditing work, the Internal Audit Department works closely with the Risk Management Department and has regular meetings with members of the Management Committee. Internal Audit Department representatives also regularly attend meetings of the committees that report to management.

The work of the department focuses primarily on mandates identified during the annual planning process, including:

- compliance mandates, to ensure adherence to policies, guidelines, laws, regulations and contracts;
- optimization mandates, to ensure that human, information, physical and financial resources are acquired economically and used effectively and efficiently;
- computer audit mandates, to ensure adequate control of the risks associated with technology use;
- follow-up on recommendations, to ensure that the action plans proposed by managers on the basis of the Internal Audit Department's findings and recommendations are implemented within the prescribed time frame.

A variety of mandates not provided for in the annual planning process may arise from special requests by the Board of Directors, the Board of Directors' Audit Committee or the Management Committee.

Members of the Internal Audit Department comply with the Institute of Internal Auditors' standards for professional practice.

FINANCIAL GOVERNANCE

In 2003, the Canadian Securities Administrators published new Canadian standards for corporate governance, with the goal of bolstering investor confidence. These standards, which went into effect in first quarter 2004, are based on the provisions of the U.S. Sarbanes-Oxley Act and the various regulations adopted by U.S. exchanges in regard to this area. Although the Caisse is not governed by such regulations, the Board of Directors gave management the mandate to determine the best practices to adopt for financial governance.

Governance

GOVERNANCE AND ETHICS

The Board of Directors of the Caisse sees to the continuous improvement of practices concerning governance, ethics and professional conduct and strives to create a true culture of governance that reflects the most advanced industry standards.

RECOMMENDATIONS ON THE CAISSE'S GOVERNANCE PRACTICES

In 2003, the Caisse announced its Board of Directors' recommendations regarding governance, including proposed changes to the *Act respecting the Caisse de dépôt et placement du Québec*, adopted in 1965. These changes are intended primarily to clarify the Caisse's mission, which would be entrenched in its legislation, in order to provide the Board with more tools and better define the powers of its management. The roles of all stakeholders, including the government, the Board of Directors, senior management and the depositors, would be made clear in order to create a precise and comprehensive accountability plan. The report includes recommendations regarding the composition of the Board and separation of the roles of Chairman and Chief Executive Officer. It also includes recommendations for accountability to the National Assembly and the formalization of service agreements between the Caisse and its depositors. All these recommendations are aimed at ensuring that the Caisse complies with international standards and principles of governance while taking into account the specific nature of the institution.

ETHICS AND PROFESSIONAL CONDUCT

The Board also gives priority to promoting some of the most stringent standards for ethical and professional conduct in Canada. In 2003, the Caisse continued to apply the new *Code of Ethics and Professional Conduct*, in effect since November 1, 2002, which made major changes to the preauthorization and disclosure of investments covered by the policy regarding personal trades. Employees were made aware of these new provisions throughout the year.

The Caisse also applies a policy governing the acquisition or leasing of goods and services that require a contract. In particular, this policy and its implementation guidelines direct the awarding of contracts by call for tender, for which they also set forth limits and exceptions.

The institution also ensures that other internal policies are respected, such as those governing harassment, air quality and smoking in the workplace. Finally, the Caisse complies with the Charter of the French Language and its linguistic policy.

SOCIALLY RESPONSIBLE INVESTMENTS AND EXERCISE OF VOTING RIGHTS IN COMPANIES

The Caisse has begun an analysis of all issues related to socially responsible investment, with the goal of developing a policy regarding this matter. This process will involve the review of proxy voting principles already included in its corporate governance policy. The assigned task group, under the direction of the Human Resources, Ethics and Corporate Governance Committee of the Board of Directors, carried out consultations with depositors before preparing its report of recommendations, which will be submitted to the Board for approval in 2004. In 2003, with respect to proposals dealing with responsible investment made at shareholders' meetings, the Caisse preferred to not exercise its right to vote while awaiting the task group's recommendations.

The Caisse, however, systematically exercises its right to vote on all proposals tabled at shareholders' meetings according to the principles it has adopted in its corporate governance policy. It has also set up an internal consultation procedure in order to be able to develop a position on proposals that require special consideration.

INTERNAL GOVERNANCE

THE BOARD OF DIRECTORS

In addition to the Chief Executive Officer of the Caisse, who chairs the Board, the Board of Directors consists of depositors' representatives – as at December 31, 2003, they are the President and General Manager of the Régie des rentes du Québec and the President of the Commission administrative des régimes de retraite et d'assurances – as well as members of the business community, the credit union movement and labour union leaders.

The Board's role is to ensure that the Caisse is managed in accordance with the provisions of its incorporating act and by-laws and that it takes the necessary measures to achieve the objectives set forth in its business plan.

The Board studies and approves the main policies and orientations, such as the investment program for the year. It also reviews the sectors of activity and receives reports from various committees and ad hoc task groups when considering specific matters.

Furthermore, the Board is informed of any operation or decision, investment or other matter that requires special attention because of its intrinsic importance, its impact on the portfolio or on the asset allocation, or for any other reason.

The Board of Directors delegates the review of specific subjects to committees made up of Board members.

It also delegates to the boards of directors of its subsidiaries certain decision-making powers regarding negotiated investments in specific sectors of activity.

In 2003, the Board of Directors met 17 times. It dealt with such matters as the Caisse's new integrated risk management policy, the Auditor General of Québec's reports regarding the main office in Montréal and Montréal Mode, analyses and organizational changes to carry out the Caisse's performance plan, investment policies for the specialized portfolios, as well as service agreements with depositors.

The Board of Directors includes three committees.

AUDIT COMMITTEE

This committee, composed solely of external members, has a mandate to review the financial statements and management's analysis of the financial situation and to recommend their approval to the Board of Directors, as well as follow up on recommendations by external auditors and the Auditor General of Québec. It also approves the internal audit plan and provides follow-up on the findings of internal audit projects. The Audit Committee met five times in 2003.

HUMAN RESOURCES, ETHICS AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources, Ethics and Corporate Governance Committee is also composed solely of external members. It met 12 times in 2003.

In the area of human resources, the committee's responsibilities include reviewing and recommending the Caisse's senior management appointments, ensuring adequate senior management succession planning and recommending compensation policies to the Board of Directors.

With regard to ethics, the Committee is responsible for developing and applying controls that govern the restricted use of confidential information and the resolution of complaints and conflicts of interest. It reviews the *Code of Ethics and Professional Conduct* on a regular basis and recommends its approval to the Board.

Lastly, in the area of corporate governance, the Committee is responsible for reviewing all matters concerning this subject and compliance with related rules and guidelines.

RISK MANAGEMENT COMMITTEE

This committee oversees the application of policies and systems designed to maintain an acceptable level of market, credit, liquidity and operational risk. It also examines any transaction, investment or investment-related matter submitted to it, particularly in terms of its impact on the portfolio or asset allocation. Lastly, it approves Caisse's risk policies and risk budgets referred to it by the Depositor-Client Account Management and Integrated Risk Management Committee (DRC).

The Risk Management Committee met five times in 2003.

MANAGEMENT COMMITTEES

The Caisse relies on four committees to ensure its day-to-day management.

EXECUTIVE COMMITTEE

The Management Committee's main mandate is to advise the Chairman and Chief Executive Officer regarding the major decisions to be made in the overall management of the organization. In this capacity, the committee has a mandate to oversee and monitor all operations and, if necessary, implement appropriate action plans in order to ensure that the organization meets transparency and performance requirements.

THE ASSET ALLOCATION MANAGEMENT COMMITTEE

This committee's mandate is to review and approve the Caisse's main policies concerning asset allocation among the various investment sectors within the minimum and maximum limits of the Caisse's benchmark portfolio and the foreign exchange hedge ratio, and the impact of such decisions on the management of liquid assets and financial leverage.

THE DEPOSITOR-CLIENT ACCOUNT MANAGEMENT AND INTEGRATED RISK MANAGEMENT COMMITTEE

This committee (DRC) oversees and implements policies and systems designed to maintain an acceptable level of market, credit, liquidity and operational risk for the Caisse. The DRC's responsibilities include interpreting depositors' investment policies, particularly in terms of market, liquidity and credit risk. It monitors and controls these risks and reports regularly to the Management Committee and the Board's Risk Management Committee.

The DRC also examines measures to be taken to manage risks adequately. It approves risk orientations and limits in order to maintain the best possible risk-return balance. Any transactions that exceed a manager's risk budget are submitted to the DRC for approval. If such transactions exceed its level of authority, the DRC requests the approval of the Board's Risk Management Committee.

THE INFORMATION TECHNOLOGY AND CAPITAL BUDGET COMMITTEE

This committee's mandate is to ensure that the Caisse's technological environment is appropriate for its activities, to approve major policies regarding technology management and to ensure that projects are in keeping with the Caisse's strategic orientations. In this capacity, the Committee approves the annual plan for information technology projects and its capital budget, and recommends its approval to the Management Committee. It also regularly monitors progress on various computer-related projects.

COMPLAINT MANAGEMENT

The Caisse de dépôt et placement du Québec has designated its Vice-President and Corporate Secretary as the person responsible for receiving and examining complaints from clients and members of the public with all due attention.

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Board of directors and management

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

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Chairman and
Chief Executive Officer
Caisse de dépôt et placement du Québec

Jean-Claude Bachand[2]
Counsel
Fraser Milner Casgrain

Bernard Bonin[3]
Economist-Advisor
Former Senior Deputy Governor
Bank of Canada

Claudette Carbonneau[2]
President
Confédération des syndicats nationaux

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Fonds québécois de la recherche sur
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Fédération des travailleurs et travailleuses
du Québec

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Deputy Chairman of the Board
President and General Manager
Régie des rentes du Québec

Nicole Trudeau[3]
Vice-President
Commission municipale du Québec

Duc Vu[2]
President
Commission administrative des régimes
de retraite et d'assurances

John T. Wall[1]
Chairman of the Board
Capital Markets Advisors, Inc.

[1] Member of the Human Resources, Ethics and Corporate Governance Committee
[2] Member of the Audit Committee
[3] Member of the Risk Management Committee

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Chairman and Chief Executive Officer
Caisse de dépôt et placement du Québec

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Executive Vice-President
Human Resources and
Organizational Development

François Grenier
Executive Vice-President
Equity Markets

Richard Guay
Executive Vice-President
Risk Management and Depositors'
Accounts Management

Suzanne Masson
Executive Vice-President
Institutional Affairs
(as of January 2004)

Ghislain Parent
Executive Vice-President
Finance, Treasury and
Strategic Initiatives
President
CDP Financial

Fernand Perreault
Executive Vice-President
Real Estate
President
CDP Capital – Real Estate Group

Christian Pestre
Executive Vice-President
Absolute Return

V.P. Pham
Executive Vice-President
Information Technology
and Investment Administration

Normand Provost
Executive Vice-President
Private Equity
President
CDP Capital – Americas

Denis Senécal
Executive Vice-President
Fixed Income

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Vice-President
Legal Affairs

Ginette Depelteau
Vice-President
and Corporate Secretary

Karen Laflamme
Vice-President
Internal Audit

CDP CAPITAL – REAL ESTATE GROUP

Paul D. Campbell
President and Chief Executive Officer
SITQ

André Collin
President and Chief Operating Officer
CDP Capital – Real Estate Advisory

Jean C. Pinard
President
CDP Capital – Mortgages

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Glossary

ABSOLUTE RISK

Expression of a portfolio's market volatility. This risk is used to measure, on the basis of the securities in the portfolio, the magnitude of a potential return deficit in comparison with the portfolio's expected return.

ACTIVE RISK

Forecast volatility of the fund manager's value added, generally measured on the basis of the fund manager's current positions and the volatility and correlations of the return associated with these positions.

AIMR®

Association for Investment Management and Research®. An association of investment professionals headquartered in Charlottesville, Virginia, U.S. The association's mission is to serve investment professionals by providing training to its members and establishing high ethical standards for portfolio management.

ARBITRAGE

Profiting from a real or apparent imbalance between two securities or two baskets of securities. Arbitrage necessarily implies the purchase of a security or a basket of securities that appears to be undervalued and the sale of another that appears overvalued.

Depending on the products available, transactions may be conducted in cash or on the futures market.

ASSETS UNDER ADMINISTRATION

Assets for which the Caisse's subsidiaries provide administrative services on behalf of the clients that own them. The subsidiaries that administer such assets are not involved in investment or disinvestment decisions and receive payment in the form of fees.

ASSETS UNDER MANAGEMENT

Assets that belong to partners or clients of certain Caisse subsidiaries and are managed by one of the Caisse's subsidiaries or affiliated companies. The teams that manage these assets are involved in investment and disinvestment decisions and receive fees in consideration for the services rendered.

BOTTOM-UP AND TOP-DOWN ANALYSIS

Bottom-up analysis examines the most specific elements before considering more general elements. For example, a company will be analysed before examining the impact on sector concentration, national concentration and foreign currency exposure. Top-down analysis functions in the opposite direction.

CAISSE'S OVERALL PORTFOLIO

The combination of the depositors' respective portfolios in proportion to their individual weighting at the Caisse. The performance of the Caisse's overall portfolio corresponds to the average weighted return on depositors' funds.

COMMERCIAL MORTGAGE-BACKED SECURITIES (CMBS)

Sequential-payment bonds guaranteed by a set of commercial mortgage loans.

COMPOSITE

A predetermined set of securities that have shared investment objectives or strategies. A composite may be based on one or more of the following criteria: currency, country, company size, type of product, etc.

DEPOSITOR

Organization or entity that makes deposits with the Caisse de dépôt et placement du Québec.

DEPOSITORS' NET ASSETS OR HOLDINGS

Total assets managed for depositors less liabilities related to these assets.

DEPOSITORS' TOTAL ASSETS

The fair value of all assets held on behalf of depositors.

DERIVATIVES OR DERIVATIVE PRODUCTS

Derivative products are contracts, commitments or agreements for the sale or purchase of assets or the trading of returns at a future date. These financial instruments are called "derivatives" because their value depends on an underlying asset.

There are three types of derivative products: futures contracts, options and swaps. A futures contract is a commitment to take delivery of or to deliver an underlying value, while an option is a conditional commitment that enables the holder to buy or sell an underlying value at the price stipulated in the contract (strike price). These two types of derivative products involve many assets: shares, indexes, interest rates, currencies, etc. Swaps involve trading returns between assets.

Derivative products are included in a portfolio primarily to protect its value against a drop in prices or to diversify investment strategies, manage risks effectively and achieve investment objectives.

EAFE FOREIGN EQUITIES

Corporate securities that trade on the stock exchanges of developed countries in Europe, Australasia and the Far East. They are part of the MSCI EAFE Index.

EXCHANGE OR CURRENCY RISK HEDGING

Financial operation whereby an investment is protected from fluctuations in the exchange rate between the currency in which the investment was made and the investor's original currency.

EXTERNAL MEMBER

Member of a committee or the Board of Directors who is not an employee of the Caisse.

FAIR VALUE

The value of an investment that reflects all fluctuations resulting from market behaviour or from any event that makes it possible to consider appreciation or depreciation. The term "market value" is often used.

FUND OF FUNDS

A fund whose component securities are hedge funds. This approach generally ensures diversification of styles, philosophies, risks, etc.

FUNDAMENTAL ANALYSIS

Analysis based on the intrinsic value of a company and its more or less long-term outlook. It evaluates the company's qualitative and quantitative elements to determine whether if the current share price appears undervalued, overvalued or fully valued.

GENERAL FUND

A fund that is associated with two major functions. First, it is associated with the Québec Pension Plan fund for the purchase of units in different specialized portfolios. It is therefore similar to an individual fund. Its second function serves to account for the various components of the Caisse. Depositors' funds, individual funds, etc. are accounted for in the General Fund.

GLOBAL MACRO

Investment activities based on an analysis of macro-economic and political factors. The fund manager invests on the basis of the expected direction a market will take or expected returns from one market compared with another. The manager can trade on interest rates, shares, currencies and commodities.

HEDGE FUND

A fund that primarily includes long and short positions on securities, markets, etc. that reflect the fund manager's opinion as to the probable trend in the value of such securities or markets according to the manager's management style. The term "speculative fund" is also used.

INDIVIDUAL FUND

Fund attributed to a single depositor. The individual fund buys units from the various specialized portfolios.

INFORMATION RATIO

According to industry standards, an information ratio greater than 0.5 over a five-year period, whereby a fund manager is able to consistently deliver a positive relative return for such a period, is considered excellent.

The information ratio enables the stability of a fund manager's performance to be measured. It corresponds to the spread between the fund manager's performance and that of his or her market index over the realized active risk.

INVESTMENT POLICY (DEPOSITOR)

All elements to be considered in the relationship between the Caisse and a depositor, with respect to the management of funds entrusted to the Caisse. The investment policy includes a description of the particular plan and its characteristics, the benchmark portfolio, the market indexes, the expectations for valued added and other technical aspects, such as the frequency of meetings and reporting requirements.

INVESTMENT POLICY (SPECIALIZED PORTFOLIO)

All elements that make up the rationale for a specialized portfolio or management mandate. These elements include management philosophy, portfolio structure, investment horizon, market index, return and valued added objectives, as well as risk elements and their limits.

KEY POLICY RATE

The rate at which a central bank acts in the markets.

LIQUIDITIES

Basket of cash equivalents or securities that can easily be sold and converted into cash.

LIQUIDITY OF A MARKET OR SECURITY

A market is said to be "liquid" when the number of buyers and sellers is large enough to generally conclude their transactions. A security is said to be "liquid" if it trades in large enough quantities that sizeable transactions can take place without significant impact on market price.

MARKET INDEX

Index that enables the effect of all investors' decisions to be measured. Accordingly, it allows comparison with the Caisse's portfolio management result for each specialized portfolio or management mandate.

The market index may vary depending on the investment horizon and mandate. It can be a stock market index for an entire portfolio or a subindex that corresponds to a chosen basket of securities for a management mandate.

Examples are the S&P/TSX index for Canadian equities and the Consumer Staples Subindex of the S&P/TSX.

MEZZANINE LOAN

Financing that bridges the gap between traditional financing and the equity required for a project. The repayment of this type of loan generally has a fixed and a variable component.

OPPORTUNISTIC INVESTMENT

In the real estate sector, this term denotes any short-term investment opportunity (usually less than three years) with the expectation of a high return.

For example, the purchase of a building whose developer has declared bankruptcy, the acquisition of a portfolio of properties of which an entity wishes to divest itself, or a new positioning of a building represent opportunity products. The investor purchases the assets for less than their value, upgrades them and resells them quickly.

OVERWEIGHTING

Percentage that is greater than the benchmark weighting.

PLATFORM OR SATELLITE COMPANY

An operations management company, specializing in one or more niche markets, which is part of the Real Estate group network. Its mandate primarily concerns asset management and real estate investment (investments in equity ownership or financing products) on behalf of the Caisse, its main real estate subsidiaries and third-party investors. The Caisse or one of its main real estate subsidiaries normally holds a minimum of 50% interest, which entitles it to appoint representatives to this company's board of directors and exercise control, in accordance with a unanimous shareholder agreement.

PREDETERMINED THRESHOLD FOR RETURN

A predetermined objective for return independent of the return on benchmark indices.

PRIVATE EQUITY

An investment negotiated on a private basis with a company. Such transactions do not involve the usual organized market mechanisms.

QUARTILE

When the results of a sampling of fund managers are classified in descending order, those in the top quarter are referred to as the “first quartile” and those in the third quarter are called the “third quartile.” The second quartile is also known as the “median.”

Fund managers are said to be in the first quartile when their results are in the top quarter of the sample.

REALIZED ACTIVE RISK

Volatility of the value added by a fund manager. This risk is generally measured over a fairly long period (three to five years), on the basis of monthly values.

RELATIVE RETURN

Spread between a portfolio's return and its return threshold.

RISK PREMIUM

The additional return required, compared with the return obtained on an investment considered to be free of risk, such as Government of Canada treasury bills or bonds.

SECURITIZATION

Operation whereby a company converts assets or debt securities (mortgage loans, credit card debt, etc.) by combining and structuring them in the form of a new security, which it offers to investors. In this way, it can increase its return, liquid assets, revenues, etc.

SENIOR DEBT

A security that entitles the holder to be reimbursed before the holders of other securities issued by the same entity.

SHORT POSITION

Position resulting from the sale of a security without first owning it. The delivery of the security may nevertheless be made by borrowing the security on the market, under certain conditions.

SPECIALIZED PORTFOLIO

A group of securities with common characteristics (currency, nature of product, market behavior, etc.). Specialized portfolios are similar to mutual funds.

SYNDICATION

A group of financial institutions that carry out an investment or a financing operation.

SYSTEMATIC RISK

Risk shared by all securities with the same characteristics. For example, a company's share price will be influenced by the stock market as a whole.

Securities are said to have high systematic risk when the variation on the price of these securities is greater than that of the market as a whole. The term *beta* is also used.

TOP-DOWN ANALYSIS

See *Bottom-up and top-down analysis*.

TOTAL ASSETS UNDER MANAGEMENT

All assets managed by the Caisse, i.e. all depositors' assets, as well as asset under management and asset under administration on behalf of clients.

UNDERWEIGHTING

Percentage that is lower than the benchmark weighting.

VALUE ADDED

See *Relative Return*.

VALUE AT RISK (VaR)

See *Active risk*.

VOLATILITY

A market or security is said to be “volatile” when it is subject to rapid price changes. Volatility is said to be “high” when prices or rates vary widely over a short period of time.

Tables and figures

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