2009
ANNUAL REPORT

BUILDING SOLID FOUNDATIONS

Caisse de dépôt et placement du Québec

The 2009 Annual Report and the 2009 Annual Report Additional Information are available at www.lacaisse.com.

BUILDING SOLID FOUNDATIONS FOR THE FUTURE

In 2009, some basic principles—simplicity, rigour, performance and focus on the client—have guided our work.

It is on the basis of these principles that we are building solid foundations for our long-term success.

2009 AT A GLANCE

SIGNIFICANT PROGRESS

SIMPLIFY

TO INCREASE EFFICIENCY

- Investment teams reorganized into four sectors
- Operational teams merged into a single group

REFOCUS

ON CORE COMPETENCIES

- Returned Real Estate sector to its core operational skills
- Withdrew from excessively complex activities
- Back to transparent financial vehicles
- Reduction in the use of derivatives

STRENGTHEN

RISK MANAGEMENT TO SUPPORT LONG-TERM PERFORMANCE

- Risk experts added to investment teams
- 19 new risk specialists
- Additional risk measurement tools
- New stress test practices
- Program to strengthen processes largely completed

COMMIT

TO OUR DEPOSITORS...

- Invest with a fiduciary mindset
- New portfolio offering: increased flexibility and customization
- Creation of a Charter of commitments
- Collaboration with depositors on strategic priorities
- Establishment of a consultation forum with depositors
- More explicit and proactive reporting

...AND QUÉBEC

- $1.6 billion in new investments and commitments in Québec companies
- New program of Dialogues with entrepreneurs
- Partnerships with other financial players to back businesses

RENEW

LEADERSHIP

- Strengthened Board of Directors
- New executive team
- Proactive communications
- Clearly defined strategy and priorities

2009 AT A GLANCE

SIGNIFICANT PROGRESS

$131.6 B

DEPOSITORS' NET ASSETS ROSE BY $11.5 B

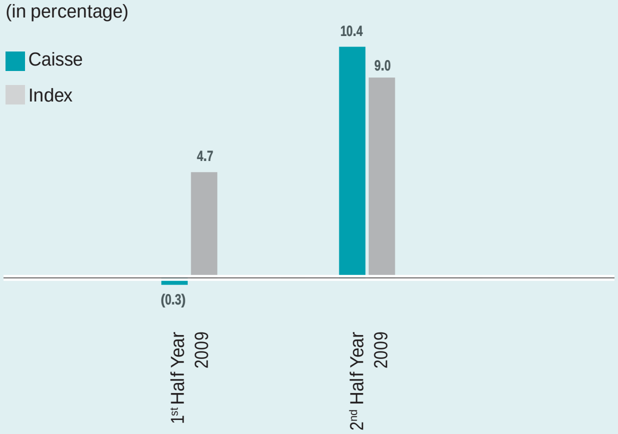
- Largely due to the results in Equity Markets, Fixed Income and Private Equity.

10%

RETURN GENERATED ENTIRELY IN THE SECOND HALF OF THE YEAR

- 10% annual return compared to 14.1% benchmark index return.
- 10.4% overall return in the second half of the year, 1.4% above the benchmark index.

COMPARATIVE RETURN – TWO HALVES[1]
(in percentage)



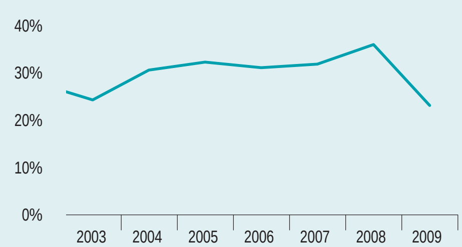
1. Semi-annual returns are based on unaudited data.

41.5%

MAJOR DECREASE IN LIABILITIES

- $66.8 B to $39 B, including a $14.5 B decrease in derivatives.

HISTORY OF LIABILITIES
(as a percentage of total assets)



10/17

SPECIALIZED PORTFOLIOS OUTPERFORMED THEIR BENCHMARK INDEXES

- 15 of these portfolios posted a positive return.

13.7%

REDUCTION IN OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES

- Operating expenses and external management fees totalled $271 M, representing a decrease of $43 M or 13.7% compared to 2008.

$9.6 B

$9.6 B REINVESTED IN EQUITY MARKETS

- Rebalanced overall portfolio
- Equity Markets allocation: 22.4% to 35.4%
- Fixed Income allocation: 44.2% to 33.8%

BREAKDOWN OF DEPOSITORS' NET ASSETS

(as at December 31 – in percentage)

	2009	2008
Fixed Income	33.8	44.2
Equity Markets	35.4	22.4
Private Equity	12.7	11.9
Real Estate	17.8	21.6
Other investments	4.2	4.8
Third-party and bank-sponsored ABCPs[1]	-3.9	-4.9
Total	100.0	100.0

1. Now referred to as third-party and bank-sponsored ABTNs.

$7.2 B

TO STABILIZE THE CAISSE'S FINANCING

- Debt offerings in public markets enabled the Caisse to replace short-term debt with longer-term debt.

AAA

HIGHEST CREDIT RATINGS CONFIRMED

- DBRS, Moody's and S&P confirmed the Caisse's or CDP Financial's credit ratings, with a "stable" outlook.

25

DEPOSITORS

- The Caisse serves 25 depositors, mostly Québec public and private sector pension and insurance plans.
- As at December 31, our seven main depositors held 95.8% of net assets.
- In 2009, their returns ranged from 6.4% to 11.3%.

NET ASSETS OF THE SEVEN MAIN DEPOSITORS

(as at December 31, 2009)

	2009	
	$M	%
Government and Public Employees Retirement Plan (RREGOP)	37,155	28.2
Fonds d'amortissement des régimes de retraite (FARR)	28,835	21.9
Fonds du Régime de rentes du Québec	28,710	21.8
Supplemental Pension Plan for Employees of the Québec Construction Industry	10,551	8.0
Health and Work Safety Fund	8,344	6.3
Pension Plan for Management (RRPE)	6,432	4.9
Fonds d'assurance automobile du Québec	6,120	4.7
Total of the seven main depositors	126,147	95.8
Other	5,441	4.2
Total	131,588	100.0

OUR STRATEGIC PRIORITIES

In 2009, the Caisse adopted five strategic priorities to be fully implemented by the end of 2011. The goal: offer its depositors the long-term returns they need to fulfill their obligations.

1

IMPLEMENT A NEW MODEL OF COLLABORATION WITH OUR DEPOSITORS

2

ACT IN THE SPIRIT OF A FIDUCIARY TO PROVIDE LONG-TERM RISK-ADJUSTED RETURNS

3

DEMONSTRATE OUR LEADERSHIP IN QUÉBEC

4

STRENGTHEN OUR RISK MANAGEMENT CAPABILITIES

5

CREATE A CULTURE OF SERVICE

MESSAGES FROM THE CHAIRMAN AND FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

MESSAGE FROM THE CHAIRMAN

STRENGTHENED GOVERNANCE

Over the past year, the Caisse Board of Directors tabled many initiatives, strengthening the institution's governance and addressing several important issues. We implemented these changes—with the collaboration of management—providing the Caisse with practices better suited to the realities of today's economic and financial climate.

A long-term vision for the Caisse guides what we do as a Board. It's why we aim to focus on structuring projects that ensure our future success and sustainability. Improving our governance will undoubtedly help solidify our foundations. Our 2009 changes, in this respect, should improve our performance and overall effectiveness, providing the tools we need to fulfill our mission in the years to come.

In 2009, the Board also focused on various strategic issues, including changes to the risk management process, strategic planning and the adoption of a new compensation program. Last year, we also had the pleasure of welcoming several new members to our Board, which has diversified our expertise and given us the resources to better carry out our mandate.

A RENEWED BOARD

Prior to recruiting new directors, we clearly identified the right skill set for the job. Ultimately, we wanted to bring together the broadest spectrum of expertise, giving the Board the depth it needs to perform its duties well.

Accordingly, during the year, six new members joined our Board and two directors saw their mandate renewed. Our newcomers are Elisabetta Bigsby, Pierre Fitzgibbon, Jean Pierre Ouellet, Réal Raymond, Michèle Desjardins and François R. Roy. We now have a Board whose skills allow us to cover any issue brought to its attention—in depth—whether it's about the Caisse's strategic direction, investment, finance, risk management or human resources.

In addition, the Board appointed Michael Sabia as President and Chief Executive Officer in March 2009.

COMMITTEE MANDATE UPDATES

We also updated the mandate of each Board committee to, among other things, enhance and better align what they do with the Caisse's strategic objectives. Moreover, we reviewed the composition of the committees to maximize synergy and increase their contribution to the organization.

The Report on Strengthened Governance, p. 92, details the work accomplished to strengthen the Caisse's governance.

RISK MANAGEMENT

In addition to governance, the Board made risk management one of its top priorities in 2009. With input from our Risk Management Committee in hand, we worked closely with the management team to thoroughly assess the Caisse's exposure to risk and ensure its adequate supervision.

The Board rallied behind the Caisse's management to accelerate the execution of the risk management action plan. Most of its key elements were implemented before the end of the year.

STRATEGIC PLANNING

In addition, the Board contributed fully, from the outset, to the Caisse's strategic planning process. During this period, the Board regularly received progress reports, allowing us to respond and make suggestions for further work.

This dynamic process led to the Caisse's five strategic priorities, touching upon key issues for the future. These priorities will ensure we build solid foundations for our development and long-term growth.

NEW COMPENSATION PROGRAM

The Board also initiated an overhaul of the Caisse's executive and employee compensation program. To implement this initiative, which was completed in early 2010, we relied on renowned, independent expertise. We were also inspired by the recommendations of recognized major institutions, including the G20, Financial Stability Board, Conference Board and Institute of International Finance. This mandate involved two components: a proposed program for 2009, a transition year, and the creation of a new program for the coming years, aligned with the Caisse's new strategic direction.

The Board adopted the new compensation program in late February, presenting it to Caisse employees shortly afterward. It is based on certain key principles—with the objective of generating consistent, long-term returns for our depositors. Accordingly, the program will reward consistent employee performance over many years, risk-return balance in decision-making and support of our strategic priorities. To attract, motivate and retain top talent, our new program also aims to provide executives and employees with competitive compensation.

SIGNIFICANT MILESTONES

Behind the success of our initiatives lies the collaboration and trust that developed between the Caisse's Board and management team in 2009.

The Board had the opportunity to support management on several key issues, including strategically refocusing the Caisse on its core business, simplifying its structure, restructuring its specialized portfolio offering and orchestrating a major refinancing of over $7 billion. We also actively participated in hiring new senior executives through a rigorous, global-scale recruitment process.

In addition, the Board found that the performance of the President and Chief Executive Officer had far exceeded its targets, particularly in terms of organization, recruitment, risk benchmarking, depositor relations and transparency.

LOOKING AHEAD WITH CONFIDENCE

During the past year, the Board worked closely with the management team, initiating many promising projects that reinvigorated the Caisse. Much work lies ahead, but last year's achievements inspire me today to look to the Caisse's future with confidence.

ROBERT TESSIER
Chairman of the Board

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I joined the Caisse one year ago.

In that short time, much has changed in the economy. And much has changed at the Caisse.

A year ago, the world was still immersed in the worst financial crisis in over 75 years. In the face of this dramatically transformed economic landscape, the Caisse was not well positioned to take on the challenges ahead.

So we rolled up our sleeves. And we have made real progress.

We have rebuilt our management team, promoting some of our most talented executives and recruiting new world-class talent with fresh perspectives. We have greatly improved our capacity to manage risk. We have simplified our investment strategies. Our financial foundations are much stronger, and our liabilities, much less.

And we have tried to be more transparent with our depositors and with Québecers.

This progress, coupled with a significant recovery in the markets, contributed to a 10% return for 2009. Ten of seventeen of our investment portfolios outperformed their benchmarks. This improved performance was driven by significantly stronger returns in the second half of the year—a period in which we posted a 10.4% return, outperforming our benchmark of 9.0%. That being said, for the year as a whole, we underperformed against our reference index. So it is very clear to me and to everyone on our management team that we still have work to do.

FIVE PRIORITIES

For the next 18 months, this work will focus on the execution of our five strategic priorities that have one goal: building solid foundations for the future.

- Implement a new model of collaboration with our depositors
- Act in the spirit of a fiduciary to provide long-term risk-adjusted returns
- Demonstrate our leadership in Québec
- Strengthen our risk management capabilities
- Create a culture of service

Why have we chosen these five priorities over others? For two basic reasons—both animated by our responsibility to our clients and to Québecers.

First, we believe that building an organization that is guided by a fiduciary spirit is the best way to deliver the long-term returns that our clients need to meet their obligations. Put simply, it means building an organization that puts the client first.

More concretely, how do we do that? To start, by offering a wider, more flexible **choice** of investment products and services—things like offering both active and indexed strategies, customized hedging and inflation protection.

Of course with greater choice and more flexibility comes the need to enhance the quality of our **advisory services** to work with clients in designing the customized strategies that best meet their individual needs.

And with more tailor-made strategies comes the need for better **collaboration**. A new model that enables the Caisse to better understand our clients' liabilities and that provides them with greater insight into our investment strategies and the issues we're facing. That means building a culture of service that puts our clients at the centre of the day-to-day decision-making of our people.

It is for these same reasons that we will continue to emphasize the importance of risk management. Our clients have the right to count on us to take only the risks we understand—those that we have mastered so that we can manage them effectively and with rigour.

Second, in the interest of the economic development of Québec and of our depositors, we intend to play a leadership role with Québec companies by leveraging our natural competitive advantages here—our size, our deep understanding of the Québec market, our network of relationships and, of course, our financial expertise—to generate returns for our clients.

In pursuing this strategy, our focus will be on working with promising enterprises—especially mid-sized companies—at or near inflection points in their growth. In this regard, we will place a special emphasis on harnessing our networks and our expertise to enable these businesses to establish positions outside Québec and Canada, in the markets of the world. Our long-term focus as an investor is one of the unique caracteristics of the support we offer to Québec companies.

Of course, reinforcing our leadership in Québec goes beyond investing. For all of us at the Caisse, our leadership also means acting as a crossroad for financial information and expertise, contributing to the development and the spread of financial know-how. Given its position in Québec's financial sector, the Caisse has a responsibility to contribute to public debate on financial issues, to enrich it with new insights and to nurture the next generation of high caliber financial professionals.

REALIZING THE FULL POTENTIAL OF THE CAISSE

Building solid foundations for the Caisse through the execution of these five priorities is a substantial task and one that is vital to our future success.

That said, it is clear that foundations alone are not enough. They are only the first chapter.

With these foundations in place, we need to build walls and windows—in other words, we need to build an organization—that can win in the markets of the future. And let's not kid ourselves, these markets are already at our doorstep.

When I think about the world we will face in the years to come, there are a number of major trends or structural changes that are underway, that I believe offer important opportunities for us, our clients and Québec companies.

It is clear that the world economic order is changing, rebalancing. Economies that we used to call "emerging" like Brazil, India and China (BIC) will soon contribute far more to the world's economic growth than North America and Western Europe. Over the course of the next ten years, there will be many sectors where these and other "emerging" economies will represent more than 80% of total growth.

At the same time, the trend in these economies toward massive urbanization will continue to accelerate, which will bring with it a surge in infrastructure needs. We will see the same thing in developed countries, where governments will face the dual challenge of renewing infrastructure while they try to manage their debt.

All of this will create multiple investment opportunities in infrastructure and in natural resource development—both, sectors the Caisse knows well.

These same trends will also pose important questions about sustainable development and, in turn, clean technology—another area where Québec is well positioned.

These underlying trends will have a significant impact on each and every one of the Caisse's investment strategies, be they here in Québec, in Canada and abroad. To succeed, we will need to reinforce our research capabilities and strengthen our economic analytics so that we can better understand—and anticipate—the evolution of these trends to better adapt to them.

In much the same vein, we will need to deepen our understanding of a variety of asset classes and how a changing environment will shape them. So we will have to develop the skills and the agility that we will need to take full advantage of the opportunities we see. Among many other things, that means continuing to invest in the development of our people and in establishing partnerships with like-minded investors who share our long-term horizons.

We will do all of this in a well ordered way, always in line with our principles of simplicity, rigour, performance and focus on the client. We will do it step by step, always first developing the necessary skills and capabilities *before* we invest. It's the only way to build—brick by brick—a solid organization that will meet the needs and the expectations of our depositors.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

So, much work lies ahead for us. And it will take time to do things well and in ways that build durable capabilities.

That's why rebuilding the Caisse to achieve its full potential will take years, not months.

When we are done, what will the Caisse look like?

In our ranks will be teams of asset managers of the highest caliber, fully engaged and motivated.

The Caisse will be an organization that inspires the confidence of Québecers. Why? Because of our transparency, our rigour, our performance and the quality of our contribution to a dynamic Québec economy.

And finally, as a player recognized internationally, the Caisse will demonstrate with pride the investment know-how of Québec in the markets of the world.

Yes, we have come a good distance this year. And no doubt the road ahead will not always be an easy one. But the path we have laid out holds the keys to our success in the future. It is up to us to make it happen.

MICHAEL SABIA
President and Chief Executive Officer

OUR CLIENTS

CLIENTS – THE FOCUS OF OUR ACTIONS

In 2009, the Caisse adopted a roadmap that essentially involves refocusing on its core competencies and making depositors central to all its activities. Key outcomes of this roadmap include the adoption of a Charter of commitments towards depositors, a review of the specialized portfolio offering and an improved reporting.

HIGHLIGHTS

01 An $11.5 billion increase in depositors' net assets due to net investment results of $11.8 billion, despite -$0.3 billion in net deposits.

02 Revised portfolio offering.

03 More explicit and proactive reporting.

$11.5 BILLION INCREASE IN NET ASSETS

As at December 31, 2009, the Caisse had 25 depositors, mainly public and private Québec pension and insurance plans.

In 2009, the net assets of these 25 depositors increased by $11.5 billion, reaching $131.6 billion at year-end. As at December 31, 2009, the seven main depositors accounted for 95.8% of net assets. Tables 3 and 4 present the seven main depositors and a comparison of each depositor's net assets as at December 31, 2008 and December 31, 2009.

FIGURE 1

DEPOSITORS' NET DEPOSITS (WITHDRAWALS)

(for periods ended December 31 – in billions of dollars)

The increase in depositors' net assets in 2009 comes entirely from the net investment results of $11.8 billion, since net deposits represented -$0.3 billion for the year. This is significantly less than in previous years (see Figure 1). This decrease resulted primarily from a significant reduction in deposits by one depositor, the Fonds d'amortissement des régimes de retraite (FARR), that did not make any deposits in 2009 after having deposited an average of $3.3 billion in the previous four years.

A RENEWED COMMITMENT

In 2009, the Caisse renewed its commitment to work closely with its depositors to ensure their needs are met. This commitment is based on three basic principles:

- A new collaboration model with an emphasis on listening, transparency and a clear delineation of roles and responsibilities.
- An in depth review of the specialized portfolio offering in response to requests from depositors for a more flexible and transparent offering.
- A more explicit and proactive reporting.

See the new Charter of commitments in The Caisse Roadmap section, p. 63.

COMPLEMENTARY ROLES

Below is an outline of the respective roles (depositors and Caisse) in regards to the management of the depositors' holdings.

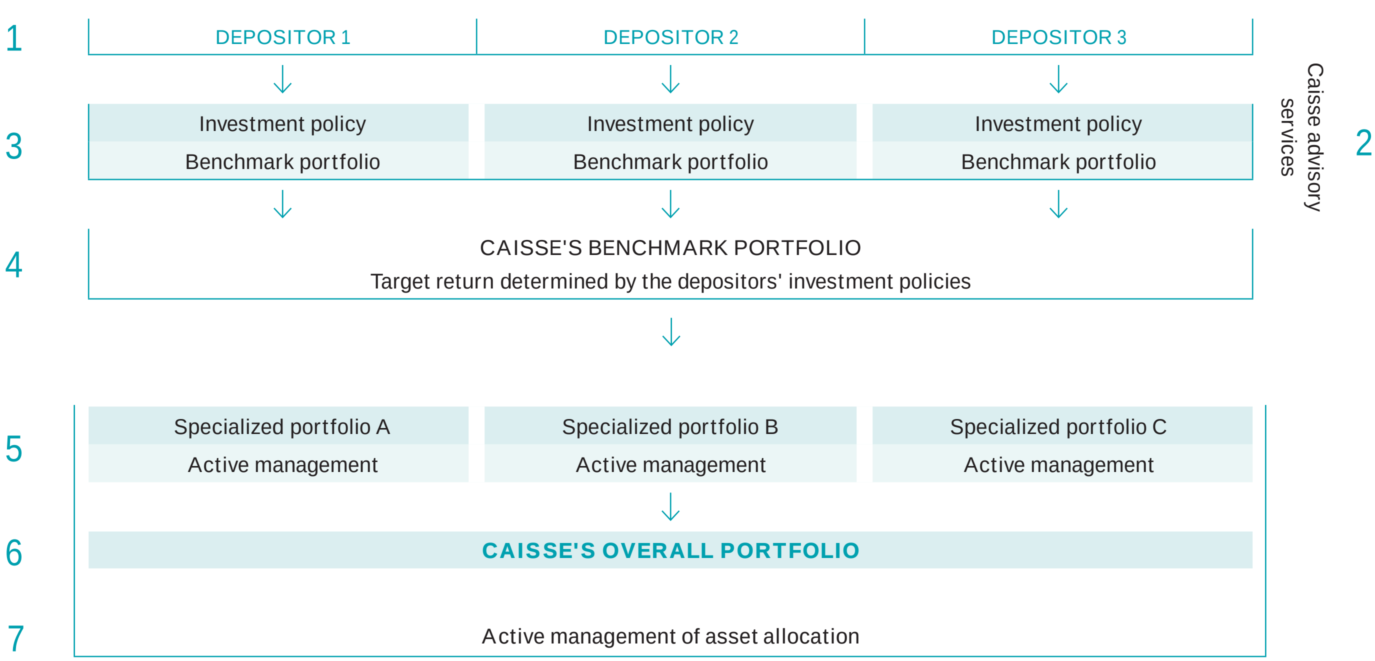
1. The depositors entrust their funds to the Caisse to make profitable investments, specifying their return objectives, risk tolerance and asset allocation in their investment policy.
2. With the support of Caisse advisory services, each depositor's investment policy is developed and reviewed.
3. Each depositor can invest its funds in the Caisse's various specialized portfolios, which are akin to mutual funds. The depositor's asset allocation (i.e. its choice among the various specialized portfolios offered) becomes its benchmark portfolio.
4. The weighted average of all the depositors' benchmark portfolios is used to determine the benchmark portfolio of the Caisse.
5. Caisse portfolio managers invest depositors' funds in compliance with the depositors' and the specialized portfolios' investment policies.

- Most portfolios are managed actively, with the objective to outperform their benchmark indexes. Managers set their portfolios apart from their benchmarks through their selection of securities, sectors or countries as applicable.

6. The aggregation of the depositors' funds represents the Caisse's overall portfolio. The return on this portfolio corresponds to the weighted average return on depositors' funds.
7. The Caisse completes rebalancing operations to adjust the weightings of the specialized portfolios based on market evolution and short- and medium-term economic forecasts. These operations aim to enhance the return on depositors' funds and, as a result, that of the overall portfolio.

FIGURE 2

PROCESS USED TO MANAGE DEPOSITORS' HOLDINGS



CLIENTS – THE FOCUS OF OUR ACTIONS

A REVISED PORTFOLIO OFFERING

In 2009, the Caisse carried out an in depth review of its specialized portfolio offering.

The new portfolio offering will be gradually phased in during 2010. In the long run, it will help depositors establish their investment policies and better align it with their liability structure.

The review, which was carried out in close collaboration with the depositors, pursued five objectives:

1. Provide depositors with increased flexibility by offering new investment options and risk hedging strategies.
2. Simplify portfolios and increase transparency by using fewer complex products, among other things.
3. Ensure the consistency of the specialized portfolios and that the risk-return profile of each portfolio is easier to understand.
4. Focus active management on asset classes where the Caisse has comparative advantages.
5. Reduce the level of authorized leverage and improve its monitoring.

Generally speaking, the structure of specialized portfolios will be changed to improve investment consistency across portfolios:

- Assets with similar characteristics and risk-return profiles will be grouped within the same portfolio.
- Value-added objectives will be reviewed to reflect market effectiveness and the Caisse's comparative advantages.
- The Caisse will continue to use and prioritize an active management approach. In addition, to offer depositors more flexibility in their investment decisions, active management and index management will be distributed in distinct portfolios.
- Depositors will be able to lower their portfolio's liability exposure by opting for protection mechanisms against fluctuations in foreign exchange, interest and inflation rates.

For more information, see The Caisse Roadmap section, p. 66-67.

MORE EXPLICIT AND PROACTIVE REPORTING

For many years, the Caisse's reporting to its depositors has been in accordance with the highest reporting standards. The Caisse provides each depositor with regular reports on its returns, their source, the value added in relation to the benchmark indexes and the risk assumed. It also issues certificates of compliance attesting that it has followed the depositors' and the specialized portfolios' investment policies.

In 2009, the Caisse particularly focused on improving the quality and clarity of its reporting. For example, it created a customized semi-annual bulletin for each depositor that reports and explains the performance of its individual fund. It also organized a seminar and held several meetings with depositors to discuss the management of third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs, leverage and their respective impacts on the absolute and active risk of the Caisse's overall portfolio.

The reporting improvements will continue in 2010, with a review of the monthly reports on risk and returns. The Caisse also intends to host seminars designed specifically for depositors to explain its new portfolio offering and investment strategies.

TABLE 3

THE SEVEN MAIN DEPOSITORS

	Depositor	Type of plan	Description
1	GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN (RREGOP)	Pension plan	RREGOP consists primarily of contributions by employees who work in Québec's health and social services sector, education system and public sector. The plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA).
2	FONDS D'AMORTISSEMENT DES RÉGIMES DE RETRAITE (FARR)	Pension plan	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. The fund is financed by the Québec government and administered by the Ministère des Finances.
3	FONDS DU RÉGIME DE RENTES DU QUÉBEC	Pension plan	The fund contributes to Québecers' income security, notably by providing for payment of a retirement pension. This mandatory plan is administered by the Régie des rentes du Québec (RRQ), and the contributions to the fund are made by employers and employees.
4	SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY	Pension plan	The plan is administered by the Commission de la construction du Québec (CCQ). The contributions to the plan are paid by construction industry employers and workers.
5	HEALTH AND WORK SAFETY FUND	Insurance plan	The fund mainly compensates workers who have work-related accidents 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.
6	PENSION PLAN FOR MANAGEMENT (RRPE)	Pension plan	The RRPE consists of contributions by management employees in the public and parapublic sectors. The plan is administered by CARRA.
7	FONDS D'ASSURANCE AUTOMOBILE DU QUÉBEC	Insurance plan	The fund compensates victims of vehicular accidents and promotes traffic safety. It is financed mainly by fees collected by the Société de l'assurance automobile du Québec (SAAQ) for driver's licences and vehicle registration.

TABLE 4

THE CAISSE'S 25 DEPOSITORS AND THE BODIES THAT ADMINISTER THEM

(fair value as at December 31 – in millions of dollars)

	First deposit	Depositors' net assets 2009 $	2009 %	2008 $	2008 %
PENSION PLANS					
Régie des rentes du Québec					
Fonds du Régime de rentes du Québec	1966	28,710	21.8	26,227	21.9
Commission de la construction du Québec					
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	10,551	8.0	9,864	8.2
Commission administrative des régimes de retraite et d'assurances					
Government and Public Employees Retirement Plan	1973	37,155	28.2	33,794	28.2
Pension Plan for Management	1973	6,432	4.9	6,029	5.0
Individual Plans	1977	216	0.2	202	0.2
Pension Plan for Elected Municipal Officials	1989	139	0.1	128	0.1
Régime de retraite pour certains employés de la Commission scolaire de la Capitale	2006	38	–	39	–
Régime de rentes pour le personnel non enseignant de la Commission des écoles catholiques de Montréal	2007	231	0.2	241	0.2
Régime de retraite des membres de la Sûreté du Québec	2007	196	0.1	35	–
Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence	1990	237	0.2	208	0.2
Ministère des Finances, Gouvernement du Québec					
Fonds d'amortissement des régimes de retraite	1994	28,835	21.9	26,101	21.7
Régime de retraite de l'Université du Québec	2004	151	0.1	167	0.1
Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	2005	31	–	47	–
Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec	2006	18	–	19	–
Régime de retraite des employés de la Ville de Laval	2007	47	–	33	–
INSURANCE PLANS					
Régie des marchés agricoles et alimentaires du Québec					
Fonds d'assurance-garantie	1967	6	–	6	–
La Financière agricole du Québec	1968	233	0.2	196	0.2
Autorité des marchés financiers	1969	469	0.4	446	0.4
Commission de la santé et de la sécurité du travail					
Health and Work Safety Fund	1973	8,344	6.3	7,849	6.5
Société de l'assurance automobile du Québec					
Fonds d'assurance automobile du Québec	1978	6,120	4.7	5,772	4.8
Fédération des producteurs de bovins du Québec	1989	3	–	3	–
Régime de rentes de survivants	1997	343	0.3	327	0.3
Conseil de gestion de l'assurance parentale					
Parental Insurance Fund	2005	2	–	2	–
OTHER DEPOSITORS					
Office de la protection du consommateur	1992	45	–	34	–
Société des alcools du Québec	1994	–	–	83	0.1
Ministère des Finances, Gouvernement du Québec					
Fonds des générations	2007	2,304	1.8	1,297	1.1
Fonds de la réserve budgétaire du gouvernement du Québec	2008	71	0.1	337	0.3
Fonds des congés de maladie accumulés	2008	661	0.5	602	0.5
Total		131,588	100.0	120,088	100.0

MANAGEMENT REPORT

MACROECONOMIC ENVIRONMENT

HIGHLIGHTS

01 2009: a turning point that started on deflationary fears and ended on hopes for recovery.

02 Québec and Canada ranked among the most resilient developed economies.

03 Global economic rebalancing between emerging and developed countries accelerated.

In hindsight, 2009 will likely be seen on many levels as a turning point.

After starting out with a serious case of depression-style jitters, the year finished to great market fanfare amid a historic recovery across nearly all risk assets. This reversal reflected a turnaround in the real economy. In the first few months of the year, the effects of the financial crisis and the deepest post-war recession continued to weigh on markets around the globe. Gross domestic product (GDP) was down sharply in all regions. Bolstered by historically large and far-reaching stimulus packages, industrialized and emerging economies staged a synchronized comeback, showing that lessons were learned from previous financial crises, such as in 1930s America, 1990s Japan, early 1990s Sweden and late 1990s Asia.

In spring, the first green shoots began to emerge. The rebound in international trade, a reversal of the inventory liquidation cycle, the lagged effect of extreme monetary policy loosening and massive fiscal stimuli stabilized some economies, while sparking renewed expansion in others. Yet, the recovery is slow paced, as business activity remains well below its 2007 peak.

The improvement is expected to continue in 2010. Emerging nations are favored, spurred by renewed international trade and growth in domestic demand. In developed countries, the recovery will be more modest amid high unemployment and a rise in private savings.

If anything, 2009 will stand out as the year global economic rebalancing began. The global recovery came with geographic disparities and certain underlying trends that will shape the evolution of the global economy in the coming years:

- Fiscal and monetary policies have proven effective, spurring growth.
- Protectionist fears remain unrealized to date, and international trade was a driver of the recovery.
- Post-crisis governance at the global level is in its nascent stages with the emergence of the G20.
- The main emerging economies—Brazil, China and India—have logged strong growth, while the turnaround in developed economies has been much more gradual.
- The U.S. recovery has seen a sharp rise in household savings, a sign that consumer debt should continue falling as the economy grows.
- Businesses the world over have been exceptionally responsive, returning to profitability in real time at the expense of jobs.
- Concerns about the solvency of financial institutions have gradually given way to fears over unsustainable public debt levels, particularly in countries whose creditworthiness is under fire, namely in Europe.
- Ranking among the most crisis-resistant of developed economies, Canada has emerged stronger in terms of both internal resilience and exposure to future sources of global growth.

SHARP REGIONAL DISPARITIES

Québec

Québec's GDP fell 1.4% in 2009, a much slimmer contraction than the Canadian average. As in the rest of Canada, green shoots began appearing over the course of the year, starting with a rise in hiring and a subsequent stabilization of economic activity.

Shortly before the financial crisis began, the Government kicked off major public infrastructure rebuilding. These projects, coupled with Québec's very limited exposure to the auto industry, cushioned the impact of the economic slowdown.

Québec was thus more resilient to international economic turmoil than its main trading partners. The pull-back in production and jobs, in particular, was not as deep in Québec as in the rest of Canada and the U.S. The province finished the year with a jobless rate of 8.4%, up from 7.6% a year earlier. Québec fared better than Ontario, where unemployment swelled to 9.2% from 7.4% over the same period, while the Canadian average rose to 8.4% from 6.8%.

Canada

In spite of solid fundamentals and a relatively healthy banking system, Canada was not spared the fallout from the global recession. Hard hit by a collapse in commodity prices and the economic slowdown of its main trading partner south of the border, Canada saw GDP contract sharply, down 2.6% in 2009. The Canadian auto industry was sideswiped by plummeting vehicle sales and financial woes at America's Big Three automakers. However, the domestic economy was buoyed by job stimulus measures. And the strength of the financial system afforded the Bank of Canada the leeway to pursue its effective monetary policy which supported domestic demand.

United States

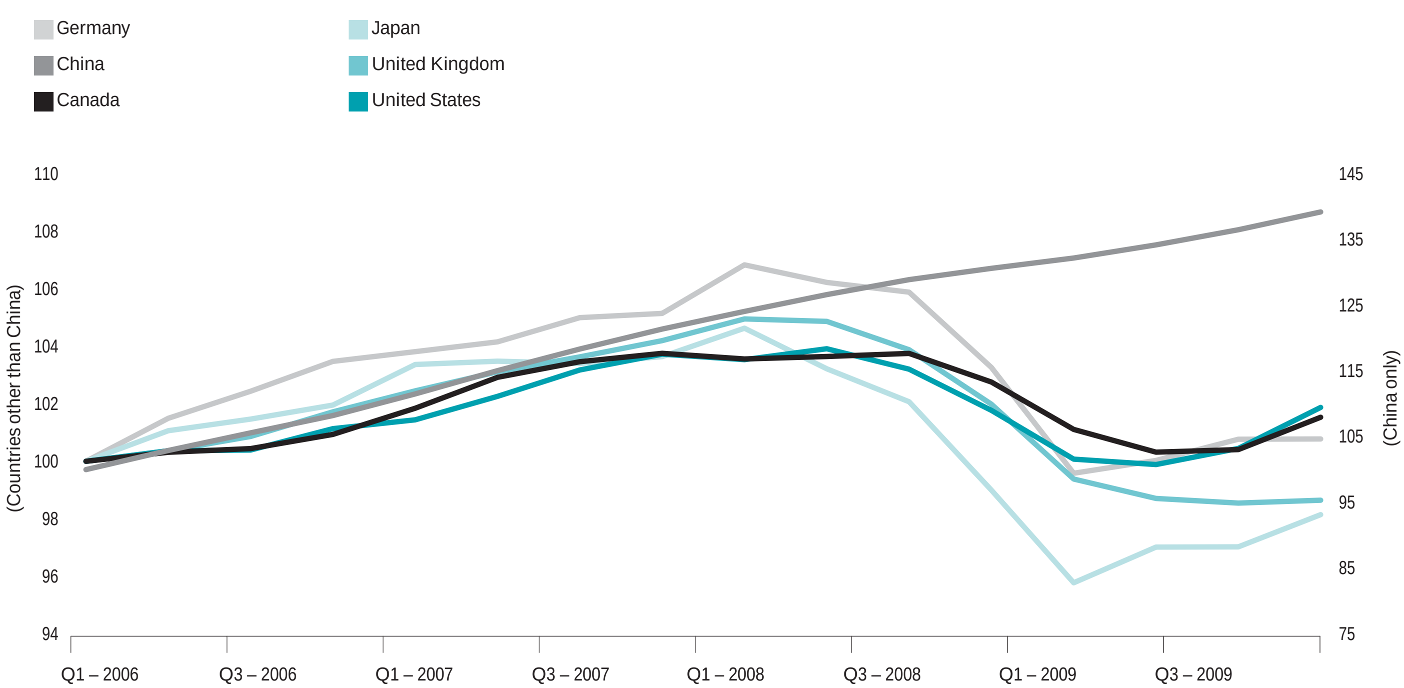
After the deepest and longest recession since the Great Depression of the 1930s, the U.S. economy gradually returned to positive growth in the latter half of 2009. The Federal Reserve took exceptional measures which slashed its policy rate to a historic low, and the fiscal stimulus package drove the U.S. federal deficit to a post-war peak. Meanwhile, U.S. households are rebuilding their savings after an unprecedented collapse in their financial wealth, putting a damper on the strength of the recovery.

Around the world

The word's top exporters bore the brunt of the economic slowdown. These countries took a drubbing from the dramatic drop in global trade, as demand evaporated in countries plunged into financial turmoil, such as the U.S., the U.K. and other European nations walloped by a bursting real estate bubble. Despite a track record of significant trade surpluses, Japan and Germany were brought to their knees, logging a much sharper decline in output than other developed economies. Yet, there was one stand-out: China. A stimulus package worth nearly 15% of GDP, focusing primarily on credit expansion and infrastructure spending, filled the void left by free-falling exports and allowed Chinese GDP to grow by 8.7%.

FIGURE 5

WORLD GDP GROWTH
(Q1 – 2006 = 100)



Source: Datastream

OVERALL PORTFOLIO

HIGHLIGHTS

01 In 2009, the Caisse reinstated the weighting of Equity Markets portfolios in its overall portfolio with a $9.6 billion investment.

02 During the year, Asset Allocation portfolio activities were reduced significantly. In addition, the Commodities portfolio was closed on December 31, 2009.

03 As at December 31, 2009, 63.8% of depositors' total assets were invested in Canada.

The Caisse invests the funds entrusted to it by its clients, the depositors. Its goal: grow depositors' funds so they can meet their long-term obligations. To generate this growth, the Caisse has developed a diversification strategy, investing in a variety of financial products in markets located in Québec, Canada and abroad.

The Caisse offers depositors the ability to allocate their funds across a number of specialized portfolios, each consisting of securities from one asset class. An investment policy sets out the management philosophy and parameters for each specialized portfolio regarding, in particular, its investment universe, benchmark index and value-added objectives, as well as risk oversight, featuring clearly defined concentration and risk exposure limits.

Specialized portfolios

In 2009, Caisse depositors offered 17 specialized portfolios with benchmark indexes and value-added objectives, plus the Asset Allocation portfolio.

Fixed Income

Four portfolios consisting of various types of bonds and debt securities: Short Term Investments, Real Return Bonds, Bonds and Long Term Bonds.

Equity Markets

Seven portfolios comprising the Caisse's investments in public equities. Six portfolios cover one or more specific countries: Canadian Equity, U.S. Equity hedged and unhedged, Foreign Equity—Developed Countries—hedged and unhedged and Emerging Markets Equity. The seventh portfolio, Québec International, has a special hybrid nature, as it consists of Canadian dollar bonds with an overlay of a basket of futures contracts that track various international stock market indexes. This combination increases exposure to global equity markets.

Private Equity

The Caisse is Canada's largest private equity investor. This type of investing consists in holding equity interests in companies either directly or through specialized funds. It also includes extending debt financing to companies. With two separate portfolios (Investments and Infrastructures and Private Equity), these investments focus on generating long-term returns, generally over a five- to seven-year horizon.

Real Estate

Over the years, the Caisse has acquired solid expertise managing one of the ten largest real estate portfolios worldwide. The Real Estate portfolio consists of office properties, business parks, retail and multiresidential properties, hotels and real estate investment funds. The Real Estate Debt portfolio consists of commercial mortgage loan investments.

Other

The Hedge Funds and Commodities portfolios round out the Caisse's investment offering. The first consists of investments in hedge funds and funds of hedge funds managed by external firms. The second comprises derivatives from different sectors, such as energy, industrial metals, precious metals, livestock, grains and so on. The Commodities portfolio was closed effective December 31, 2009. See The Caisse Roadmap section, p. 63.

Asset Allocation

This portfolio's activities were significantly reduced following historical losses sustained in 2008. This portfolio is not funded and has no benchmark index. In 2009, its activities were limited to the prescribed winding down of various financial engineering strategies and tactical asset allocation monitoring.

GEOGRAPHIC DIVERSIFICATION

In addition to investing in Québec and Canada, the Caisse also invests actively in global markets across a variety of asset classes.

As at December 31, 2009, the portion of depositors' total assets invested outside Canada amounted to 36.2% compared with 41.9% at the end of 2008. This decline resulted primarily from decreases in value in the Real Estate Debt portfolio and the U.S. portion of the Real Estate portfolio, as well as from the appreciation of the Canadian dollar. Most of the Caisse's foreign investments are held in the industrialized countries. The U.S. market continues to feature prominently, accounting for just under half of foreign investments. However, the share of investments in emerging markets is on the rise under the Caisse's strategy aimed at capitalizing on higher growth rates in these countries.

A significant portion of the Caisse's international assets is hedged against currency fluctuations through foreign exchange hedging instruments.

The Caisse's policy is to fully hedge foreign investments held in portfolios in the Private Equity and Real Estate sectors. With regard to Equity Markets portfolios, the level of hedging depends on the depositors' selection in their benchmark portfolio. In 2009, this policy contributed positively to the Caisse's return since the Canadian dollar sharply appreciated.

TABLE 6

GEOGRAPHIC BREAKDOWN OF DEPOSITORS' TOTAL ASSETS

(as at December 31 – in percentage)

	2009	2008
Canada	**63.8**	58.1
United States	**17.2**	20.9
United Kingdom	**3.9**	4.7
Germany	**2.9**	2.5
Japan	**1.3**	2.3
France	**2.4**	2.2
Emerging markets	**4.2**	3.1
Other	**4.3**	6.2
Total	**100.0**	100.0

BENCHMARK INDEXES

For each specialized portfolio, excluding the Asset Allocation portfolio, a benchmark index is used to measure managers' results against their corresponding markets (see Table 7). It should be noted that with the launch of the Caisse's new portfolio offering, the benchmark indexes of certain portfolios will change in 2010.

TABLE 7

CHANGES IN BENCHMARK INDEXES OVER 5 YEARS
(as at December 31, 2009)

SPECIALIZED PORTFOLIO	BENCHMARK INDEX
SHORT TERM INVESTMENTS (created July 1, 1998)	DEX 91 Day T-Bill
REAL RETURN BONDS (created January 1, 2004)	DEX Real Return Bond
BONDS (created October 1, 1996)	DEX Universe Bond
LONG TERM BONDS (created April 1, 2005)	DEX Long Term Government Bond
CANADIAN EQUITY (created July 1, 1995)	S&P/TSX Capped (Standard & Poor's / TSX Composite capped)
U.S. EQUITY HEDGED (created April 1, 1994)	S&P 500 Hedged (Standard & Poor's 500 hedged)
U.S. EQUITY UNHEDGED (created April 1, 2000)	S&P 500 Unhedged (Standard & Poor's 500 unhedged)
FOREIGN EQUITY HEDGED (created April 1, 1989)	MSCI EAFE Hedged (Morgan Stanley Capital International Europe, Australasia and Far East hedged)
FOREIGN EQUITY UNHEDGED (created April 1, 2000)	MSCI EAFE Unhedged (Morgan Stanley Capital International Europe, Australasia and Far East unhedged)
EMERGING MARKETS EQUITY (created January 1, 1995)	MSCI EM Unhedged (Morgan Stanley Capital International Emerging Markets unhedged)
QUÉBEC INTERNATIONAL (created July 1, 1999)	Index consists of 80% DEX Provincial Québec Subindex contracts and 20% DEX 91 Day T-Bill, plus a basket of equity futures.
INVESTMENTS AND INFRASTRUCTURES (created July 1, 2003)	Index consists of 50% S&P/TSX Capped, 25% S&P 500 Hedged and 25% MSCI EAFE Hedged since October 1, 2006, S&P/TSX adjusted previously.
PRIVATE EQUITY (created July 1, 2003)	Index consists of 60% S&P 500 Hedged and 40% MSCI EAFE Hedged since October 1, 2006, S&P 600 adjusted previously.
REAL ESTATE DEBT (created April 1, 1995)	Index consists of 90% DEX Universe Bond Index and 10% Barclays CMBS B Hedged since October 1, 2005, SCU previously.
REAL ESTATE (created October 1, 1985)	Aon – Real estate
COMMODITIES (created August 1, 2004)	Index based 80% on the Barclays U.S. Government Inflation-Linked Bond 1-10 Year Total Return Index and 20% on the Merrill Lynch 3-month U.S. Treasury Bill, plus the unhedged Dow Jones-AIG Commodity Excess Return Index.
HEDGE FUNDS (created April 1, 2003)	CS/Tremont Hedge Fund Index (modified) since July 1, 2007, SC 91-Day Canadian T-Bill from January 1, 2006, to June 30, 2007, S&P Hedge Fund Index previously.

BENCHMARK PORTFOLIO

The composition of the Caisse's benchmark portfolio reflects the weighted average asset allocation set out in depositors' investment policies.

As at December 31, 2009, the Caisse's overall portfolio asset allocation was in line with the parameters of the benchmark portfolio. During the year, the Caisse reinstated the weighting of Equity Markets portfolios to the depositors' target weighting, which had been reduced at the end of 2008 owing to market conditions.

TABLE 8

COMPOSITION OF THE BENCHMARK PORTFOLIO AND CHANGES IN THE OVERALL PORTFOLIO
(percentage of depositors' net assets)

	Benchmark portfolio as at December 31, 2009[1]			Caisse's overall porfolio	
	Lower limit %	Benchmark portfolio %	Upper limit %	as at December 31, 2009 %	as at December 31, 2008 %
Fixed Income					
Short Term Investments	0.1	1.1	9.1	2.2	3.7
Real Return Bonds	0.1	0.4	2.4	0.5	0.5
Bonds	21.1	26.9	36.2	28.7	37.4
Long Term Bonds	1.9	2.5	4.4	2.4	2.6
Total		30.9		33.8	44.2
Equity Markets					
Canadian Equity	6.9	12.2	17.8	13.0	10.9
U.S. Equity	0.2	3.4	11.5	3.6	1.9
Foreign Equity	1.0	5.5	12.9	5.2	3.4
Emerging Markets Equity	0.3	3.2	6.2	3.8	2.6
Québec International	6.7	10.6	15.4	9.8	3.6
Total		34.9		35.4	22.4
Private Equity					
Investments and Infrastructures	3.0	5.5	8.8	4.1	3.6
Private Equity	4.8	7.6	10.3	8.6	8.3
Total		13.1		12.7	11.9
Real Estate					
Real Estate Debt	2.5	6.5	10.0	6.9	9.6
Real Estate	6.3	10.1	14.5	10.9	12.0
Total		16.6		17.8	21.6
Commodities	0.0	1.5	3.4	0.9	1.1
Hedge Funds	0.4	3.0	5.2	2.9	3.3
Asset Allocation	0.0	0.0	1.0	0.4	0.4
Third-party and bank-sponsored ABCPs[2]				(3.9)	(4.9)
Total		100.0		100.0	100.0

1. The benchmark portfolio and its upper and lower limits are the result of the weighted average of the depositors' benchmark portfolios.
2. To better track third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs, the Caisse separated its reporting between ABCPs and other active management operations to highlight their impact on the overall portfolio.

ANALYSIS OF OVERALL PERFORMANCE

In 2009, the Caisse reported a 10.0% weighted average return on depositors' funds. Net investment results totalled $11.8 billion, bringing depositors' net assets to $131.6 billion as at December 31, 2009.

HIGHLIGHTS

01 The return was fully achieved in the second half of the year.

02 The Caisse's Fixed Income, Equity Markets and Private Equity portfolios mainly contributed to asset growth.

03 The result reflects a $4.8 billion unrealized decrease in Real Estate sector asset value.

For 2009, the Caisse underperformed its benchmark index return by 405 b.p., or 4.05%.

Over half of this return differential resulted from the decline in Real Estate Debt portfolio asset values. The remaining portion stemmed primarily from the underweighting of Equity Markets portfolios early in 2009 and the underperformance of the Private Equity portfolio relative to its benchmark.

TABLE 9

NET ASSETS AND RETURNS IN RELATION TO BENCHMARK INDEXES
(for periods ended December 31, 2009)

	1 year				5 years		
	Net assets	Return		Spread[1]	Return		Spread[1]
Investment sectors	$M	%	$M	(b.p.)	%	$M	(b.p.)
Fixed Income	44,115	5.8	2,692	94	4.9	10,818	(5)
Equity Markets	46,373	31.4	10,425	57	4.4	7,719	9
Private Equity	16,585	17.5	2,408	(815)	5.0	1,407	467
Real Estate	23,331	(15.8)	(4,111)	(1,003)	3.8	1,279	(485)
Commodities	1,237	8.3	90	(110)	(0.6)	(73)	(80)
Hedge Funds	3,826	13.2	435	130	2.6	277	209
Asset Allocation	499	–	16	–	–	(1,664)	–
Total[2]	131,588	10.0	11,752	(405)	2.7	12,730	(194)

1. In relation to benchmark indexes.
2. The total includes third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs, and other operations. For 2009, the ABCP provision reversal, combined with related costs and interest arrears, totalled $513 million. Since December 2007, the ABCP provision, combined with related costs and interest arrears, has totalled -$5.7 billion. The effect on value added totalled 23 b.p. in 2009 and -90 b.p. over five years. In addition to these items, net assets and the return in dollars include the demand and term deposits of depositors.

TWO DISTINCTIVE HALVES

The Caisse outperformed the return of the benchmark index in the second half of 2009.

Analyzed separately, the results for the first and second halves of the year paint two entirely different pictures, reflecting both a rapidly changing market environment and the Caisse's effective management of these challenges.

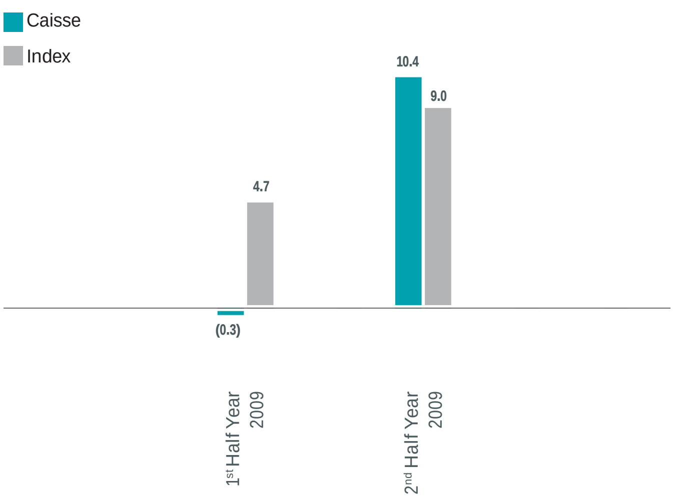
At the end of the first half of 2009, the Caisse reported a neutral return (-0.3%), whereas the benchmark index returned 4.7%. The appreciation in the value of liquid investments was offset by mark-to-market losses in private equity and real estate investments.

The latter half of the year saw a complete reversal of fortune. For the period, the Caisse earned a 10.4% return, outperforming the benchmark index's 9.0% return by 139 b.p. (1.39%). This outperformance was mainly driven by strong results in the Real Estate, Investments and Infrastructures, Bonds and Canadian Equity portfolios.

FIGURE 10

COMPARATIVE RETURN – TWO HALVES[1]

(in percentage)



1. Semi-annual returns are based on unaudited data.

FIVE-YEAR RETURN

For the five-year period ended December 31, 2009, the Caisse reported an annualized return of 2.7%. This return was highly affected by the 2008 results, as shown in Table 11.

The Caisse's five-year return trailed the benchmark by 194 b.p. (1.94%). Approximately half of this return differential resulted from third-party and bank-sponsored ABCP, now referred to as third-party and bank-sponsored ABTNs. The remainder stemmed primarily from the Real Estate Debt and Real Estate portfolios. During the period, the Short Term Investments, Canadian Equity, Private Equity and Hedge Funds portfolios outperformed their benchmarks.

TABLE 11

RETURNS

(for periods ended December 31 – in percentage)

	Caisse overall return[1]
2009	**10.0**
2008	(25.0)
2007	5.6
2006	14.6
2005	14.7
5 years (2005-2009)[2]	2.7

1. Weighted average return on depositors' funds.
2. The return percentage is annualized.

ANALYSIS OF OVERALL PERFORMANCE

DEPOSITORS' INDIVIDUAL RETURNS

The Caisse's overall return represents the weighted average return on depositors' funds. Depositors earn individual returns based on their respective investment policies, which set the asset allocation amongst the specialized portfolios.

The Caisse's seven main depositor returns ranged from 6.4% to 11.3% in 2009. For the past five years, these same depositors earned annualized returns ranging from 2.2% to 3.8%.

BREAKDOWN OF RETURN BY SPECIALIZED PORTFOLIO

In 2009, 10 out of the 17 specialized portfolios with a benchmark index outperformed their indexes. In addition, 15 of these portfolios generated a positive absolute return.

TABLE 12

RETURNS ON THE SPECIALIZED PORTFOLIOS IN RELATION TO BENCHMARK INDEXES

(for periods ended December 31, 2009 – percentage unless otherwise indicated)

Specialized portfolio	2009 Index	1 year Return %	1 year Index %	1 year Spread b.p.	5 years Return %	5 years Index %	5 years Spread b.p.
Fixed Income							
Short Term Investments	DEX 91 Day T-Bill	1.1	0.6	45	3.3	3.0	34
Real Return Bonds	DEX Real Return Bond	17.1	14.5	259	5.4	5.5	(14)
Bonds	DEX Universe Bond	6.4	5.4	97	5.1	5.2	(8)
Long Term Bonds	DEX Long Term Government Bond	2.1	1.2	86	n.a.	n.a.	n.a.
Total		5.8	4.8	94	4.9	5.0	(5)
Equity Markets							
Canadian Equity	S&P/TSX Capped	36.6	35.1	158	9.0	7.7	131
U.S. Equity (hedged)	S&P 500 Hedged	28.7	24.1	456	(3.0)	(1.3)	(171)
U.S. Equity (unhedged)	S&P 500 Unhedged	11.3	7.4	392	(3.6)	(2.2)	(139)
Foreign Equity (hedged)	MSCI EAFE Hedged	22.4	23.5	(106)	2.2	2.5	(30)
Foreign Equity (unhedged)	MSCI EAFE Unhedged	10.9	11.9	(100)	0.6	0.8	(17)
Emerging Markets Equity	MSCI EM Unhedged	50.9	51.6	(72)	11.0	12.5	(151)
Québec International	Québec International	26.9	27.7	(85)	1.7	2.1	(36)
Total		31.4	30.9	57	4.4	4.4	9
Private Equity							
Investments and Infrastructures	Investments and Infrastructures	33.6	29.5	410	0.5	4.3	(381)
Private Equity	Private Equity	10.8	24.0	(1,318)	8.4	(2.5)	1,088
Total		17.5	25.6	(815)	5.0	0.3	467
Real Estate							
Real Estate Debt	Real Estate Debt	(20.3)	8.5	(2,885)	(2.6)	4.1	(663)
Real Estate	Aon – Real estate	(12.7)	(15.3)	266	8.2	11.1	(290)
Total		(15.8)	(5.8)	(1,003)	3.8	8.6	(485)
Commodities	Commodity Financial Instruments	8.3	9.5	(110)	(0.6)	0.2	(80)
Hedge Funds	CS/Tremont Hedge Fund Index modified hedged	13.2	11.9	130	2.6	0.5	209
Asset Allocation[1]		\$16M[2]	n.a.	n.a.	\$(1,664) M	n.a.	n.a.
Weighted average return on depositors' funds[3]		10.0	14.1	(405)	2.7	4.7	(194)

1. The return is for the specialized portfolio, in dollars, net of operating expenses. Results are combined for the five-year period.
2. Net investment results indicated in the Financial statements for the specialized Asset Allocation portfolio amount to $33 million. This amount includes $16 million from the 2009 operations and $17 million from an adjustment to the opening balance of the specialized portfolio's net assets.
3. The total includes third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs, and other operations. For 2009, the ABCP provision reversal, combined with related costs and interest arrears, totalled $513 million. Since December 2007, the ABCP provision, combined with related costs and interest arrears, has totalled -$5.7 billion. The effect on value added totalled 23 b.p. in 2009 and -90 b.p. over five years.

ANALYSIS OF PERFORMANCE BY ASSET CLASS

FIXED INCOME

In 2009, the managers of the four portfolios in the Fixed Income sector capitalized on the rate movements and credit spreads in their various markets (Canada, provincials and corporates) in a balanced fashion. They employed active strategies in step with market changes, which proved profitable.

HIGHLIGHTS

01 The Fixed Income sector posted an overall return of 5.8%, or 94 b.p. (0.94%) above its benchmark index.

02 Each of the sector's four specialized portfolios outperformed its benchmark index.

03 As at December 31, 2009, net assets of the Fixed Income portfolios amounted to $44.1 billion, representing 33.8% of depositors'net assets, compared to 44.2% at the end of 2008.

MARKET ENVIRONMENT

Massive stimulus packages provided by monetary and government authorities began in the fall of 2008 and continued into 2009 restoring liquidity in the bond markets.

This prompted a shift of investments from risk-free assets (government securities) to higher risk assets (corporate securities), triggering a sharp decline in risk premiums and a slight uptick in government bond yields.

TABLE 13

SPECIALIZED PORTFOLIO RETURNS – FIXED INCOME

(for periods ended December 31, 2009)

		1 year			5 years		
	Net assets $B	Return %	Index[1] %	Spread (b.p.)	Return %	Index[1] %	Spread (b.p.)
Short Term Investments	2.7	1.1	0.6	45	3.3	3.0	34
Real Return Bonds	0.7	17.1	14.5	259	5.4	5.5	(14)
Bonds	37.6	6.4	5.4	97	5.1	5.2	(8)
Long Term Bonds	3.1	2.1	1.2	86	n.a.	n.a.	n.a.
Total	44.1	5.8	4.8	94	4.9	5.0	(5)

1. The description of the indexes is presented in Table 7, p. 24.

FIXED INCOME PORTFOLIO RETURNS

In 2009, the four Fixed Income portfolios benefited from the value added generated by the various federal, provincial and corporate bond management teams. Foreign currency management and strong results from the corporate debt partnership with the Private Equity sector also drove the value added.

Short Term Investments

The Short Term Investments portfolio returned 1.1% for 2009, or 45 b.p. (0.45%) more than its benchmark index.

The value added resulted primarily from a benchmark replication strategy focusing on the dispersion of spreads along the short end of the yield curve early in 2009 and then their subsequent tightening later in the year.

For the past five years, the portfolio produced an annualized return of 3.3%, or 34 b.p. (0.34%) ahead of the index.

Real Return Bonds

The specialized Real Return Bonds portfolio returned 17.1% for 2009, outperforming the benchmark by 259 b.p. (2.59%).

Management of the Real Return Bonds mandate contributed to an increase in value added, particularly through the overweighting in Québec government bonds. Hit by the decline in value of less liquid bonds in 2008, the portfolio appreciated in value in 2009 thanks to renewed liquidity and more stable markets. As a result of this pendulum effect, the portfolio recouped its losses, and its two-year return is close to its benchmark.

Over five years, the portfolio's annualized return is 5.4%, or 14 b.p. (0.14%) off the benchmark.

Bonds

For 2009 as a whole, the specialized Bonds portfolio returned 6.4%, outpacing the benchmark by 97 b.p. (0.97%).

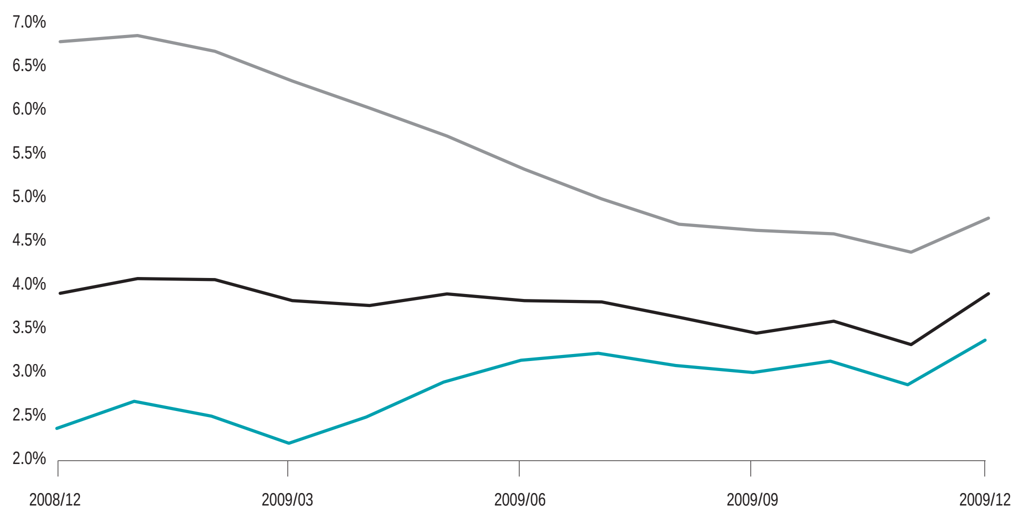
The Fixed Income team's active management strategies bolstered the portfolio's value added.

In 2009, most of the benchmark's sector returns resulted from the tightening of credit spreads that began in March. The portfolio's management teams all made substantial contributions to overall return through strategies that were sufficiently diversified and uncorrelated to the benchmark market.

FIGURE 14

YIELD TO MATURITY – MEDIUM-TERM MATURITIES

DEX Corporate Bond
DEX Québec
DEX Federal



1. Sources: DEX Québec: Rimes, DEX Corporate Bond and DEX Federal: PC-Bond

ANALYSIS OF PERFORMANCE
BY ASSET CLASS

Value added was driven in particular from tighter credit spreads for corporates and provincials, and from our positioning along the Canadian government bond yield curve in relation to other markets. Overall, the portfolio was well positioned to capitalize on stablility in monetary policy and credit markets.

For the five-year period ended December 31, 2009, the portfolio registered an annualized return of 5.1%, nearly matching the benchmark but for 8 b.p. (0.08%).

Long Term Bonds

For 2009, the specialized Long Term Bonds portfolio returned 2.1%, outstripping the index by 86 b.p. (0.86%). Value added arose from the aforementioned active management strategies, however, the index management return trailed the benchmark due to index replication costs.

Due to this portfolio's date of inception, results over a five-year period are not available.

Credit ratings

In 2009, the Fixed Income sector managers favored assets with AAA credit ratings provided by at least two recognized rating agencies. Over 80% of portfolio assets as at December 31, 2009 were rated A or higher.

TABLE 15

INVESTMENTS OF THE FIXED INCOME SECTOR BY CREDIT RATING

(fair value and percentage[1] as at December 31, 2009)

Credit rating[2]	$M	%
AAA	26,160.9	52.0
AA	4,943.4	9.8
A	10,893.6	21.6
BBB and less	2,517.8	5.0
Unrated	5,807.7	11.5
Total	**50,323.3**	**100.0**

1. Derivatives, securities acquired under reverse repurchase agreements, securities sold under repurchase agreements and cash were not taken into account to establish fair values and percentages.
2. Credit ratings are obtained from the major credit rating agencies and are aggregated according to their issuer group using an in-house algorithm. Only the long-term credit ratings of major agencies are considered.

EQUITY MARKETS

In 2009, the Equity Markets sector focused on rebalancing, in order to increase the equity portfolio weighting as to be in line with those of the Caisse's benchmark portfolio. Capital invested in the various portfolios and the increase in value of portfolio equities helped meet this goal.

HIGHLIGHTS

01 The Equity Markets portfolios posted an overall return of 31.4%, 57 b.p. (0.57%), outperforming their benchmark index.

02 In 2009, the Caisse reinvested $9.6 billion in the Equity Markets portfolios to take advantage of the market rebound.

03 As at December 31, 2009, net assets of the Equity Markets portfolios increased 75%, or to $46.4 billion from the $26.4 billion total a year ago.

04 At the end of the year, Equity Markets portfolios accounted for 35.4% of depositors' net assets, compared to 22.4% a year ago.

MARKET ENVIRONMENT

Starting in the fall of 2008, the massive sell-off in equities around the world continued gathering momentum into the early part of 2009. One reason behind these market movements was the fears of a repetition of the Great Depression. Between January 1 and the trough of March 9, 2009, the S&P/TSX and S&P 500 indexes shed 15% and 25% of their respective values.

The aggressive, coordinated government and central bank policies, such as the massive injection of liquidity into the financial system and bailouts of major financial institutions, helped restore investor confidence. In the spring, recessionary jitters gave way to a massive spending spree by investors who were underweight in equities, fuelling a market rebound. Overall, in 2009, the benchmark equity indexes surged between 26% and 62% in local currencies. Given the Caisse portfolio weightings, Equity Markets as a whole returned 30.9% in Canadian dollars.

TABLE 16

SPECIALIZED PORTFOLIO RETURNS – EQUITY MARKETS
(for periods ended December 31, 2009)

		1 year			5 years		
	Net assets $B	Return %	Index[1] %	Spread (b.p.)	Return %	Index[1] %	Spread (b.p.)
Canadian Equity	17.1	36.6	35.1	158	9.0	7.7	131
U.S. Equity (hedged)	0.7	28.7	24.1	456	(3.0)	(1.3)	(171)
U.S. Equity (unhedged)	4.1	11.3	7.4	392	(3.6)	(2.2)	(139)
Foreign Equity (hedged)	2.1	22.4	23.5	(106)	2.2	2.5	(30)
Foreign Equity (unhedged)	4.7	10.9	11.9	(100)	0.6	0.8	(17)
Emerging Markets Equity	4.9	50.9	51.6	(72)	11.0	12.5	(151)
Québec International	12.8	26.9	27.7	(85)	1.7	2.1	(36)
Total	46.4	31.4	30.9	57	4.4	4.4	9

1. The description of the indexes is presented in Table 7, p. 24.

ANALYSIS OF PERFORMANCE
BY ASSET CLASS

EQUITY MARKETS PORTFOLIO RETURNS

Canadian Equity
In 2009, the Canadian Equity portfolio returned 36.6%, representing a value added of 158 b.p. (1.58%) compared with the benchmark index.

This value added was primarily driven by the absolute-return strategies which generated excellent returns, particularly in the second half of the year. The largest gains were on long positions in materials and, to a lesser extent, energy.

With respect to portfolio sector allocations, the overweight in IT and the underweight in consumer staples and utilities proved profitable. However, security selection in energy, financials and telecommunications underperformed the benchmark return.

Over five years, the Canadian Equity portfolio posted an annualized return of 9.0%, outpacing the benchmark index by 131 b.p. (1.31%). Both active internal management and absolute return strategies drove the value added during the period.

U.S. Equity
For 2009, both the hedged and unhedged U.S. Equity portfolios outperformed their benchmarks.

The hedged U.S. Equity portfolio returned 28.7%, generating 456 b.p. (4.56%) in valued added versus the index. The unhedged portfolio returned 11.3%, or 392 b.p. (3.92%) ahead of the index. The difference in the two portfolios' absolute returns stemmed from the Canadian dollar's significant appreciation against the U.S. dollar starting in March.

Absolute-return operations contributed added value to the portfolio. Most of the gain was driven by volatility-driven strategies, which capitalized on the sharp drop in volatility in the first half of the year.

For the third year in a row, the contribution of managers at our New York office gave a boost to the annual results. The long-short strategies were productive once again, particularly in health care and IT.

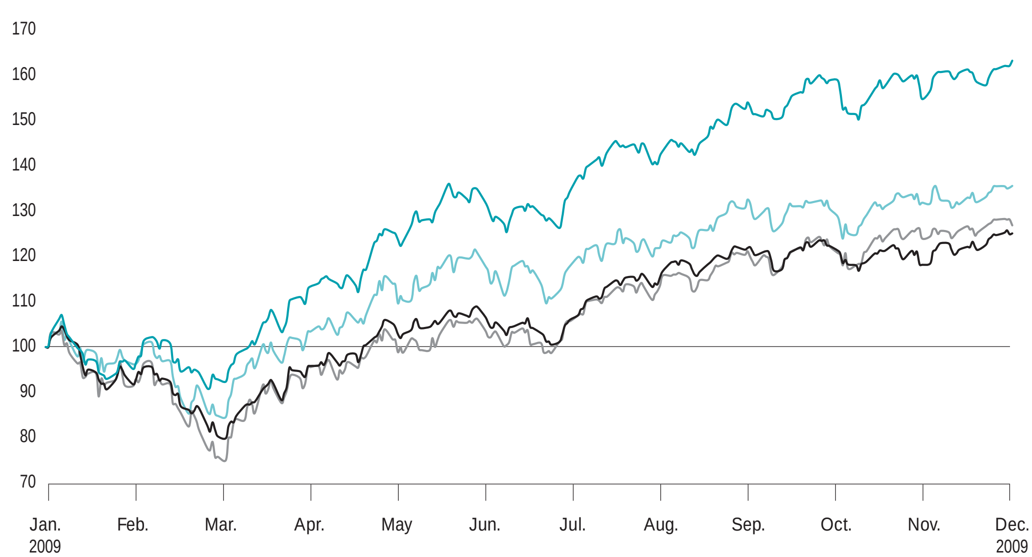
Over five years, the US Equity portfolio had an annualized return of -3.0%, trailing the benchmark by 171 b.p. (1.71%). During the period, absolute-return strategies accounted for most of the underperformance, primarily due to the depth of losses recorded in 2008.

FIGURE 17

EVOLUTION OF EQUITY MARKETS IN 2009[1]
(January 1, 2009 = 100
– in local currency)

MSCI EM
S&P TSX
S&P 500
MSCI EAFE

Source: Rimes



1. The description of the indexes is presented in Table 7, p. 24.

Foreign Equity

Both hedged and unhedged Foreign Equity portfolios posted positive growth in 2009, but trailed their respective benchmarks.

The return on the hedged portfolio was 22.4%, or 106 b.p. (1.06%) behind the index. The unhedged Foreign Equity portfolio returned 10.9%, or 100 b.p. (1.00%) off the index. The difference in the two portfolios' absolute returns stemmed from the Canadian dollar's appreciation against a number of foreign currencies.

In June 2009, the Equity Markets sector combined internal management operations for British, continental European, Japanese and Pacific (ex Japan) equities under a single index management mandate. For the year as a whole, this mandate slightly outpaced the benchmark index.

External managers, on the other hand, underperformed their benchmarks in aggregate. This showing was largely attributable to security selection in financials and consumer staples, the net result of the managers' various strategies. Absolute-return operations were profitable, contributing a positive return over the whole year.

Over five years, the hedged Foreign Equity portfolio posted an annualized return of 2.2%, or 30 b.p. (0.30%) shy of the benchmark. During the period, active external management outperformed the index, while active internal management fell short.

Emerging Markets Equity

The Emerging Markets Equity portfolio returned 50.9% in 2009, underperforming its benchmark index by 72 b.p. (0.72%).

In 2009, internal management fell short of the benchmark index. This negative difference was partly due to the underperformance of Chinese investments. It also resulted from costs related to transitioning from active to index management early in the year. Absolute-return strategies remained profitable, contributing value added to the portfolio.

External managers continued their active management mandates, achieving relatively mixed results. Two managers significantly outperformed their benchmarks due to equity and country selections. On the other hand, the other three managers' strategies curtailed value.

For the five-year period ended December 31, 2009, the Emerging Markets Equity portfolio recorded an annualized return of 11.0%, falling short of the benchmark by 151 b.p. (1.51%). For that period, active management, both internal and external, was behind the value shortfall relative to the index. Absolute-return operations, however, delivered a positive contribution.

Québec International

The specialized Québec International portfolio returned 26.9% in 2009, trailing the benchmark index by 85 b.p. (0.85%). For the past five years, the portfolio has an annualized return of 1.7%, or 36 b.p. (0.36%) shy of the index.

Active management of the Québec International portfolio is shared across various Caisse teams based on their respective areas of expertise. For 2009 and the past five years, the portfolio's negative relative return resulted mainly from the performance of fixed income operations.

PRIVATE EQUITY

There were few private equity investment opportunities in 2009. The managers of the two specialized portfolios continued their strategy of careful monitoring of portfolio assets. They focused on making new investments "closer-to-home", both in terms of geography, with Québec businesses, and relationships, with existing portfolio companies.

HIGHLIGHTS

01 The overall return for the Private Equity sector portfolios amounted to 17.5%, falling 815 b.p. (8.15%) short of the benchmark. Over five years, however, these portfolios outperformed the index by 467 b.p. (4.67%).

02 Both portfolios—Investments and Infrastructures and Private Equity—demonstrated strong resilience in 2009 due to sound investments and exposures to less cyclical sectors.

03 Profitability, measured by EBITDA, for the portfolio's top 25 direct investments held steady in 2009, increasing by 2% after a 6% rise in 2008.

04 The portfolios also benefited from a positive mark-to-market revaluation at year-end, more so and more quickly for the Investments and Infrastructures portfolio than the Private Equity portfolio.

05 Total assets under management remained steady at $25.1 billion. As at December 31, 2009, net assets of the two portfolios amounted to $16.6 billion, compared to $14.0 billion at the end of 2008. This increase is due to decreased leverage.

06 As at December 31, 2009, the Private Equity sector portfolios accounted for 12.7% of depositors' net assets, representing a slightly larger weight than the previous year.

MARKET ENVIRONMENT

Credit tightening and the liquidity crisis had a major impact on private equity, as transactions and leveraged buyouts (LBOs) dried up. As a result of the economic slowdown, few businesses pursued growth strategies. A number of investment projects were put on hold, which had a significant impact on the need for development capital. LBO funds targeted smaller-sized transactions and those less reliant on financial leverage.

The private equity market stalled until the last quarter of 2009, which saw an increase in transactions due to a firming up of the leveraged loan market and a modest resurgence in initial public offerings. Against this backdrop the main private equity fund managers focused, in 2009, on improvements in operating efficiency and balance sheet restructuring of existing portfolio companies.

The corporate credit market saw interest rate spreads narrow substantially. This tightening led to a substantial increase in value of portfolio securities.

The private equity sector hit its cyclical trough late in 2009, transitioning from a contraction to a recovery phase. The rebound, however, is off to a sluggish start (see Figure 22).

PRIVATE EQUITY PORTFOLIO RETURNS

Investments and Infrastructures

The Investments and Infrastructures portfolio returned 33.6% in 2009, outstripping the benchmark by 410 b.p. (4.10%).

All investment categories—infrastructures, debt, accumulation and development capital—delivered a positive return. During 2009, the portfolio generated significant gains in both debt financing and equity investments. These contributions were driven in particular from the $1.0 billion positive effect of mark-to-market due to upward revaluation of the fair value of various investments at year-end. The narrowing of credit spreads pushed up the fair value of debt securities as a whole, which accounts for over half of portfolio gains.

The star performers in development capital hailed from the materials, industrial, energy and financial sectors. Top contributors in infrastructure were in the energy and utilities sectors.

For the five-year period ended December 31, 2009, the Investments and Infrastructures portfolio recorded an annualized return of 0.5%, or 381 b.p. (3.81%) shy of the benchmark. During the period, the development capital and accumulation categories generated gains while infrastructures and debt dampened returns.

U.S. investments account for the largest portion of the Investments and Infrastructures portfolio in fair value terms. Canadian investments are next, with Québec representing the lion's share, at 19.0%, compared with 12.9% for Canada ex Québec (see Figure 19).

Private Equity

The specialized Private Equity portfolio returned 10.8% in 2009. The short-term results of the portfolio trailed the benchmark index by 1,318 b.p. (13.18%), whereas in the longer term, the portfolio continued to generate added value.

In 2009, all investment categories—LBO financing, restructuring, mezzanine debt and venture capital—delivered a positive absolute return.

LBO financing finished the year with the highest gains, arising, in most part, from direct equity positions and sector-based funds, particularly investments in industrials and consumer staples.

Venture capital investments generated strong results due to profitable exit strategies. Investments in restructuring and distressed loan funds, representing over 20% of portfolio assets, also bolstered returns in keeping with the strategies implemented. In particular, most of the funds were able to capitalize on rebounding markets and narrowing credit spreads to restructure the balance sheet of existing portfolio companies.

For the past year, the portfolio's shortfall in performance relative to the benchmark return resulted largely from a systematic multi-month lag between the valuation of external private equity investment funds and pricing in the liquid markets comprising the benchmark index. This lag effect was even more pronounced in 2009 due to the market recovery in the latter months of the year that was not reflected in the December 31 valuation of the external funds used to determine the portfolio return.

TABLE 18

SPECIALIZED PORTFOLIO RETURNS – PRIVATE EQUITY

(for periods ended December 31, 2009)

	1 year			5 years		
	Return %	Index[1] %	Spread (b.p.)	Return %	Index[1] %	Spread (b.p.)
Investments and Infrastructures	33.6	29.5	410	0.5	4.3	(381)
Private Equity	10.8	24.0	(1,318)	8.4	(2.5)	1,088
Total	17.5	25.6	(815)	5.0	0.3	467

1. The description of the indexes is presented in Table 7, p. 24.

ANALYSIS OF PERFORMANCE BY ASSET CLASS

In the LBO market, the control premium, or additional price paid to acquire control of a company, typically has an adverse effect on the calculation of value added until the investment's disposal. Since LBO financing accounts for over half of the portfolio's capitalization, this factor played a substantial role in the portfolio's performance relative to the benchmark return.

For the five-year period ended December 31, 2009, the Private Equity portfolio posted an annualized return of 8.4%, outperforming the index by 1,088 b.p. (10.88%). During the period, LBO financing operations contributed the largest gains.

Topping the list of geographic concentration were U.S. positions, accounting for almost half of the Private Equity portfolio's fair value, due in particular to a high U.S. weight among LBO financing related investments in the portfolio. Canadian investments amounted to 19.2% in total, including 15.9% in Québec (see Figure 20).

FIGURE 20

GEOGRAPHIC BREAKDOWN – PRIVATE EQUITY

(in percentage of fair value as at December 31, 2009)

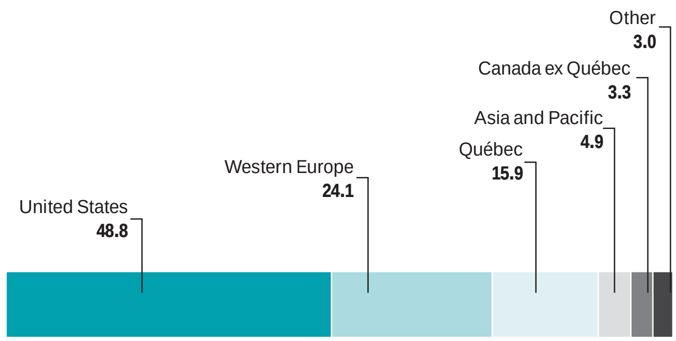


FIGURE 19

GEOGRAPHIC BREAKDOWN – INVESTMENTS AND INFRASTRUCTURES

(in percentage of fair value as at December 31, 2009)

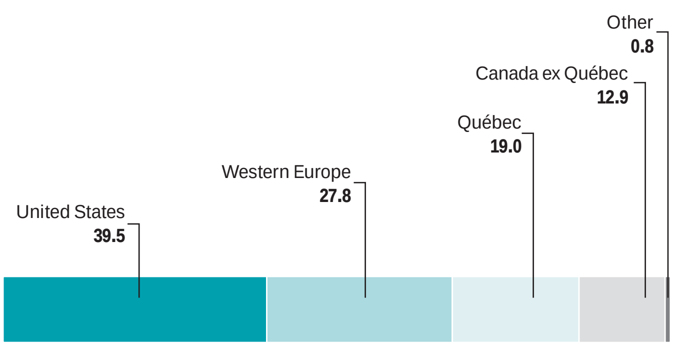


TABLE 21

TOTAL ASSETS UNDER MANAGEMENT BY PORTFOLIO – PRIVATE EQUITY

(fair value as at December 31, 2009 – in billions of dollars)

	Depositors' net assets	Depositors' total assets	Assets under management or under administration	Total assets under management	
Investments and Infrastructures	5.3	11.2	0.9	12.1	48.2%
Private Equity	11.3	13.0	–	13.0	51.8%
Total	**16.6**	**24.2**	**0.9**	**25.1**	**100.0%**

The private equity market hit its cyclical trough late in 2009, transitioning from a contraction to a recovery phase. The rebound, however, is off to a sluggish start.

FIGURE 22

PRIVATE EQUITY CYCLE

- Major investments
- Moderate investments
- Opportunistic investments

Expansion: buyer's market

- Priority on companies with constant cash flow
- Priority on defensive instruments
- Limited, opportunistic acquisitions

Infrastructure, mezzanine debt

Leveraged buyouts, restructuring, development capital

Slowdown: seller's market

- Selective approach to acquisitions/sales
- Active management of holdings
- Reinvestment in promising holdings

Restructuring, mezzanine debt

Infrastructure

Development capital, leveraged buyouts

Contraction: seller's market

- Cautious resumption of acquisitions
- Priority on equity investments
- Stakes in funds on secondary market

Restructuring

Mezzanine debt, development capital

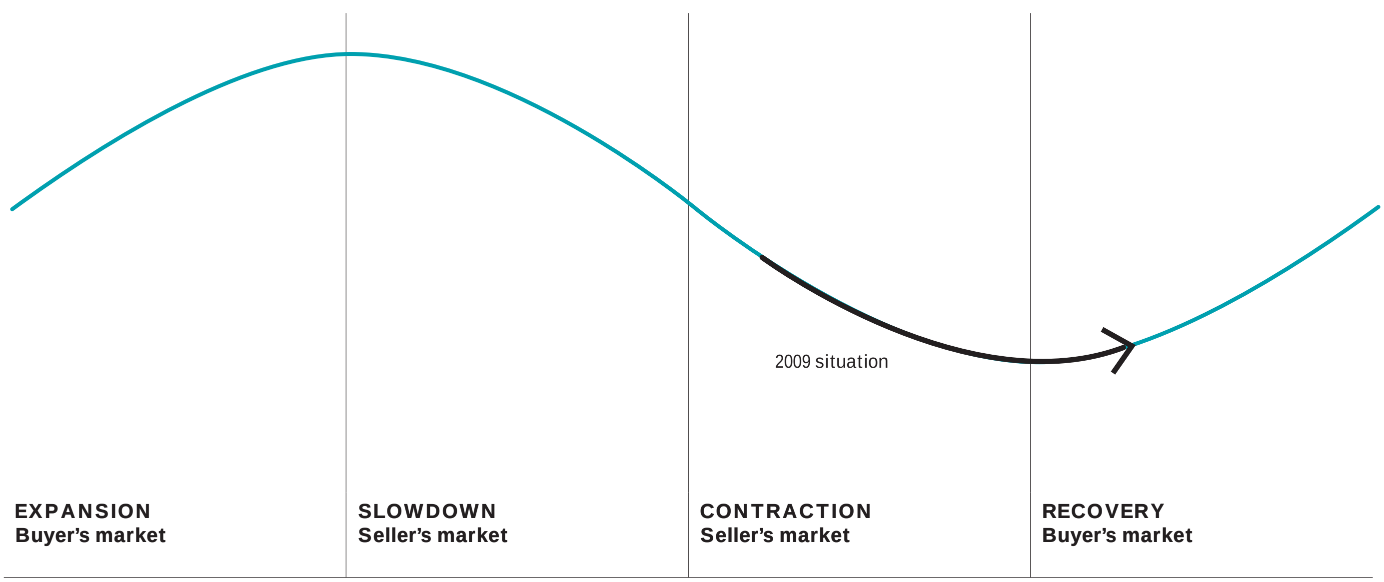
Infrastructure, leveraged buyouts

Recovery: buyer's market

- Massive equity acquisitions

Leveraged buyouts, accumulation, development capital, infrastructure

Mezzanine debt, restructuring



ANALYSIS OF PERFORMANCE
BY ASSET CLASS

REAL ESTATE

The Real Estate sector continued to feel the fallout from a challenging global environment in 2009, weighing on the results of the Caisse. To wit, a $4.8 billion unrealized decrease in value of its investments was recorded. Against a backdrop of global market weakness, the Real Estate sector adopted a defensive approach drawing on its solid expertise to optimize portfolio asset management. The team also refocused operations in its core business, which saw Cadim operations integrated into SITQ. Moreover, the Real Estate sector put together a team dedicated to identifying partners to boost its footprint in order to seize on future investment opportunities.

HIGHLIGHTS

01 The Real Estate sector's portfolios earned an overall return of -15.8%, 1,003 b.p. (10.03%) behind the benchmark index.

02 This result is due mainly to unrealized decreases in value during the first half of the year.

03 The two portfolios experienced a more positive second half, pointing to a certain market stability.

04 As at December 31, 2009, net assets of the two portfolios amounted to $23.3 billion, compared to $25.4 billion at the end of 2008.

05 At the end of the year, net assets of the two portfolios represented 17.8% of depositors' net assets, compared to 21.6% a year ago.

06 As at December 31, 2009, the Real Estate sector had $68.7 billion in total assets under management, compared to $77.7 billion a year earlier.

MARKET ENVIRONMENT

The real estate market was affected by the financial crisis that began in 2007, which also subsequently triggered an economic crisis late in 2008 that lasted until mid-2009. The business environment soured considerably across most North American and European markets. The U.S., U.K. and Spanish markets were the hardest hit owing to higher exposure to the financial sector and the speculative bubble in the residential sector. Economic conditions began to pick up in the second half of 2009, and the outlook is upbeat.

Against this backdrop, falling employment and consumer spending led to a drop in demand for commercial space. Vacancy rates climbed higher and lease rates trended lower in most countries.

Despite a slight upswing in real estate transactions in the second half of the year, buyers are still few and far between given the difficulty in securing financing. Faced with this environment, real estate investors focused on managing existing portfolios.
A number of capital funding players are awaiting buy opportunities expected to present themselves in 2010. There are opportunities in all markets, particularly to pick up under-valued assets.

Real estate financing was a lenders' market in 2009 with more conservative loan underwriting terms sparked by significant real estate asset decreases in value. Loans were written at lower debt-to-value ratios, while credit spreads were at historically high levels. Canada saw much fewer loans in payment default than the U.S., where credit conditions continued to deteriorate.

REAL ESTATE PORTFOLIO RETURNS

Real Estate Debt

In 2009, the Real Estate Debt portfolio returned -20.3%, or 2,885 b.p. (28.85%) less than the index. The portfolio's shortfall relative to the benchmark return was mainly attributable to investments in subordinated debt and structured products originated by third parties outside Canada, which accounted for nearly 90% of the portfolio's unrealized decreases in value. As part of a shift in portfolio focus back to its core competencies, the Caisse put an end to higher-risk operations, opting to drive growth via the Canadian market, whose track record has been exemplary. In Canada, loan delinquency rates remain very low.

Over five years, the specialized Real Estate Debt portfolio recorded an annualized return of -2.6%, or 663 b.p. (6.63%) below the benchmark index. This shortfall resulted from the 2009 results and the downward revaluation of investments at the end of 2008, primarily non-Canadian positions.

As at December 31, 2009, Canadian investments (Québec and Canada ex Québec) made up two-thirds of the Real Estate Debt portfolio's fair value (see Figure 24). The portfolio's largest holdings are in office properties (see Figure 25).

Real Estate

The Real Estate portfolio posted a return of -12.7% in 2009, outperforming the benchmark index by 266 b.p. (2.66%). This positive difference was driven by stronger portfolio results relative to the benchmark's Canadian and U.S. components.

In the first half of 2009, the portfolio weathered the effects of unfavourable conditions globally, and to a lesser extent, here at home. Results for the last six months of the year were marginally positive, pointing to more stable market conditions ahead.

In light of market conditions, the Real Estate sector took on no new commitments in 2009, seizing opportunities instead to unload certain properties. These disposals freed up liquidity used to reduce leverage. Cash disbursements were also made to real estate investment funds, and Bailian Changsha Oriental Shopping Plaza in China's Hunan province remains the portfolio's top acquisition, in line with the sector's pursuit of exposure to emerging countries, such as Brazil, India and China.

TABLE 23

SPECIALIZED PORTFOLIO RETURNS – REAL ESTATE

(for periods ended December 31, 2009)

	1 year			5 years		
	Return %	**Index[1] %**	**Spread (b.p.)**	Return %	Index[1] %	Spread (b.p.)
Real Estate Debt	**(20.3)**	**8.5**	**(2,885)**	(2.6)	4.1	(663)
Real Estate	**(12.7)**	**(15.3)**	**266**	8.2	11.1	(290)
Total	**(15.8)**	**(5.8)**	**(1,003)**	3.8	8.6	(485)

1. The description of the indexes is presented in Table 7, p. 24.

ANALYSIS OF PERFORMANCE BY ASSET CLASS

FIGURE 24

GEOGRAPHIC BREAKDOWN – REAL ESTATE DEBT

(in percentage of fair value as at December 31, 2009)

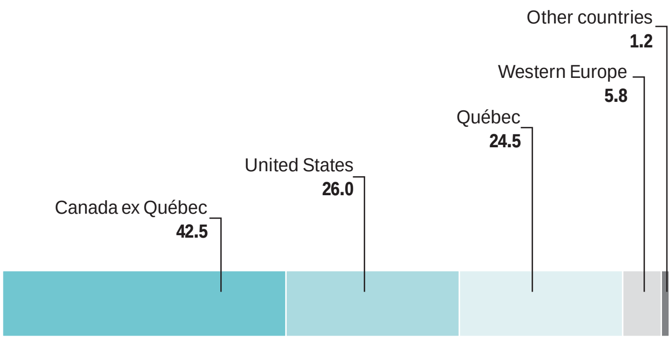
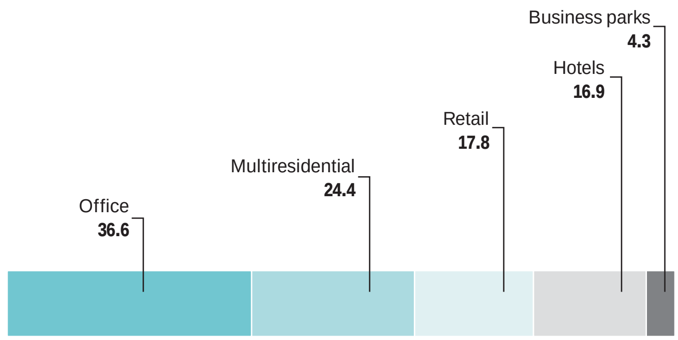


FIGURE 25

SECTOR BREAKDOWN – REAL ESTATE DEBT

(in percentage of fair value as at December 31, 2009)



Development projects also featured prominently in 2009. Several large-scale projects were completed, including the expansion and redevelopment of Conestoga Mall in Ontario and SouthGate Centre in Alberta. Over $190 million was invested in these retail properties, resulting in the addition of some thirty new stores and enhanced market share. The CrossIron Mills shopping centre in the Greater Calgary area has been a hit with consumers since its August 2009 opening. The 1.1 million sq. ft. property is Alberta's first new shopping centre in 20 years, representing a $494.7 million investment.

During the year, the team's focus was on managing existing portfolio assets to maximize income and closely monitor expenses. As a result, operating cash flows before financial costs held steady at their 2008 levels, which speaks to the outstanding quality of portfolio properties and tenants. Property occupancy remains historically high at almost 95%. In addition, several of the portfolio's office properties in Canada and the U.S. are leaders for their high quality and best-in-class sustainable development, environmental management and energy efficiency practices.

For the five-year period ended December 31, 2009, the Real Estate portfolio posted a return of 8.2%, trailing the benchmark index by 290 b.p. (2.90%). However, real estate is an asset class that must be considered over a long-term horizon. Over ten years, the Real Estate portfolio's annual return was 12.4%, outpacing the benchmark by 65 b.p. (0.65%).

As at December 31, 2009, Canada accounted for 42.9% of portfolio, with the U.S. representing 24.6% (see Figure 26). Retail properties made up the portfolio's top asset class, followed by office buildings and business parks (see Figure 27).

FIGURE 26

GEOGRAPHIC BREAKDOWN – REAL ESTATE

(in percentage of fair value as at December 31, 2009)

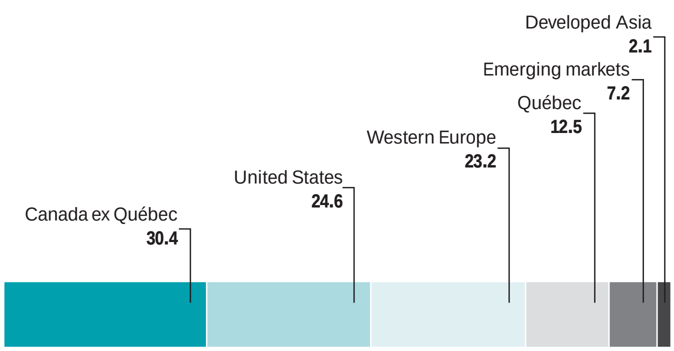


FIGURE 27

SECTOR BREAKDOWN – REAL ESTATE

(in percentage of fair value as at December 31, 2009)

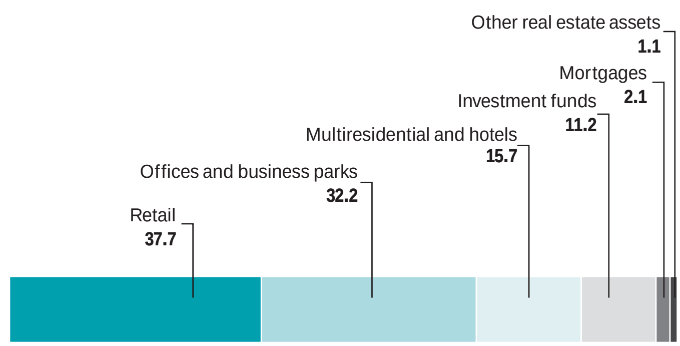


TABLE 28

TOTAL ASSETS UNDER MANAGEMENT BY PORTFOLIO – REAL ESTATE

(fair value as at December 31, 2009 – in billions of dollars)

	Depositors' net assets	Depositors' total assets	Assets under management or under administration	Total assets under management	
Real Estate Debt	9.0	10.3	12.1	22.4	32.6%
Otéra Capital	9.0	10.3	12.1	22.4	32.6%
Real Estate	14.3	28.9	17.4	46.3	67.4%
Ivanhoe Cambridge		11.5	5.0	16.5	24.0%
SITQ Group		17.4	12.4	29.8	43.4%
Total	23.3	39.2	29.5	68.7	100.0%

ORGANIZATIONAL STRUCTURE OF THE REAL ESTATE GROUP

The Real Estate team invests in equity and debt products in the offices and business parks sector, as well as retail, hotels and multiresidential properties in the Americas, Europe and Asia. The Caisse's Real Estate group consists of Ivanhoe Cambridge, SITQ Group and Otéra Capital and operates through two specialized portfolios: Real Estate and Real Estate Debt.

Main subsidiaries

Ivanhoe Cambridge owns, manages, develops and invests in shopping centres in urban areas of Canada, the U.S., Brazil, Europe and Asia. It had $16.5 billion in total assets under management as at December 31, 2009.

SITQ Group specializes in investment, development and property management. Its portfolio consists of office buildings and business parks, multiresidential properties, hotels and investment funds owned outright or in partnership. SITQ Group's portfolio investments are located in major urban centres of Canada, the U.S., France, the U.K., Germany and Asia. As at December 31, 2009, SITQ Group had total assets under management of $12.9 billion in its office and business park segment, and $16.9 billion in its multiresidential property, hotel and investment fund segment.

The operations of Otéra Capital were reorganized in 2009 to focus on its core business, first and junior commercial mortgages with debt-to-value ratios of 75% or lower. Otéra Capital, which invests in Canada, the U.S. and Europe, will pursue development with a Canadian market bias. As at December 31, 2009, Otéra Capital had $22.4 billion in total assets under management.

Other subsidiaries and affiliates

Ancar Ivanhoe, a shopping centre developer and manager, had $1.5 billion in assets under management or under administration as at December 31, 2009.

Simon Ivanhoe, a shopping centre developer, owner and manager, had assets under management or under administration totalling $1.0 billion as at December 31, 2009.

The Praedium Group, a real estate asset manager specializing in middle market, underperforming and undervalued assets, had $2.5 billion in assets under management as at December 31, 2009.

Presima, an international portfolio manager of publicly traded real estate securities, recorded $0.6 billion in assets under management as at December 31, 2009.

Maestro, a real estate asset manager specializing in seniors' residences, had assets under management totalling $1.2 billion as at December 31, 2009.

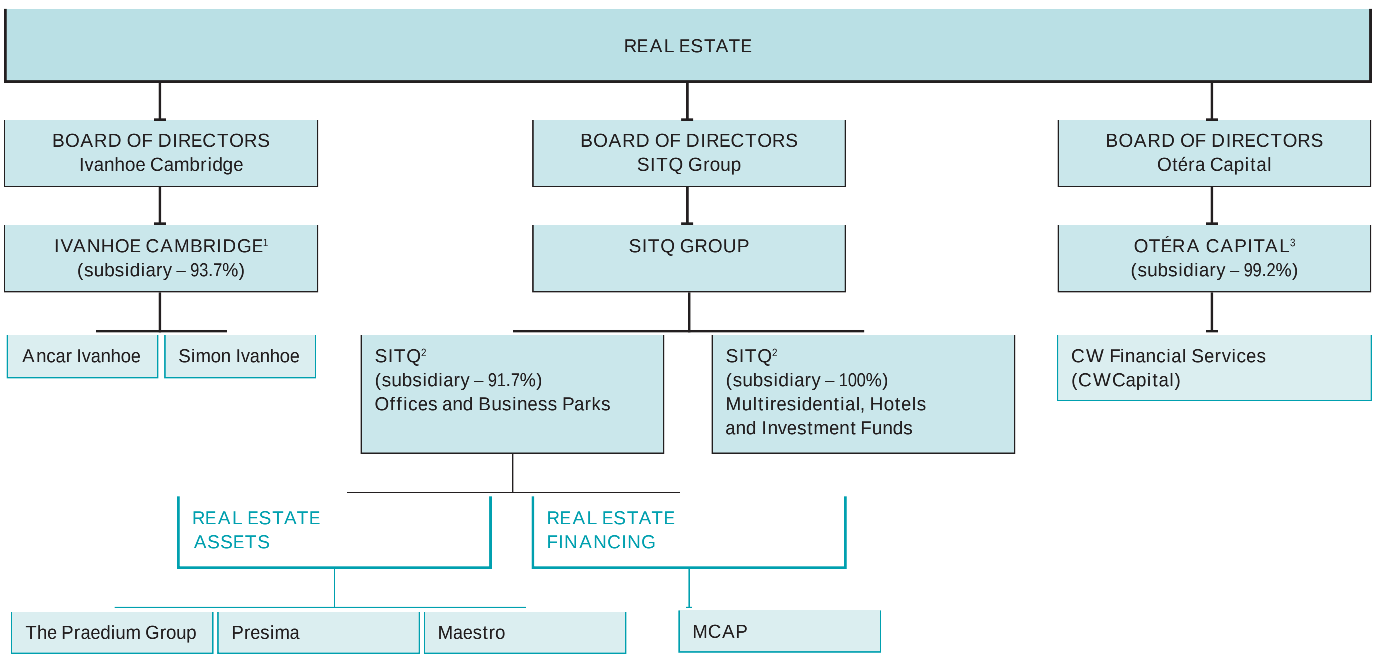
MCAP, a real estate debt manager in four core segments—residential mortgages, commercial mortgages, construction loans and equipment financing—reported $1.9 billion in assets under management or under administration as at December 31, 2009.

CW Financial Services (CWCapital), a real estate debt manager in all sectors of the real estate industry, recorded $11.0 billion in assets under management or under administration as at December 31, 2009.

FIGURE 29

ORGANIZATIONAL STRUCTURE – REAL ESTATE

(as at December 31, 2009)



1. Kim McInnes, President and Chief Executive Officer, Ivanhoe Cambridge
2. Paul D. Campbell, President and Chief Executive Officer, SITQ
3. Ross Brennan, President and Chief Executive Officer, Otéra Capital

ANALYSIS OF PERFORMANCE
BY ASSET CLASS

REAL ESTATE CYCLE

Emerging markets are in a recovery phase, although submarkets are exposed to overbuilding. Growth potential is supported by strong domestic demand.

Meanwhile, developed markets are either in recession or returning to an even keel. Given the environment of deleveraging and sluggish job creation, the outlook for economic growth in 2010 is somewhat limited. However, a gradual recovery is anticipated in certain developed markets starting in the latter half of 2010.

FIGURE 30

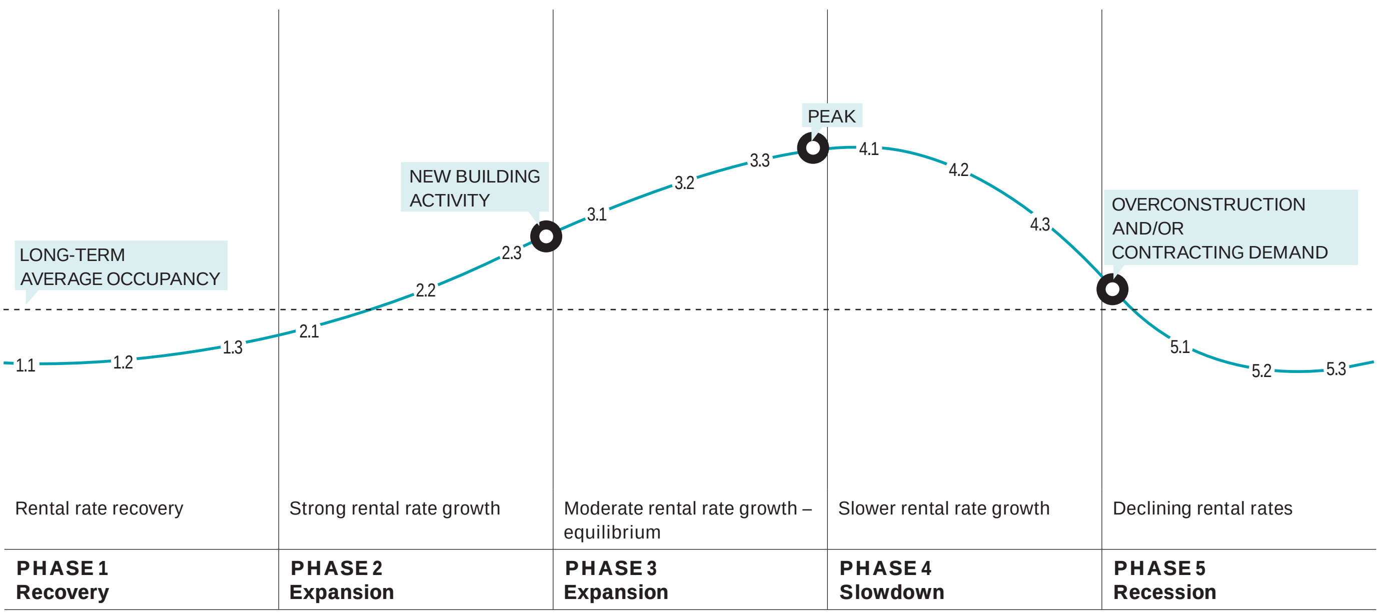
POSITIONING OF CERTAIN REGIONS WITHIN THE GLOBAL COMMERCIAL REAL ESTATE CYCLE AT THE END OF 2009

Emerging markets

- **1.1** Multiresidential (China, Brazil)
- **1.1** Office (China[1])
- **1.2** Office (India)
- **1.2** Retail (India[2])
- **1.3** Retail (China, Brazil)
- **5.3** Retail (Russia)
- **5.3** Retail (Mexico)

Developed markets

- **1.1** Office (United Kingdom)
- **1.1** Retail (France)
- **1.1** Hotel (euro zone and United Kingdom)
- **4.2** Retail (Canada, Germany)
- **4.2** Multiresidential (Canada)
- **5.1** Office (Central Europe)
- **5.1** Retail (United States, Spain, Central Europe, Japan)
- **5.2** Office (United States, Alberta, Ontario)
- **5.3** Office (euro zone, Québec, British Columbia)
- **5.3** Retail (United Kingdom)
- **5.3** Hotel (Canada, United States)
- **5.3** Industrial (United States warehouse)
- **5.3** Multiresidential (United States)



1. Essentially the Shanghai market
2. Essentially the Mumbai and Delhi markets

OTHER INVESTMENTS

In 2009, in light of the new reality in financial markets and as part of its refocusing of operations in its core business, the Caisse reviewed its strategies regarding hedge funds, commodities and asset allocation.

HIGHLIGHTS

01 In April, the Caisse discontinued internal active management in its Hedge Funds and Asset Allocation portfolios, as they had failed to produce the expected returns in recent years.

02 In November, the Caisse confirmed its decision to discontinue its specialized Commodities portfolio.

03 As at December 31, 2009, net assets of the Commodities and Hedge Funds portfolios totalled $1.2 billion and $3.8 billion, respectively, accounting for 0.9% and 2.9% of depositors' net assets.

MARKET ENVIRONMENT

The hedge fund industry is currently in flux. Following significant losses arising from the 2008 credit crisis, investors are demanding better conditions under the external hedge fund management mandates they award. These requirements include transparency, alignment of economic interests and governance.

In 2009, the return to normal liquidity in markets and the tightening of credit spreads, coupled with the stock market recovery started in March, lifted the segment back to positive returns.

With regard to commodities, after logging extreme volatility in 2008 and early 2009, the segment experienced a reversal of fortune with a number of green shoots appearing in the U.S. and other countries around the world.

The recovery pushed up prices of industrial metals and agricultural products, with copper scoring the sharpest growth thanks to China's stimulus plan and top ranking among global copper consumers.

TABLE 31

SPECIALIZED PORTFOLIO RETURNS – OTHER INVESTMENTS

(for periods ended December 31, 2009)

		1 year			5 years		
	Net assets B$	**Return %**	**Index[1] %**	**Spread (b.p.)**	Return %	Index[1] %	Spread (b.p.)
Commodities	**1.2**	**8.3**	**9.5**	**(110)**	(0.6)	0.2	(80)
Hedge Funds	**3.8**	**13.2**	**11.9**	**130**	2.6	0.5	209

1. The description of the indexes is presented in Table 7, p. 24.

PORTFOLIO RETURNS – OTHER INVESTMENTS

Commodities

For 2009 as a whole, the Commodities portfolio returned 8.3%, trailing 110 b.p. (1.10%) behind the benchmark index.

Until the December 31, 2009 closing, portfolio operations were comprised of two main categories: index management and active management. Index management used commodity derivatives to replicate the return of the benchmark index. Active management used derivatives to manage sector weightings (energy, industrial metals, precious metals, livestock, grains and agricultural commodities) or commodity weightings.

In 2009, the base metal and energy strategies generated the largest gains. However, the portfolio's gradual closing in December resulted in a $28.2 million or 2.2% value shortfall relative to the index return.

Over five years, the specialized Commodities portfolio posted an annualized return of -0.6%, or 80 b.p. (0.80%) below the benchmark index. During the period, the value gap resulted mainly from index management.

Hedge Funds

For 2009, the Hedge Funds portfolio returned 13.2%, outperforming the benchmark index by 130 b.p. (1.30%). Arbitrage funds as a whole generated better results than the other fund categories.

In 2009, the Hedge Funds portfolio capitalized on the return to normal market conditions as well as the tightening of credit spreads and recovered a portion of the losses incurred as a result of the 2008 financial crisis. The investment operations related to debt assets, mortgages and arbitrage of convertible bonds generated the highest gains. The stock market recovery that began in March also contributed to the gains.

Until April 2009, the specialized Hedge Funds portfolio was comprised of two types of operations: internal management and external management. Since May, following the discontinuation of the internal management operations, the portfolio consisted solely of holdings in hedge funds and in funds of hedge funds. As at December 31, 2009, most of the Hedge Funds portfolio assets were allocated among 62 external funds administered by 51 management firms, marking a reduction in the number of external funds compared with 2008. The Caisse intends to continue this reduction in 2010.

From a longer-term perspective, for the past five years, the Hedge Funds portfolio posted an annualized return of 2.6%, outperforming the benchmark index by 209 b.p. (2.09%). During the period, external management operations were the primary source of value added.

ASSET ALLOCATION AND OTHER ACTIVITIES

Asset Allocation

The Asset Allocation portfolio, which has no benchmark index, returned $16 million. As at December 31, 2009, the Asset allocation portfolio reported $0.5 billion in net assets.

For the five-year period ended December 31, 2009, the portfolio recorded a negative return of $1.7 billion, arising primarily from losses in 2008 triggered in large part by the financial engineering operations being wound down by the Caisse in the spring of 2009.

Other activities

In performing its duties as an investor, the Caisse carries out various other operations, such as treasury operations and portfolio rebalancing decisions, which bear on the calculation of net investment income and net assets. Other operations also include third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs.

In total, these other operations had a negative $0.2 billion impact on net investment income. This amount consisted of two main components: the adverse effect of the partial dehedging of certain specialized portfolios during the first half of the year subsequent to decisions made in fall 2008 (-$0.6 billion) and the improvement in third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs (+$0.5 billion).

In addition, the underweighting of Equity Markets early in the year resulted in a $1.1 billion shortfall. This amount does not change net investment results for 2009, but explains 89 b.p. (0.89%) of the 405 b.p. (4.05%) difference in the overall portfolio's return relative to its benchmark.

Third-party and bank-sponsored ABCPs

In its original form, asset-backed commercial paper ("ABCP") was a money market instrument with short-term maturities. Before the organized market for this type of financial instrument became frozen in August 2007, it provided daily quotations used to determine its value.

Starting in August 2007, when the liquidity crisis hit the Canadian ABCP market, the Caisse became unable to collect amounts payable under ABCP investment operations. Investors and banks agreed to a standstill, kicking off third-party and bank-sponsored ABCP restructuring efforts, which resulted in the January 21, 2009 exchange of securities. The new third-party and bank-sponsored securities were renamed "asset-backed term notes" ("ABTN"). Third-party and bank-sponsored ABTNs are long-term securities, with an average maturity of seven years, generating interest income on a quarterly basis. Moreover, a dedicated ABTN management team was put in place in 2009.

In 2009, asset-backed securities markets did not experience the same improvement in liquidity as did most other global financial markets. However, the risk that the underlying assets will incur losses diminishes over time. In addition, the standstill period ending on July 21, 2010, defers the possible triggering of additional collateral calls. The reduced risk and improved credit conditions are reflected in the assumptions used in measuring third-party and bank-sponsored ABTNs. As a result, in 2009, the Caisse reversed a $479 million provision previously recognized in respect of third-party and bank-sponsored ABCPs. In addition, a $192 million loss was realized on an asset write-off. Accordingly, as at December 31, 2009, the cumulative provision recognized in respect of third-party and bank-sponsored ABTNs amounted to $5.1 billion, representing what remains an unrealized decrease in value.

In total, third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs, had a $513 million positive impact on 2009 net investment results.

For more information, see note 4B of the Combined Financial Statements, p. 152.

CHANGES IN ASSETS

Depositors' net assets totalled $131.6 billion as at December 31, 2009, up $11.5 billion from $120.1 billion a year earlier. Total assets under management amounted to $201.2 billion, down $19.2 billion compared with 2008 owing primarily to the significant reduction in liabilities.

HIGHLIGHTS

01 In 2009, the Caisse strengthened its financial position, reducing its liabilities from $66.8 billion to $39.0 billion, a 41.5% decrease.

02 Depositors' net assets climbed to $131.6 billion, an $11.5 billion increase.

03 $11.8 billion net investment results.

DEPOSITORS' NET ASSETS

In 2009, depositors' net assets grew $11.5 billion, net of depositors withdrawals of $0.3 billion.

Over the past five years, depositors' net assets have grown $29.2 billion to $131.6 billion as at December 31, 2009 from $102.4 billion as at December 31, 2004. This increase was driven, on one hand, by $16.4 billion in depositors' net contributions and, on the other, by $12.7 billion in net investment results.

DEPOSITORS' TOTAL ASSETS

As at December 31, 2009, depositors' total assets stood at $170.6 billion, a $16.3 billion decline from their $186.9 billion total as at December 31, 2008. This decline stems from the $27.7 billion reduction in liabilities, which decreased from $66.8 billion in 2008 to $39.0 billion in 2009. Liabilities, essentially used to finance investment activities, include securities sold under repurchase agreements, short sales, derivatives, and financing programs issued by the Caisse's CDP Financial subsidiary. The decline in liabilities results primarily from the reduced use of derivatives and securities sold under repurchase agreements.

TABLE 32

ANALYSIS OF CHANGES IN DEPOSITORS' NET ASSETS

(for the period 2005-2009 – in billions of dollars)

	2005	2006	2007	2008	**2009**	2005-2009
Net assets at beginning	102.4	122.2	143.5	155.4	**120.1**	102.4
Income generated by the composition of the Caisse's benchmark portfolio (depositors' investment policies)	13.7	15.8	9.1	(29.3)	**16.4**	25.6
Value added[1]	1.7	2.3	(0.9)	(10.2)	**(4.4)**	(11.5)
Operating expenses[2]	(0.2)	(0.2)	(0.3)	(0.3)	**(0.3)**	(1.2)
External management fees[2]	–	(0.1)	(0.1)	(0.1)	**0.0**	(0.2)
Net investment results[3]	15.2	17.8	7.9	(39.8)	**11.8**	12.7
Depositors' net contributions	4.6	3.5	4.0	4.6	**(0.3)**	16.4
Net assets at end	122.2	143.5	155.4	120.1	**131.6**	131.6

1. Including third-party and bank-sponsored ABCPs, now referred to as third-party bank-sponsored ABTNs.
2. External management fees have been presented separately since January 1, 2007. The amounts for 2006 have been restated for comparison purposes.
3. Net investment results include income from depositors' demand deposits and term deposits.

NET INVESTMENT RESULTS

The Caisse generated net investment results totalling $11.8 billion for 2009 compared with negative net investment results of $39.8 billion in the previous year.

Net investment results reflect investment income, operating expenses and external management fees, gains or losses on the sale of investments and unrealized increases or decreases in the value of investments.

An analysis of operating expenses and external management fees is presented on p. 132.

Investment income

Investment income mainly consists of interest income, dividends, fees and real estate property rental income.

For the year ended December 31, 2009, investment income amounted to $4.9 billion, compared with $6.2 billion a year earlier. This decline resulted primarily from two factors:

- A fall in interest rates that saw investment income derived from fixed income securities decrease from $3.7 billion in 2008 to $3.2 billion in 2009.
- The underweighting of Equity Markets portfolios early in the year that saw investment income derived from variable income securities decrease from $2.5 billion in 2008 to $1.8 billion in 2009.

Gains (losses) on the sale of investments

Gains on the sale of investments totalled $4.5 billion in 2009, compared with losses of $23.2 billion in 2008. Of these gains in 2009, $5.5 billion was derived from the sale of variable income securities, partially offset by $0.9 billion in losses on the sale of fixed income securities and $0.1 billion in investment transaction costs.

TABLE 33

RESULTS AND CHANGES IN COMBINED NET ASSETS AND TOTAL ASSETS UNDER MANAGEMENT

(for periods ended December 31 – in millions of dollars)

	2009	2008
Investment income	4,907	6,161
Less:		
Operating expenses	250	263
External management fees	21	51
Net investment income	4,636	5,847
Gains (losses) on the sale of investments	4,521	(23,228)
Total realized income (losses)	9,157	(17,381)
Unrealized increase (decrease) in value of investments and liabilities related to investments	2,595	(22,435)
Net investment results	11,752	(39,816)
Depositors’ net deposits (withdrawals)	(252)	4,554
Increase (decrease) in combined net assets	11,500	(35,262)
Combined net assets, beginning of year	120,088	155,350
Combined net assets, end of year	131,588	120,088
Liabilities (primarily assets financed by borrowing)	39,048	66,787
Depositors’ total assets	170,636	186,875
Assets under management	14,933	17,364
Assets under administration	15,676	16,185
Assets under management and assets under administration	30,609	33,549
Total assets under management	201,245	220,424

CHANGES IN ASSETS

Unrealized increase (decrease) in the value of investments
In 2009, the Caisse reported a $2.6 billion unrealized increase in the value of investments and liabilities related to investments, compared with a $22.4 billion unrealized decrease in value in 2008 (see note 6E of the Combined Financial Statements). The 2009 increase in value consisted of $4.7 billion in unrealized net gains on derivatives and $2.1 billion in unrealized losses on investments, net of the foreign currency impact.

Net investment results of $11.8 billion in 2009 compare favourably to 2007 (+$7.9 billion) and 2008 (-$39.8 billion) (see Figure 35). In fact, a positive contribution was logged by all components—net investment income, gains (losses) on the sale of investments and unrealized increase (decrease) in value of investments (see Table 34).

DEPOSITORS' NET DEPOSITS (WITHDRAWALS)

As at December 31, 2009, total depositors' withdrawals exceeded deposits, resulting in $0.3 billion in net withdrawals, compared with $4.6 billion in net deposits for 2008. This difference resulted primarily from a significant reduction in deposits by one depositor, the Fonds d'amortissement des régimes de retraite (FARR), which did not make any deposits in 2009.

TABLE 34

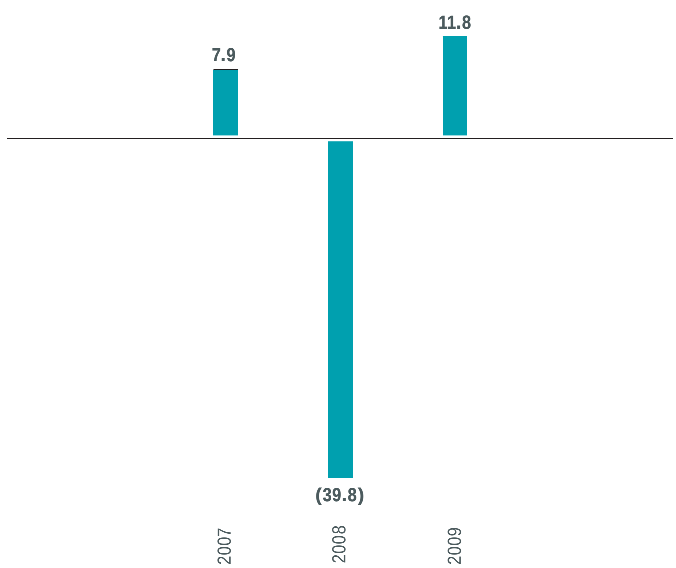
BREAKDOWN OF NET INVESTMENT RESULTS
(for periods ended December 31 – in billions of dollars)

	2009	2008	2007
Net investment income	**4.7**	5.8	6.2
Gains (losses) on the sale of investments	**4.5**	(23.2)	9.4
Unrealized increase (decrease) in value of investments and liabilities related to investments[1]	**2.6**	(22.4)	(7.7)
Net investment results	**11.8**	(39.8)	7.9

1. Including the unrealized increase (decrease) in value of third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs, of $0.1 billion in 2009, -$3.4 billion in 2008 and -$1.9 billion in 2007.

FIGURE 35

CHANGES IN NET INVESTMENT RESULTS
(for periods ended December 31 – in billions of dollars)



REPORTING

This section contains various accountability reports. In particular, it responds to the Government of Québec request to improve the Contribution to Québec Economic Development section and report specifically on the Caisse's risk management, roadmap and compensation policy. This section also contains a report from the Chairman of the Board on the Caisse's measures to strengthen its governance.

CONTRIBUTION TO QUÉBEC ECONOMIC DEVELOPMENT

HIGHLIGHTS

01 The Caisse uses three levers to support its action in Québec: investment, partnerships and knowledge sharing.

02 The Caisse's total assets in the private sector in Québec were $18.7 billion at the end of 2009, up $1.4 billion from 2008.

03 In 2009, the Caisse launched various initiatives to support Québec businesses, totalling $1.6 billion.

A LEADERSHIP ROLE IN QUÉBEC

The Caisse aims to play a leadership role with Québec businesses. This commitment, which is part of its mission, will be achieved by utilizing our comparative advantages. These advantages are:

- A unique ability to identify Québec companies with high potential through its network, expertise and experience.
- Strong relationships with Québec companies.
- Extensive knowledge of Québec's economic environment.
- Global market experience and extensive network of international partners to help Québec businesses expand overseas.
- Ability to promote the financial participation of other domestic and foreign institutional investors in different investment projects.
- Size and scope of activities that enable it to offer companies several different options tailored to their needs.

Based on these advantages, the Caisse will focus on three main levers to achieve its mission:

- Investment
- Partnerships
- Knowledge sharing

THE CAISSE: A STRATEGIC INVESTOR IN QUÉBEC

Through its investments, the Caisse aims to generate returns for its depositors and contribute to Québec business and economic growth. For the Caisse, these two fundamental aspects of its mission go hand in hand. In the coming years, the Caisse will therefore strengthen its support of Québec companies, especially promising medium-sized enterprises.

In fact, the Caisse is one of Québec's leading strategic investors and acts as a long-term company partner. In addition to providing financial support, the institution also helps Québec companies develop their business on several other fronts, particularly through its world market expertise and network of international partners.

TABLE 36

THE CAISSE IN QUÉBEC – KEY FIGURES

1	500	$1.6 B
#1 Québec company partner for long-term financing	**The Caisse is the financial partner of nearly 500 Québec companies**	**$1.6 billion in new investments and commitments in Québec companies in 2009**

Often, it is necessary for the Caisse to get behind businesses at a major turning point in their development. For example, it can be support for a particular project, such as an expansion or acquisition, or the implementation of a long-term business development plan in new markets.

In total, the Caisse directly or indirectly supports nearly 500 Québec companies.

In 2010, the Caisse's commitment to Québec companies will lead to the adoption of a policy that defines the parameters of its contribution to Québec's economic development. This new policy will establish a more formal approach to supporting Québec companies' growth in Québec, Canada and abroad.

TABLE 37

CAISSE TOTAL ASSETS IN QUÉBEC

(as at December 31 – in billions of dollars)

	2009	2008
Private Equity	**4.4**	3.8
Equity Markets	**2.1**	1.6
Fixed Income	**21.1**	21.7
Real Estate	**5.9**	6.3
Total	**33.5**	33.4
Private sector	**18.7**	17.3
Public sector	**14.8**	16.1
Total	**33.5**	33.4

In 2009, the Caisse Private Equity and Equity Markets sectors saw their Québec assets increase by $1.1 billion. The market downturn in 2009 had an impact on the value of the Caisse's Real Estate sector portfolios. The Fixed Income sector reported a $600 million decline.

THE CAISSE'S TOTAL ASSETS IN QUÉBEC

In 2009, the Caisse's total assets in Québec remained stable at $33.5 billion. That said, there were some changes in the breakdown of assets, such as the proportion of private sector investments, which increased due to new Private Equity and Equity Markets sector investments. The Real Estate sector's assets decreased $400 million because of declining markets. The Fixed Income sector saw a $600 million decrease due to the maturity of certain bonds in its portfolio.

In the private sector, the Caisse is the main partner of Québec companies through its private equity, real estate, equity and corporate bond investments. As a result, the Caisse's total assets in the private sector in Québec were $18.7 billion at the end of 2009, up $1.4 billion compared to 2008.

During the past year, the Caisse launched various initiatives to support Québec businesses, totalling $1.6 billion. This includes $1.2 billion in private equity investments and commitments. The remaining portion represents investments made in 2009 by the Equity Markets sector.

PRIVATE EQUITY: MANY NEW INVESTMENTS

In 2009, $1.2 billion in Private Equity sector investments and commitments in Québec included many new investments, such as major financings for corporations like GLV, Bombardier, Yellow Pages Income Fund, Transcontinental, Stageline Group, Averna Technologies and TeraXion.

In the case of GLV, the Caisse provided nearly $40 million in financing to acquire the Austrian company Christ Water Technology. For Bombardier, the Caisse joined a financial syndicate that provided the company a credit facility totalling US$500 million, US$195 million of which was from the Caisse. Yellow Pages Income Fund and Transcontinental each obtained financing via a five-year $100 million Caisse loan. In addition, the Caisse invested a total of $16.5 million in Stageline Group, Averna Technologies and TeraXion.

METHODOLOGY

To determine if an asset is Québec-based, the Caisse looks at the location of the company's or security issuer's headquarters. For real estate, it refers to the location of the asset.

This classification system, which is generally used by the fund management industry, is not perfect. Some companies are considered as Québec-based, even if their core business is outside Québec, while other companies operating extensively in Québec are not taken into account if their headquarters is located outside the province.

CONTRIBUTION TO QUÉBEC ECONOMIC DEVELOPMENT

TABLE 38

TOP 10 QUÉBEC INVESTMENTS[1] – PRIVATE EQUITY

(as at December 31, 2009)

ACH Limited Partnership
Cascades Inc
Domtar Corp.
Garda World Security Corporation
JA Bombardier (JAB) Inc (Bombardier Recreational Products)
Noverco Inc. (Gaz Métro)
Quebecor Media Inc
Transcontinental inc.
Yellow Pages Income Fund
YPG Holdings Inc

1. This table includes all investment vehicles of companies held by the Private Equity sector.

The Caisse has stakes in many strong Québec investment firms and companies with excellent growth potential.

A venture capital catalyst in Québec

The creation of Teralys Fund clearly illustrates the catalytic role the Caisse plays in Québec venture capital.

In early 2009, the Caisse, Solidarity Fund QFL and Government of Québec joined forces to create Teralys Capital Fund through Investissement Québec. This $825 million fund aims to finance venture capital funds that invest in life science, information technology and clean technology companies.

Under this agreement, the Caisse and Solidarity Fund QFL each contributed $250 million to this initiative. The Québec government injected $200 million. Teralys will solicit other institutional investors to raise an additional $125 million.

Over time, the Caisse has invested in many venture capital funds. It has frequently encouraged other large institutional investors to follow its lead and inject more money into these funds.

The Caisse has stakes in 15 venture capital fund managers—12 of whom are from Québec and the three others with offices here. As at December 31, 2009, these funds had a total of $2 billion, nearly $550 million of which came from the Caisse.

TABLE 39

PRIVATE EQUITY SECTOR ASSETS AND COMMITMENTS IN QUÉBEC

(as at December 31 – in millions of dollars)

	2009			2008		
	Assets	**Undisbursed commitments**	**Assets and undisbursed commitments**	Assets	Undisbursed commitments	Assets and undisbursed commitments
Venture capital	**111**	**367**	**478**	157	491	648
Small and medium-sized businesses	**337**	**607**[1]	**944**	304	286	590
Large businesses	**3,908**	**488**	**4,396**	3,336	246	3,582
Total	**4,356**	**1,462**	**5,818**	3,797	1,023	4,820

1. Including the agreement announced in January 2010 with Desjardins Group, in collaboration with Capital régional et coopératif Desjardins (CRCD).

The Private Equity sector's Québec assets amounted to $4.4 billion, as at December 31, 2009, an increase of more than $550 million from year-end 2008. The Caisse's undisbursed commitments climbed by nearly $440 million in 2009, reflecting namely the commitments made under its partnership agreement with the Desjardins Group. In total, the Caisse Private Equity sector's assets and commitments saw a $1 billion rise, as at December 31, 2009, compared to one year earlier.

The Caisse's approach contributes significantly to the vitality of Québec's venture capital industry. As a result, over 40% of all venture capital investments in Canada were made in Québec in 2009. While this area of the market is down overall in North America, it's up in Québec.

EQUITY MARKETS: SIGNIFICANT SUPPORT FOR PUBLICLY TRADED QUÉBEC COMPANIES

In 2009, the Caisse increased its stakes by $384 million in many publicly traded Québec companies. Nine are new investments. As a result, as at December 31, 2009, the Caisse had stakes in Québec companies whose market capitalization represents 93% of the total market capitalization of the 60 largest publicly traded Québec companies.

In fact, the Caisse's support of Québec publicly-traded companies is evident in the overweight position of Québec companies in its Canadian Equity portfolio. Québec securities accounted for 15.7% of the portfolio, compared to a 10.6% weight in its benchmark, the S&P/TSX Capped Index.

REAL ESTATE: THE CAISSE, ONE OF THE LARGEST REAL ESTATE INVESTORS IN QUÉBEC

The Caisse plays a major role in the Québec economy through its real estate activities. It is one of the largest real estate investors in Québec, with $5.9 billion in total assets and investments in over 525 buildings.

The Caisse operates in real estate through Ivanhoe Cambridge, SITQ Group and Otéra Capital, specializing in investment, development and property management. It invests in equity and debt, mainly in office buildings and business parks, retail and multiresidential properties.

With respect to investment activities, the Real Estate sector targets high-quality buildings in Québec that are well positioned in their markets. The Caisse's occupancy rate in Québec reached 94% in 2009. In Québec, the Caisse has, over time, seen enviable returns in this sector, one of the institution's core areas of expertise.

As at December 31, 2009, the Real Estate sector's undisbursed commitments were $187 million, including $91 million in debt and $96 million in direct investments or funds.

TABLE 40

TOP 10 FUND MANAGERS – VENTURE CAPITAL

(as at December 31, 2009)

AgeChem
CTI Sciences de la Vie
Emerald Technology Ventures
iNovia Capital
JLA Ventures
Novacap
Placements Propulsion
Rho Canada Ventures
Société T2C2 / Bio 2000
Teralys Capital

The Caisse plays a significant role in Québec venture capital. It has stakes in many funds in various sectors, including health care, telecommunications and information technology.

TABLE 41

TOP 10 POSITIONS – EQUITY MARKETS

(as at December 31, 2009)

Astral Media Inc
BCE Inc.
Canadian National Railway Company
CGI Group Inc
Gildan Activewear Inc
National Bank of Canada
Quebecor Inc
RONA Inc
Saputo Inc
SNC-Lavalin Group Inc

The Caisse has significant investments in many high-performance Québec companies operating in various sectors.

CONTRIBUTION TO QUÉBEC ECONOMIC DEVELOPMENT

Many projects in 2009

In 2009, the Real Estate sector continued to invest in the repositioning and renovation of many properties, notably:

- Completion of the Place Vertu redevelopment project in Montréal, started in 2007. This project aims to reposition the mall in its market through new merchants, particularly from Québec, and the construction of a new food court. This project received an investment of nearly $5 million in 2009—for a total investment of $44 million.

TABLE 42

TOP 10 QUÉBEC INVESTMENTS – REAL ESTATE

(as at December 31, 2009)

Investment	Subsidiary	Leasable area (in thousands of m²)	Ownership interest (%)
1000 De La Gauchetière Ouest, Montréal	SITQ	**85.2**	**100**
Centre CDP Capital, Montréal	SITQ	**52.9**	**100**
Centre Eaton Montréal, Montréal	Ivanhoe Cambridge	**26.9**	**100**
Fairview Pointe-Claire, Montréal	Ivanhoe Cambridge	**91.1**	**50**
Galeries d'Anjou, Montréal	Ivanhoe Cambridge	**111.4**	**50**
Laurier Québec, Québec	Ivanhoe Cambridge	**108.6**	**50**
Les Rivières, Trois-Rivières	Ivanhoe Cambridge	**51.7**	**85**
Place Ville Marie, Montréal	SITQ	**239.2**	**50**
Rockland, Montréal	Ivanhoe Cambridge	**61.0**	**100**
World Trade Centre Montréal, Montréal	SITQ	**52.6**	**100**

The Caisse owns high-quality real estate in prime locations. Major Caisse properties include Place Ville Marie, Centre Eaton, Rockland and 1000 De La Gauchetière.

TABLE 43

REAL ESTATE SECTOR ASSETS AND COMMITMENTS IN QUÉBEC

(as at December 31 – in millions of dollars)

			2009			2008
	Assets	**Undisbursed commitments**	**Assets and undisbursed commitments**	Assets	Undisbursed commitments	Assets and undisbursed commitments
Office	**2,295**	**2**	**2,297**	2,340	72	2,412
Retail	**2,793**	**55**	**2,848**	2,876	42	2,918
Other assets	**818**	**130**	**948**	1,090	286	1,376
Total	**5,906**	**187**	**6,093**	6,305	400	6,705

The value of the Caisse's Québec commitments and assets in this sector was $6.1 billion, as at December 31, 2009, compared to $6.7 billion a year ago. The portfolio difference was primarily due to loan repayments and unrealized financing commitments. The Caisse invests in high-quality assets, particularly in real estate, and the institution believes these investments will recover and continue to generate long-term returns that meet depositor expectations.

- Completion of the Place Ste-Foy renovation project that began in 2008. The project led to the expansion of Simons, the construction of an underground parking garage and the expansion of its leasable space. The project saw a $15 million investment in 2009.
- Start of the Brossard Mail Champlain redevelopment, which will receive a total investment of nearly $40 million. This project aims to reposition the Mail Champlain in its market. Work will be performed from fall 2009 to the end of 2010.
- Continuation of renovations at Place Ville Marie in Montréal. In 2009, work totalled $31 million.

In 2009, the Caisse also provided new term and construction loans for investments in Québec, totalling $24 million.

During the year, the Real Estate sector's total assets in Québec decreased by $400 million. The 2009 results are largely due to the effect of declining real estate markets on the sector's portfolios. That said, given the high quality of the Caisse's real estate assets, the institution believes these investments will recover and continue to generate long-term returns, meeting depositor expectations.

FIXED INCOME: INCREASED CORPORATE EXPOSURE

The Fixed Income sector's total assets in Québec stood at $21.1 billion, as at December 31, 2009, compared to $21.7 billion a year ago. The sector specializes in bond investments, mainly in the public sector.

TABLE 44

FIXED INCOME SECTOR QUÉBEC ASSETS

(as at December 31 – in billions of dollars)

	2009	2008
Québec public sector		
Québec government	**8.0**	9.3
Hydro-Québec	**4.2**	3.9
Other state-owned entreprises	**1.5**	1.5
Municipalities and para-governmental corporations	**1.1**	1.4
Subtotal	**14.8**	16.1
Private sector: corporate securities	**6.3**	5.6
Total	**21.1**	21.7

Québec corporate bond investments increased by $700 million. Government and para-governmental bond investments declined by $1.3 billion during the past year. This change in the public sector position of the Fixed Income portfolio is due to the maturity of certain bonds.

NEW STRATEGIC PARTNERSHIPS: DESJARDINS AND AXA

The Caisse also aims to build strategic financial partnerships with other institutional investors. These partnerships have an impact on the structure of Québec's economy, bringing together a critical mass of capital to facilitate the achievement of specific goals. During the year, the Caisse entered into major partnerships that will significantly benefit Québec companies.

The Caisse established a major partnership with the Desjardins Group in January 2010 to assist small and medium-sized companies under a three-year $600 million agreement. This will lead to a new fund that supports expansion, acquisition, R&D and productivity improvement projects.

The agreement with Capital régional et coopératif Desjardins has two components: one aimed at small businesses and another at medium-sized companies. With respect to small businesses financing needs, a $200 million fund has been established to provide subordinated loans of $3 million or less.

A $400 million budget will provide financing solutions to high-performance, medium-sized companies with growth and profitability potential. From this amount, approximately $300 million will take the form of loans over $5 million. The remaining $100 million will be invested as equity.

This agreement will enable the Caisse to capitalize on its comparative advantages in supporting Québec companies, particularly with expansion projects abroad, while generating returns for its depositors.

In addition, the Caisse may also forge alliances with international partners to finance companies in Québec, providing the opportunity to diversify their funding sources and to access additional capital.

CONTRIBUTION TO QUÉBEC ECONOMIC DEVELOPMENT

The Caisse's international partners may also directly support various projects of Québec companies abroad, which can take advantage of their local market knowledge and business networks. The partnership between AXA Private Equity and the Caisse, established in October 2009, follows this very approach.

Under this agreement, both partners will help Québec and European companies to expand into international markets. AXA will assist companies in European and Asian markets, while the Caisse will do likewise in North America. Both can help businesses, for example, source suppliers, conclude a joint research and development venture, forge a strategic alliance or acquire companies.

PROMOTING KNOWLEDGE SHARING: CONFERENCES AND ACADEMIC SUPPORT

The Caisse plans to share its financial and investment knowledge with both current Québec entrepreneurs and the new generation graduating from university.

Consequently, the Caisse launched regional business "Dialogues" in November 2009. These forums, held in various Québec regions, give participants the opportunity to meet distinguished speakers, who share their knowledge and business experience.

These events provide a better understanding of today's economic realities and identify opportunities arising from them. Conferences have already been held in Montréal, Québec and Saint-Georges-de-Beauce. Many more activities in various Québec regions are planned for 2010.

In addition to organizing conferences, the Caisse provides leadership in Québec through a policy of targeted donations and sponsorships. During 2009, the institution adopted a new policy that focuses on principles closely related to its mission. About 75% of its grants and sponsorships are now earmarked for business leadership, management succession and knowledge development.

In 2009, the Caisse contributed nearly $1.4 million to various organizations and events. To train the next generation, it sponsored various university initiatives, including the UQAM Trading Room. This activity allows university students to gain practical experience and financial market skills.

For five years, the Caisse has welcomed the HEC Montréal Inter-University Stock Exchange Simulation (SBIU) within its walls. This event, now in its 13th year, enables hundreds of student participants to experience the stock market firsthand. The Caisse also supports the John Molson School of Management, Concordia University and Université Laval MBA Games.

In addition, the Caisse supports the Collège des administrateurs de sociétés as a founding partner. This organization provides unique, high-level training, focusing on best governance practices. Since its inception in March 2005, the Collège has admitted more than 500 directors to its various training programs. The Caisse also partnered with Question Retraite, a non-profit, public-private association whose mission is to promote retirement financial security for Québecers.

THE CAISSE AND ITS SUPPLIERS: ENHANCING QUÉBEC SKILLS

Through its activities, the Caisse maintains business relationships with many Québec suppliers. The Caisse's specific needs, which require a wide variety of services, help develop the skills and expertise of its suppliers.

In total, the annual operating expenses in Québec of the Caisse and its subsidiaries amounted to more than $600 million, over $400 million of which was for real estate operations. It contributes to the creation or retention of many Québec jobs and the development of expertise in a wide variety of fields.

It should also be noted that the Caisse employs 685 employees in Québec. By including staff at its various real estate subsidiaries, this total reaches 1,670 employees.

QUÉBEC COMPANY SUPPORT STORIES

GLV: AN INVESTMENT OF NEARLY $40 MILLION CONFIRMS COMPANY'S GLOBAL POSITION

Headquartered in Montréal, GLV is a global provider of technology solutions for treating, recycling and purifying water, and producing pulp and paper. A publicly traded company, it employs approximately 3,000 people and operates in over 30 countries.

Caisse Support

The Caisse invested $39.8 million in GLV in November 2009. In addition to this support, the company relied on the Caisse's international expertise to acquire Austrian company Christ Water Technology.

This acquisition will enable GLV to grow and position itself as a world leader in comprehensive, efficient and environmentally friendly industrial and municipal water treatment solutions.

HUMANWARE: A $10 MILLION INVESTMENT BENEFITING THE COMPANY AND QUÉBEC

Established in Drummondville, HumanWare is a leader in the development of high-tech solutions for people with visual impairments or learning disabilities. The company was formed in 2005 through a merger between New Zealand company PulseData International and Québec firm Visuaide.

HumanWare has over 160 employees and distributes its products in over 45 countries.

Caisse Support

In August 2009, the Caisse invested $10 million in HumanWare, which helped to recapitalize the company and repatriate its headquarters in Québec.

With this capital injection, HumanWare is better positioned to pursue its international growth strategy—by increasing its market share for existing products and launching new products.

HÉROUX-DEVTEK: WORLD'S THIRD LARGEST LANDING GEAR MANUFACTURER

Headquartered in Longueuil, Héroux-Devtek inc. specializes in the design, development, manufacture and repair of aerospace and industrial products. It employs 1,500 people in 11 plants across North America, including Longueuil, Dorval, Laval and Rivières-des-Prairies. Publicly traded, the company is the world's third largest landing gear manufacturer. It generates 65% of its sales abroad, mainly in the United States.

Caisse Support

The Caisse has been an Héroux-Devtek shareholder since 1987. It supported the company's transformation with two transactions: the merger with Devtek in 2000 and the acquisition of U.S. firm Progressive in 2004. Héroux-Devtek subsequently increased its revenue from $213.2 million in 2004 to $337.6 million in 2009, improving its profitability along the way.

The Caisse continues to support Héroux-Devtek's management long-term vision and action plan to become a world leader in 100-seat or less aircraft. In the coming years, while investing in R&D, new product development and its factories, the company specifically aims to make targeted acquisitions to consolidate its position in North America.

CONTRIBUTION TO QUÉBEC
ECONOMIC DEVELOPMENT

TRANSCONTINENTAL: CANADA'S LARGEST PRINTER AND NORTH AMERICA'S FOURTH BIGGEST

Founded in Montréal in 1976 and publicly traded since 1985, Transcontinental has experienced significant growth, both organically and via acquisition. It is the largest printer in Canada and the fourth biggest in North America. It is also one of Canada's largest publishers—its digital platform delivers unique content through more than 120 web sites. The company, which employs 12,500 people, posted $2.4 billion revenues in 2009.

Caisse Support
The Caisse has been a partner of Transcontinental since the 1980s. In 2009, the Caisse granted the company a $100 million term loan to support its print, media and marketing communication development projects in North America. This loan has acted as a catalyst for other lenders, who have provided $888 million in financing.

The Caisse believes that the company is well positioned in its sector and possesses good growth potential. Transcontinental particularly enjoys long-term contracts with several major industry players and has state-of-the-art plants.

SOLOTECH: AN INTERNATIONAL SUCCESS

Founded in 1977, Solotech is Canada's largest distributor and lessor of sound, lighting, video and multimedia equipment—and now one of the biggest in North America. The company, whose headquarters is located in Montréal, has offices in Québec, Saguenay, Ottawa and Las Vegas.

Through its expertise, it has participated in many international events, including the latest Céline Dion tour, Vancouver Olympic Games ceremonies and Québec's 400th anniversary celebration.

Caisse Support
In 2006, Solotech shareholders wanted to establish a partnership with a financial investor capable of supporting the company's growth initiatives, including abroad. The Caisse's investment has given the firm financial strength, providing an additional competitive edge. Since 2006, Solotech has seen its sales grow by around 15%.

EZEFLOW: AN ENCOURAGING SUCCESSION PROJECT

Founded in 1972, Ezeflow specializes in the manufacture of large diameter weld pipe fittings. Given its expertise, it serves the petrochemical, refining, nuclear energy, oil sands recovery and oil and gas pipeline transportation industries.

On top of its accreditation for manufacturing large diameter fittings, the company also has nuclear and oil industry certification. Located in Granby, the company generates most of its sales in Western Canada, the U.S. and overseas.

Caisse Support
In 2005, the Caisse's support enabled the sole shareholder and president of Ezeflow to transfer control of his business to his two sons. Since its financing, the company has made significant investments to increase its production capacity. Ezeflow also enjoys the added value of the Caisse's energy expertise.

THE CAISSE ROADMAP

HIGHLIGHTS

01 Two-pronged plan to generate the returns expected by our depositors.

02 The first part—established in collaboration with our clients—is based on five priorities that will build solid foundations for the Caisse.

03 The second part is based on our medium-term strategic thinking about the use of our existing comparative advantages and the need to develop new capabilities to meet our clients' expectations.

During the second half of 2009, the Caisse's management reassessed its strategic direction. The results of this exercise have already been set in motion and will proceed in two parts. In the short term, the Caisse will act on five strategic priorities that aim to strengthen the institution's foundations. In the medium term, the Caisse plans to position itself to best take advantage of ongoing structural changes in the global economy.

Our new roadmap is the result of efforts by a number of working groups inside the Caisse as well as consultations with our clients to consider the impact of a number of important issues on the Caisse's activities in the coming years, including:

- Depositor expectations.
- Performance potential.
- Acceptable risk levels.
- Economic and financial conditions.
- Major investment industry trends.
- Caisse strengths and weaknesses.

The first part of this new roadmap focuses on the short-term aspects of the plan: the five strategic priorities that the Caisse aims to execute by the end of 2011:

- Implement a new collaboration model with depositors.
- Act in a fiduciary spirit to provide long-term, risk-adjusted, liability-driven returns.
- Demonstrate our leadership in Québec.
- Strengthen our risk management capabilities.
- Create a culture of service that inspires collaboration, rigour and high performance.

The second part of this roadmap identifies global economic trends that the Caisse must take into account in the medium term—as well as the challenges that we must overcome to benefit fully from them.

PART 1: FIVE STRATEGIC PRIORITIES IN THE SHORT TERM

The Caisse is in a transition period aimed at simplifying and improving our approach to today's changing economic and financial landscape. The first part of the roadmap is essentially to refocus the Caisse on its core business and make the needs of our depositors our everyday priority.

PRIORITY 1: IMPLEMENT A NEW COLLABORATION MODEL WITH DEPOSITORS

To better meet the needs of our clients and to make them our everyday focus, we needed a new collaboration model. In a fiduciary spirit, the Caisse aims to reach out to its depositors to foster constructive dialogue and better understand their actuarial liabilities and risk-return needs.

Strategy 1: Adopt a Charter of commitments to frame new service agreements

The Caisse has adopted a Charter of commitments to depositors to better frame our investment activities and reporting. This Charter explicitly defines the terms of the relationship between the Caisse and our depositors, including roles and responsibilities, depositor services, specialized portfolio investment policies, risk management and reporting procedures. The Charter will serve as a basis for reviewing service agreements with depositors. (See box p. 64)

THE CAISSE ROADMAP

Strategy 2: Establish a consultation forum to promote productive and structured dialogue between the Caisse and its large depositors
We have established a consultation forum to promote greater information sharing and mutual transparency between the Caisse and its large depositors. This forum aims to discuss key elements of active management, including investment policies, investment group strategies, risk management and use of leverage. The meetings should also help the Caisse and depositors address key strategic issues facing both parties.

Strategy 3: Improve advisory services by developing asset-liability management expertise
To help depositors establish their investment policies, the Caisse will, upon their request, provide its asset-liability matching expertise. For these depositors, our advisory services will be adjusted to consider liability risk, something that should add to the security of benefits and the stability of contributions. To fully incorporate the liability risks of depositors, this new arrangement will require a high level of transparency between the Caisse and its depositors.

Strategy 4: Make reporting to depositors clearer and proactive
The Caisse will fully report on all investment and risk management activities, including the publication of monthly reports and semi-annual meetings. To this end, we will expand and enhance our reporting with, specifically, the nature of portfolio investments for index comparison purposes, details on positive and negative performance contributors, manager perspectives on investment strategies and quantitative and qualitative risk data.

Strategy 5: Bring together managers and depositors through direct contact and a better understanding of liabilities
To make depositors the everyday focus of our managers, we will foster a closer relationship between our investment teams and our clients. Regular meetings will allow managers to present their economic and financial market insights, investment strategies and performance reports. At the same time, these direct exchanges will enable depositors to share their needs and constraints, and ask questions directly to portfolio managers, without an intermediary. Finally, these exchanges will give managers a better understanding of each depositor's actuarial position and therefore, allow them to take their liabilities into account in everyday investment decisions.

CHARTER OF COMMITMENTS

Roles & responsibilities
The Caisse shall recognize the responsibility of our depositors for the management of their pension and insurance plans. The Caisse also undertakes to manage its investment activities and risks in a fiduciary spirit.

Services
The Caisse shall offer its depositors high-quality investment products and advisory services that meet their needs. The Caisse also undertakes to review its total service offering in consultation with its depositors, at least once every three years.

Investment policies
The Caisse shall adopt an investment policy for each specialized portfolio—in accordance with the desired risk-return profile—clearly and proactively communicating it. The Caisse also undertakes to ensure that portfolio investments fully comply with this policy.

Risk management
The Caisse shall follow an integrated risk management policy—including absolute and active risk limits—clearly and proactively communicating it. The Caisse also undertakes to ensure that its investments fully respect this policy.

Reporting
The Caisse shall provide full, diligent reporting on all investment and risk management activities, including active management risk factors. Reporting shall include, specifically, monthly reports and semi-annual meetings. In case of any departure from policy, the Caisse shall promptly notify the depositors, provide explanations and indicate corrective measures.

PRIORITY 2: ACT IN A FIDUCIARY SPIRIT TO PROVIDE LONG-TERM, RISK-ADJUSTED, LIABILITY-DRIVEN RETURNS

The Caisse is committed to offering its depositors high-quality investment products and advisory services based on their long-term objectives. Faced with future uncertainty, the Caisse plans to review its services to simplify the asset allocation and asset-liability matching decisions of depositors. Accordingly, the Caisse will refocus its activities and restructure its portfolios to offer more choice, flexibility and strategies tailored to depositor needs. We also aim to pay greater attention to our decisions regarding investment risk, liquidity and use of leverage. In its overall portfolio, the Caisse will maintain sufficient flexibility to respond to changing conditions and seize opportunities as they arise.

Strategy 6: Revise specialized portfolio offer, value added objectives and benchmark indexes

We will restructure our portfolios to achieve greater homogeneity among the assets in each one. Accordingly, assets with similar characteristics and risk-return profiles will be in the same portfolio. We will revise our value added objectives to account for market efficiencies and the Caisse's comparative advantages. Active management will remain the Caisse's principal, preferred approach. For transparency purposes, however, active and index management will be divided into separate portfolios, providing depositors with greater flexibility in their investment decisions. Finally, we will modify our illiquid portfolio indexes to better align them with the real content of the portfolio, thus correcting measurement distortions that exist today. (See box p. 66-67)

Strategy 7: Implement overlay strategies

We will implement customized overlay strategies to support depositor risk management. This tailor-made approach will enable each depositor to select suitable strategies for controlling foreign exchange risk, while benefiting from the Caisse's expertise in this area. Hedging strategies against macroeconomic risks (inflation and interest rate fluctuations) will also be available to depositors. This new tool will increase portfolio flexibility and require close Caisse and depositor collaboration. In addition, we will also propose active management strategies to create value through currency and tactical allocation, building on the Caisse's expertise.

Strategy 8: Establish overall risk, leverage and liquidity targets

The Caisse aims to establish a prudent level of risk, leverage and liquidity. Overall targets will be set for the entire Caisse and, if necessary, each investment sector, specialized portfolio and asset class. The Caisse will maintain measurement and monitoring systems, providing a clearer picture of overall risk, leverage and liquidity. And we will ensure compliance with these targets.

Strategy 9: Develop economic and financial scenarios to act, advise and communicate in a coherent, integrated manner

The Caisse aims to strengthen its team of economists and to ensure that they play a central role in our activities. This team will be responsible for developing economic and financial scenarios that will help to shape strategic investment decisions. These economists will advise depositors, particularly with respect to their risk control decisions. Finally, the chief economist will be an active participant on behalf of the Caisse in public debate about economic and financial issues.

NEW SPECIALIZED PORTFOLIO OFFER

Objectives

To better meet the needs of its depositors, the Caisse will significantly change its specialized portfolio offer in 2010. This new offer will make it easier for depositors to establish their investment policies and to better align them with their liabilities. Our objectives are as follows: more flexibility and choice, more simplicity and transparency, and greater efficiency and less leverage.

In this spirit, the Caisse will ensure the integrity of its portfolios to facilitate understanding of their risk-return profiles. Accordingly, assets with similar characteristics and risk-return profiles will be in the same portfolio.

We will simplify the portfolios by reducing the use of complex products. For example, we stopped using of many opaque derivatives. In addition, the Real Estate sector has ceased participation in mezzanine loans issued by third parties.

We will concentrate our active management efforts on asset classes where we have comparative advantages, namely the market expertise we have developed over many years and the size and long-term horizon of our investments for our 25 depositors. Each portfolio's value added objective will be revised accordingly.

And with customized overlay strategies, depositors will have greater flexibility in controlling risks.

Proposed changes

Specifically, the new offer will bring many changes to the composition of the portfolios, their management, indexes, performance targets and value added objectives. Most of these changes will be made in 2010. Investment policies will be reviewed with a number of goals: defining more clearly the scope of the portfolio; tightening concentration limits; improving liquidity risk management and reducing the use of leverage.

The 17 specialized portfolios will be split into four broad risk-return profile categories (Fixed Income, Inflation-Sensitive Investments, Equity and Other Investments), each with unique characteristics. The "Fixed Income" category

TABLE 45

NEW PORTFOLIO OFFER

CURRENT PORTFOLIOS

Fixed Income	Short Term Investments
	Real Return Bonds
	Bonds
	Long Term Bonds
Equity Markets	Canadian Equity
	U.S. Equity (hedged)
	U.S. Equity (unhedged)
	Foreign Equity (hedged)
	Foreign Equity (unhedged)
	Emerging Markets Equity
	Québec International
Other Investments	Investments and Infrastructures
	Private Equity
	Real Estate Debt
	Real Estate
	Hedge Funds
	Commodities
	Asset Allocation

TARGET PORTFOLIOS[1]

Fixed Income	*Short-term Investment*
	Bond
	Long-term Bond
	Real Estate Debt
Inflation-Sensitive Investments	*Real Return Bond*
	Infrastructure
	Real Estate
Equity	Canadian Equity
	Global Equity
	U.S. Equity
	EAFE Equity
	Emerging Markets Equity
	Private Equity
Other Investments	Hedge Fund
	Asset Allocation
	Third-party and bank-sponsored ABTNs[2]
	Overlay Strategies

1. Index portfolios are indicated in italics.
2. Previously referred to as third-party and bank-sponsored ABCPs.

matches asset and liability duration and interest rate risk. The "Inflation-Sensitive Investment" category does the same with medium- and long-term inflation risk. The "Equity" category enhances expected returns in line with depositor risk tolerance. The "Other Investments" category provides greater diversification and customizes depositor strategies for, among other things, the foreign exchange risk of investments—outside Canada.

To better meet depositor needs and offer more flexibility, 11 portfolios will be actively managed, offering value added potential. The remaining six will be indexed-managed portfolios that replicate their benchmark indexes. On the international equity front, depositors will have the opportunity to choose between active and indexed management. Moreover, hedging will become flexible, allowing depositors to adopt customized strategies that offer protection against currency risk.

The "Fixed Income" category includes four specialized portfolios:

- The Short Term Investment portfolio will now be index managed.
- The Bond portfolio will now also include corporate bonds that are not publicly traded and will change its index to reflect a greater proportion of Québec bonds.
- The Long Term Bonds portfolio will now be index managed and change its index to place a greater emphasis on Québec bonds.
- The Real Estate Debt portfolio will now focus on high-quality Canadian mortgages and its index will be adjusted accordingly.

The "Inflation-Sensitive Investments" category will include three portfolios:

- The Real Return Bonds portfolio which will now be index managed.
- The Infrastructure portfolio which will concentrate on conservative investments with regular income and low volatility.
- And the Real Estate portfolio where maximum leverage levels will be reduced and the benchmark index changed.

The "Equity" category will include six specialized portfolios:

- The Caisse's active management will be spread across three portfolios: Canadian Equity, the new Global Equity and our Private Equity portfolio.
- Given its positive history, the Canadian Equity portfolio will be actively managed and the proportion of eligible ex-Canada investments will be reduced.
- Active management in global stock markets will be concentrated in the Global Equity portfolio. This portfolio will adopt a strategy similar to that used successfully by the Canadian Equity portfolio for many years. External management will be used, whenever necessary, to complement the expertise of Caisse managers. This new portfolio will gradually be funded by the Québec International portfolio, which will, in turn, disappear by the end of 2011.
- U.S. Equity, EAFE Equity (formerly Foreign Equity) and Emerging Markets Equity will be index managed portfolios and will no longer be hedged against foreign exchange risk.
- The "Investments" component of the former Investments and Infrastructures portfolio will be transferred to the Private Equity portfolio, whose index will be changed to properly reflect its new objectives.

The "Other Investments" category includes the remaining portfolios:

- In the Hedge Fund portfolio, the number of external managers will be reduced and only the most transparent will be retained.
- The Asset Allocation portfolio will focus on tactical asset allocation.
- The Caisse's position in ABTN, which is not capitalized, was organized into a distinct portfolio earlier this year to ensure greater transparency.
- Customized overlay strategies will be offered to depositors as a hedge against certain risks. This approach will allow each depositor to select suitable strategies for controlling foreign exchange risk, while benefiting from the Caisse's expertise in this area. Hedge strategies against inflation and interest rate fluctuations will also be offered to depositors who seek protection against these risks.
- The Commodities portfolio was closed due to the Caisse's low comparative advantages and the heavy Canadian market weight in this sector.

THE CAISSE ROADMAP

PRIORITY 3: DEMONSTRATE OUR LEADERSHIP IN QUÉBEC

As part of its activities, the Caisse actively contributes to Québec's economic development. These activities are directly related the role of the Caisse as an asset manager and are based on our comparative advantages in the Québec market. They are consistent with our pursuit of optimal financial returns. Our commitment is to support and help develop diverse sectors of the Québec economy (including the jobs that come with it) and to enhance Montreal's role as a financial centre. The Caisse believes that economic development results from the combined efforts of Québec's financial players. Accordingly, we also act through partnerships.

Strategy 10: Develop and implement a Québec investment strategy based on the Caisse's comparative advantages

The Caisse aims to play an active and significant role in the financing of Québec businesses. Its strategy is based on its comparative advantages: its Québec market knowledge, asset size, international stature, technical expertise and business network. The Caisse will focus on promising SMEs and companies operating internationally, working in partnership with like-minded financial players.

Strategy 11: Develop closer links to the Québec business community by positioning itself as a crossroad for information and expertise and by establishing partnerships

The Caisse plans to enhance its role a major financial sector player by sharing its know-how and playing an advisory role with Québec businesses. We plan to stimulate dialogue on key economic and financial issues, mostly through seminars and collaboration with professional associations. At the same time, its partnership investment strategy will promote the exchange of expertise with Québec companies and other financial institutions.

Strategy 12: Build closer ties with the academic community to create a new generation of financial professionals

The Caisse strives to foster the development of Québec-based financial expertise and to act as a leading employer in the Québec investment industry. We aim to strengthen our ties to the academic community, particularly through the support of university chairs and scholarships. We will place a priority on professional training and development for our employees. And to ensure the development of new generations of financial managers for Québec, we will also offer internship programs.

Strategy 13: Develop a policy to define the Caisse's contribution to Québec economic development

The Caisse plans to publish a policy governing its contribution to Québec's economic development to clearly establish that this aspect of our mission is consistent with the pursuit of performance excellence. This policy will define the Caisse's objectives, action areas, resources and limitations. It will consolidate internal efforts and delineate its activities for external audiences. We will appoint executives to monitor our performance against this priority and we will report annually.

PRIORITY 4: STRENGTHEN OUR RISK MANAGEMENT CAPABILITIES

The 2008 financial crisis highlighted the need to substantially strengthen the Caisse's risk management practices. Risk is inherent in investing. A certain level of risk is essential to meet our depositor performance targets. These risks, however, must be understood, measured and managed, without eliminating the flexibility managers need to do their work.

In 2009, the Caisse significantly strengthened its tools, processes and risk management teams. Daily market VaR calculations, strengthened stress testing and the recruitment of Business Unit Risk Manager (BURM) are just a few examples of our improvements.

The next step is to drive a culture change that makes proactive risk management a priority for everyone at the Caisse. Integrated risk-return management requires a comprehensive approach that includes the various investment groups, senior management and the risk management team—and greater collaboration among them.

Strategy 14: Develop tools for a seamless transition to an integrated risk-return management culture and practices

On the one hand, the Caisse aims to review and harmonize the risk management, monitoring and measurement tools of each investment sector with those of the risk management team to promote a common approach. On the other hand, mechanisms will be put in place to promote exchanges between different groups about their strategies, investments and risk-return integration practices.

Strategy 15: Integrate the monitoring of investment strategies—including risk management—into the annual planning process

The investment strategies of each group will be presented to senior management committees. This presentation will be integrated into the annual planning process and will include market reviews and perspectives, identifying opportunities, threats and associated risks—and their impact on the Caisse's overall return and risk. All Caisse portfolios will be subject to this process. They will be monitored and reviewed on a quarterly basis.

Strategy 16: Adopt human resources policies to support the shift to risk-return integration

The new approach to risk management will include a major human resources component. The Caisse plans to establish a training program to develop the skills for proactively managing risk. Risk management responsibilities and accountability will be clarified throughout the Caisse, distinguishing the consultation, recommendation, decision-making, implementation and monitoring roles. Manager compensation has been changed to emphasize risk-adjusted returns and the Caisse's overall performance.

PRIORITY 5: CREATE A CULTURE OF SERVICE THAT INSPIRES COLLABORATION, RIGOUR AND HIGH PERFORMANCE

The Caisse cannot achieve its objectives without the commitment of its employees and without transforming its organizational culture. We must be flexible and agile if we are to succeed in a changing external environment. Working more closely with our depositors and enhanced risk management involve profound changes in the way we do business. They require the full engagement of our employees. Management practices and compensation programs will be revised to facilitate this transition. The Caisse will seek to preserve a balance between control and autonomy to maintain the flexibility needed by employees to do their work.

Strategy 17: Align compensation programs to strategic priorities

The Caisse has implemented better aligned compensation programs, which support the execution of its strategic priorities through a new incentive structure. Employees are offered a salary that is competitive with benchmark markets. The incentive compensation is based on performance over several years to promote consistent long-term returns. The programs are designed to encourage adherence to sound management practices, particularly for supervisory positions. (See the Report on Compensation Policy, p. 86)

Strategy 18: Implement integrated talent management

To achieve its objectives, the Caisse relies entirely on the quality of its employees and management practices. The Caisse aims to enhance the leadership quality of its managers to create an environment of trust, collaboration and dedication. We will improve the employee evaluation process and develop a succession plan. The Caisse will offer career plans and skill development programs to ensure the retention and professional development of its employees.

Strategy 19: Develop a client service culture

The Caisse intends to focus on depositor concerns and develop a client service approach. The necessary incentives will be put in place to ensure that managers act in a fiduciary spirit, particularly by taking into account depositors' liabilities. Similarly, the Caisse seeks to promote a client service approach internally to achieve a high degree of collaboration and integration throughout the organization. This approach will result in improved service quality, monitoring and accountability. We will target efficiency and timeliness, particularly in supporting investment activities and corporate services.

Strategy 20: Produce better information to improve decision-making

As part of its activities, the Caisse aims to improve its use of the significant amounts of data at its disposal to make more informed decisions. To this end, we will review and modify our information management systems. Data will be recorded, structured and analyzed to support managers, both in investment activities and corporate services. Similarly, decision monitoring and documentation processes will be developed, including for investing, to maintain the consistency of strategies over the long term. This approach will strengthen the rigour and discipline of our decision-making.

THE CAISSE ROADMAP

TABLE 46

SYNOPSIS

MISSION

The Caisse's mission is to receive deposits in accordance with the law and manage the capital to achieve optimal returns in line with depositor investment policies, while contributing to Québec's economic development.

PRIORITIES	**Implement a new collaboration model with depositors**	**Act in a fiduciary spirit to provide long-term, risk-adjusted, liability-driven returns**	**Demonstrate our leadership in Québec**	**Strengthen our risk management capabilities**	**Create a culture of service that inspires collaboration, rigour and high performance**
STRATEGIES	Adopt a Charter of commitments to frame new service agreements	Revise specialized portfolio offer, value-added objectives and benchmark indexes	Develop and implement a Québec investment strategy based on the Caisse's comparative advantages	Develop tools for a seamless transition to an integrated risk-return management culture and practices	Align compensation programs to strategic priorities
	Establish a consultation forum to promote productive and structured dialogue between the Caisse and its large depositors	Implement overlay strategies	Develop closer links to the Québec business community by positioning itself as a crossroad for information and expertise and by establishing partnerships	Integrate the monitoring of investment strategies—including risk management—into the annual planning process	Implement integrated talent management
	Improve advisory services by developing asset-liability management expertise	Establish overall risk, leverage and liquidity targets	Build closer ties with the academic community to create a new generation of financial professionals	Adopt human resources policies to support the shift to risk-return integration	Develop a client service culture
	Make reporting to depositors clearer and proactive	Develop economic and financial scenarios to act, advise and communicate in a coherent, integrated manner	Develop a policy to define the Caisse's contribution to Québec economic development		Produce better information to improve decision-making
	Bring together managers and depositors through direct contact and a better understanding of liabilities				

PART 2: STRUCTURAL TRENDS AND CHALLENGES IN THE MEDIUM TERM

A number of structural trends are reshaping the global economy and, as such, will have a significant bearing on investment decision-making for years to come. It is important that the Caisse understand and forecast the impact of these trends, considering the risk and return implications for depositors, and the long-term return opportunities that may be available for investors.

These trends will have a major impact not only our foreign investments, but also our investment strategies, whether in stock markets, private equity, real estate or infrastructure—in Québec and elsewhere.

Five of these trends will lead, over the next few decades, to major capital movements in markets and industries where the Caisse has long been active. Our list is not exhaustive, but these five trends represent significant opportunities and challenges for the Caisse, its depositors and the Québec businesses with whom we work.

TREND 1: THE ECONOMIC REBALANCING OF DEVELOPED AND EMERGING MARKETS

Over the next ten years, emerging economies will contribute more to global economic growth than all developed countries combined. In certain sectors, such as construction and mining, up to 80% of global growth will come from these economies. During this period, GDP per capita will grow almost five times faster in emerging economies than in OECD countries.

The rebalancing is not only geographic, it is also social: over 70 million people cross the middle class threshold each year—almost all in emerging economies. By the end of 2020, 40% of the world's population will have joined the middle class, compared to less than 20% today. The implications—for example, on consumption activity—is extensive and will touch multiple sectors, including retail, consumer goods and telecommunications.

Emerging markets will become powerful economic actors in their own right. Once suppliers of low-cost goods and services, they will become major providers of capital, talent and innovation. This transformation is already underway and will continue to accelerate—the number of companies from Brazil, Russia, India and China ranked in the Fortune Global 500 has more than doubled between 2005 and 2009, from 27 to 58. Currencies in emerging markets will probably appreciate over time, and regional monetary zones are likely to emerge, anchored to a strong currency.

This fundamental shift in economic power has important implications for large global institutional investors like the Caisse. It will turn local companies in emerging economies into world leaders. It will also shape the performance of developed markets companies, according to their exposure and their success in emerging markets. Investment opportunities will be numerous and cover a range of asset classes, world regions and industries.

TREND 2: URBANIZATION AND THE INFRASTRUCTURE BOOM

Economic growth in emerging markets is driven by two factors: first, a growing labour force and declining birth rates and, secondly, the largest urban migration in history. This urbanization surge is nowhere more evident than in China. At the current rate, China will have 221 cities with more than one million inhabitants, compared to 35 in Europe today. Nearly one billion people will live in cities by 2025.

For investors, this massive growth will provide unprecedented investment opportunities in infrastructure—including rail, mass transit systems, airports, ports, real estate, water supply and energy infrastructure. In China, for example, transportation infrastructure spending should skyrocket: between 2009 and 2013, China plans to invest $1,300 billion on its airports, railways, roads and ports, more than double the investment of the past five years.

Infrastructure investment opportunities will not be limited to emerging markets. The growing burden of public deficits will force North American and European countries to depend more on financial investors to develop infrastructure projects. Over the next decade, the need for governments to improve their fiscal positions could lead them to rely much more heavily on investment partners for infrastructure developments. For example, the federal government and the government of Québec will create new investment opportunities through respectively $33 billion and $42 billion in capital spending to support infrastructure improvements by 2014.

TREND 3: THE NATURAL RESOURCE CHALLENGE

A fundamental resource challenge is looming worldwide, shaped by three forces. First, demand for oil, iron ore and other natural resources should grow by more than 30% over the next 10 years, mainly due to urbanization and rapid economic growth in emerging markets. Second, the supply will be increasingly limited, with the depletion of today's easiest-to-reach reserves. Third, the increased emphasis on sustainable development by regulatory agencies and the public will probably increase the cost of these inputs.

Natural resources and commodities represent about 10% of global GDP and are key inputs for many sectors. The impact of these forces on global commodity markets became evident over the past two years—not only in oil, but also in metals such as copper and zinc. The combination of high commodity prices and strong volatility is expected to continue in the coming years, presenting both significant risks to mitigate and investment opportunities for institutional investors.

TREND 4: THE CLIMATE CHANGE AND GLOBAL SUSTAINABLE DEVELOPMENT CHALLENGE

The climate change debate has evolved dramatically over the past five years, centering on how—not if—the world should respond. Stabilizing the climate presents an unprecedented productivity challenge: according to estimates, "carbon productivity"—GDP per tonne of CO_2 equivalent—should be multiplied tenfold by 2050 to meet the dual objective of sustaining approximately 3% of global economic growth and stabilizing greenhouse gas emissions (GHGs).

At the same time, this challenge, is the source of considerable opportunities for investors. Approximately 25% of potential GHG emission reductions generate a positive economic return due to energy efficiency or other savings. Possible initiatives include insulation improvements or the use of more energy-efficient vehicles and lighting systems. In fact, clean technologies will prove to be one of next decade's major growth industries, with more than $2,000 billion of projected investment in clean energy development worldwide. Before 2020, the industry will likely surpass $1,000 billion in sales per year. Promisingly, Québec is an active participant in these developments. Under its 2006-2015 plan, Québec will continue to focus on hydropower development, with investments of $29 billion, increase wind energy production to 4,000 megawatts by investing $4.9 billion and implement a comprehensive energy efficiency program to reduce energy consumption by 2015.

This will have a significant impact on the structure of many industries and on corporate valuations. The economics of many industries will be affected by the fact that business performance statistics will better reflect carbon emission costs. Efforts to offset climate change will structurally transform certain sectors—such as automotive and aluminum—which will see more volatile returns and increased entry-exit rates as new technologies or regulatory restrictions emerge and the competitive landscape evolves.

TREND 5: A NEW ERA FOR CAPITAL MARKETS

The last 20 years have seen an unprecedented increase in the global interconnectedness of business networks, capital markets and information. During this period, trade has grown 50% faster than world GDP and international investment growth has reached three times that of GDP—an acceleration that will continue with the growing importance of Asian sovereign wealth funds and petro-dollar funds in global capital markets.

This interconnectedness is a double-edged sword. Generally, the global integration of capital markets leads to greater stability. For example, inflation and volatility decrease, financial and trade flows increase and capital costs decline. The recent crisis, however, has shown that this interconnectedness can also amplify financial system shocks worldwide. In the long term, capital markets may experience long periods of stability, punctuated by the occasional large bubble and ensuing collapse. Foreign exchange markets will be affected by the emergence of a multipolar world where certain benchmark currencies will coexist. In the short term, there remains much uncertainty over recovery scenarios—for instance, whether inflation or deflation is the real threat and whether the most recent recession will indeed have lasting implications.

CONCLUSION

The five trends above will have a significant impact on the global economy and create a range of new investment opportunities for institutional investors. The ability to effectively and flexibly allocate assets around the world will be a major advantage. Increasingly globalized sectors require a more global approach to security selection, in which winners and losers will be chosen at the global level. In addition, middle class expansion in emerging economies will give birth to industries that follow patterns previously identified in more developed countries.

In some emerging economies, financial markets are not mature enough to provide long-term capital and finance long-term assets (such as infrastructure and real estate). Consequently, private equity will have an increasing place alongside liquid markets in financing the economy. The number and extent of co-investment opportunities with governments and public sector organizations seems likely to increase rapidly.

In a world where volatility will be higher, the value creation potential will be significant for investors who can see beyond cycles and invest based on proprietary and long-term views. Capturing these opportunities will require maintaining a long-term investment horizon, in-depth understanding of the underlying risks, considerable investment discipline and agility to be able to adjust investment strategies to align them with changes in the Québec, Canada and global economies.

The Caisse's structure and core capabilities put it in a strong position to take advantage of these trends. Its depositors have a long-term investment horizon, enabling the Caisse to invest for the long term based on its expertise—in a way that most market participants with a short-term orientation cannot. The Caisse has a proven track record of successful investments in sectors that will be deeply affected by these global trends—such as natural resources. It has solid investment expertise in mining, traditional energy and renewable energy. In addition, the Caisse has a dedicated team of infrastructure specialists, specialized across multiple types of assets. Through real estate and private equity investments, the Caisse has also begun to build a network of strategic partners worldwide, including in emerging markets.

Moreover, these structural trends will have a significant impact on the evolution of financial and economic markets, well beyond emerging countries. The Caisse will have to consider these trends in all its investment strategies, whether it is investing in Québec, Canada's energy sector, the U.S. consumer sector or Europe's infrastructure.

Of course, this environment presents some challenges to the Caisse. The level of global economic risk and volatility will remain high, which is why we made strengthening our risk management capabilities one of our core priorities. This will enable us to make future investment decisions with a more complete and deeper understanding of the underlying risks. The magnitude of the coming changes illustrates once again the importance of greater collaboration with the depositors, another priority of the Caisse. In effect, the Caisse will have to ensure that investment opportunities are consistent with the risk tolerance of its depositors and generate the risk-adjusted returns they need to meet their long-term obligations. Furthermore, our support of promising Québec companies will enable them to take full advantage of these trends through the Caisse's expertise, networks and partnerships.

To seize the investment opportunities arising from these global trends, a number of critical issues will need to be addressed including:

- Strengthening the Caisse's research capabilities to develop critical insights, make more informed decisions and generate superior risk-adjusted returns.
- Increasing the number of partnerships with like-minded institutional investors who share the Caisse's goals and investment philosophy to gain greater access to the investment opportunities and returns of various asset classes and regions.
- Developing the Caisse's monitoring capabilities and proprietary insights capabilities by expanding its global network of relationships and partners to mitigate the risks of investing abroad, create a stream of proprietary deal flow, improve deal execution and increase the operational performance of its portfolio companies.

These are just some of the challenges that the Caisse must face to continue competing locally and internationally.

As the Caisse executes its five priorities in the short term, it will initiate a rigorous process that allows its teams to build the right capabilities, step by step, before launching any investment projects that will capitalize on these long-term trends.

It is this discipline and systematic approach to developing new capabilities that will enable the Caisse to realize its full potential and fulfill its mission to deliver optimal returns to its depositors while respecting their investment policies.

REPORT ON RISK MANAGEMENT

HIGHLIGHTS

01 Accelerated implementation of plan to strengthen risk management.

02 Integration of risk-return concept in day-to-day operations.

03 Strengthening of risk management methodologies, tools and team.

04 Reduction in active risk of 13 specialized portfolios.

05 Reduction in financing liquidity risk.

THE PLAN FOR STRENGTHENING RISK MANAGEMENT

Risk management goes hand in hand with the investment and portfolio management processes. The increasingly challenging financial environment requires investment teams to take risks to achieve their return targets. Risk-return is an integral part of investment decisions. Under these conditions, stringent risk management is essential. It enables our managers to take and adequately control the appropriate risks.

More than ever, risk management is one of the Caisse's top priorities. In 2009, it became a strategic priority under its new leadership. This resulted in the accelerated implementation of the institution's three-year plan for strengthening risk management, approved in 2008. The implementation timeframe was cut in half—from 36 months to 18 months—in April 2009. In fact, most of the plan's recommendations were implemented in only nine months.

These efforts are grouped into five categories:

- Improving risk management methodologies and tools.
- Implementing new oversight and processes.
- Recruiting risk managers.
- Strengthening risk management governance.
- Enhancing the risk management culture.

IMPROVING RISK MANAGEMENT METHODOLOGIES AND TOOLS

The Caisse reviewed its risk management methodologies and implemented new management tools to introduce industry best practices. Its main achievements can be found below.

Implemented new stress testing practices
In 2009, the Caisse considerably strengthened its stress testing practices. The potential impact of various exceptional situations is measured for three categories of shocks:

- Single factor shocks: sharp movements in stock markets, currencies, interest rates and credit spreads.
- Historical shocks: scenarios based on actual historical situations, such as the financial crisis in fall 2008, rising oil prices in 2008, the rising Canadian dollar in 2007, monetary tightening in 2001 and 2002, the 9/11 events and the stock market crash following the bursting of the tech bubble in early 2000.
- Hypothetical shocks: use of hypothetical multifactor scenarios, such as an inflationary shock and a rise in oil prices to US$200 per barrel.

A group, composed of portfolio managers, economists and risk experts, was set up to define exceptional situations and operating assumptions, determining the stress tests to carry out.

Calculated market Value at Risk (VaR) on a daily basis
During 2009, market VaR calculation became available on a daily, rather than monthly, basis for specialized equity and fixed income portfolios.

Reviewed the variables for calculating market VaR by incorporating elements of extreme scenarios
In 2009, the Caisse honed its market VaR calculation, making it possible to measure volatility even more precisely. The confidence level for the calculation was raised from 84% to 99% to factor in elements of extreme scenarios excluded in the past. Historical data from 1,300 days of observing risk factors, such as variations in exchange rates, interest rates and financial asset prices, is now used to measure the volatility of returns and the correlation between returns of various assets.

VaR is based on the statistical measurement of the volatility of the market value of each portfolio position and their correlations. VaR estimates the loss expected during a given period according to a predetermined confidence level.

Developed and implemented a new methodology to estimate market risk for real estate investments
The new methodology developed in collaboration with Real Estate portfolio managers takes better account of the portfolio's specific composition, mainly its geographic and sector components.

Improved methods for calculating liquidity risk
The methodology for assessing liquidity risk is based on potential excess liquidity scenarios and the simulation of potential liquidity uses and sources over periods ranging from one to 24 months. In 2009, the Caisse reviewed various scenarios and added periods greater than one month.

Improved methods for calculating counterparty risk
In 2009, the Caisse started assessing potential exposure to counterparty risk. This measurement is added to the current exposure assessment.

Developed an in-house credit rating system for countries, sovereign entities and parapublic organizations
The purpose of the in-house credit rating system is to indicate credit quality at a specific point in time in the credit cycle based on available issuer information, mainly relying on objective factors.

Developed credit VaR
In December 2009, a project for implementing a system for assessing credit risk was launched by measuring the credit VaR for corporate bonds in the specialized Bonds portfolio. This project will be completed in 2010.

Developed a procedure for collecting and processing operational incidents
A centralized procedure for collecting and processing operational incidents was implemented to review or add controls when such incidents take place.

IMPLEMENTING NEW OVERSIGHT AND PROCESSES

Defining risk oversight and implementing rigorous processes play an important role in controlling the Caisse's level of risk.

The Risk sector has taken the following steps in this respect, working together with portfolio managers and other Caisse sectors.

Entrusted the Executive Committee with monitoring risk management
In 2009, the Executive Committee assumed responsibility for monitoring investment activities and tracking risk. Periodic meetings are dedicated to analyzing, monitoring and making decisions to ensure risk-return balance in portfolios.

Reviewed the Risk Management Committee's mandate and composition
This Committee is mandated to support the Board's Risk Management Committee in defining and monitoring the Integrated Risk Management Policy (IRMP). It ensures compliance with IRMP risk limits and depositor investment policies. The Committee also approves risk management directives and investment mandates.

Reviewed the IRMP, particularly with respect to liquidity risk and counterparty risk
Liquidity risk oversight, which was updated in 2009, has three aspects:

- Governance and sharing of responsibilities among various players.
- Risk assessment methodologies and risk limits, namely:
  - A limit for the gap between the average financing term and average term of assets to be financed.
  - A limit for the minimal level of potential liquidity sources.
  - A limit for the level of potential excess liquidity in a pessimistic scenario.
- Operating methods in emergency situations and the triggers for such situations.

REPORT ON
RISK MANAGEMENT

The counterparty risk oversight, which was also updated in 2009, has three aspects:

- Governance and sharing of responsibilities among the various players.
- Risk assessment methodologies and risk limits, namely:
  - A limit for maximum potential exposure by counterparty.
  - Requirement of at least two rating agency credit grades higher than or equal to A- for each counterparty.
- The guidelines for legal documentation, namely the International Swaps and Derivatives Association (ISDA)[1] agreements.

In 2009, the Caisse started assessing the potential exposure to counterparty risk every month and set maximum potential exposure limits by counterparty in accordance with its counterparty risk tolerance.

Reviewed the oversight for new investment
As part of the IRMP review, the oversight for new investment activities was updated for a review of business, financial and operational risk by the Risk sector and the approval of any new activity by a committee made up of senior management, before it is launched by the managers.

Reviewed investment policies jointly with the managers, taking into account depositor expectations
To reflect the new specialized portfolio offer and ensure disciplined risk management, a review of all investment policies was initiated in 2009. The review focuses on the universe of eligible investments and concentration limits. The review, which will continue during the first half of 2010, aims primarily to draw up and specify a list of investment products for depositors to promote transparency and a sound risk-return balance.

Reviewed concentration limits, including limits for emerging markets
In 2009, the Board of Directors adopted a concentration limit for emerging market investments. This limit is set at 10% for emerging markets overall and at 2% for each country. A project is currently underway to enhance the measurement of this risk by factoring in the exposure to an issuer, resulting from any derivative positions.

A classification by country (developed, emerging and others) and country risk analyses were also developed.

Reviewed oversight related to use of derivatives
A directive on the oversight of derivative use was proposed by senior management and approved by the Board. This directive provides oversight for strategies with asymmetrical risk-return profiles, particularly for the sale of premiums. It also limits the use of products that are not well integrated into the risk assessment system.

Implemented a structured, standardized process to deal with non-compliant situations.
This process aims to ensure that all situations, which do not comply with stipulated IRMP standards, investment policies and risk management directives, are rectified and reviewed at the required decision-making level.

RECRUITING RISK MANAGERS

Under the Caisse's new leadership, risk management was immediately established as a strategic priority. Since this required an increase in risk management personnel, the Caisse put into place a Risk sector plan for recruiting risk experts. These risk experts will ensure the continuity of risk management activities and ongoing risk management practice updates—in addition to developing new methodologies and management tools.

The risk management team has been complemented by a team of Business Unit Risk Managers (BURM), who aim to reconcile the approaches of portfolio managers and risk managers, fostering greater dialogue on risk-return issues. To this end and to go beyond statistical risk measurement, Caisse experts with in-depth sector knowledge have been integrated into the Risk team. These experts, who are primarily responsible for monitoring investment portfolios, are embedded within portfolio management teams and monitor risk.

These BURMs possess very broad fund management experience and are especially responsible for monitoring specialized portfolio risk in their sector. Essentially, their primary responsibility is to review portfolio composition, analyze risk, assess whether existing oversight measures and management tools meet the needs of portfolio managers, and discuss with them all the desired improvements that could be developed in collaboration with the Risk team. By monitoring portfolio changes daily with managers of investment sectors, they can monitor risk and develop a greater dialogue for ensuring a risk-return balance approach in every investment decision.

1. The ISDA promotes sound risk management practices and issues legal opinions on netting and collateral arrangements.

The combination of risk experts and BURMs ensures better portfolio risk management and optimizes products for depositors.

STRENGTHENING RISK MANAGEMENT GOVERNANCE

2009 saw significant changes to risk management governance and, more specifically, greater transparency for the Caisse's investment activities.

The Board of Directors and its Risk Management Committee considered it important to change the way the Caisse does business and ensure better reporting. Reports to each Risk Management Committee meeting now include details on the investments covered by the investment policies, breakdown of assets held in each portfolio, measurement of portfolio risk relative to its return, and analyses of different concentrations and risk factors. Going beyond the statistical risk measurement, which is more precise with the introduction of new tools and methodologies, the Committee now receives comprehensive risk-return reports, providing an in-depth analysis of the Caisse's activities, results and risk assessment.

This change to risk management governance goes hand in hand with the requirement for BURMs to produce the risk-return report in collaboration with each investment team. Following these changes, investment activities are more transparent, ensuring that investment decisions are reviewed, in turn, by each investment team, the Executive Committee and the Board's Risk Management Committee.

This transparency promotes greater dialogue on risk-return, including all recommended choices and strategies.

ENHANCING THE RISK MANAGEMENT CULTURE

The Caisse enhanced its risk management culture to meet its returns objectives and improve its know-how. The Caisse is aware that changing its culture can be challenging for a large institution and may take a long time.

The main thrust of its strategy is therefore to integrate BURMs into the Risk team and risk management into organizational processes.

On the one hand, given their portfolio management experience, BURMs can bridge the gap between their investment team and the Risk team. They are responsible for monitoring risks for their investment team and maintaining an open dialogue on risk-return integration.

On the other hand, enhancing the risk management culture also involves taking into account risk in the Caisse's organizational processes, including employee performance reviews, compensation policy and strategic planning. In this way, risk management is integrated into the organizational processes, fostering a shared risk management culture.

In 2009, the Caisse believes it has made significant strides in enhancing its risk management practices and aims to maintain this progress to deal with any uncertainty in the coming years.

CHANGES IN FINANCIAL RISKS IN 2009

MARKET RISK

In 2009, the Caisse took concrete measures to reduce market risk in its portfolios but these were largely offset by higher market risk from increased capital market volatility.

Absolute risk of the benchmark portfolio

In 2009, the benchmark portfolio's absolute risk increased by 316 b.p. (3.16%) compared with 2008, mainly due to continued high market volatility, particularly in stock markets (see Table 47).

Active risk of the overall portfolio

Active risk remained relatively stable during the year, rising by only 15 b.p. (0.15%), due to two offsetting factors:

- Changes in portfolio positions
- Changes in the overall portfolio asset allocation

REPORT ON RISK MANAGEMENT

The Caisse implemented a large number of measures to reduce active risk in its specialized portfolios, including a significant decrease in real estate and private equity leverage, discontinued use of complex derivatives, change to index management for part of the international equity activities and write-downs for some riskier real estate loans. Following these numerous changes, active risk decreased in most specialized portfolios.

To capitalize on rising stock markets, however, the Caisse changed its asset allocation by increasing the equity weight from 22.4% to 35.4% and reducing the fixed income weight. While this decision proved to be highly profitable, it increased the portfolio's active risk, as equities are inherently riskier than bonds.

Although significant progress has been made in the management of third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs, these securities significantly impact the level of the Caisse's absolute and active risk. Contribution to absolute risk is 11.8% and active risk, 47.5%.

Overall, gains from decreasing the active risk of its specialized portfolios offset the impact of increasing its equity weight and the presence of third-party and bank-sponsored ABCPs, now referred to as third-party and bank-sponsored ABTNs.

TABLE 47

SUMMARY OF MARKET RISK BY SPECIALIZED PORTFOLIO[1]

(for periods ended December 31 – in basis points)

	Benchmark index – absolute risk			Overall portfolio – active risk			Overall portfolio – absolute risk		
Specialized portfolio	**2009**	2008	Change	**2009**	2008	Change	**2009**	2008	Change
Short Term Investments	**78**	75	3	**100**	81	19	**18**	22	(4)
Real Return Bonds	**2,319**	2,123	196	**233**	219	14	**2,310**	2,171	139
Bonds	**959**	994	(35)	**226**	223	3	**943**	892	51
Long Term Bonds	**1,723**	1,749	(25)	**251**	283	(32)	**1,711**	1,685	26
Canadian Equity	**5,323**	5,171	152	**731**	608	123	**5,542**	5,055	487
U.S. Equity (hedged)	**5,790**	4,925	865	**103**	384	(281)	**5,793**	5,124	669
U.S. Equity (unhedged)	**5,564**	4,843	721	**94**	387	(293)	**5,554**	4,938	616
Foreign Equity (hedged)	**5,236**	5,016	220	**133**	223	(90)	**5,247**	4,963	284
Foreign Equity (unhedged)	**4,696**	4,589	107	**139**	232	(93)	**4,649**	4,527	122
Emerging Markets Equity	**4,927**	5,236	(309)	**248**	468	(220)	**4,844**	5,109	(265)
Québec International	**4,880**	4,892	(12)	**256**	351	(95)	**4,949**	4,986	(37)
Investments and Infrastructures	**5,386**	5,050	336	**4,361**	5,011	(650)	**6,938**	7,372	(434)
Private Equity	**5,075**	4,490	585	**2,876**	3,306	(430)	**6,143**	6,290	(147)
Real Estate Debt	**1,035**	1,057	(22)	**1,002**	1,399	(397)	**1,290**	1,775	(485)
Real Estate	**4,005**	3,862	142	**1,758**	2,331	(573)	**4,681**	4,797	(116)
Commodities	**n.a.**	3,460	n.a.	**n.a.**	354	n.a.	**n.a.**	3,516	n.a.
Hedge Funds	**1,478**	1,474	5	**367**	668	(301)	**1,426**	2,027	(601)
Asset Allocation	**n.a.**	n.a.	n.a.	**48**	494	(446)	**2**	143	(141)
Third-party and bank-sponsored ABCPs[2]	**n.a.**	n.a.	n.a.	**5,329**	5,770	(441)	**5,329**	5,770	(441)
Benchmark/Overall portfolio	**3,112**	2,796	316	**1,029**	1,014	15	**3,810**	3,518	292

1. The data in this table is based on the revised parameters for calculating market VaR and cannot be compared with the data reported in the 2008 Combined financial statements.
2. Now referred to as third-party and bank-sponsored ABTNs.

Absolute risk of the overall portfolio

The absolute risk of the overall portfolio is equal to the absolute risk of the benchmark portfolio, plus the active risk of the overall portfolio, less the diversification effect. In 2009, the absolute risk of the overall portfolio rose 292 b.p. (2.92%) after portfolio rebalancing increased the equity weight, which allowed the portfolio to capitalize on the market recovery.

The absolute risk of the benchmark portfolio, the active risk of the overall portfolio and the absolute risk of the overall portfolio are presented in Table 47.

CREDIT RISK

In addition to using the services of rating agencies, the Caisse produces its own credit ratings. As the in-house credit ratings closely track changes in the credit cycle, changes in credit risk are identified earlier than with the credit ratings of rating agencies. Accordingly, the in-house ratings are an essential tool for ensuring sound credit risk management.

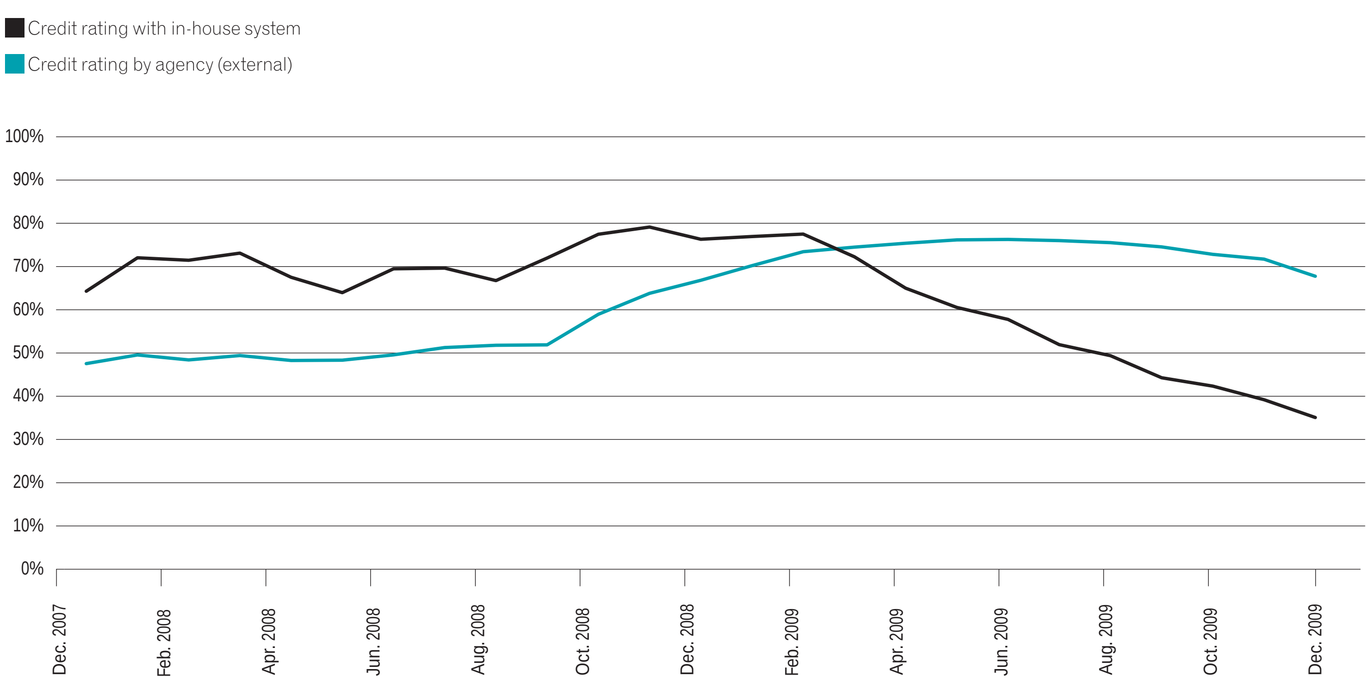
In-house Caisse data appear to show that credit quality has been improving since the first quarter of 2009. Figure 48 shows deteriorating credit ratings as a proportion of the total number of rating changes and compares the results of rating agencies with the Caisse's in-house ratings. Based on this figure, the credit cycle appears to have bottomed out during the first quarter of 2009 with a slow and hesitant recovery emerging during the subsequent quarters. This recovery is accompanied by a decrease in spreads in credit ratings—another sign of lower credit risk in the markets.

COUNTERPARTY RISK

In 2009, the Caisse considerably reduced the use of over-the-counter derivatives, which had the direct impact of lowering counterparty risk. Accordingly, the volume of over-the-counter derivative financial instruments decreased substantially, from nearly 7,000 in December 2008 to less than 5,000 in December 2009.

FIGURE 48

DETERIORATING CREDIT RATINGS AS A PROPORTION OF TOTAL RATING CHANGES (12-MONTH MOVING AVERAGE)



REPORT ON
RISK MANAGEMENT

In addition to reducing the pressure on business units, this decrease reduced the exposure of the Caisse to fluctuations in the market values of these instruments. As Figure 49 shows, the exposure (without netting) to over-the-counter derivatives declined from over $15 billion to less than $6 billion during the year.

Furthermore, to limit this exposure, the Caisse trades with counterparties with whom an ISDA agreement has been entered into for collateral exchanges and payment netting. As at December 31, 2009, the use of negotiated ISDA agreements reduced the Caisse's total exposure from nearly $6 billion to less than $400 million.

FINANCING LIQUIDITY RISK

In 2009, the Caisse's liquid assets and liquidity risk improved considerably following major initiatives.

First, the replacement of short-term financing sources with more long-term CDP Financial offers allowed the Caisse to reduce its refinancing risk and better match the average maturity of financing sources and investments to be financed. At the end of 2009, the Caisse issued term notes with a notional amount of US$5 billion in the U.S. market in three tranches: 5, 10 and 30 years. In January 2010, the Caisse issued $2 billion in Canadian market term notes in two tranches: 5 and 10 years. As a result, the gap in maturities was reduced from 39 months, as at December 31, 2008, to 17 months, as at January 31, 2010.

Second, the collateral provided to counterparties under ISDA agreements decreased during the year, following a positive variation in the market value of over-the-counter derivatives and a reduction in their trade volume. The amount of collateral recovered from counterparties resulted in an increase in the pool of available securities and a reduction in liquidity risk.

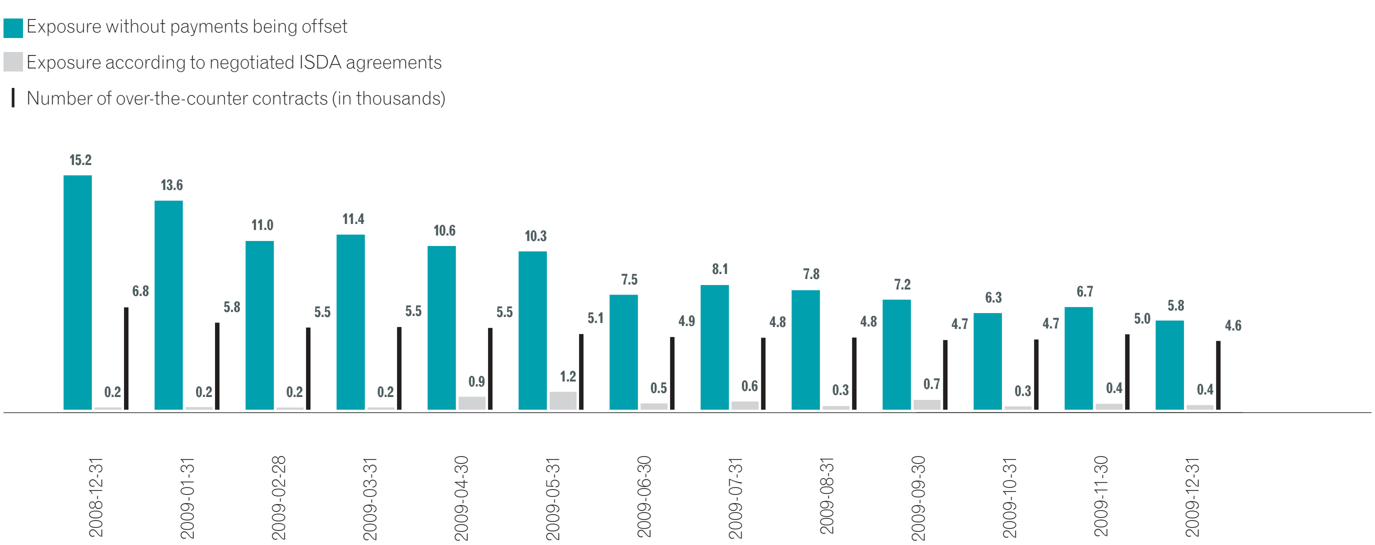
Last, as outstanding over-the-counter derivatives decreased with the discontinuation of certain investment activities requiring these financial instruments, the Caisse's exposure to changes in their market value shrank. This decline led to a reduction in potential collateral calls and, in turn, lower liquidity risk.

Ultimately, these actions resulted in the better matching of financing needs and sources, improved liquidity and, based on certain scenarios, higher potential excess liquidity.

FIGURE 49

CHANGES IN THE EXPOSURE TO COUNTERPARTY RISK[1]

(in billions of dollars)



1. This figure excludes the counterparty risk incurred directly by the real estate subsidiaries.

INTEGRATED RISK MANAGEMENT POLICY

The Caisse makes a special effort to identify, to measure and to oversee the risks associated with its operations, especially active management of investments. To this end, during 2009, the Caisse has considerably strengthened its risk management activities, which is now a strategic priority.

The Caisse has adopted a global and centralized approach for risk management oversight—the Integrated Risk Management Policy (IRMP).

This policy is reviewed regularly and is aimed at fostering a disciplined risk management culture and practices. More specifically, the IRMP defines risk management governance at the Caisse, sets the level of risk deemed acceptable to prevent excessive losses, aligns this level of risk with value-added objectives and aims to allocate risk effectively.

The IRMP is the foundation for risk oversight. It includes reporting mechanisms and describes different aspects of risk management, particularly:

- The main principles, namely the risk model and the independence of the support teams in integrated risk management.
- The organizational structure, the normative framework, governance and sharing of responsibilities.
- The risk budgets.
- The limits on transaction authorization, management outsourcing and concentration by issuer.
- The framework for the outsourcing of management and use of derivative financial instruments.
- The management of various types of risk.

Levels of control

Risk management is ultimately the responsibility of the Board of Directors. However, managers of all levels are required to integrate risk management into the decisions they make every day. It applies to all Caisse employees and agents in the performance of their duties.

Governance of risk management is based on three levels of control:

Level 1 – The portfolio managers, who are primarily responsible for managing risks related to operations under their purview.

Level 2 – The Risks Committees (RC and RC-Transactions), with assistance from the Risk sector, the Executive Committee and the Senior Vice-President, Policies and Compliance.

Level 3 – The Board of Directors and its Risk Management and Audit Committees, as well as Internal Audit.

Teams independent of the portfolio managers are responsible for defining and overseeing the IRMP and the investment policies of the specialized portfolios, as well as monitoring their application. In this way, the required objectivity and discipline is ensured.

Investment policies and risk budgets

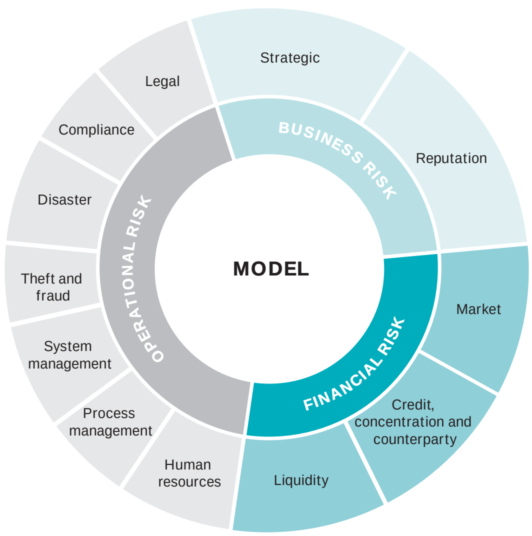
The purpose of investment policies is to provide oversight for the portfolio managers' work. Each specialized portfolio has an investment policy that defines the investment philosophy, management style, investment universe, benchmark index, value-added objective and risk oversight, including concentration and risk limits.

A risk limit, or risk budget, is set for each level of control. It takes into account the value-added objectives for each portfolio and is set annually based on the maximum authorized risk ratio. For the Caisse's overall portfolio, the risk limit reflects the diversification effect of all the specialized portfolios. At the end of 2009, the Caisse undertook to review the investment policies of its portfolios. This review takes into account the review of the specialized portfolio offering as well as numerous consultations and discussions with the depositors. The entire process should be completed during the first half of 2010.

REPORT ON RISK MANAGEMENT

FIGURE 50

THE CAISSE'S RISK MODEL



RISK MODEL

At the Caisse, the risk model is the basis for identifying, assessing and managing risks. It establishes a common language, so that the various stakeholders can communicate effectively regarding risk management.

The risk model is also a basis for rigorous and exhaustive analyses of each risk. Ultimately, this process leads to the implementation of investment strategies that generate stable and sustained returns that meet depositors' expectations.

Under this model, the risks inherent in the Caisse's operations are divided into three broad categories: business risks, financial risks and operational risks. Each category comprises sub-categories for accurately identifying all the possible risks. Each risk requires a specific management approach.

Business risks

Strategic risk

Strategic risk is the possibility that an event related to the practices or relationships of the Caisse, its subsidiaries or employees will contravene its mission, culture and fundamental values.

Strategic risk is also related to the inadequacy of business strategies or deficiencies in the implementation of the Caisse's strategic orientations. Last, the Caisse will be exposed to strategic risk if its resources are not allocated according to the set priorities.

The Caisse manages this risk using a structured strategic planning process that involves all its sectors. Strategic orientations are proposed by the Executive Committee, approved by the Board of Directors and communicated to all employees. Annual business plans are then drawn up. The members of the Board of Directors and the Executive Committee receive a monthly summary of the Caisse's operations.

Reputation risk

Reputation risk is the possibility that an event related to the business practices or relationships of the Caisse, its subsidiaries or its employees will adversely affect the Caisse's image or cause the public to lose confidence in the institution. This risk could detract from the Caisse's ability to achieve its objectives.

All directors, members of senior management and employees are responsible for carrying out their activities in such a way as to minimize reputation risk.

The Caisse manages and controls this risk by means of codes of ethics and professional conduct for directors, officers and employees, training programs, effective internal management and governance practices and various policies and procedures, including its policy on socially responsible investment. The Caisse also ensures that the information it provides internally and externally is truthful and has been corroborated. It strives to ensure the public and the media gain a better understanding of its operations. The Caisse also monitors relevant communications reports and responds by taking public positions as required.

Financial risks

Market risk

Market risk represents the risk of financial loss arising from changes in the value of financial instruments. The value of a financial instrument may be affected by changes in certain market variables, such as interest rates, foreign exchange rates, share prices and commodity prices. The risk arises from the volatility in prices of financial instruments, which in turn result from the volatility of such market variables.

The Caisse manages all market risks in an integrated manner. The main elements that give rise to risks such as industry, country and issuer are taken into account. To manage market risk, the Caisse may use derivative financial instruments that are traded on exchanges or directly with banks and securities dealers.

Value at risk

The Caisse measures market risk using a statistical technique known as value at risk (VaR). This technique, used by most investment firms and financial institutions, covers almost all the assets held by the Caisse. The Caisse determines the VaR for each instrument in its specialized portfolios and aggregates the information for the overall portfolio. Two types of risk are assessed, namely the absolute VaR of the Caisse's benchmark portfolio and overall portfolio, and the VaR of active management.

VaR is based on the statistical measurement of volatility of the market value of each portfolio position and their correlations. VaR uses historical data to estimate the loss expected during a given period according to a predetermined confidence level. For example, using a 99% confidence level, the VaR indicates the maximum loss estimated in 99% of cases for a given period.

One of the advantages of VaR is that it includes the risk of a wide range of investments in a single measurement, thereby providing an overall risk measurement for a portfolio and even for a set of portfolios.

The Caisse uses the historical simulation approach to assess VaR. The historical simulation method is based primarily on the assumption that the future will be similar to the past. This method requires a series of historical data for all the risk factors required to assess the returns on instruments. In the absence of such historical data, particularly for less liquid products, such as private equity and real estate, substitute securities and various mathematical models are used to calculate VaR. Historical data from 1,300 days of observation of risk factors such as variations in exchange rates, interest rates and financial asset prices, is used to assess the volatility of returns and the correlation between returns of various assets.

VaR measures risk under normal market conditions. Therefore, losses realized may greatly differ from the VaR when the historically observed interrelationship between risk factors is disrupted.

As VaR is not designed to be used on its own, the Caisse uses complementary limits and measurements. For example, the investment policies are used to define concentration limits (geographic, sector, instrument type, issuer, etc.) as well as loss limits.

Stress tests

The Caisse also uses stress tests to assess the losses of a specialized portfolio and the overall portfolio in extreme circumstances. The stress test is a risk measurement that complements VaR by estimating the impact of extreme circumstances on returns. These circumstances have a low probability of occurring but are likely to give rise to substantial losses. Using different types of extreme scenarios, the stress test measures the loss of value of a position following a variation in one or more usually interrelated risk factors such as equity prices, interest rates, credit spreads, foreign exchange rates, commodity prices and market volatility.

Like VaR, the stress test includes the risk of many positions in a single overall measurement, making it possible to analyze losses for a portfolio or for a set of portfolios, under selected extreme scenarios.

Credit, concentration and counterparty risk

Credit risk

Credit risk is the possibility of a loss of market value in the event a borrower, an endorser, a guarantor or counterparty does not honour its obligation to repay a loan or to fulfill any other financial obligation, or experiences a deterioration of its financial situation.

Credit risk analysis includes calculating the probability of default and the recovery rate on debt securities held by the Caisse, as well as monitoring changes in credit quality of issuers and groups of issuers[1] whose securities are held in any of the Caisse's portfolios.

In managing credit risk, the Caisse frequently monitors changes in the ratings issued by agencies and compares them with in-house credit ratings, whenever available.

Concentration risk

Concentration risk analysis measures the fair value of all the financial products related to a single issuer or a group of issuers[1] with similar characteristics (geographical area, industry, credit rating).

The concentration limit by group of issuers is set at 3% of the Caisse's total assets. Securities issued by the Government of Canada, the Québec government or any other Canadian province or territory or by their ministries or departments and agencies are exempt from this calculation as they are not subject to concentration limits.

Sovereign issuers with AAA credit ratings are also excluded from this concentration limit. However, concentration limits are set for more specific issuer characteristics. Last, specific concentration limits apply to investments in emerging markets.

1. A group of issuers is controlled by a parent company.

REPORT ON RISK MANAGEMENT

Counterparty risk
Counterparty risk is the credit risk from current or potential exposure to over-the-counter derivatives resulting from the Caisse's operations.

Transactions involving derivatives are carried out with financial institutions whose credit rating is established by recognized rating agencies and for which operational limits are set by senior management. Moreover, the Caisse enters into legal agreements based on the standards of the ISDA[1] to benefit from the netting of amounts at risk and the exchange of collateral. In this way, the Caisse limits its net exposure to this credit risk.

Current exposure to counterparty risk is measured daily, under the legal agreement in effect.

Financing liquidity risk
Financing liquidity risk is the possibility that the Caisse may not always be able to fulfill its commitments regarding its financial liabilities without having to obtain funds at abnormally high cost or having to sell assets. It also corresponds to the risk that it may not be possible to sell investments rapidly or to invest without having a significant adverse impact on the price of the investment in question.

Compliance with preset rules is reviewed every month, in addition to the daily monitoring of liquidity. The Caisse simulates various scenarios to estimate the potential impact of different events on its liquidity situation. The managers responsible assess the liquidity of the markets on which the Caisse's financing operations are based. They also ensure the Caisse is active in various financial markets and maintains relationships with credit rating agencies that rate the Caisse as well as capital providers.

Absolute risk and active risk
Any investment decision involves an element of risk, including the risk of a gain or loss arising from a fluctuation in the value of financial instruments held in a portfolio.

The same method is used to calculate the absolute risk of the Caisse's benchmark portfolio and overall portfolio.

The absolute risk of the benchmark portfolio is the result of the risk of the benchmark indexes related to the assets that make up the portfolio at a given date. For example, if the depositors decide to increase the bond weighting and reduce the weighting of publicly traded equities in their respective benchmark portfolios, the risk will automatically decrease, given the lower volatility of bonds. By the same token, the expected long-term absolute return will also decrease.

The absolute risk of the overall portfolio is the result of the risk of the positions that make up the Caisse's overall portfolio at a given date.

Active risk represents the possibility that the Caisse's return will diverge from the benchmark portfolio return due to active management of its portfolio. The greater the active risk, the more the overall portfolio's expected absolute return will diverge from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio and the active risk and the absolute risk of the overall portfolio are measured regularly and are subject to various limits.

Figure 51 shows the components of the Caisse's risk and return.

Operational risks
Operational risk corresponds to the possibility of direct or indirect financial loss resulting from the deficiency of operations.

Operational risk management and assessment require the self-assessment of risks, listings of incidents, the use of indicators and maintenance of rigorous processes. The Caisse continues to introduce methods to assess and manage operational risks.

1. The ISDA promotes sound risk management practices and issues legal opinions on netting and collateral arrangements.

FIGURE 51

COMPONENTS OF THE CAISSE'S RISK AND RETURN

CAISSE'S BENCHMARK PORTFOLIO	→	Absolute risk of the Caisse's benchmark portfolio	→	Return on market indexes – beta (β)
+				+
ACTIVE MANAGEMENT	→	Active risk	→	Relative return – alpha (α)
=				=
CAISSE'S OVERALL PORTFOLIO		Absolute risk of the Caisse's overall portfolio		Weighted average return on depositors' funds

Human resources management risk
The risk related to human resources management includes such elements as recruiting (recruiting competent, honest and motivated personnel), training (maintaining and developing employees competencies) and evaluating performance and compensation (ensuring fair, equitable and competitive compensation).

Process management risk
The risk arising from process management is related to the processes for input, settlement and tracking of transactions, and errors that may arise in the execution of the processes in place. In addition to internal causes, this risk may arise from the poor quality of services rendered by subcontractors, suppliers and business partners.

System management risk
The Caisse is exposed to a risk in the event of deficiency of its information technology infrastructures or computer systems. This deficiency may result from a breakdown or other malfunction that may cause delays or an interruption in operations that is not caused by a disaster.

Theft and fraud risk
This is the risk of losses arising from intentional acts to defraud, to embezzle funds or to appropriate the assets of the Caisse or its depositors.

Disaster risk
The risk of disaster represents the risk of losses resulting from the interruption of business following a natural or other disaster.

Compliance risk
Compliance risk corresponds to the risk of losses as a result of non-compliance with regulatory obligations, with policies and directives, or with professional and ethical standards and practices specific to the Caisse's operations. It occurs in the event that the Caisse fails to fulfill its duties.

Legal risk
Legal risk is related to the rights and obligations associated with the Caisse's operations and the legislative framework under which they are carried out. Important aspects of legal risk are related to compliance with laws and regulations to which the Caisse and its management teams are subject. They also depend on the assurance that the agreements entered into by the Caisse accurately reflect the planned transactions and contains the appropriate provisions. Legal risk also refers to the risk of lawsuits that may affect the Caisse.

REPORT ON COMPENSATION POLICY

HIGHLIGHTS

01 Implementation of a more demanding and rigorous compensation program based on long-term portfolio performance (4 years).

02 Introduction of a qualitative risk management factor in the performance evaluation of portfolio managers.

The compensation policy is one of the important elements that support the execution of the Caisse's strategic plan and mission—in two distinct ways:

1. Motivating employees to achieve their goals, support organizational priorities and adopt the desired behaviors.
2. Attracting and retaining top talent to deliver the consistent returns its clients, the depositors, expect.

In the second half of 2009 and early 2010, the Caisse Board of Directors and Human Resources Committee thoroughly reviewed the Caisse's compensation policy—particularly incentive pay—and implemented a new program. This report therefore covers the Caisse compensation policy for 2010 onward.

For more details on our 2009 transitional policy measures, read the Report of the Human Resources Committee, p. 115.

GOVERNANCE

Regulation respecting the internal management and compensation levels

The Caisse compensation program is governed by Schedule A of the Regulation respecting the internal management of the Caisse de dépôt et placement du Québec, adopted by government decree in 1996, which defines the maximum compensation levels for employees and the benchmark markets.

For investment positions, the Canadian institutional investment market serves as the benchmark. It must include a representative sample of institutions, insurance companies, trust companies, pension funds, investment advisors, brokerage firms and fund managers or their counterparts in similar industries. The current sample includes 51 organizations. For these positions, compensation and other working conditions must fall below the 90th percentile of the benchmark market.

For administrative positions, the Québec market serves as the benchmark, which must include public sector jobs. It therefore contains a representative sample of large public- and private-sector Québec firms and financial sector companies. The current sample includes 55 organizations. For these positions, compensation and other working conditions must fall below the 75th percentile of the benchmark market.

Benchmark market data is compiled through an annual survey by a recognized, independent firm, Towers Watson. This company administers and analyzes the survey according to generally accepted methodologies and rules.

The Regulation respecting the internal management also stipulates that the Caisse payroll must not exceed 100% of the salary range midpoint.

When the Caisse meets its performance targets, employee compensation, including incentive pay, amounts to well below the limits stipulated by the Regulation.

TABLE 52

COMPARATOR GROUP - INVESTMENT COMPANIES

Insurance companies

- AEGON Canada
- Great West Life & Annuity Insurance Company
- Independent Order of Foresters
- Industrial Alliance, Insurance & Financial Services
- Insurance Corporation of British Columbia
- Intact Investment Management
- Sun Life Financial
- Workers' Compensation Board – Alberta

Pension funds

- Alberta Investment Management Corporation
- Bimcor
- CN Investment Division
- CPP Investment Board
- HOOPP (Healthcare of Ontario Pension Plan)
- OMERS (Ontario Municipal Employee Retirement System)
- Ontario Teachers' Pension Plan
- Public Sector Pension Investment Board (PSP Investments)
- Bombardier
- British Columbia Investment Management Corporation
- Canada Mortgage and Housing Corporation
- Canada Post Pension Plan
- CBC Pension Fund
- Civil Service Superannuation Board (Manitoba)
- Halifax Regional Municipality Pension Plan
- Healthcare Employees' Pension Plan - Manitoba (HEPP)
- Hydro-Québec
- Montreal Urban Community Police Benevolent & Pension Assoc.
- New Brunswick Investment Management Corporation
- Ontario Pension Board
- OPSEU Pension Trust
- Régimes de retraite de la Société de transport de Montréal
- University of British Columbia Investment Trust

Investment advisors – without parent company

- AGF Management
- Cardinal Capital Management
- Fiera Capital
- Greystone Managed Investments Inc.
- Guardian Capital LP
- Independent Accountants' Investment Counsel
- Leith Wheeler Investment Counsel
- McLean & Partners
- McLean Budden
- Nexus Investment Management
- Pembroke Management
- Picton Mahoney Asset Management
- Sceptre Investment Counsel
- Sionna Investment Managers

Investment advisors – with parent company

- Desjardins Asset Management
- HSBC Investment (Canada)
- MD Financial
- Natcan Investment Management
- RBC Financial Group
- TD Investment Management

TABLE 53

COMPARATOR GROUP – LARGE QUÉBEC COMPANIES

- Accenture
- Agropur, Coopérative
- Air Canada
- Alcoa Canada
- ArcelorMittal Canada
- AstraZeneca Canada
- AXA Canada
- BCE
- Bell Helicopter Textron Canada
- Bimcor
- Bombardier Aerospace
- Bombardier
- Bombardier Transportation
- Camoplast
- Canadian Broadcasting Corporation
- Canadian National Railways Co.
- CGI Group
- Cirque du Soleil
- CMC Electronics
- CN - Investment Division
- Cogeco Cable
- Desjardins Assets Management
- Desjardins Financial Security
- Desjardins General Insurance Group
- Domtar Corp.
- Ericsson Canada
- Fédération des caisses Desjardins du Québec
- GE Canada
- Gesca
- Hydro-Québec
- IBM Canada
- Intact Financial Corporation (formely ING Canada)
- Lafarge Canada
- Laurentian Bank of Canada
- Lombard Canada
- L'Oréal Canada
- Loto-Québec
- Molson Canada
- National Bank of Canada
- Pratt & Whitney Canada
- Public Sector Pension Investment Board (PSP Investments)
- Quebecor Media
- Rexel Canada Electrical
- Rio Tinto Alcan
- Rolls Royce Canada
- SGI Canada
- SNC-Lavalin
- Standard Life Canada
- TELUS (formely Emergis)
- Tembec
- The CSL Group
- UAP
- Uni-Select
- Vidéotron
- World Colour Press

Board of Directors and Human Resources Committee
Based on the Regulation respecting the internal management parameters, the Caisse Board of Directors must, under the terms of its mandate, approve human resources policies, compensation guidelines and other working conditions for Caisse executives and employees.

The Board carries out this part of its mandate through its Human Resources Committee, which is entirely composed of independent members. The Committee is responsible for, among other duties: reviewing the human resources management strategy and resulting policies; receiving Caisse benchmark market data annually; and reviewing and making recommendations to the Board on executive and employee compensation and working conditions. The Board and Committee may consult independent expert advice to support their efforts.

Talent Management and Organizational Development
The Talent Management and Organizational Development team works closely with the Human Resources Committee, providing it with all the required information, studies and recommendations to properly make compensation decisions. It also implements and enforces Committee- and Board-approved policies.

GLOBAL COMPENSATION

Compensation principles

At the Caisse, compensation is based on two basic premises:

- Pay for performance: Incentives should be proportional to the returns delivered to depositors. Recently, the Board carried out vital work to align the concept of performance with depositor expectations and the Caisse mission, adopting the following principles:
  - Long-term focus
    Reward consistent performance over many years.
  - Risk-return balance
    Take well-understood risks that produce sustainable returns for depositors.
  - Overall assessment
    Strike a balance between individual, portfolio and Caisse performance.
  - Caisse perspective
    Increased weighting on supporting the Caisse's strategic priorities and contributing to its overall performance—including an increased weight on leadership and desired behaviours.

  Generally, the Caisse aims to compensate first-quartile performance with bottom-of-the-first quartile compensation, second-quartile performance with second-quartile compensation and below-median performance with below-median compensation. In 2009, direct employee compensation paid by the Caisse ranked between the 30th and 40th percentile of its maximum benchmark market level, or between 40% and 45% of the maximum level.

- Competitiveness: To attract, motivate and retain the best talent. This principle encompasses all components of global compensation, in accordance with Regulation respecting the internal management parameters and benchmark market data from recognized, independent firms, as defined by the regulation.

Components

For Caisse employees, global compensation is based on four components:

1. Base salary
2. Incentives
3. Pension plan
4. Benefits

The base salary recognizes an employee's regular tasks, its level of responsibilities, and its development potential. Incentives recognize an employee's performance, goal achievements and contribution to the accomplishment of strategic goals. The pension plan and benefits complete the compensation offer.

The weight of each compensation component varies according to an employee's position and responsibilities.

The tables below show examples of this distribution. The first table contains two examples that represent the distribution for a "typical" intermediate-level Caisse employee: an administrative position (mid-level professional) and an investment position (investment analyst). The second table contains two higher-level position examples: an administrative vice president and a senior investment portfolio manager.

TABLE 54

INTERMEDIATE–LEVEL EMPLOYEE COMPENSATION
(in percentage)

Target compensation distribution	Administrative professional	Investment analyst
Base salary	78	70
Incentives	12	21
Pension plan	6	6
Group insurance	4	3
Total	**100**	**100**

TABLE 55

SENIOR–LEVEL EMPLOYEE COMPENSATION
(in percentage)

Target compensation distribution	Administrative vice-president	Senior portfolio manager
Base salary	53	50
Incentives	42	45
Pension plan	3	3
Group insurance	2	2
Total	**100**	**100**

REPORT ON COMPENSATION POLICY

1. Base salary

The base salary varies according to the position classification in the salary structure. Within a same salary classification, employee salaries are based on the skills, expertise and learning capabilities in their positions.

Annual salary review decisions consider salary position relative to the salary scale midpoint, employee performance, need for pay equity, competition for talent and budgetary environment.

Currently, the average employee salary is positioned slightly below the benchmark market median.

2. Incentive compensation

The Caisse's new strategic goals aim to deliver consistent, long-term returns to its clients, the depositors.

To support these goals, the Board recently reviewed the Caisse's incentive compensation and enlisted Hugessen Consulting, a recognized independent consultant in pension fund compensation.

The new incentive program applies to 2010 and replaces the old plan, which was in effect until 2008. The Board also determined that, given equivalent performance, the new program should cost the same as, or lower than, the old plan.

Following months of rigorous benchmarking and analysis, the Caisse based its incentive compensation on the recommendations of several major global institutions (including the G20, Financial Stability Board, Conference Board and Institute of International Finance) and the compensation practices of the Québec and Canadian financial sectors.

Incentive compensation at the Caisse therefore emphasizes long-term performance and measured risk-taking.

Here are the key elements of our incentive program:

Long-term focus

In line with the Caisse's long-term investment approach, portfolio performance will be evaluated over a four-year period. Each year will carry the same weight, to encourage stability and consistent, long-term performance.

Integration of risk management into performance evaluation

Given the strategic importance of high-calibre risk management to generate returns that meet depositor expectations, the Caisse will use a "risk factor" to adjust the incentive pay of investment managers—evaluating critical elements such as risk limit adherence, performance stability and risk management activity participation. Managers who fail to meet risk management expectations could see their incentive pay reduced or cancelled.

Co-investment for Executive Committee members

Inspired by publicly listed company practices, this program includes the investment of a significant share of the Caisse's Executive Committee members' incentives in a co-investment portfolio. This portion of incentive compensation will grow with the Caisse's overall returns, further aligning the interests of its senior executives with those of its clients, the depositors.

Three components for a more global perspective

Incentive compensation is never guaranteed. It depends on performance evaluation results, which are based on the criteria established by the new program.

Therefore, depending on the position, employee incentives are determined in the following ways.

In addition to a risk factor, investment employee incentives will be calculated on the basis of three components:

- Individual contribution to strategic priorities, including displaying desired behaviours (client service, leadership, rigour and collaboration).
- Four-year portfolio component returns and specialized portfolio returns.
- Caisse four-year overall return.

The Caisse rigorously benchmarks its portfolio component and specialized portfolio performance four-year targets against the performance of other institutional investors in the Canadian benchmark market. This allows us to ensure a fair balance between our incentive compensation and the returns provided to our clients, the depositors.

Administrative employee incentives are based on three components:

- Individual contribution to strategic priorities, including displaying desired behaviours (client service, leadership, rigour and collaboration).
- Achievement of the sector's business plan objectives.
- Caisse four-year overall return.

The "Caisse overall return" component will be independent, will directly impact employee incentives, and its weight will increase with seniority of the position. The weight will therefore be higher for senior executives. For calculating purposes, the formula we use will now be expressed as a percentage of salary and will be capped.

Clawback

The program also includes a clawback in cases of fraud, financial result restatement or code of ethics breaches.

3. Pension plan

All employees participate in, and contribute to, a defined benefit pension plan (RREGOP for staff or RRPE for executives). Membership in these plans is mandatory upon joining the Caisse. These plans provide—in addition to partially indexed income at retirement—provisions in the event of departure or death. They also offer an early or phased retirement program. Our pension plan is one of the important ways we retain employees.

In addition to offering a competitive, industry-leading compensation package that attracts world-class leaders, the Caisse offers a Supplemental Pension Plan that aims to pay additional benefits—on top of the Basic Plan—for designated executives. For more details on this plan, read the Report of the Human Resources Committee, p. 115.

4. Benefits

Employees enjoy a range of competitive benefits, including group insurance (such as medical, dental and life insurance). To maintain a competitive global compensation offer, the Caisse also provides certain benefits to Executive Committee members and administrative vice president-level employees or higher who report directly to a Committee member.

Performance evaluation and management process

To better reflect its new strategic direction and incentive program, the Caisse also reviewed its employee performance management approach.

This review had the following objectives:

- Simplify and focus the evaluation on key performance criteria.
- Strengthen process rigour.
- Emphasize continuous improvement and consistent performance.
- Focus on client service, both internally and externally.

With these objectives in mind, several changes were made. The goals to be set by employees at the beginning of the year will be in two categories:

- Continuous improvement deliverables related to employee role fulfillment and strategic priority support.
- Desired employee behaviours, particularly client focus, rigour and collaboration.

The evaluation process has also been enriched by, among other elements, soliciting and considering internal and external client feedback, thereby promoting the Caisse client approach, and by holding roundtable discussions that calibrate feedback among team leaders, and at the Executive Committee. We have also specified the various assessment levels to facilitate team leaders' efforts.

As a final step, the Executive Committee will meet annually to identify high-potential employees and develop a succession plan for key positions.

REPORT ON STRENGTHENED GOVERNANCE

HIGHLIGHTS

01 Review of Board composition and committee chairmanships.

02 Integration of new directors.

03 Review of directors' roles and responsibilities and mandates of the Board and its committees.

04 Establishment of an effective relationship between the Board and management.

STRENGTHENED GOVERNANCE AT THE CAISSE

Section 5 of the Caisse Act specifies that the affairs of the Caisse are administered by its Board of Directors. The Board seeks, in its administration of the Caisse, to take into account best market practices while adapting them to the Caisse's situation. The mandate of the Governance and Ethics Committee is to assist the Board in the development and implementation of principles and practices that foster a healthy governance culture at the Caisse.

In view of 2008 results, the Board asked the Governance and Ethics Committee to review the Caisse's governance practices. In 2009, the Board and the Committee analyzed leading governance practices and took a number of steps to improve governance at the Caisse. Their review included the governance provisions of the laws and regulations to which the Caisse is subject, particularly the Caisse Act and its by-laws, as well as comparative third party and peer governance practices. The services of an external expert were retained to assist the Committee and the Board in this review.

This report presents the actions undertaken in 2009 by the Board and the Governance and Ethics Committee to strengthen the governance of the Caisse's Board and its Committees. These actions centred on three key areas:

- Composition
- Structure
- Activities

This report also constitutes the Governance and Ethics Committee's account of its activities in 2009.

This report responds to the 2009 request from the Québec government regarding the governance of the Board of Directors of the Caisse.

COMPOSITION OF THE BOARD AND ITS COMMITTEES

The calibre, experience and expertise of directors are fundamental to institutional governance. Integrity, honesty, judgment and availability—the basic qualities sought in any director—must be complemented by the right mix of skill and experience to effectively discharge the role and responsibilities of the position. A director who commits to bringing the full measure of his expertise and experience to the Caisse contributes to strengthening and improving the strategies and initiatives adopted by the Board for the management and continued development of the Caisse.

Review of expertise and experience profile of independent directors

On the recommendation of the Governance and Ethics Committee, one of the first steps the Board undertook in 2009 was a review of the expertise and experience profile of independent Board members. This profile establishes areas of activity and skills, such as risk management and talent management, in which the Caisse's Board must demonstrate expertise. A compilation of director profiles, based on areas of activity and skills, was used to define the professional characteristics sought in new directors. The following complementary areas of expertise were identified as priorities: skill and experience in talent management, variable and other relevant compensation systems, risk management, knowledge of investment environments outside Canada and familiarity with the legal issues affecting Caisse activities. The Caisse initiated a rigorous search for suitable candidates to meet its needs. This process led to the selection of candidates who were recommended to the Government of Québec.

Appointment of new Board members

The 2009 appointments by the Government of Québec of Elisabetta Bigsby, Michèle Desjardins, Pierre Fitzgibbon, Jean Pierre Ouellet, Réal Raymond, and François R. Roy and the renewal of the mandates of Louise Charette and A. Michel Lavigne, were made in the context of the review of Board member profiles.

At the beginning of 2010, the Board of Directors of the Caisse consisted of 14 of the maximum 15 members permitted under the Caisse Act. The profile of the Board as a whole satisfies all of the requirements of the established profile.

Appointment of Committee Chairs

Changes in the composition of the Board necessitated a review of the composition of Committees and Committee Chairs. Accordingly, the Board appointed Chairs to each of the four Committees—Audit, Human Resources, Ethics and Governance, and Risk Management—with the experience and expertise to lead and ensure the efficient functioning of meetings and the execution of their work.

- A. Michel Lavigne, Chair of the Audit Committee, has the requisite skill and experience in accounting and finance to direct the work of the Committee.
- Elisabetta Bigsby, Chair of the Human Resources Committee, has a proven track record in human resources management.
- Jean Pierre Ouellet, Chair of the Governance and Ethics Committee, has acquired over the course of his career extensive knowledge of how organizations work and of leading governance practices.
- Réal Raymond, Chair of the Risk Management Committee, has a vast experience and understanding of the workings of financial institutions, with particular expertise in risk analysis and the impact of risk on organizational operations.

Committee members were appointed based on experience and skill and on the expected contributions to the work of each Committee. See Reports of Board of Directors and Board Committees for the composition of Committees, p. 105.

Integration of new directors in Caisse activities

Review of orientation program for new directors

The complexity of investment activities and processes are inherent to the financial industry. At the Caisse, as elsewhere in the financial industry, it is essential that new directors be equipped to participate in Board activities as quickly and effectively as possible.

During 2009, the Governance and Ethics Committee reviewed the orientation program to ensure that the seven directors appointed in 2009, including Robert Tessier, Chairman of the Board of Directors, obtained complete, high-quality information on the activities of the Caisse.

Accordingly, each new director received updated documentation to familiarize themselves with the Caisse. For example, each director received a copy of the latest Annual Report and a Director's Manual, which contains the laws, regulations and principal policies that govern the Caisse.

Each director also attended orientation sessions on key issues in the Caisse environment. For example, each new director had an opportunity to spend several hours with the Caisse's risk management professionals discussing risk management approaches and processes, issues and challenges.

Informal meetings between directors were held before and after Board meetings to give them an opportunity to exchange points of view, establish relationships of trust as well as build a dynamic team.

Knowledge sharing on Caisse's activities

To ensure that each director has an understanding of the Caisse's different sectors of activity and an opportunity to speak with the leadership team, the Board, on the recommendation of the Governance and Ethics Committee, arranged a series of investment sector presentations which will form part of Board meetings during 2010.

These presentations will give directors an opportunity for discussion with Executive Vice-Presidents in each investment sector regarding management team structure and strategy, the portfolios they manage, investment opportunities, and specific sector issues.

REPORT ON STRENGTHENED GOVERNANCE

The Board also recommended that meetings be scheduled with the other members of the management team to provide a forum outside the formal Board calendar for a discussion of their strategic vision for their respective sectors of activity. Accordingly, during 2010, directors will be invited to meetings during which a member of the management team will present his or her sector of activity and solicit directors' points of view on strategic elements and issues in the sector.

STRUCTURE OF THE BOARD AND THE COMMITTEES

Review of directors' roles and responsibilities, and the mandates of the Board, its Committees and the President and Chief Executive Officer

With respect to the active supervision of the Board of Directors, good governance practices require the adoption of specific mandates for the Board, its Committees and Committee Chairs, the Chairman of the Board and the President and Chief Executive Officer. On the recommendation of the Governance and Ethics Committee, the Board reviewed these mandates to better define and outline the responsibilities of each and to manage the expectations of directors and third parties.

Review of Board and Committee mandates

The Board of Directors' mandate was enhanced through a more precise expression of Board responsibilities under the Caisse Act, under six headings which encompass the areas in which the Board must ensure active oversight: (i) strategic and business plans; (ii) guidelines and policies; (iii) financial issues, internal and audit controls and risk management; (iv) human resources; (v) governance framework; and (vi) regulations.

The Audit Committee mandate was reworked to present its four main areas of responsibility with greater precision: (i) financial reporting oversight; (ii) risk management and internal control oversight; (iii) internal auditor oversight; and (iv) external auditor oversight. External auditor oversight is related to the introduction of the joint auditing of the Caisse's books and accounts by the Auditor General of Québec and an external auditor.

The mandate of the Risk Management Committee was also reworked to set forth the principal responsibilities of the Committee in greater detail under two headings: (i) policies and regulations; and (ii) control systems.

The mandate of the Governance and Ethics Committee was reviewed to express the principal responsibilities of the Committee with greater precision under two headings: (i) governance and ethics policies and practices; and (ii) structure, composition, performance and effective functioning of the Board and its Committees.

The main responsibilities of the Human Resources Committee were set forth in greater detail under two headings: (i) performance evaluation, succession planning and senior management compensation and (ii) general human resources practices.

Review of annual activity plans of the Board and its Committees

With respect to the annual activity plans of the Board and its Committees, the external expert confirmed that these plans comply with the provisions of the Caisse Act. Nonetheless, the plans were enhanced due to changes in Board and Committee mandates. As an example, given the importance of strategic and business plan oversight and implementation, a review of the frequency of follow-up reports was conducted and regular reporting was added to the annual Board activity plan.

Review of the mandate of the President and Chief Executive Officer

The mandate of the President and Chief Executive Officer of the Caisse was reviewed. His principal responsibilities were categorized under seven broad headings: (i) direction and leadership; (ii) strategic planning; (iii) performance oversight and risk management; (iv) financial information and annual report; (v) governance framework and delegation of authority; (vi) human resources; and (vii) communication with depositors and the public.

Review and strengthening of meeting practices

The Governance and Ethics Committee and the Board consider that the directors cannot make decisions or fulfill their functions effectively without timely access to adequate, relevant information.

An in-depth review of governance practices with respect to Board meetings was performed, including the form and content of meeting agendas, meeting length, information sent to directors, presentations by members of the management team during Board meetings, reports by Committee Chairs, in camera sessions, the drafting of minutes and the effective follow-up of issues raised during Board meetings. Among the improvements suggested by the Committee and approved by the Board are formal follow-up of issues which, for various reasons, are not presented as scheduled in the annual activity plan of the Board or of a Committee, and the systematic inclusion of any in camera session on the agenda of each Committee and Board meeting.

The Committee also conducted a survey among the members regarding the communication of information and the quality of documentation. The results of this survey will lead to changes in the way documents sent to Board members are drafted and presented in 2010.

The Committee also ensured that Caisse's key senior management or external stakeholders were available to address the various subjects on the agenda of each Board meeting, and that the time allocated for these matters allowed for a full and complete discussion.

Independence of the Board and its Committees and ethics and professional conduct

Review of procedures to ensure the independence of directors

The Board must be able to carry out its functions independently of management. It must feel free to debate management positions in the presence of management. The fact that at least two thirds of Board members are independent and that directors can meet regularly without the management team contributes to this essential independence.

The Board and the Audit Committee already routinely held in camera sessions at each of their regular meetings but, as of 2009, the agendas of all Committee meetings included discussion sessions held without the presence of the management team.

These sessions facilitate discussion on the proceedings of the Board and its Committees. They allow members to exchange their points of view, in confidence, regarding issues discussed during the meeting and any other issue they believe best discussed without the presence of senior management.

Changes to the Code of ethics and professional conduct

On the recommendation of the Committee, the Board reviewed the Code of ethics and professional conduct for directors, particularly with respect to the independence of members which allows the identification and management of potential conflicts of interest, the process for declarations of interest and the disclosure obligations of directors. The modifications were designed to clarify elements already included in the code to facilitate its understanding. For example, the Board specified the obligations that survive the termination of a director's duties.

The Committee, on behalf of the Board, reviewed declarations of interest submitted by each of the directors, in compliance with the current provisions of the Caisse Act.

Further, in 2009, on the Committee's recommendation, the Board adopted a directive regarding the review of transactions in the securities of companies with ties to a Caisse director. The Board thereby provides an investment oversight for the Caisse and maintains strict ethical standards in compliance with the law and with the rules that govern the markets.

On the recommendation of the Committee, the Board also approved changes to the Code of ethics and professional conduct for managers and employees to set forth obligations of loyalty and integrity on termination of employment with the Caisse. The Board also received a report on the application of the code.

Review of performance evaluation procedures for Committees, the Board and directors

The Caisse's Board established procedures for the evaluation and improvement of its performance, and that of its Committees, Committee Chairs and individual directors. The Governance and Ethics Committee reviewed all of these procedures.

Given changes in the composition of the Board during 2009, the Committee recommended waiting until 2010 to conduct these evaluations, a recommendation with which the Board agreed.

BOARD AND COMMITTEE ACTIVITIES

Appointment of President and Chief Executive Officer and members of senior management

In appointing a President and Chief Executive Officer, a Board makes an important statement with respect to governance. It is appointing the individual who will lead organizational strategy and direction.

The Board appointed Michael Sabia as President and Chief Executive Officer of the Caisse. The Board acknowledged that Mr. Sabia, as President and Chief Executive Officer, waived payment of any short- and long-term bonuses for 2009 and 2010, regardless of the Caisse's results, along with any pension or other retirement benefit and any separation allowance, even if his mandate were terminated without just or sufficient cause.

Further, at Mr. Sabia's request and to ensure the absence of any potential conflict between the personal situation of the President and Chief Executive Officer and the interests of the Caisse, the Governance and Ethics Committee reviewed the management of Mr. Sabia's personal assets. It also acknowledged Mr. Sabia's decision to surrender his BCE Inc. stock options.

REPORT ON STRENGTHENED GOVERNANCE

The Board also ensured that the senior management team has the required skills, vision and leadership to manage the Caisse successfully. On the recommendation of the President and Chief Executive Officer, the Board proceeded with the appointment of Roland Lescure as Executive Vice-President and Chief Investment Officer, a strategic position for an institution such as the Caisse.

Establishment of an effective relationship between the Board and management

Trust

A quality relationship between the Board and management is critical. Good governance requires trust and transparency.

To build this trust, the Board introduced regular meetings with senior management, either during Board or Committee meetings – including presentations by investment sector leaders planned for Board meetings during 2010 – or outside formal Board meetings, for example, in meetings held the day before Board meetings. The Board seeks to establish an open, ongoing and constructive dialogue.

The Board members feel that the understanding of the organization acquired during these discussions will improve their ability to review management proposals, enhance discussions and move the organization forward.

Performance evaluation and succession planning

The Board must monitor the performance of the President and Chief Executive Officer and the senior management team and ensure a succession planning exercise for all key positions.

In 2009, the Chairman of the Board ensured that the Board was able to devote the time necessary to address these issues in depth. When Mr. Sabia took up his position, the Board members reviewed his 2009 objectives with him. Based on these objectives and on the mandate with which he was entrusted by the Board, the Human Resources Committee and the Board conducted a formal performance evaluation of the President and Chief Executive Officer at the beginning of 2010. The Board also reviewed the President and Chief Executive Officer's evaluation of the members of the senior management team.

Further, the Chairman of the Board asked the Human Resources Committee, in addition to establishing a new compensation program, to make succession planning a priority in 2010.

Compensation oversight

The Board must oversee the compensation of management and employees to ensure that it is both equitable and competitive.

Given the lack of a functional compensation program for 2009 and coming years, the Board assigned the Human Resources Committee the task of developing a compensation program focused on a balance between risk and return and grounded in the performance of employees, of portfolios (for managers) and of the Caisse. To balance management expertise in this area and to ensure their independence, the Board and the Human Resources Committee retained the services of a recognized firm of compensation consultants, Hugessen Consulting.

For further information about the Caisse's compensation program, see Report on Compensation Policy, p. 86.

Strategic planning exercise

Strategic planning and financial risk management are among the primary responsibilities of the Board. For financial institutions worldwide, the fall of 2008 led to profound changes in the way investment and growth strategies are viewed. Clarity of vision and direction are critical in this environment.

In 2009, the Board was actively involved in the development of five strategic priorities for the Caisse. It reviewed the proposed priorities at length with management and suggested adjustments, particularly with respect to the new model of collaboration with depositors, the reworking of specialized portfolios, and the Caisse's key leadership role in the economic development of Québec. The Board approved the priorities retained and their implementation by management as of 2010.

As strategic planning is an ongoing process which must adapt to environmental changes, both external and internal, the Board also agreed with management on how work on these priorities would be monitored.

Review of the exercise of voting rights and socially responsible investing practices

The Governance and Ethics Committee ensured good governance practices in the exercise of voting rights in companies in which the Caisse is a shareholder. Accordingly, the Committee reviewed, with the individuals responsible for the exercise of the Caisse's voting rights, the principles governing the exercise of voting rights in various transactions carried out by the Caisse. The Committee and the Board also reviewed, with the individuals responsible, the application of the policy on socially responsible investment in 2008 and 2009.

Risk management oversight

One of the strategic priorities adopted by the Board concerns risk management. Aware that achieving returns requires taking some risks, the Board must ensure that risks are held to appropriate levels. To fulfill its oversight role, the Board must have access to information that is accurate, relevant, and clear.

In 2009, the Board therefore entrusted its Risk Management Committee with the key task of overseeing the implementation of a plan to strengthen risk management practices. The Board and the Committee supported management with accelerated implementation of the plan. In barely nine months, most of the recommendations included in the three-year plan to strengthen risk management practices were implemented.

These recommendations included an in-depth review of the governance model for risk management at the Caisse. The Risk Management Committee has received a detailed risk-return report for the Caisse at each of its meetings since the end of 2009. It also receives a risk-return report for each specialized portfolio. These reports allow members to rapidly identify issues affecting either a particular portfolio or the Caisse as a whole and to make any necessary recommendations to the Board.

For further information on the new risk management governance model, see Report on Risk Management, p. 74.

CONCLUSION

2009 was a transition year for the Caisse and for the Board of Directors. A year of rebuilding solid foundations that will underpin the exercise of the Board's strategic and oversight responsibilities.

Between April and December 2009, the Board held 17 meetings and was consulted on numerous key matters. All elements are now in place to enable the Board to deal with issues in a timely manner. The Board has implemented a clear operating model and has ensured that individuals with the requisite skills hold the right positions.

The Board has become a cohesive body and this cohesion continues to grow. We are confident that the Board has a healthy governance culture which fosters a constructive relationship of trust and mutual respect with management.

COMPLIANCE

HIGHLIGHTS

01 In 2009, compliance to investment policies was certified twice.

02 The Caisse exercised its voting rights at 4,301 shareholder meetings.

The purpose of the compliance policy is to ensure conformity with the laws, regulations, policies and guidelines applicable to the Caisse's operations, at all levels and in all functions. The compliance activities involve monitoring and implementing compliance programs, training officers and employees, as well as providing the documentation and needed guidance.

The policy requires, among other things, that those in charge of compliance provide the Board of Directors, the Risk Management Committee and the Executive Committee with the assurance that compliance programs are applied. They must also provide the Audit Committee with the assurance that the compliance monitoring mechanisms are adequate and effective.

INVESTMENT POLICIES

An important part of the Caisse's existing programs is the compliance confirmation process with regards to the depositors' and specialized portfolios' investment policies. In 2009, certificates of compliance in respect of these policies were sent to depositors on two occasions, on June 30 and December 31.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

In addition, those in charge of compliance ensure that Caisse officers and employees abide to the Code of Ethics and Professional Conduct, which emphasizes the importance of adopting behaviours aligned with the institution's practices, the respect of individuals and groups, as well as the compliance with laws, policies and regulations applicable to the Caisse. Each year, all employees reconfirm their adherence to the Code. They must also report any situation that reasonably appears to represent a departure from the Code.

To avoid conflicts of interest, the Code also includes pre-approval measures for employees' personal transactions. Officers, however, must place their portfolios in a blind trust or use passive investment vehicles for corporate securities.

The Code is available online at www.lacaisse.com, under the *Governance* tab.

WORK ENVIRONMENT POLICIES

There are specific Caisse policies that define the employees' work environment. They cover such topics as workplace harassment and language policy enforcement.

EXERCISE OF VOTING RIGHTS AND RESPONSIBLE INVESTMENT

The Caisse systematically exercises its voting rights in accordance with policy guidelines to this effect. In 2009, the Caisse processed 4,301 proxy voting files with respect to Canadian and foreign corporations. These files included 39,434 proposals which were analyzed and put to a vote.

The Caisse expects the companies in which it invests to respect good governance principles, fundamental rights and freedoms, workers' rights and the communities in which they operate. It has therefore adopted a responsible investment policy that advocates open dialogue with companies. In addition to assessing a company's financial position, the Caisse's managers, when required, integrate environmental, social and governance criteria into their analysis prior to making investment decisions. They also communicate the Caisse's corporate responsibility concerns to the companies.

The policies relating to the exercise of voting rights and responsible investment, as well as details on each of the Caisse's votes for North American companies, are available online at www.lacaisse.com.

ACCESS TO INFORMATION

The Caisse has adopted a policy that defines how it processes and discloses information about itself. Through its information disclosure policy, the Caisse aims to strike a balance between its commitment to transparency and its obligation to protect depositor interests, while complying with the law and respecting its contractual supplier obligations and third-party rights. To achieve this balance, the Caisse endorses the following principles:

- Respect applicable laws, including the Act respecting Access to documents held by public bodies and the Protection of personal information.
- Respect the confidentiality agreements it has made.
- Respond to relevant document access requests.
- Disseminate all relevant material information with integrity.

COMPLAINT MANAGEMENT

The Caisse has appointed Ginette Depelteau, Senior Vice-President, Policies and Compliance, to receive, analyze and appropriately handle complaints. All complaints can be addressed to her by phone (514-847-5901), by fax (514-847-5445) or by email (complaintmanagement@ lacaisse.com).

SUSTAINABLE DEVELOPMENT

HIGHLIGHTS

01 In 2009, the Caisse adopted its first Sustainable Development Action Plan, which will be implemented over three years.

02 Employees have participated in many sustainable development awareness activities.

03 Centre CDP Capital received Gold LEED-EB environmental certification.

SUSTAINABLE DEVELOPMENT ACTION PLAN

In 2009, the Caisse adopted and implemented a Sustainable Development Action Plan based on the Sustainable Development Act (Québec), an act intended to support the execution of the 2008-2013 Government Sustainable Development Strategy. The Caisse also created a Sustainable Development Committee comprised of representatives from its various sectors to oversee the Action Plan's implementation.

This Action Plan is an extension of previous initiatives undertaken by the Caisse with the objective to ensure it exercises its profession as an investor in a responsible manner. In recent years, the Caisse has shown leadership by adopting a Policy on Socially Responsible Investment, by endorsing the United Nations' Principles for Responsible Investment and by taking part in the Carbon Disclosure Project. It has also launched various initiatives related to human resources and real estate management, environmental protection and community support.

Together, these initiatives convey the Caisse's vision with respect to corporate responsibility, which encompasses all aspects of social, economic and environmental development.

Through the implementation of its Action Plan, the Caisse will continue to play a leading role in the promotion of sustainable development and will support all initiatives aimed to further advance the Québec society. Moreover, it is only natural for the Caisse to endorse the concept of sustainability as its mission is to ensure the continuity of the pension and insurance plans whose funds it manages, and Québec's long-term economic development.

The Action Plan, which outlines current and future key endeavours, also showcases the Caisse's initiatives and positions them within an integrated effort, broader than the previous corporate responsibility framework. It is by assessing its achievements to date and by taking into account its mission and strategy that the Caisse has established the actions to be taken. Therefore, the Plan is not a starting point, but rather a new stage in the progression towards sustainability.

Ultimately, the Caisse intends to use this Action Plan as a new tool to promote even greater stakeholder buy-in. It will actively support changes to business practices to ensure sustainable development in Québec. In line with the government's strategy, the Caisse has set eight organizational objectives. For each objective, a set of actions to be implemented over a 2009-2011 timeframe was elaborated.

TABLE 56

CAISSE SUSTAINABLE DEVELOPMENT ACTION PLAN STATUS

Organizational objective

Promote the sustainable development initiatives of the Caisse and its subsidiaries

ACTION 01	Milestones	Initiatives
Present the sustainable development concept and principles to the Caisse's stakeholders (such as the general public, depositors, and tenants)	2009	Publication of the socially responsible investment (SRI) report.
	Future	**2010** – Release of report on the Caisse's corporate social responsibility (CSR) initiatives.
		2011 – Seminar on socially responsible investment and sustainable development for depositors.

ACTION 02	Milestones	Initiatives
Implement activities that help achieve the Government Plan for public sector personnel awareness and training	2009	Awareness of sustainable development through employee newsletter Scoop (publication of three articles and two Eco-Caisse capsules).
		Conference program in 2009: 536 participants over eight sessions.
	Ongoing (2009-2013)	Sustainable development training for employees: planning 2010 conferences and Sustainable Development Action Plan presentations at new employee welcome sessions.
		Sustainable Development Week (April 19-23, 2010).

Organizational objective

Contribute to the discussion on sustainable development

ACTION 03	Milestones	Initiatives
Participate in sustainable development events and groups	Future	**2010** – Sustainable development alliance of Québec organization stakeholders.

SUSTAINABLE DEVELOPMENT

TABLE 56

Organizational objective

Establish working conditions conducive to employee health and safety

ACTION 04	Milestones	Initiatives
Invest in risk prevention to ensure employee health and safety	2009	Creation of a prevention committee (meeting held in December), composed of employees from all Caisse units.
	Ongoing	Prevention programs for employee health and safety: phased deployment of programs in 2010.

Organizational objective

Develop responsible procurement practices for goods and services

ACTION 05	Milestones	Initiatives
Implement practices and activities that fulfill eco-responsible government policy provisions	2009	Inclusion of sustainable development criteria in the standard tender document. Design of "green office" guide for employees (distributed in December).
	Ongoing	Adoption of Policy on "Contracts for the Acquisition or Leasing of Goods and Services" that reflects sustainable development principles. Review process completed and final approval in 2010. Improvement initiative for computer equipment purchases: establishment of guidelines in 2009 and implementation in 2010.

Organizational objective

Promote sound environmental management at the Caisse and its subsidiaries

ACTION 06	Milestones	Initiatives
Implement measures for environmental building management	2009	Maintenance of BOMA BESt certification. LEED certification for the Caisse's main business office (Centre CDP Capital): September 11, 2009 confirmation. LEED certification for a Vancouver building under construction (2009): confirmation of pre-certification pending completion of construction. Creation of SITQ Group building tenant committees: first meetings held during the year.

TABLE 56

Organizational objective

Promote sound environmental management at the Caisse and its subsidiaries

ACTION 07	Milestones	Initiatives
Implement an environmental management system for the Caisse's Montréal business office	2009	Creation of a "Green" Committee at Centre CDP Capital, composed mostly of tenants. SITQ is the Centre CDP Capital property manager. The "Green" component includes and adapts the activities of the SITQ Green Committee to its actual environment. The SITQ Green Committee was established in 2006.
	Ongoing	Measurement and monitoring of Centre CDP Capital's ecological footprint: several measures are in place and the next steps constitute a more systematic framework for meeting our environmental management system requirements. Selection and implementation of measures for maintaining excellence and monitoring our environmental footprint.
	Future	**2010** – Development of a sustainable development policy.

Organizational objective

Help protect Québec's cultural heritage

ACTION 08	Milestones	Initiatives
Promote Québec's cultural heritage	Future	**2010** – Exhibition of Québec art at Centre CDP Capital.

Organizational objective

Step up cooperation with national and international partners on integrated sustainable development projects

ACTION 09	Milestones	Initiatives
Work with a partner on a sustainable development project	Future	**2010** – Establishment of a partnership with a sustainable development organization.
		2011 – Establishment of a partnership with depositors on sustainable development matters.

TABLE 56

Organizational objective

Support non-profit organizations that help prevent and fight poverty and social exclusion

ACTION 10	Milestones	Initiatives
Support philanthropic causes	2009	Real estate subsidiary Ivanhoe Cambridge established a permanent volunteer program, Give & Take, to encourage its employees to do volunteer work. It offers two days of paid leave to employees who devote one of the two days to volunteering at a charity of their choice. In 2009, more than 400 employees participated, representing nearly 28% of the subsidiary's workforce.
	Ongoing	Creation of a program that encourages Caisse employees to do volunteer work.

ACTION 11	Milestones	Initiatives
Implement a company diversity program	2009	Diversity Week on June 1-5, 2009 (to be repeated in 2010).
	Ongoing	Creation of an Equal Access to Employment committee. Multicultural team management training for team leaders (to be integrated into the overall training program).

REPORTS OF BOARD OF DIRECTORS AND BOARD COMMITTEES

BOARD OF DIRECTORS' REPORT

HIGHLIGHTS

01 A renewed Board with the arrival of seven new members.

02 Implementation of many initiatives to strengthen the institution's governance.

03 Major work on various strategic matters, including risk management process review, strategic planning and adoption of a new compensation program.

BOARD OF DIRECTORS

MANDATE

The Board of Directors:

- Ensures that the Caisse is managed in compliance with the provisions of its constituting statute and regulations.
- Ensures that the institution takes the necessary steps to achieve the objectives stated in its mission.
- Enacts regulations and approves the Caisse's main guidelines and policies with respect to investment operations, socially responsible investment, risk management oversight and delegation of authority.
- Receives all matters that call for special attention due to their intrinsic importance or to their impact on either the Caisse's portfolio or its asset allocation.
- Reviews and approves the Caisse's strategic plan.
- Reviews and approves the Caisse's annual business plan, and monitors management's evaluations of the economic and financial environment throughout the year.
- Examines and approves the Caisse's budgets, financial statements and Annual Report.
- Assesses the integrity of internal controls, information disclosure controls and information systems.
- Approves the financial disclosure policy.
- Approves human resources policies, compensation standards, compensation scales and other employment conditions for Caisse officers and employees.
- Determines the compensation standards, compensation scales and other employment conditions for the President and Chief Executive Officer, according to the parameters set by the Government in consultation with the Board.
- Appoints the members of senior management on recommendation by the President and Chief Executive Officer.
- Develops and oversees implementation of the Caisse's rules, procedures and policies on governance in collaboration with the Governance and Ethics Committee.
- Approves the rules of ethics and professional conduct that apply to Caisse Board members and to officers and employees of the Caisse and its subsidiaries.

As required by law, the Board of Directors has formed an Audit Committee, a Human Resources Committee, a Governance and Ethics Committee, and a Risk Management Committee.

COMPOSITION

As at December 31, 2009, the Board consisted of 14 members out of a possible maximum of 15. Seven directors, including the Chairman, Pierre Brunet, resigned during the year.

Robert Tessier was appointed Chairman of the Board on March 5, 2009. Elisabetta Bigsby, Pierre Fitzgibbon, Jean Pierre Ouellet and Réal Raymond were appointed to the Board during the year. The mandates of Louise Charette and A. Michel Lavigne were renewed. Michèle Desjardins and François R. Roy were appointed on December 21, 2009; they did not attend any Board meetings in 2009.

The Board consists of its Chairman, the President and Chief Executive Officer, depositors' representatives and independent members. The Act respecting the Caisse specifies that at least two-thirds of the directors, including the Chairman, must be independent.

ORDER-IN-COUNCIL REMUNERATION OF INDEPENDENT DIRECTORS

The remuneration of the Caisse's independant directors is determined by order-in-council of the Québec government. Under the current order-in-council, the following remuneration was paid to the independent directors, with the exception of the Chairman of the Board and the President and Chief Executive Officer.

Directors are also entitled to reimbursement of their travel and living expenses, where applicable.

TABLE 57

DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS FOR 2009[1]

Member	Board of Directors		Audit Committee	Risk Management Committee	Human Resources Committee[2]		Governance and Ethics Committee[2]	
	10 reg..	17 spec.	7 reg.	8 reg.	10 reg.[2]	6 spec.	9 reg.	2 spec.
Yvan Allaire	2/2	4/6	–	2/2	1/1	–	2/2	2
Christiane Bergevin	7/7	11/13	5/6	–	–	–	–	–
Elisabetta Bigsby	2/2	1/2	–	–	2/2	1/1	–	–
Pierre Brunet	2/2	5/5	–	–	2/2	1/1	2/2	2
Claudette Carbonneau	8	15	3/3	–	–	–	6/6	–
Louise Charette	10	17	1/1	2/2	–	–	6/6	–
Steven M. Cummings	3/3	8/8	–	–	3/3	2/2	2/2	–
Jocelyne Dagenais	10	17	–	4/6	–	–	–	–
Alban D'Amours	2/2	5/6	–	2/2	–	–	–	–
Pierre Fitzgibbon	7/7	9/9	4/4	5/6	–	–	–	–
Claude Garcia	2/2	6/6	2/2	1/2	–	–	–	–
A. Michel Lavigne	9	17	7	4/6	–	–	–	–
Henri Massé	0/0	1/1	–	–	–	–	–	–
Fernand Perreault	2/2	6/6	–	–	–	–	–	–
Jean Pierre Ouellet	8/8	11/11	–	–	6/6	4/4	7/7	–
Réal Raymond	7/8	8/10	–	6/6	–	–	–	–
Ouma Sananikone	10	13	–	6/6	9	5/6	2/3	2
Robert Tessier	8/8	12/12	–	–	8/8	4/4	–	–
André Trudeau	9	14	–	–	–	–	–	–

1. Directors justify their absences from meetings of a Committee or the Board to the Secretariat of the Caisse. During 2009, some directors were not able to attend certain meetings for reasons that include identification of conflicts of interest, a change in the regular meeting schedule requested by the Caisse and health concerns.
2. The Human Resources and Governance and Ethics Committees held three concomitant meetings early in 2009.

TABLE 58

COMPENSATION PAID IN 2009 TO ORDER-IN-COUNCIL INDEPENDENT DIRECTORS

Director	Annual compensation ($16,646)[1]	Compensation as Committee Chair ($5,202)[1]	Attendance fees ($780)[1,2]	Total compensation
Yvan Allaire	$ 4,161.50	$ 867.00	$ 7,410.00	$12,438.50
Christiane Bergevin	$12,651.00	$ 0	$13,794.00	$26,445.00
Elisabetta Bigsby	$ 2,829.83	$ 442.17	$ 3,980.00	$ 7,252.00
Claudette Carbonneau[3]	$16,895.75	$ 0	$19,382.00	$36,277.75
Louise Charette	$16,895.75	$ 0	$22,542.00	$39,437.75
Steven M. Cummings	$ 5,137.79	$ 0	$ 8,588.00	$13,725.79
Alban D'Amours	$ 4,161.50	$ 867.00	$ 5,460.00	$10,488.50
Pierre Fitzgibbon	$12,734.25	$ 0	$18,308.00	$31,042.25
Claude Garcia	$ 4,161.50	$ 867.00	$ 6,630.00	$11,658.50
A. Michel Lavigne	$16,895.75	$ 4,387.00	$24,134.00	$45,416.75
Henri Massé[3]	$ 1,387.17	$ 0	$ 390.00	$ 1,777.17
Jean Pierre Ouellet	$14,121.42	$ 4,413.00	$25,034.00	$43,568.42
Réal Raymond	$14,121.42	$ 3,979.50	$15,108.00	$33,208.92
Ouma Sananikone	$16,895.75	$ 0	$28,488.00	$45,383.75
Total				**$358,121.05**

1. In accordance with the terms of the current order-in-council, a 2% increase was applied on April 1, 2009.
2. The attendance fee for each special or short Board or Committee meeting held by conference call is $390.
3. These directors do not receive their compensation directly as per their instructions to the Caisse.

BOARD OF
DIRECTORS' REPORT

REMUNERATION OF THE CHAIRMAN OF THE BOARD

The remuneration of the Chairman of the Board is set by the Québec government at $195,000 a year. The Chairman of the Board is also entitled to reimbursement of entertainment expenses related to the duties of the position, to an annual ceiling of $15,000.

ACTIVITY REPORT

Compliance with the Act respecting the Caisse
Throughout the year, the Board ensured that the activities of the Caisse complied with the Act and the relevant regulations.

Strategic planning and business plan
The Board approved the plan for a new focus to simplify and improve how the Caisse works. The Board approved the wind-up of certain asset allocation, financial engineering and hedge fund operations and to regroup liquid market investment activities in the Equity Markets and Fixed Income sectors. It also approved creation of the position of Executive Vice-President, Overlay Strategies, to offer the depositors customized currency, interest rate and inflation risk protection strategies.

The Real Estate sector was also strategically realigned. The Board approved repositioning Real Estate to integrate the activities of the Cadim division into the SITQ subsidiary and return the focus of the Otéra subsidiary's operations to its core business—first mortgage loans.

The Board approved a commitment of $250 million for the creation of the Teralys Capital Fund to pursue the venture capital strategy established by the Caisse in 2004. The Fund will finance private venture capital funds that invest in technology companies in various sectors. The Board also authorized management to establish a $600 million partnership with Desjardins to invest in promising small and medium enterprises that have the potential to generate attractive returns for the depositors.

The Board held in-depth discussions with management concerning the organization's strategic orientations. It approved the five broad strategic priorities that are core to the Caisse's strategic plan:

- Implement a new collaboration model with depositors.
- Provide long-term, risk-ajusted, and liabilities-driven returns for the depositors.
- Demonstrate our leadership in Québec.
- Strengthen our risk management capabilities.
- Create a culture of service that inspires collaboration, rigour and high performance.

To offer the depositors the flexibility they need, the Board also approved a new mix of specialized portfolios that includes an index portfolio management option.

Each of the Caisse's business sectors presented its annual business plan to the Board. The Board adopted the Caisse's business plan, asset allocation program and technology project book for the year. The Board also regularly received senior management's reports on changes in the Caisse's business.

The Board was able to effectively oversee the Caisse's operations and the organizational changes that have been made and to play a constructive role in the new strategic focus for the organization.

Financial results, internal control and management system
After each meeting of the Audit Committee, the Board received an oral and written report of the Committee's activities. In this way, the Board ensured that the Audit Committee also carried out its functions appropriately.

Through the Committee or on its recommendation, the Board fulfilled the following responsibilities:

- Reviewed the quarterly financial statements and approved the Caisse's annual financial statements.
- Approved the Caisse's budget and budgetary oversight of operating expenses.
- Monitored Internal Audit work.
- Received assurance of the integrity of all the controls applied to the various data used to establish the financial statements and the notes to the financial statements.
- Reviewed the integrity of internal controls and management systems (the Risk Management Committee also contributed to this review).
- Approved a plan for optimal use of resources for 2009 and received assurance of plan monitoring.
- Approved the method for allocating the provision related to third-party and bank-sponsored ABCP investments, now referred to as third-party and bank-sponsored ABTNs.
- Received assurance of application of the policies on financial certification and information disclosure.
- Approved the updated policy for applying the last paragraph of section 37.1 of the Act respecting the Caisse.
- Approved the strategy for the application of International Financial Reporting Standards starting in 2011.
- Approved a request for proposals to select an external firm to audit the records and accounts of the Caisse and recommended the selected firm to the Québec government.

The Board received reports analyzing the returns of the Caisse's various investment sectors. It also approved the press release announcing the Caisse's results and the Annual Report. In addition, in order to enhance Caisse transparency, the Board approved a new approach to communication that will from now on provide an overview of results at mid-year.

The Board also approved the launch of an external financing program to replace a portion of short-term debt with longer-term debt. This reduces the Caisse's dependence on short-term financing. To support management in issuing bonds under the program, the Board created a special financing committee made up of the committee chairs and including Pierre Fitzgibbon. The committee's mandate was to advise Caisse management in its refinancing efforts and make recommendations to the Board regarding the decisions to be taken. On the committee's recommendation, the Board approved the required documentation, including the conditions of the bond offering for the U.S. market in November 2009 and for the Canadian market in early January 2010.

Risk management

Assisted by the Risk Management Committee, the Board identified the main risks to which the Caisse is exposed and ensured oversight of those risks. Further to this, the Board requested that the Committee accept the three-year plan for strengthening risk management practices and the accelerated implementation schedule and to ensure that satisfactory progress and the required rectifications were made. On the Committee's recommendation, the Board supported senior management as necessary to accelerate implementation of the recommendations in the three-year plan to strengthen risk management practices approved in 2008, reducing the implementation timeframe to 18 months in April 2009. In fact, most of the plan's recommendations were completed after only nine months.

After each meeting of the Committee, the Board received an oral and written report of the Committee's activities. Through the Committee or on its recommendation, the Board fulfilled its risk management responsibilities:

See the Report on Risk Management, p. 74.

Following organizational changes at the Caisse, the Board amended and approved the applicable delegations of authority.

Human Resources Management and Senior Management Supervision

Following Robert Tessier's appointment as Chairman, the Board created a special selection committee to choose the President and Chief Executive Officer.

With the approval of the Québec government, the Board appointed Michael Sabia to lead the Caisse. The Board acknowledged that Mr. Sabia, as President and Chief Executive Officer, waived payment of short- and long-term incentive compensation for 2009 and 2010, regardless of the Caisse's results, of any pension and any other pension benefits as well as any severance pay, even if his mandate were terminated without just or sufficient cause. Assisted by the Human Resources Committee, the Board established the remuneration and other employment conditions of the President and Chief Executive Officer, according to its 2009 objectives and the parameters set by the Government. The Board also confirmed Mr. Perreault as Adviser to the President and Chief Executive Officer for the transition period deemed necessary by senior management.

The Caisse's Senior Management

The Board approved the appointment or promotion of nine members of the Caisse's Executive Committee:

- Jean-Luc Gravel, Executive Vice-President, Equity Markets
- Bernard Morency, Executive Vice-President, Depositors' Accounts Management and Strategic Initiatives
- Normand Provost, Executive Vice-President, Private Equity and Chief Operations Officer. Normand Provost already held and currently holds the position of Executive Vice-President, Private Equity
- Claude Bergeron, Executive Vice-President, Legal Affairs and Secretariat
- Roland Lescure, Executive Vice-President and Chief Investment Officer
- Frédérick Charette, Executive Vice-President, Talent Management and Organizational Development
- René Tremblay, Executive Vice-President, Real Estate and President, Real Estate group
- Marc Cormier, Executive Vice-President, Fixed Income
- Philippe Ithurbide, Executive Vice-President, Overlay Strategies

On the recommendation of the Human Resources Committee, the Board approved the employment conditions of the new Committee members and the severance packages for certain executive vice-presidents.

The Board adopted the detailed objectives of the President and Chief Executive Officer for fiscal 2009, assisted by the Human Resources Committee. It measured the results and expressed its high satisfaction. The Board found that the performance of the President and Chief Executive Officer had largely exceeded the set objectives.

The Board also approved the appointment of Claude Bergeron as Acting Chief Risk Officer and Michael Sabia as Acting Chief Financial Officer in the absence of incumbents for these positions.

In November 2009, on announcement of the departure of Fernand Perreault, the Board expressed its recognition for the importance and quality of his work.

Other human resources management responsibilities

The Human Resources Committee may retain the services of a consulting firm to support it in carrying out its mandate, if it deems it advisable. Given the importance of the issues surrounding work on the Caisse's compensation program, the Board authorized the Committee to retain a consulting firm independent from management. The firm selected, with recognized expertise in executive, management and employee compensation, provides its services exclusively to board compensation committees. The Board received regular follow-ups on the progress of the Committee's work on this issue.

After each meeting of the Human Resources Committee, the Board received an oral and written report summarizing the members' discussions and presenting the Committee's recommendations. Through the Committee or on its recommendation, the Board fulfilled the following responsibilities:

- Reviewed the consulting firm report on the use of different actuarial data for retirement programs.
- Approved the salary conditions and overall compensation of Caisse employees for 2009, including cancellation of bonus payouts for 2008.
- Reviewed the terms and conditions of a new compensation program with senior management and the Committee. For further information about the Caisse's compensation program, see Report on Compensation Policy, p. 86.
- Approved the appointment and employment conditions of the Vice-President, Internal Audit.

Corporate Governance

The Board, assisted by the Governance and Ethics Committee, determined the main actions required to strengthen governance. In this respect, the Board asked that the Committee conduct a review and analysis of governance rules at the Caisse with respect to issues that must be brought to the attention of the Board, or one of the Board Committees, whether for information or decision-making purposes, and the frequency with which these issues must be addressed.

After each meeting of the Committee, the Board received an oral and written report of its activities.

For further information, see the Report of the Governance and Ethics Committee, p. 114, and the Report on Strengthened Governance, p. 92.

REPORT OF THE AUDIT COMMITTEE

HIGHLIGHTS

01 The Committee reviewed the Caisse's annual financial statements with the Auditor General of Québec and recommended Board approval.

02 The Committee reviewed and recommended to the Board a strategy for implementing International Financial Reporting Standards (IFRS), effective 2011.

03 The Committee oversaw the request for proposals process for the appointment of an external joint auditor in 2010 and made an appointment recommendation to the Board.

THE AUDIT COMMITTEE

MANDATE

The Audit Committee:

- Examines the financial statements in cooperation with the auditors and recommends their approval to the Board of Directors.
- Ensures that adequate and effective internal control mechanisms are in place.
- Ensures that a risk management process for the Caisse's operations is in place.
- Ensures that a plan for an optimal use of resources is in place and monitors its progress.
- Reviews any activity that could adversely affect the sound financial position of the Caisse and informs the Board of Directors in writing of any management operation or practice that is unsound or that does not comply with the laws, regulations or policies that govern the Caisse.
- Recommends to the Board the appointment of the Vice-President, Internal Audit and approves the audit plan.
- Receives reports from the Vice-President, Internal Audit on such matters as the risk management process, as well as the implementation of internal control mechanisms and of a plan for the optimal use of resources.
- Ensures that the organizational structure provides the Internal Audit team with the independence required to perform its role effectively.

COMPOSITION (as at December 31, 2009)

Four independent members, among which professionals with expertise in accounting or finance, along with the experience and knowledge needed to read and understand the financial statements and properly fulfill their role. The Chairman of the Board regularly attends Committee meetings.

Chair: A. Michel Lavigne (guest member at the meetings of the Risk Management Committee)

Members: Louise Charette, Pierre Fitzgibbon and François R. Roy[1]

REPORT

Number of regular meetings in 2009: 7

After each meeting, the Committee communicated its activities to the Board of Directors verbally and in writing. Moreover, the Committee held meetings regularly without the presence of senior management.

The report below describes the items that were discussed or were subject to a decision during the year. It has been approved by the Committee members.

1. Mr. Roy was appointed a director of the Caisse on December 21, 2009; he did not attend any Committee meetings in 2009.

REPORT OF THE AUDIT COMMITTEE

Financial Information

- Reviewed the quarterly financial statements, the budgetary monitoring of operating expenses and the year-end budget forecasts.
- Reviewed the independent valuation of the fair value of over-the-counter liquid investments, private equity investments, third-party and bank-sponsored ABCP investments, now referred to as third-party and bank-sponsored ABTNs, and real estate assets in which the Caisse has invested, including:
  - The independent review, by a renowned firm, of data relating to the valuations of ten private equity investment files and to the external valuation of the fair market value of five other private equity investment files.
  - The independent external valuation, by a world renowned expert, of the fair value of certain liquid securities, U.S. real estate debt securities (mezzanine, construction and subordinated loans) and outstanding commitments of the corporate debt portfolio.
- Discussed with the Auditor General of Québec its audit plan for the Caisse's financial statements.
- Reviewed the annual Combined financial statements with the Auditor General of Québec as well as several other matters such as:
  - The financial statement preparation process.
  - The valuation of over-the-counter liquid investments as well as illiquid investments and third-party and bank-sponsored ABCP investments, now referred to as third-party and bank-sponsored ABTNs.
  - The methodology and parameters used to measure the fair value of third-party and bank-sponsored ABCP investments, now referred to as third-party and bank-sponsored ABTNs.
  - The validation, by an external firm, of the notional amount of derivatives.
  - The external audit of the computation and presentation of returns to ensure their compliance with industry standards.
- Reviewed the method used to allocate the provision related to third-party and bank-sponsored ABCP investments, now referred to as third-party and bank-sponsored ABTNs, and recommended its approval to the Board.
- Recommended that the Board approve the financial statements.
- Received the report issued by the Auditor General of Québec to the Caisse's senior management following the annual audit.
- Met twice with the Auditor General of Québec to discuss various aspects of its mandate without the presence of senior management.
- Reviewed the report on the financial certification process that enables the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, to certify publicly that the disclosure controls and procedures, as well as the internal control over financial reporting are adequate and effective.
- Reviewed the activity summaries of each of the Caisse's real estate unit's Audit Committee.
- Discussed the new organizational structure for liquidity and leverage management with the Caisse's senior management.
- Assessed the impact of the adoption of Section 3862 of the *CICA Handbook* and of Abstract EIC-173 of the CICA's Emerging Issues Committee on the Caisse's financial statements and 2009 Annual Report.
- Reviewed and recommended to the Board the strategy for the adoption of International Financial Reporting Standards starting in 2011.
- Held periodic discussions with Finance personnel without the presence of senior management.

External Audit

- Analyzed the impact, on the Caisse and its subsidiaries, of the introduction of joint auditing of the books and accounts of state-owned enterprises and discussed the issue with the Auditor General of Québec.
- Recommended that the Board request proposals in order to present to the Government of Québec an external firm for auditing the books and accounts of the Caisse, jointly with the Auditor General of Québec, starting in 2010:
  - Approved the selection criteria and the request for proposals.
  - Supervised the first series of selection interviews.
  - Met with the two finalists.
  - Recommended the selected firm to the Board.

Internal Audit

- Reviewed the 2009 business plan of the Vice-Presidency, Internal Audit, as well as the internal audit universe and the overall risk assessment inherent to the operations of each Executive Vice-Presidency of the Caisse.
- Reviewed and adopted the 2009 internal audit plan.
- Reviewed Internal Audit's quarterly reports on such matters as internal control mechanisms, components of the risk management process and optimal use of resources.

- Reviewed Internal Audit's report on the evaluation of processes and controls related to the general control environment and information technologies.
- Received the report on sound corporate debt management practices produced by an external firm appointed by the Vice-Presidency, Internal Audit.
- Validated the framework that fosters collaboration between the Caisse's Vice-Presidency, Internal Audit and the internal audit teams of the real estate units.
- Monitored the implementation by the Caisse's senior management of Internal Audit's recommendations.
- Reviewed the performance of the Vice-President, Internal Audit and recommended her compensation to the Board.
- Following the transfer of the Vice-President, Internal Audit, the Committee's Chair participated in the recruitment process and recommended to the Board the appointment of the new Vice-President, Internal Audit.
- Ensured the Internal Audit team can act independently from the Caisse's senior management.
- Held periodic discussions with the Vice-Presidency, Internal Audit without the presence of senior management.

Internal control and the plan for optimal use of resources

- Discussed senior management's overall self-assessment of the effectiveness of the general control environment and of the oversight of fraud prevention and detection.
- Received the report on the monitoring and measurement activities carried out in 2009 under the financial and non-financial compliance programs.
- Analyzed the results of the assessment by the Vice-Presidency, Internal Audit of the effectiveness of the general information technology controls.
- Reviewed the quarterly reports on compliance with the investment limits specified in the Act respecting the Caisse.
- Monitored the investments made in accordance with the last paragraph of section 37.1 of the Act respecting the Caisse and recommended that the Board approve the amendment to the policy adopted under this section.
- Reviewed the delegations of authority and recommended certain changes to the Board for approval.
- Reviewed the activities under the plan for optimal use of resources and recommended the 2009 plan to the Board for approval.
- Monitored the implementation of the plan during the year.

Risk Management

- Received copies of the minutes of the Risk Management Committee meetings, as well as the annual report on integrated risk management.
- Received a copy of the certificates of compliance with the depositors' investment policies and the investment policies of the Caisse's specialized portfolios.
- The Chair of the Committee attended the meetings of the Risk Management Committee.
- Received, during Board meetings, reports of each Risk Management Committee meeting tabled by its Chair.

EXTERNAL EXPERTS

The Audit Committee did not use the services of external experts in 2009.

REPORT OF THE GOVERNANCE AND ETHICS COMMITTEE

HIGHLIGHTS

01 The Committee revised the mandates of the Board and its committees, their chairs and the President and Chief Executive Officer.

02 The Committee revised and launched various activities to promote an effective relationship between the Board and senior management.

03 The Committee revised structures and procedures to ensure the independence of directors.

THE GOVERNANCE AND ETHICS COMMITTEE

MANDATE

The Governance and Ethics Committee assists the Board of Directors in the development and implementation of principles and practices that foster a strong governance culture at the Caisse. To this end, the Committee:

- Establishes rules, structures and procedures that allow the Board to remain independent from management.
- Offers orientation and continuing education programs for directors.
- Advises the Board in regards to the composition and mandates of Board committees, as well as of other committees that may be able to help the Caisse run its operations more smoothly.
- Recommends an approach to evaluate the directors' and the Board's performance.
- Establishes, in collaboration with the Human Resources Committee, the profile in terms of expertise and experience for the selection of independent directors, and submits it to the Board.
- Reviews and recommends to the Board regulations, policies or codes pertaining to ethics and professional conduct, socially responsible investment and governance principles that are to be promoted when exercising voting rights in companies in which the Caisse is a shareholder.

In addition, specifically in 2009, the Board requested that the Committee conduct a review and analysis of the governance rules at the Caisse that pertain to issues that must necessarily be brought to the attention of the Board or of one of the Board committees, whether for information or decision-making purposes, and the frequency with which these issues must be addressed.

COMPOSITION (as at December 31, 2009)

Four independent members.

Chair: Jean Pierre Ouellet

Members: Claudette Carbonneau, Louise Charette and Michèle Desjardins[1]

The Chairman of the Board regularly attends Committee meetings.

REPORT

Number of regular meetings in 2009: 9

The Committee's report on its activities during the fiscal year, in particular its assessment of structures and procedures to ensure the independence of the Board of Directors, is included in the Report on Strengthened Governance, p. 92.

EXTERNAL EXPERTS

The Ethics and Governance Committee retained the services of an external expert to assist it in carrying out a specific mandate assigned by the Board of Directors.

1. Ms. Desjardins was appointed a director of the Caisse on December 21, 2009 and did not attend any Committee meetings in 2009.

REPORT OF THE HUMAN RESOURCES COMMITTEE

HIGHLIGHTS

01 The Committee reviewed and recommended organizational changes to the Board, including the renewal of the senior management team.

02 The Committee, in collaboration with senior management, analyzed, developed and recommended the terms and conditions of a new compensation program to the Board.

03 The Committee revised the Caisse's integrated talent management policies.

THE HUMAN RESOURCES COMMITTEE

MANDATE

The Human Resources Committee's mandate is to ensure that the Caisse's organizational culture enables its people to meet its strategic objectives and mission "is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development."

In this respect, the Committee reviews human resources strategies, submits governing policies to the Board for approval and ensures their implementation. The Committee pays special attention to the compensation policy, for which it receives annual Caisse benchmark market data[1]. In addition, it reviews and submits Caisse employee compensation and other employment conditions to the Board for approval.

The Committee develops the expertise and experience profile for the President and Chief Executive Officer appointment. It examines the annual objectives of the President and CEO, evaluating his performance and recommending his compensation and other employment conditions to the Board. It analyzes the recommendations of the President and Chief Executive Officer on Caisse executive objectives, performance evaluations and compensation. The Committee ensures the existence of succession planning mechanisms.

The Committee also develops the expertise and experience profile for the appointment of independent directors.

COMPOSITION (as at December 31, 2009)

The Committee is composed of four independent members:

Chair: Elisabetta Bigsby

Members: Jean Pierre Ouellet
Ouma Sananikone
Robert Tessier

REPORT

The Committee met 15 times in 2009. This was necessary because of extensive changes to the Caisse's human resources during this year of transition. During the second half of 2009, the Committee focused on integrated talent management, particularly:

- Quality of leadership for senior management appointments.
- Human resource management strategies and policies.
- Incentive compensation policy.

After each meeting, the Committee reported its activities, verbally and in writing, to the Board. In addition, Committee members met regularly in the absence of senior management. This report, approved by the Committee members, highlights their work.

1. On p. 86, the Report on Compensation Policy presents the benchmark markets.

REPORT OF THE HUMAN RESOURCES COMMITTEE

Senior Management

Following the appointment of Michael Sabia as President and Chief Executive Officer, the Committee reviewed and recommended to the Board the approval of Mr. Sabia's objectives as President and Chief Executive Officer for 2009.

Following the arrival of Mr. Sabia, the Committee reviewed and recommended to the Board the approval of senior management's organizational change proposals on, among other things, the abolition of two executive Vice-Presidencies and the renewal of the Caisse's Executive Committee. This renewal, on the one hand, promoted Caisse or subsidiary executives to the following positions:

- Mr. Jean-Luc Gravel, Executive Vice-President, Equity Markets.
- Mr. Normand Provost, Chief Operations Officer[1].
- Mr. Claude Bergeron, Executive Vice-President, Legal Affairs and Secretariat.
- Mr. René Tremblay, Executive Vice-President, Real Estate and President, Real Estate group.
- Mr. Marc Cormier, Executive Vice-President, Fixed Income.
- Mr. Philippe Ithurbide, Executive Vice President, Overlay Strategies.

On the other hand, this renewal led to the consideration, recommendation and appointment of three executives with international management experience:

- Mr. Bernard Morency, Executive-Vice President, Depositors' Account Management and Strategic Initiatives.
- Mr. Roland Lescure, Executive Vice-President and Chief Investment Officer.
- Mr. Frédérick Charette, Executive-Vice President, Talent Management and Organizational Development.

With respect to these appointments, the Committee ensured that the compensation and work conditions of the executives were in accordance with the compensation policy. The Committee also reviewed the compliance of the Caisse's severance pay practices with its contractual obligations, legal requirements and relevant jurisprudence.

Compensation policy

In 2009, the Committee examined several aspects of the compensation policy, proceeding with the following work:

- Examination of the Caisse's annual staff budget.
- Analysis and recommendation for Board approval of the 2009 Caisse employee salary conditions and compensation review.
- Reflection, analysis and implementation, in collaboration with management, of the new compensation program terms and conditions:
  - Review of regulatory framework for any Caisse compensation program.
  - Benchmarking analysis of Québec and Canadian financial sector compensation practices; and principles guiding the new program's development: 1) long-term focus; 2) risk-reward balance; 3) overall assessment; 4) Caisse perspective; 5) pay for performance; and 6) competitive compensation.
  - Analysis and recommendation of the new incentive compensation program's main elements: 1) long-term performance; 2) integration of risk management into performance evaluation; and 3) co-investment for Executive Committee members.
  - Analysis and recommendation of desired behaviour focused on client service, rigour and collaboration.
  - Review and identification of compensation components and incentive compensation component weights.
  - Review and recommendation of compensation to attract, motivate and retain talent.

For more details, read the Report on Compensation Policy, p. 86.

1. Mr. Provost has held and currently holds the position of Executive Vice-President, Private Equity.

Human resource management key strategies and policies

The Committee focused on several key talent management policies and strategies to ensure the continuity of the Caisse's operations in the context of significant leadership renewal. To this end, the Committee conducted the following activities:

- Review of reports on human resource management-related operational risks.
- Analysis of roles, responsibilities and hierarchical link of the new position of risk expert (since it is a new Caisse position and an important element in strengthening the Caisse's risk management).
- Assurance of up-to-date business continuity plan in case of pandemic.
- Assurance that the Caisse employee evaluation process functions properly.

During 2010, the Committee will concentrate particularly on other human resource management policies and strategies to provide the Caisse with truly integrated talent management practices:

- Succession plan preparation.
- Recruiting strategy and talent screening and cultivation process efficiency.
- Continuous technical training and leadership development strategy.
- Performance management strategy and, specifically, goal setting and continuous feedback process quality.
- Operational efficiency strategies related to various HR processes, including dashboard management.

REPORT OF THE HUMAN RESOURCES COMMITTEE ON GLOBAL EMPLOYEE AND EXECUTIVE COMPENSATION

The Caisse must rely on highly skilled employees, recruited from labour pools similar to its own. Competitive compensation is critical in a market where competition for talent is fierce. In this sense, compensation strives to achieve the Caisse's strategic objectives of attracting, retaining and, rewarding performance. The Board recognizes the importance of strong leadership and firmly believes that recruitment and retention of top executives are essential to accomplishing the Caisse's mission.

Target executive compensation consists of a base salary, which accounts for about 40% of the total, incentive compensation tied to the achievement of performance objectives, which amounts to approximately 50%, plus pension and benefits, which represent the remaining 10%. Like the rest of the institutional investment world, incentive compensation is the largest component of the overall Caisse package for executives—since they are accountable for asset allocation and have a major influence on returns.

BASE SALARY

The base annual salaries of new executives and those promoted in 2009 were set according to market conditions. Furthermore, executive base salaries may have been adjusted during the year to reflect significant changes to responsibilities or exceptional circumstances.

TRANSITIONAL INCENTIVE COMPENSATION

During the last quarter of 2009 and first quarter 2010, the Caisse significantly revised its executive and employee incentive compensation program to achieve the institution's strategic objectives, reflect the Caisse's principles and objectives of attracting employees, retain and motivate our people to generate consistent, long-term returns and ensure that compensation remains competitive relative to benchmark markets. This new program takes effect in 2010. This change was conducted with the support and recommendations of Hugessen Consulting, an independent consulting firm known for its pension fund compensation expertise.

Previous incentive programs having been abolished, the Caisse adopted a transitional incentive plan in 2009. Under this program, 50% is tied to portfolio returns and 50% to the achievement of individual and team objectives in line with the Caisse's strategy.

2009 portfolio returns

In 2009, the Caisse's overall absolute return was positive, while underperforming its benchmark index. Ten out of 17 Caisse portfolios, which represent the efforts of 80% of its investment sector employees, outperformed their benchmark index. Contributing employees and executives received an incentive proportional to the relative return of these portfolios. The Board also considered the superior performance achieved during the second half of the year.

REPORT OF THE HUMAN RESOURCES COMMITTEE

Strategic objectives and business restructuring achievements

Given the scope of work undertaken in a short time, the Board believes that the Caisse successfully carried out its strategic objectives and business restructuring in 2009. The new management team and its employees have notably:

- Renewed leadership.
- Refocused investment on the Caisse's core capabilities.
- Restricted financial engineering operations.
- Decreased use of derivatives.
- Terminated commodities trading.
- Abandoned real estate mezzanine and subordinated loans originated by third parties.
- Reassessed the overall portfolio offering, including the launch of index portfolios and overlay strategies.
- Implemented a new collaboration model with depositors.
- Developed sophisticated measurement tools and dashboards for better risk management.
- Reorganized Real Estate, Operations and Human Resources Management functions.
- Significantly reduced liabilities.
- Strengthened the Caisse's financial foundations, including more than $7 billion in financing.

Considering the Caisse's overall performance in 2009, the Board recommended an incentive for all employees amounting to about 50% of the sum paid in 2007.

PENSION PLANS

The Caisse executive pension plan has two distinct components: the Basic Plan and the Supplemental Pension Plan for Designated Officers (SPPDO). Under both plans, executives are entitled to receive, from the normal age of retirement, a total annual pension equal to 2% of their eligible earnings for each year or fractional year of plan participation, taking into account the annual limits imposed by the Canada Revenue Agency for each year they were not SPPDO members. Some executives may be granted additional years of service to SPPDO depending on the particular circumstances of their promotion or hiring.

No changes were made to the plan in 2009.

Other compensation

Executives enjoy fringe benefits that cover expenses associated with car allowances, parking and certain professional fees. Premiums are also paid by the Caisse to the Employee Group Insurance Plan, in which executives are members. In addition, the Caisse offers executives a yearly health check-up.

President and Chief Executive Officer performance review

The Committee recommended to the Board a series of detailed objectives in agreement with the President and Chief Executive Officer. It reported his achievements to the Chairman of the Board who, in turn, made his report to the Committee in charge of evaluating them. At the end of the process, a report was submitted to the Board of Directors, expressing great satisfaction with the achievements of the President and Chief Executive Officer.

The Board found that the performance of the President and Chief Executive Officer had far exceeded targets, particularly in terms of organization, recruitment, risk benchmarking, depositor relations and transparency.

President and Chief Executive Officer compensation

The compensation and other employment conditions of the President and Chief Executive Officer are based on parameters set by the Government in consultation with the Board. The annual base salary of Mr. Michael Sabia was set at $500,000. The other conditions of employment to which Mr. Sabia has a right are aligned with the Caisse's policies and comply with its Regulation respecting internal management. He received $40,000 in annual fringe benefits and participated in the Caisse Employee Group Insurance Plan. Upon his appointment, Mr. Sabia waived participation in the 2009 and 2010 incentive compensation programs. For the duration of his mandate, he waived participation in any pension plan. He also waived severance pay, whatever the cause.

However, given mandatory participation in the Basic Pension Plan for Management (under CARRA rules), Mr. Sabia must participate despite his waiver. The mandatory plan represents an annual cost of $12,900 to the Caisse.

Summary compensation table

Under the Act respecting the Caisse de dépôt et placement du Québec, the Caisse must disclose the compensation of the President and Chief Executive Officer and the five most highly compensated executives under his direct authority. The same disclosure must be made for wholly-owned subsidiaries. CDP U.S. Inc. is a wholly-owned subsidiary of the Caisse. Its President and Chief Executive Officer and executives are the same as those of the Caisse.

TABLE 59

SUMMARY OF OFFICERS' COMPENSATION FOR 2007, 2008 AND 2009

Name and main position	Year	Salary ($)	Incentive compensation that is not equity-based* ($)	Value of pension plan** ($)	Other compensation ($)	Total compensation ($)
Michael Sabia President and Chief Executive Officer[1]	2009	403,846	n.a.[2]	n.a.[2]	32,308	436,154
Fernand Perreault Strategic Adviser to the President[3]	2009	393,615	0	68,100	27,462	489,177
	2008	430,000	0	414,700	30,000	874,700
	2007	395,000	1,146,820	73,700	30,000	1,645,520
Richard Guay Strategic Adviser to the President and Chief Executive Officer[4]	2009	299,423	0	177,700	1,036,426[5]	1,513,549
	2008	407,692	0	282,500	33,077	723,269
	2007	375,000	637,950	173,800	30,000	1,216,750
Roland Lescure Executive Vice-President and Chief Investment Officer	2009	110,769	n.a.[6]	29,100	407,385	547,254
Claude Bergeron Executive Vice-President, Legal Affairs and Secretariat, and Acting Executive Vice-President and Chief Risk Officer[7]	2009	305,177	350,000	237,200[8]	25,038	917,415
	2008	275,000	0	77,934	20,000	372,934
	2007	252,350	628,160	83,775	20,000	984,285
Bernard Morency Executive Vice-President, Depositors' Accounts Management and Strategic Initiatives[9]	2009	136,250	300,000	32,900	301,762[10]	770,912
Normand Provost Executive Vice-President, Private Equity and Chief Operations Officer[11]	2009	348,558	300,000	234,300	28,365	911,223
	2008	325,000	0	108,200	25,000	458,200
	2007	315,000	683,640	112,300	25,000	1,135,940
René Tremblay Executive Vice-President, Real Estate and President, Real Estate group[12]	2009	192,000	192,000	52,500	12,000	448,500

* The amounts paid during the years prior to 2009 under the short- and long-term programs are consolidated in the table below.

** Present value of acquired pension benefits during the year and any change in compensation items occurring over the same period. For more details, see Table 60.

1. Michael Sabia was appointed President and Chief Executive Officer on March 13, 2009.
2. Upon his appointment, Mr. Sabia waived participation in the 2009 and 2010 incentive compensation programs. For the duration of his mandate, he waived participation in any pension plan. However, participation in the Pension Plan for Management is mandatory under CARRA rules. For details, visit http://www.carra.gouv.qc.ca/ang/regime/rrpe/rrpe_s03.htm.
3. Fernand Perreault held the position of President and Chief Executive Officer from January 8, 2009 to the appointment of Mr. Sabia.
4. Richard Guay resigned as President and Chief Executive Officer on January 7, 2009.
5. This amount includes $1,008,772 in severance pay, pursuant to the agreement terminating Richard Guay's mandate as President and Chief Executive Officer and his appointment as Strategic Adviser, approved by the Board of Directors and signed on January 6, 2009.
6. Roland Lescure waived any incentive compensation for 2009. An amount of $400,000 was paid in compensation for amounts he relinquished by leaving his previous employment; this amount is included in the "Other Compensation" column.
7. Claude Bergeron was appointed Executive Vice-President, Legal Affairs and Secretariat on July 1, 2009. He accepted the position of Acting Executive Vice-President and Chief Risk Officer on August 13, 2009. His incentive compensation reflects his total contributions in both roles.
8. This amount is mainly due to the promotion of Mr. Bergeron as Executive Vice-President and Executive Committee member.
9. Bernard Morency became a permanent employee on August 1, 2009.
10. This amount includes $289,185 in consulting fees paid to Bernard Morency before he became a permanent employee.
11. Normand Provost was appointed Chief Operations Officer on April 30, 2009. Since that date, he has assumed the responsibilities of this position, along with those of Executive Vice-President, Private Equity. His incentive compensation reflects his total contributions in both roles.
12. René Tremblay was appointed Executive Vice-President, Real Estate and President, Real Estate group on August 11, 2009.

REPORT OF THE HUMAN RESOURCES COMMITTEE

TABLE 60

SUMMARY OF OFFICERS' PENSIONS

Name and main position	Years of credited service[1]	Annual benefit ($) At year-end	Annual benefit ($) At age 65	Accrued obligation at start of year[2] ($)	Variation due to compensation items[3] ($)	Variation due to non-compensation items[4] ($)	Accrued obligation at year-end[2] ($)
Michael Sabia President and Chief Executive Officer	0.8	2,000[5]	23,400[5]	0	0	0	0
Fernand Perreault Strategic Adviser to the President	22.1	205,100	205,100	1,626,200	68,100	380,000	2,074,300
Richard Guay Strategic Adviser to the President and Chief Executive Officer	22.9	176,900	176,900	853,900	177,700	218,600	1,250,200
Roland Lescure Executive Vice-President and Chief Investment Officer	0.2	8,700	315,000	0	29,100	14,100	43,200
Claude Bergeron Executive Vice-President, Legal Affairs and Secretariat, and Acting Executive Vice-President and Chief Risk Officer	29.2	121,500	218,400	266,000	237,200	96,600	599,800
Bernard Morency Executive Vice-President, Depositors' Accounts Management and Strategic Initiatives	0.4	4,100	82,100	0	32,900	6,300	39,200
Normand Provost Executive Vice-President, Private Equity and Chief Operations Officer	29.6	191,900	252,000	565,700	234,300	154,900	954,900
René Tremblay Executive Vice-President, Real Estate and President, Real Estate group	0.4	0	90,500	0	52,500	15,000	67,500

1. Number of years of credited service in the Basic Plan.
2. The obligations do not include those of the Basic Plan since employer and employee contributions are paid to CARRA, which assumes the liability for the benefits. The Caisse's contribution was approximately $12,900 per executive in 2009.
3. The variation is due to compensation items, including the annual cost of pension benefits, base salary changes, plan changes or the awarding of additional years of service.
4. The variation is due to non-compensation items, including interest accrued on the accrued obligation at start of year, actuarial gains and losses associated with items other than compensation and changes in actuarial assumptions.
5. Michael Sabia waived participation in any pension plan. However, participation in the Pension Plan for Management is mandatory under CARRA rules. For details, visit http://www.carra.gouv.qc.ca/ang/regime/rrpe/rrpe_s03.htm.

TABLE 61

SUMMARY OF OFFICERS' SEVERANCE PAY

Name and main position	Precipitating event	Theorical amount payable ($)
Michael Sabia President and Chief Executive Officer	Contract termination	0 [1]
Roland Lescure Executive Vice-President and Chief Investment Officer	Non voluntary termination	1,012,500
Claude Bergeron Executive Vice-President, Legal Affairs and Secretariat, and Acting Executive Vice-President and Chief Risk Officer	Non voluntary termination	320,000 [2]
Bernard Morency Executive Vice-President, Depositors' Accounts Management and Strategic Initiatives	Non voluntary termination	500,000
Normand Provost Executive Vice-President, Private Equity and Chief Operations Officer	Non voluntary termination	360,000 [2]
René Tremblay Executive Vice-President, Real Estate and President, Real Estate group	Non voluntary termination	480,000 [2]

1. No severance pay is payable even if the departure is not voluntary.
2. These executives have no special conditions related to their employment termination. Their severance pay is based on the Caisse's guidelines on the subject, which provides one-month of base salary for each year of service—to a maximum of 12 months.

REPORT OF THE
HUMAN RESOURCES
COMMITTEE

Benchmark market analysis for executive positions

Benchmark market analysis for the position of President and Chief Executive Officer is based on a peer group of eight large Canadian pension funds. Benchmark market analysis for other executives is based on a peer group of about 51 Canadian investment companies and 54 major Québec companies, in accordance with Regulation respecting internal management of the Caisse.

The Caisse's Regulation respecting internal management requires that benchmark market profile data be compiled through a survey by a recognized firm, administered and analyzed according to generally accepted methodologies and rules in this area. In comparing the compensation of each executive position to that of the benchmark market, the firm Towers Watson uses a recognized and reliable analytical method that considers, on a comparable basis, all components of this global executive compensation.

The incentive compensation program's parameters reflect contract-defined executive employment conditions.

Table 62 compares the theoretical 2009 compensation of the President and Chief Executive Officer and the five most highly compensated executives under the terms of their contracts to that of the benchmark market for superior performance.

TABLE 62

COMPARISON OF 2009 THEORETICAL COMPENSATION FOR THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND THE FIVE MOST HIGHLY COMPENSATED OFFICERS WITH THAT OBSERVED IN THE BENCHMARK MARKET FOR SUPERIOR PERFORMANCE

	Benchmark market[1] ($)		Highest theorical compensation offered by the Caisse for superior performance according to contracts and policies, as at December 31, 2009[2] ($)	Ratio
	75th percentile	90th percentile		
Position	(A)	(A)	(B)	(B)/(A)
President and Chief Executive Officer[3]	3,482,000		540,000	0.16
Executive Vice-President and Chief Investment Officer[4]		3,202,000	1,861,500	0.58
Executive Vice-President, Real Estate[4]		3,203,000	2,325,000	0.73
Executive Vice-President, Private Equity and Chief Operations Officer[4]		2,903,000	1,167,600	0.40
Executive Vice-President and Chief Risk Officer[4,5]		1,585,000	977,200	0.62
Executive Vice-President, Depositors' Accounts Management and Strategic Initiatives	n.a.		1,024,500	n.a.

1. As stipulated in the Regulation respecting internal management, potential compensation at the 75th percentile of the benchmark market was used for the positions of President and Chief Executive Officer and those unrelated to investment. The 90th percentile of the benchmark market was used for investment positions.
2. These amounts do not represent paid compensation. For the actual compensation payments in 2009, see Table 59.
3. Towers Watson, Compensation of the President and Chief Executive Officer Study, Caisse de dépôt et placement du Québec, 2010.
4. Towers Watson, Compensation of the Executive Committee Study, Caisse de dépôt et placement du Québec, 2010.
5. The Towers Watson study assesses the positions of Executive Vice-President and Chief Risk Officer and Executive Vice-President, Legal Affairs and Secretariat separately.

REPORT OF THE RISK MANAGEMENT COMMITTEE

HIGHLIGHTS

01 The Committee secured the 2010 implementation of a new risk management governance model.

02 The Committee reviewed and recommended the implementation of a new risk management oversight and process to the Board.

03 The Committee oversaw the improvement of risk management tools.

THE RISK MANAGEMENT COMMITTEE

The Board of Directors established the Risk Management Committee to assist the Audit Committee with its responsibility of implementing a risk management process.

MANDATE

The Risk Management Committee:

- Establishes guidelines and oversight policies to maintain an appropriate level of business, financial and operational risks and recommends them to the Board.
- Ensures that risks are clearly identified and that an appropriate process is in place to manage them.
- Reviews and submits for approval, under the Integrated Risk Management Policy, each investment file as well as any deviation from the policies in place.
- Ensures that the Caisse fulfills its obligations to the depositors by complying with their investment policies as well as the investment policies of the specialized portfolios and makes any necessary recommendations to the Board.

In addition, the Board has specifically requested the Committee to familiarize itself with the three-year plan for strengthening risk management practices and the accelerated implementation schedule, and to ensure the satisfactory progress and implementation of any required corrective measures.

COMPOSITION (as at December 31, 2009)

Chair: Réal Raymond

Members: Pierre Fitzgibbon, Ouma Sananikone and François R. Roy[1]

Guest member: A. Michel Lavigne, Chair of the Audit Committee

The Chairman of the Board regularly attends Committee meetings. Starting in April 2009, Ms. Jocelyne Dagenais participated in discussions on the action plan relating to risk management practices.

REPORT

Number of regular meetings in 2009: 8

The Committee has various mechanisms to provide the Audit Committee and the Board with the required assurance regarding the implementation of a risk management process. The Committee has:

- Reported on its activities to the Board, verbally and in writing, after each meeting.
- Submitted copies of its minutes to the Audit Committee and the Board.
- Invited the Chair of the Audit Committee to each meeting.

The Committee has held meetings regularly without the presence of senior management.

The report below describes the items that were discussed or were subject to a decision during the year. It has been approved by the Committee members.

Risk management guidelines and oversight policies

- Monitored progress of the work on the plan for strengthening risk management practices, including the various components to strengthen the risk management culture, implement new framework policies and processes, improve risk management tools and recruit risk managers:

1. Mr. Roy was appointed a director of the Caisse on December 21, 2009; he did not attend any Committee meetings in 2009.

REPORT OF THE RISK MANAGEMENT COMMITTEE

- Supported senior management in the accelerated implementation (in nine months, rather than the previously reduced implementation timeframe of 18 months) of most of the recommendations included in the three-year plan for strengthening risk management practices.
- Supported senior management with the implementation of a new organizational structure for the Risk sector, particularly by consolidating the team of risk experts and by recruiting specialists whose main role is to oversee the work required to identify the risks in each investment sector and recommend to the various decision-making authorities the actions or strategies for optimizing the risk-return ratio.
- Analyzed and recommended, for approval by the Board, new parameters for measuring market risk that allow for a better assessment of extreme risks.
- Monitored the development of a new methodology for credit risk measurement.
- Monitored the implementation by the Risk sector of a more comprehensive stress test practice and analyzed the results obtained.
- Analyzed and recommended, for approval by the Board, changes to the Integrated Risk Management Policy, particularly in regards to the oversight of new investment activities and activities in emerging markets, and the management of counterparty and liquidity risks.

* Reviewed and recommended for Board approval value-added objectives and risk budgets for 2009.
* Analyzed and recommended for Board approval the proposed new structure of specialized portfolios and the required amendments to investment policies, including the revised benchmark indexes.
* Analyzed the range of risks to which the Caisse is exposed in order to assess specifically the risk factors not covered by the measurement methodology used, and to determine how to reduce the Caisse's overall risk.
* Validated compliance with the investment policies of the Caisse's specialized portfolios and, as applicable, submitted any deviations to the Board for authorization.
* Recommended to the Board a risk limit for contracts or instruments of a financial nature in accordance with the requirements of the Regulation respecting the determination of financial instruments or contracts of a financial nature and the framework for their use and monitored regular reports on compliance with this limit.
* Reviewed the risk management process for financial derivatives and recommended new oversight measures to the Board.
* Analyzed the process for the daily monitoring of loss limits set by the Compliance group for management mandates of specialized liquid investment portfolios.
* Reviewed and recommended, for approval by the Board, an overall active risk limit for the Caisse and analyzed prevailing oversight of active risk.
* Reviewed the Accountability Report on Integrated Risk Management, which discusses the Caisse's risk oversight structures.
* Followed up on accountability reports relating to compliance and internal control.
* Analyzed reports on the monitoring of changes in the Caisse's financial risks.
* Analyzed the quarterly report on the operational risks related to the management of processes and systems, legal affairs and human resources.
* Reviewed a report on risk management and oversight guidelines prepared by the Caisse's senior management.
* Reviewed certain issues arising from risk management related to third-party and bank-sponsored ABCP investments, now referred to as third-party and bank-sponsored ABTNs.
* Supported the Risk sector with the analysis of a new risk management governance model for implementation in 2010.

Investment files

* Reviewed two investment files under the Board's purview and made recommendations, based on the analysis by the team in charge of the transaction, the analysis of project risks, and more particularly its impact on the degree and concentration of risk for the specialized portfolio and the Caisse's overall portfolio, as well as the investment's compliance with the risk management oversight policies and guidelines.
* Discussed the analysis of the risk-return relationship for each investment file submitted to the Committee.
* Reviewed the report on the monitoring of investment files authorized by the Caisse's senior management but not falling under the Board's purview.
* Regularly monitored the specialized Real Estate Debt portfolio and analyzed the management process for distressed loans.
* Regularly monitored major investments with a particular impact on the risk level and concentration of the specialized portfolio and the Caisse's overall portfolio.

Depositors

* Analyzed the certificates of compliance with the depositors' investment policies and the investment policies of specialized portfolios.
* Discussed the depositors' expectations regarding the establishment and monitoring of investment policies.
* Obtained assurance that the depositors will have an opportunity to comment on amendments to investment policies.

EXTERNAL EXPERTS

The Risk Management Committee did not use the services of external experts in 2009.

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

ORGANIZATIONAL STRUCTURE

The Board consists of the Chairman, President and Chief Executive Officer, depositor representatives and independent members. The Act respecting the Caisse stipulates that at least two-thirds of the directors, including the Chairman, must be independent.

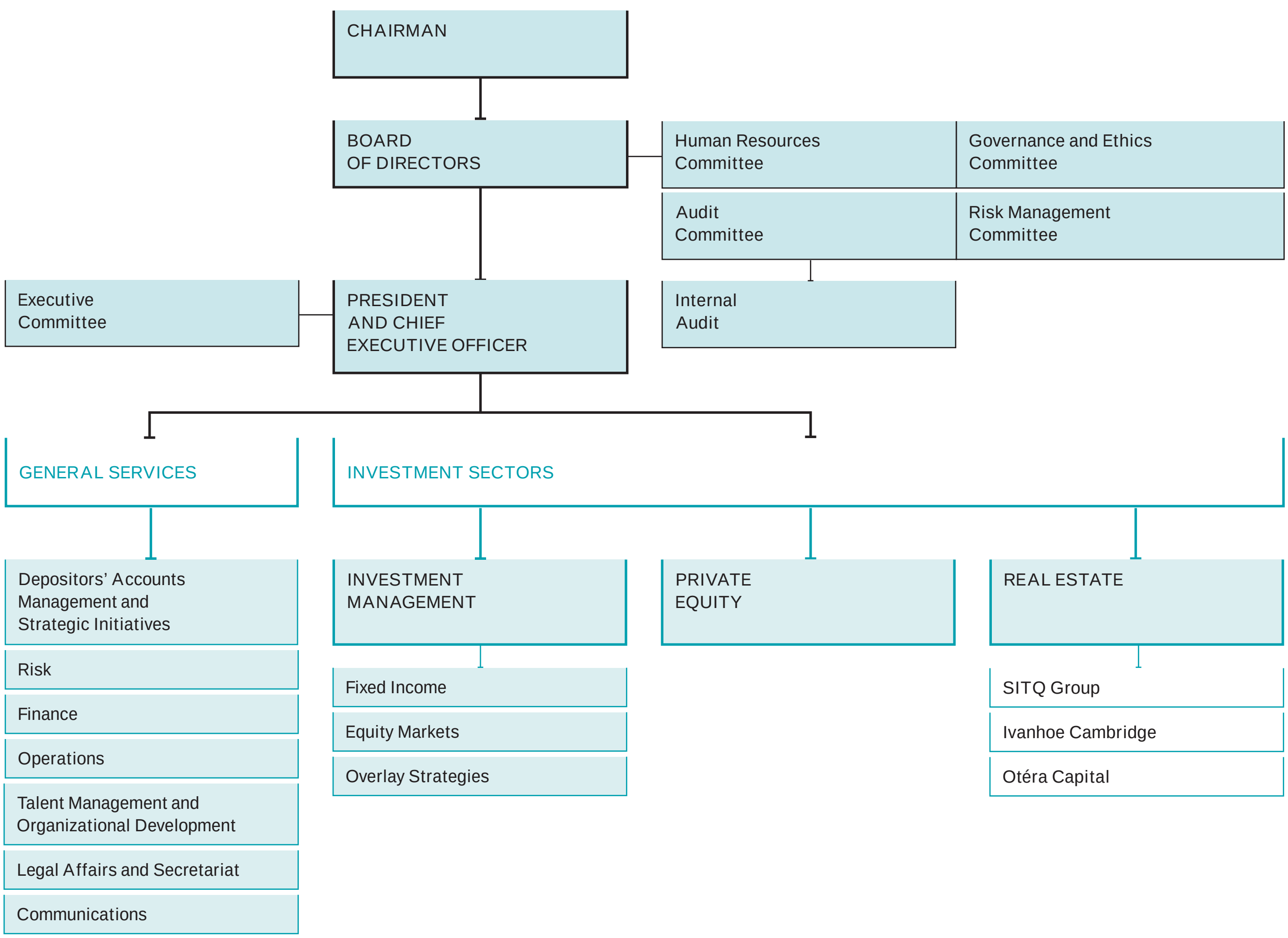
The Executive Committee is composed of the President and Chief Executive Officer, and senior executives from the Caisse's various sectors.

As at December 31, 2009, the Caisse had a total of 696 employees. Its teams are split into two groups: Investment Sectors and General Services. The Investment Sectors include the Investment Management, an umbrella for the sectors Fixed Income, Equity Markets and Overlay Strategies, newly created in line with the overhauled specialized portfolio offering. They also consist of the Private Equity and Real Estate sectors. The Real Estate sector had a total of 1,990 employees, as at December 31, 2009.

The General Services include various administrative functions, supporting both management and investment teams. Given their respective expertise, these General Services greatly contribute to meeting depositors' needs. One of those teams is indeed directly responsible for the Caisse-depositors relationships.

FIGURE 63

ORGANIZATIONAL STRUCTURE
(as at March 31, 2010)



MEMBERS OF THE BOARD OF DIRECTORS

ROBERT TESSIER

Chairman of the Board
Member of the Human Resources Committee
Board member since March 5, 2009

Robert Tessier has an extensive background as a corporate director and senior executive in both the public and the private sector. He has served as President and Chief Executive Officer as well as Chairman of the Board of Gaz Métro and as the head of Marine Industries Limited and Alstom Canada. He has also been Secretary of the Conseil du trésor du Québec, Québec's Deputy Minister of Energy and Natural Resources and Executive Vice-President of the Société générale de financement du Québec. Currently, Mr. Tessier is Chair of the IG Funds Independent Review Committee and a member of the board of AXA Canada. He also sits on the boards of several other organizations.

ELISABETTA BIGSBY

Corporate Director

Chair of the Human Resources Committee
Board member since November 4, 2009

Elisabetta Bigsby pursued her career at the Royal Bank of Canada from 1977 to 2007, where she was notably a member of the Executive Committee and the Chief Human Resources Officer. She also sat on the Bank's Pension Plan Committee from 1989 to 2007. She currently serves as a corporate director and advises companies on leadership development in cooperation with the International Consortium for Executive Development Research, in Massachusetts. She is also a past director of a number of organizations.

CLAUDETTE CARBONNEAU

President
Confédération des syndicats nationaux

Member of the Governance and Ethics Committee
Board member since September 25, 2002

Claudette Carbonneau holds a bachelor's degree in political science and is the first woman to serve as President of the Confédération des syndicats nationaux (CSN), a position she has held since 2002. She is also Chair of Fondaction and Vice-President of the General Council of the International Trade Union Confederation, as well as First Substitute of the Canadian delegation to the ITUC General Council. Ms. Carbonneau is also a member of the Québec government's Advisory Council on Labour and Manpower.

LOUISE CHARETTE

Corporate Director

Member of the Governance and Ethics Committee and Audit Committee
Board member since April 27, 2005

Louise Charette holds a master's degree in business administration and a doctorate in mathematics. From 1981 to 2007, she occupied various management positions at the Commission de la construction du Québec, including Assistant Director General, Administration and Finance. In addition to her duties as Assistant Director General, she headed the CCQ's Investment Committee for more than ten years. Ms. Charette has also devoted her talents to a number of associations and other organizations. She was a founding member of the Regroupement des femmes cadres du Québec in 1984 and served as Vice-Chair of the Société d'habitation du Québec from 1998 to 2002. Ms. Charette has been active with not-for-profit organizations for several years and sits on the Advisory Board of the Autorité des marchés financiers.

JOCELYNE DAGENAIS

President and Chief Executive Officer
Commission administrative des régimes de retraite et d'assurances

Board member since January 1, 2008

Jocelyne Dagenais has been President and Chief Executive Officer of the Commission administrative des régimes de retraite et d'assurances (CARRA) since December 3, 2007. She has worked for the Québec public sector since 1977. Ms. Dagenais has held various positions, including Deputy Minister and Assistant Deputy Minister, with several ministries. She has also been a member of many boards of directors, including those of Services Québec, the Centre des services partagés du Québec, the Régie de l'assurance maladie du Québec and Canada Health Infoway.

MICHÈLE DESJARDINS

President, Koby Consulting
Senior Partner, Lansberg Gersick & Associates LLC and Niagara Institute

Member of the Governance and Ethics Committee
Board member since December 21, 2009

After a career in the pulp and paper industry with Abitibi-Price and Inter City Papers, Michèle Desjardins held various positions with Price Waterhouse and the Commission des valeurs mobilières du Québec. She subsequently headed the Institut de l'entreprise familiale. For more than a decade, she has served as Senior Partner at Lansberg Gersick & Associates LLC and the Niagara Institute, as well as President of Koby Consulting. Ms. Desjardins is a Certified Management Consultant, a member of the Ordre des administrateurs agréés du Québec and a Certified Corporate Director. She currently sits on the board of the Société du Palais des congrès de Montréal.

PIERRE FITZGIBBON

President and Chief Executive Officer,
Atrium Innovations

Member of the Audit Committee and
Risk Management Committee
Board member since April 22, 2009

Pierre Fitzgibbon has a background in the financial, manufacturing, health and telecom sectors. He has been the President and Chief Executive Officer of Atrium Innovations since 2007 and has also worked with such organizations as the National Bank of Canada group, the Telesystem group's international operations, Domtar, Peerless Carpet Corporation and Price Waterhouse. Mr. Fitzgibbon currently sits on the Board of Directors of Transcontinental. He is a past chairman of the board of Cylis and a past director of several companies operating in the technology, telecom and financial services sectors, as well as a number of charitable organizations.

A. MICHEL LAVIGNE

Corporate Director

Chair of the Audit Committee
Guest Member of the
Risk Management Committee
Board member since April 27, 2005

A. Michel Lavigne was President and Chief Executive Officer of Raymond Chabot Grant Thornton until May 2005. He was also Chairman of Grant Thornton Canada and a director of Grant Thornton International. His directorships include Quebecor Media, TVA, Primary Energy Recycling and Richmont Mines. Mr. Lavigne has received many distinctions; most notably, he is a Fellow of the Ordre des comptables agréés du Québec.

JEAN PIERRE OUELLET

Corporate Director
Advisor, Capital Saint-Laurent

Chair of the Governance and
Ethics Committee
Member of the
Human Resources Committee
Board member since March 6, 2009

Jean Pierre Ouellet has been an advisor to Capital Saint-Laurent since 2008. His past positions include Senior Partner at the Montréal law firm of Stikeman Elliott and Senior Vice-President, Chief Legal Officer and Corporate Secretary of Canadian National Railway. More recently, he served as Vice-Chairman of RBC Capital Markets, with responsibility for Québec. He has been a director of GBO since 2002 and currently chairs its audit committee. He is also a member of the board of Richmont Mines. He is a past director of a number of Canadian companies, including Bionair, Hartco Enterprises, C-Mac and Crédit commercial de France (Canada), as well as several non-profit organizations.

RÉAL RAYMOND

Corporate Director

Chair of the Risk Management Committee
Board member since March 13, 2009

During Réal Raymond's 37-year career with National Bank of Canada, he held a variety of positions including President – Personal and Commercial Banking, President and Chief Operating Officer and, finally, President and Chief Executive Officer. He currently sits on the boards of Metro, Héroux-Devtek, Aéroports de Montréal and the Institute for Research in Immunology and Cancer of the Université de Montréal. Mr. Raymond has an MBA from the Université du Québec à Montréal (UQAM) and currently serves as its chancellor. He holds an honorary doctorate from the UQAM School of Management (ESG UQAM).

FRANÇOIS R. ROY

Corporate Director
Chief Financial Officer,
McGill University

Member of the Risk Management Committee
and Audit Committee
Board member since December 21, 2009

François R. Roy began his career at The Bank of Nova Scotia, where he held several positions in Canada and the United States. He then worked for Société générale de financement du Québec, before becoming the Chief Financial Officer at Quebecor, Avenor and Telemedia Corporation. He has been a corporate director since 1998 and sits on the boards of Transcontinental, SFK Pulp and Macquarie Power & Infrastructure Income Fund. He has also been McGill University's Chief Financial Officer since 2007 and has been active with many not-for-profit organizations over the past 25 years.

MICHAEL SABIA

President and Chief Executive Officer,
Caisse de dépôt et placement du Québec

Board member since March 14, 2009

Michael Sabia has been the President and Chief Executive Officer of the Caisse since March 2009. Prior to this, he was President and Chief Executive Officer of BCE and had occupied various roles with Canadian National Railway, after spending the preceding decade working with the Government of Canada. Mr. Sabia is very active in the community and is currently serving as the chair of the fundraising campaign for Maison Saint-Gabriel. In recent years, his endeavours have included co-chairing campaigns for Centraide du Grand Montréal (2006) and the Montréal Heart Institute Foundation (2007). Mr. Sabia was also a member of the North American Competitiveness Council from 2005 to 2008.

OUMA SANANIKONE

Corporate Director

Member of the Risk Management Committee
and Human Resources Committee
Board member since August 28, 2007

Ouma Sananikone is a corporate director with extensive experience on the European and Asian financial markets. She has worked for 25 years in banking, financial services and investment management. She is Chairman of Smarte Carte International and a non-executive director of Icon Systems, Air-Serv and Moto Hospitality Services. Ms. Sananikone has been a board member of numerous public and private companies, as well as charitable organizations, in Australia and elsewhere. Her special areas of interest are governance, ethics, community and leadership.

ANDRÉ TRUDEAU

President and General Manager,
Régie des rentes du Québec

Board member since January 1, 2008

André Trudeau is a career public servant with close to 35 years of experience with the Québec government. He is currently President and General Manager and Chairman of the Board of the Régie des rentes du Québec. Prior to this, he served as President and General Manager, Deputy Minister and Associate General Secretary of nearly a dozen government ministries and agencies, including the Ministère du Conseil exécutif, the Ministère de l'Environnement, the Ministère des Affaires municipales, the Ministère des Transports, the Ministère de la Santé et des Services sociaux and the Ministère de l'Emploi et de la Solidarité sociale. Mr. Trudeau's versatility and management skills have been the hallmarks of his career and in 2005 earned him the Prix Hommage awarded by the Institut d'administration publique du Québec.

EXECUTIVE COMMITTEE

MICHAEL SABIA

President and Chief Executive Officer
Acting Chief Financial Officer

Michael Sabia is responsible for the strategic direction of the Caisse and determines the necessary course of action to fulfill its mission. He is also head of the Executive Committee and sits on the Board of Directors. Prior to joining the Caisse, Mr. Sabia was President and Chief Executive Officer of BCE and had occupied various roles with Canadian National Railway, including Chief Financial Officer, after spending the preceding decade working with the Government of Canada. Mr. Sabia is very active in the community and is currently serving as the chair of the fundraising campaign for Maison Saint-Gabriel. Other commitments in recent years have included co-chairing the campaigns of Centraide du Grand Montréal (2006) and the Montréal Heart Institute Foundation (2007). He was also a member of the North American Competitiveness Council from 2005 to 2008.

ROLAND LESCURE

Executive Vice-President and
Chief Investment Officer

Roland Lescure oversees investment strategy, asset allocation and research. He supervises equity and fixed-income investments and overlay strategies. He also plays a key advisory role for private equity and real estate investments. Mr. Lescure has many years of experience in the investment field, working with such firms as Groupama Asset Management, Natexis, the asset management subsidiary of France's Caisse des Dépôts et Consignations, the French department of finance and the Institut national de la statistique et des études économiques (INSEE). He has taught at the university level and contributed to several initiatives undertaken by France's Council of Economic Advisers.

CLAUDE BERGERON

Executive Vice-President
Legal Affairs and Secretariat
Acting Executive Vice-President
and Chief Risk Officer

Claude Bergeron supervises the Caisse's Corporate Secretariat, Legal Affairs and Policies and Compliance teams. He has more than 20 years of experience with the Caisse, where he has played a lead role in a number of major domestic and international files and investments. Mr. Bergeron is a member of the Québec Bar and the Canadian Bar Association and has worked in private practice as well as with the Ministère du Revenu du Québec. He has won several awards for his career achievements and is a member of the Québec Bar's registered retirement savings plan oversight committee as well as the board of the Association of Canadian General Counsel.

FRÉDÉRICK CHARETTE

Executive Vice-President
Talent Management
and Organizational Development

Frédérick Charette oversees the recruitment, compensation, professional development, payroll, management information and human resources advisory teams. During the course of his career, Mr. Charette has worked both abroad and in Montréal, with firms hiring high-level professionals such as McKinsey & Company and KPMG. Among his many professional achievements, he implemented McKinsey's organizational development practice in the Asia-Pacific region and served as an executive and consultant in this field for many years, working with numerous world-class clients in North America and Asia. More recently, he served as Head of People for KPMG Australia, a firm employing over 5,000 professionals. Mr. Charette is a member of the International Positive Psychology Association.

MARC CORMIER

Executive Vice-President
Fixed Income
Investment Management

Marc Cormier oversees the Caisse's fixed-income teams and portfolios. He has close to 20 years of experience in the banking and investment industry. After joining the institution in 1997, he held various positions with the fixed-income investments team. In addition to his portfolio management duties, he oversaw analytical support services for the Fixed Income and Equity Markets sectors, which he set up once he had implemented the necessary technology solution. During the course of his career, Mr. Cormier has worked for several French financial institutions such as Crédit Lyonnais, in Montréal, and Crédit Commercial de France, in Paris.

JEAN-LUC GRAVEL

Executive Vice-President
Equity Markets
Investment Management

Jean-Luc Gravel oversees the equity investment teams covering the Canadian and U.S. markets as well as foreign countries, including emerging markets. He is responsible for developing strategies and exploring new opportunities for all of the Caisse's equity market activities. Mr. Gravel began his investing career as a financial reporter for the investment section of the newspaper *Les Affaires*. He joined the Caisse's Canadian equity team in 2004, after working in the securities market for Gendron Norris, Nesbitt Burns, Newcrest Capital and TD Newcrest Securities. He is a Chartered Financial Analyst (CFA) and a Fellow of the Canadian Securities Institute.

EXECUTIVE COMMITTEE

PHILIPPE ITHURBIDE

Executive Vice-President
Overlay Strategies
Investment Management

Philippe Ithurbide implements strategies aimed at better controlling macroeconomic risks related to foreign exchange, inflation and interest rates for the portfolios that the Caisse manages for its depositors. In addition, he supervises active management strategies for asset allocation and currencies. Mr. Ithurbide joined the Caisse in 2006, with close to 25 years of experience working with several French financial institutions. He also taught at various universities for 20 years. His previous positions include Chief Strategist and Research Director, Foreign Exchange and Interest Rates, at Société Générale, where he also sat on the board of the bank's pension plan. Prior to his appointment to overlay strategies in November 2009, he served as the Caisse's Executive Vice-President, Fixed Income and Currencies.

BERNARD MORENCY

Executive Vice-President
Depositors' Accounts Management and
Strategic Initiatives

Bernand Morency supervises the teams responsible for the relations between the Caisse and its 25 depositors and manages the development and implementation of the strategic plan and annual business plans. Mr. Morency joined the Caisse in December 2007, following more than 30 years with Mercer. During this time, he served on Mercer's global executive team, fulfilled a variety of leadership and senior management roles and was called upon to advise a number of leading Canadian private and public corporations. Mr. Morency is a Fellow of the Canadian Institute of Actuaries and the U.S. Society of Actuaries (SOA) and is a member of the Conference Board of Canada.

NORMAND PROVOST

Executive Vice-President
Private Equity
and Chief Operations Officer

Normand Provost supervises the teams that invest in the long-term growth of companies. He oversees investment strategy and portfolio management, in addition to coordinating the Caisse's network of local and international partners. Since April 2009, backed by his intimate knowledge of the institution, Mr. Provost assumes responsibility for bringing together the various investment and risk management support teams, services, information and technology in order to create an integrated operational support framework. He has 35 years of industry experience, including nearly 30 with the Caisse, where he created the private equity business model, teams and portfolios. He has touched on every aspect of corporate financing and brought hundreds of transactions to fruition.

RENÉ TREMBLAY

Executive Vice-President, Real Estate
President, Real Estate group

René Tremblay oversees the Caisse's real estate investments, strategies and portfolio management and growth. He also coordinates the operations of subsidiaries Ivanhoe Cambridge, Otéra Capital and SITQ Group, and their networks, and serves as the Chairman of the Board of each. Mr. Tremblay has extensive experience in the real estate industry. He was the head of Ivanhoe Cambridge for many years and also worked for other Real Estate group subsidiaries. Earlier in his career, he was with such corporations as Simpsons-Sears, the Campeau Corporation and Westcliff Group. He has been a long-standing and active member of the International Council of Shopping Centers and served a term as Worldwide Chairman of ICSC. Mr. Tremblay is the recipient of the Prix Hermès career achievement award from Université Laval.

FINANCIAL REPORT

ANALYSIS OF OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES

The Caisse's operating expenses represent all the costs incurred to manage and administer the portfolio, with the exception of external management fees. Operating expenses are presented under a specific item in the Combined statement of income and changes in net assets. Expenses related to the management of the specialized Real Estate and Real Estate Debt portfolios are included in operating expenses. Operating expenses related to management and administration of real estate assets and mortgages are deducted from real estate investment income and mortgage income, respectively.

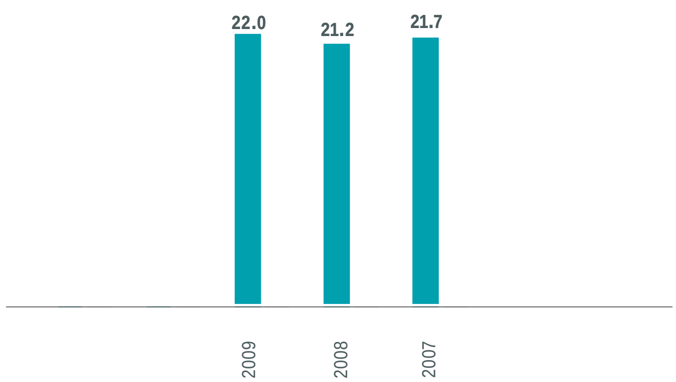
For fiscal 2009, operating expenses totalled $250 million, a decrease of $13 million over 2008.

External management fees are amounts paid to external financial institutions to manage funds on behalf of the Caisse. For fiscal 2009, external management fees totalled $21 million, much lower than the amount of $51 million reported in 2008. This decrease is primarily due to the decline in value of assets and the decision to terminate certain external management mandates.

FIGURE 64

OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES EXPRESSED IN CENTS PER $100 OF DEPOSITORS' AVERAGE NET ASSETS

(for periods ended December 31 – in cents)



Operating expenses and external management fees amounted to $271 million in 2009, down $43 million or 13.7% from $314 million in 2008.

OPERATIONAL EFFICIENCY

The Caisse periodically reviews its procedures to maintain strict control over its operating expenses. Its objective is to keep operating expenses at a level that, taking into account the composition of its investments, is comparable to that of institutional fund managers of the same size with similar operations. For many years, the Caisse has taken part in exercises to benchmark its costs per asset class. Generally, these costs compare favourably with those of its peers.

CDP FINANCIAL

CDP Financial, a wholly-owned subsidiary of the Caisse, enters into financing transactions in local and international institutional markets by issuing commercial paper and term notes. These transactions are aimed at optimizing financing costs to support the operations of the Caisse and its subsidiaries.

HIGHLIGHTS

01 CDP Financial issued term notes with a notional value of $7.2 billion in the North American market.

02 CDP Financial's total liabilities remained stable during the year.

SHORT-TERM BORROWINGS

CDP Financial entered into financing transactions in the Canadian and European markets. The fair value of short-term borrowings amounted to $1.3 billion as at December 31, 2009, compared with $6.4 billion as at December 31, 2008. The average maturity under short-term borrowings was 66 days in 2009 for transactions totalling $22.5 billion. A decline in fair value of outstanding commercial paper occurred as a result of substituting short-term debt for longer-term debt.

Canadian market

Since 2003, CDP Financial has run a short-term borrowing program in the Canadian market for greater diversification in financing sources for the Caisse. Offerings totalling nearly $18.9 billion were carried out under the program in 2009. As at December 31, 2009, the fair value of outstanding commercial paper amounted to $1.3 billion.

European market

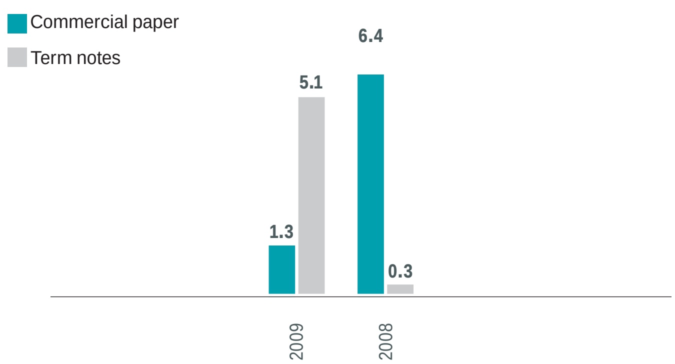
Since 2007, CDP Financial has run a multi-currency short-term borrowing program in the European market to carry out issues in several currencies. Offerings totalling nearly $3.6 billion were carried out under the program in 2009, and as at December 31, 2009, there was no outstanding commercial paper.

TERM BORROWINGS

In November 2009, the Caisse authorized an $8 billion financing program with a view to substituting a portion of short-term debt for longer-term debt and achieving better duration matching between financing and investments. On November 25, 2009, CDP Financial issued term notes under the program with a notional amount of US$5 billion in the U.S. market in tranches of 5, 10 and 30 years. As at December 31, 2009, the fair value of term borrowing instruments amounted to $5.1 billion.

FIGURE 65

BREAKDOWN OF LIABILITIES – CDP FINANCIAL
(fair value as at December 31 – in billions of dollars)



CDP FINANCIAL

STRONGER FINANCES

Financing sources: greater stability and better matching

In 2009, the Caisse authorized a financing program to replace short-term debt with longer-term debt. The program was devised to enhance duration matching and achieve more efficient use of its financing sources, while improving financing stability.

In November, the Caisse completed an initial US$5 billion offering of term notes in the U.S. market. This represents the largest offering to date by a Canadian issuer of securities without a government guarantee, denominated in U.S. dollars.

In January 2010, the Caisse completed an additional $2 billion offering in the Canadian market, for total offerings with a notional amount of $7.2 billion under its $8 billion program.

Credit ratings: credit rating agencies acknowledge the progress achieved in 2009

Dominion Bond Rating Services (DBRS), Moody's Investors Services (Moody's) and Standard & Poor's (S&P) credit rating agencies maintained their credit ratings for the Caisse or its subsidiary CDP Financial in 2009, as shown in Table 66. These credit ratings are the highest issued by these rating agencies.

- On March 6, 2009, Moody's confirmed the short- and long-term credit ratings of CDP Financial and maintained a "stable" outlook.
- On June 25, 2009, DBRS issued an update confirming the short- and long-term credit ratings of the Caisse and CDP Financial and maintaining a "stable" outlook.
- On July 30, 2009, S&P confirmed the short- and long-term credit ratings of the Caisse and CDP Financial with a "stable" outlook.

TABLE 66

CREDIT RATINGS

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

CRITICAL ACCOUNTING POLICIES

The financial statements of the Caisse de dépôt et placement du Québec are combined: that is, they include the accounts of the Caisse's subsidiaries, 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.

Note 2 accompanying the audited Combined financial statements as at December 31, 2009 describes the significant accounting policies used by the Caisse. Some of these accounting policies require subjective and complex judgments and estimates as they relate to matters that are uncertain. Any changes in these judgments or estimates could have a significant impact on the Caisse's Combined financial statements.

CHANGEOVER TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting Standards Board (AcSB) confirmed in 2008 that publicly accountable enterprises will be required to apply International Financial Reporting Standards (IFRS) instead of generally accepted accounting principles (GAAP) in Canada starting January 1, 2011. The Caisse will report comparatives in accordance with the IFRS for the fiscal year beginning on January 1, 2010.

The Caisse intends to adopt IFRS for the preparation and presentation of its Combined financial statements. To that end, the Caisse initiated an IFRS adoption program in July 2008. This structured program involves various Caisse teams, the use of outside advisers, employee training and disclosure of the results and impacts of this work to interested parties.

The Caisse's transition to IFRS will take place in three stages: detailed diagnostics, detailed planning and implementation.

Stage 1: Detailed diagnostics

This stage, completed in fall 2008, involved a comparative analysis of GAAP and IFRS and highlighted the major alternatives available to the Caisse. The main differences identified relate to consolidation, disclosures and financial statement presentation.

Stage 2: Detailed planning

The information resulting from the diagnostics was used to structure and document a detailed plan that will serve as the framework for a smooth changeover to the new standards. This stage, completed in January 2009, identified the main challenges and issues, as well as the responsibilities of each team.

Stage 3: Implementation

This stage involves mobilizing, coordinating and overseeing the various teams to ensure implementation according to expectations and deadlines. The changes will affect accounting, business and internal control procedures, information technology as well as financial and management reports. Implementation has already begun and will continue during 2010.

The Caisse is unable, at the present time, to quantify the impacts of the changeover to IFRS on its Combined financial statements, but believes they could be significant.

In the light of recent announcements, the Caisse's IFRS adoption strategy is being reconsidered. In January 2010, the AcSB ruled that certain benchmark entities of the Caisse, namely pension funds that manage investments for pension plans, may apply Canadian accounting standards for pension plans instead of IFRS. Furthermore, in February 2010, the International Accounting Standards Board (IASB) proposed an exemption to allow investment companies to publish IFRS financial statements without consolidating subsidiaries. The subsidiaries would instead be presented as investments at fair value.

Based on further AcSB and IASB updates expected in the coming months, the Caisse will make an informed decision regarding the accounting standards to be used to prepare its financial statements beginning on January 1, 2011. Meanwhile, pending these updates, the Caisse is proceeding with its IFRS changeover program according to plan.

CRITICAL ACCOUNTING POLICIES

ADOPTION OF NEW ACCOUNTING STANDARDS IN 2009

For the fiscal year ended December 31, 2009, the Caisse adopted the amendments to Section 3862, "Financial Instruments – Disclosures." The amendments are aimed at enhancing disclosures in the notes to the financial statements on fair value measurements and to increase the disclosure requirements regarding liquidity risk.

In January 2009, the Emerging Issues Committee (EIC) issued Exposure Draft EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This Exposure Draft requires that the fair value of financial instruments take into account an entity's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and liabilities, including derivative financial instruments. The adoption of EIC-173 had no significant impact on the Caisse's financial statements.

EXTERNAL AUDIT

The Combined financial statements and the Consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, in compliance with the Act respecting the Caisse de dépôt et placement du Québec.

As required by law, the Auditor General of Québec audited the Caisse's accounting records for fiscal 2009 and issued his report on the Caisse's Combined financial statements. Overall, the Auditor General reported on 54 financial statements, namely the Caisse's Combined financial statements and those of the General Fund, the depositors' 34 Individual Funds and the 18 specialized portfolios, and issued an unqualified opinion for each these financial statements.

FAIR VALUE MEASUREMENT

Investment valuation is a process whereby a value is assigned to each investment held by the Caisse for the preparation of its financial statements. Valuation of investments at their fair value is performed periodically according to policies and procedures specific to each type of investment. These procedures comply with the standards and practices of Canadian and international organizations, and involve the use of stock market quotes and independent valuation by professionals and experts. The Auditor General of Québec reviews all major valuation files as part of his audit of year-end financial statements.

ACCOUNTING PROVISIONS

According to accounting guideline 18 of the Canadian Institute of Chartered Accountants (CICA), the Caisse must establish the fair value of its investments based on the assumption that they are available for sale as at the preparation date of the financial statements. This accounting guideline is very much based on international-scale developments in recent years in accounting standards related to establishing fair value. The purpose of these standards is to define a conceptual framework that can be used for all standards requiring fair value measurement.

Under normal circumstances, the mark-to-market rule does not pose any problem since all the financial markets are active and investment values can be based on actual transactions involving comparable assets in the various markets. However, when markets are disrupted, i.e. no purchases or sales are taking place, fair value must be established on a mark to model basis whose parameters, particularly financing and illiquidity premiums, are exposed to a high level of subjectivity from firm to firm or valuator to valuator. The higher the premiums, the lower the fair value of the investments.

IMPACT ON THE CAISSE'S INVESTMENTS

The Caisse believes that these standards provide a coherent framework, but must be applied with discernment. These highly restrictive standards do not take into account the fact that, in line with its main depositors' very long-term investment horizon, the Caisse has the means and intention to hold some investments until their optimal value is reached.

Accordingly, the fair value established as at December 31, 2009, for investments on illiquid markets, such as real estate, private equity, infrastructure, as well as commercial debt and commercial mortgages, is more indicative of the extreme volatility on all financial markets than the economic value of the investments held.

ESTABLISHING FAIR VALUE AT THE CAISSE

Liquid investments

The fair value of liquid investments is established based on valuation methods used in capital markets, such as discounting future cash flows at the current interest rate, stock prices on major stock exchanges and listings or inputs provided by securities brokers or other recognized specialist organizations. On a quarterly basis, some of the portfolios and, on a semi-annual basis, all portfolios of unlisted liquid products are valued by independent professionals. These products, including bonds and over-the-counter derivatives, are valued with respect to the valuation models and inputs used.

Private equity

The fair value of private equity investments is established semi-annually as at June 30 and December 31, unless significant circumstances entail a change in the value of an investment at another point in the year. The valuation is based on a policy adopted by the Caisse's Board of Directors. The policy follows the industry's best practices. Under the policy, private equity investments are initially valued by the managers responsible for the investments concerned, before being approved by senior management of the Private Equity sector. Investments whose fair value is higher than a pre-established materiality threshold must be submitted to an independent valuation committee or an external independent valuator. The committee is composed of independent valuation professionals and reports to the Caisse's Audit Committee. The Auditor General of Québec attends the committee's meetings. The process is supplemented by internal periodic and individual valuations, as events occur.

FAIR VALUE MEASUREMENT

Real estate investments

The fair value of real estate investments is established semi-annually as at June 30 and December 31, unless significant circumstances entail a one time write-down of an investment's value. Valuation of the Real Estate portfolio investments is based on a policy adopted by the Caisse's Board of Directors. The policy is based on the industry's best practices.

The fair value of the specialized Real Estate portfolio assets is certified by external chartered valuators. Fair value of other real estate investments is usually determined by external managers. Internal managers establish fair value of debt associated with real estate investments. In addition, the real estate units' external auditors compile the fair values when preparing the audited financial statements. Finally, in auditing the Caisse's books and accounts, the Auditor General of Québec relies on the external auditors' work and reviews all valuation reports.

In the case of the specialized Real Estate Debt portfolio, the fair value of mortgage loans and securities is established according to the discounted value of future contractual cash flows at the market interest rate, which is the rate that could be obtained for loans or securities with similar conditions and maturity dates. Where timing of cash flows cannot be estimated with reasonable reliability, the fair value corresponds either to the fair value of any asset given as collateral for the security, net of expected costs of realization and any amount legally owed to the borrowers, or to the security's relevant market price. For these investments, the Caisse relies on an independent professional valuation or a subsidiary's externally audited financial statements.

Third-party and bank-sponsored ABTNs

In its original form, asset-backed commercial paper ("ABCP") was a money market instrument with short-term maturities. Until the organized market for this type of financial instrument was frozen in August 2007, it provided daily quotations to determine value. As the actual maturities were often 90 days or less, ABCP value fluctuated very little between the time of purchase, its remeasurement and the trust redemption date.

The restructured asset-backed term notes ("ABTN") are financial instruments with average maturities of seven years. However, no organized market exists for this type of instrument. As no daily quotation is available, Canadian accounting standards require that ABTN be valued using a valuation technique based on a financial model having assumptions and probabilities that reflect uncertainties related to amounts, cash flow timing and yield, illiquidity risk, the nature and credit risk of underlying debt and financial assets, and credit spreads reflecting market conditions as at December 31, 2009.

The assumptions, based on information available as at December 31, 2009, use observable market inputs, such as interest rates and credit quality, whenever possible. They are partially based on unobservable inputs or on observable market inputs significantly adjusted to reflect specific characteristics of the valued instruments.

The fair value of the notes has been established by estimating the discounted value of the cash flows according to various default and credit loss scenarios on all the underlying assets for each note, the maturities corresponding to those of the underlying assets, the interest rates reflecting available cash flows in the vehicles, and takes into account the leverage rates of the various structures as well as the subordination of the restructured notes, where required. Once adjusted for impact of the credit risk of the underlying assets, the expected cash flows on the securities are discounted at a risk free rate, plus a financing and illiquidity premium. The Caisse factored in the probability that the historic cumulative default rates corresponding to the discount period will be more severe in coming years. For the synthetic and hybrid assets, the estimated default rates apply to all underlying assets.

Details on the establishment of the ABTN fair value and the assumptions used are provided in Note 4B to the Combined financial statements.

COMBINED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR COMBINED FINANCIAL REPORTING

Preparation and presentation of the combined financial statements of the Caisse de dépôt et placement du Québec (the "Caisse") are the responsibility of management. The combined financial statements were prepared in accordance with generally accepted accounting principles (GAAP) in Canada. We ensure that the financial data in the Annual Report are consistent with those in the combined financial statements.

The combined financial statements include amounts based on management's best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial data, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments established as at December 31, 2009.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, financial information disclosure controls and procedures, and internal control over financial information. The Caisse's internal control mechanism is based, among other things, on a clear definition of responsibilities, effective allocation of duties, delegation of powers, competent resources, appropriate procedures, information systems, tools and practices, relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities, control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of the Caisse's objects, and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place as regards operations, assets and records. Moreover, the Caisse's internal audit group reviews the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the combined financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which the Caisse is subject, including the Act respecting the Caisse de dépôt et placement du Québec.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of the Caisse, as necessary.

The Auditor General of Québec has audited the combined financial statements of the Caisse, and his report covers the nature and scope of the audit and expresses his opinion. The Auditor General has unrestricted access to the Audit Committee to discuss any matter relating to his audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the combined financial statements and the Annual Report.

The Board of Directors has approved the combined financial statements as at December 31, 2009. It is assisted in its responsibilities by the Audit Committee, of which all members are outside directors. This Committee meets with management and the Auditor General, examines the combined financial statements and recommends their approval to the Board of Directors.

MICHAEL SABIA
President and Chief Executive Officer
and Acting Chief Financial Officer

Montréal, February 15, 2010

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, 2009, 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 on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards 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 respects, the financial position of these Funds as at December 31, 2009, as well as the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles 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 consistent basis with that of the preceding year.

Auditor General of Québec,

Renaud Lachance FCA auditor

RENAUD LACHANCE, FCA Auditor

Québec City, February 15, 2010

COMBINED STATEMENT OF NET ASSETS

As at December 31, 2009

(in millions of dollars)	2009	2008
Assets		
Investments at fair value *(notes 4A, B and E)*	167,555	182,493
Advances to depositors	371	754
Investment income accrued and receivable	1,042	1,394
Transactions being settled	70	1,241
Other assets	1,598	993
	170,636	186,875
Liabilities		
Liabilities related to investments *(notes 4C and E)*	34,810	62,612
Transactions being settled	1,478	849
Other liabilities	1,200	1,511
Non-controlling interests *(note 4D)*	1,560	1,815
	39,048	66,787
Depositors' holdings *(note 5)*	131,588	120,088

Derivative financial instruments *(note 9)*

Commitments and contingencies *(note 11)*

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

For the Board of Directors,

MICHAEL SABIA

A. MICHEL LAVIGNE

COMBINED STATEMENT OF INCOME AND CHANGES IN NET ASSETS

For the year ended December 31, 2009

(in millions of dollars)	**2009**	2008
Investment income *(note 6A)*	**4,907**	6,161
Less:		
Operating expenses *(note 7)*	**250**	263
External management fees	**21**	51
Net investment income	**4,636**	5,847
Gains (losses) on the sale of investments *(note 6D)*	**4,521**	(23,228)
Total realized income (losses)	**9,157**	(17,381)
Unrealized increase (decrease) in value of investments and liabilities related to investments (*note 6E*)	**2,595**	(22,435)
Net investment results	**11,752**	(39,816)
Depositor's net deposits (withdrawals)	**(252)**	4,554
Increase (decrease) in combined net assets	**11,500**	(35,262)
Combined net assets, beginning of year	**120,088**	155,350
Combined net assets, end of year	**131,588**	120,088

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

COMBINED FUNDS NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2009)

01 CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec, a legal person established in the public interest within the meaning of the *Civil Code*, is governed by the *Act respecting the Caisse de dépôt et placement du Québec (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 comprises all treasury operations (management of demand and term deposits, and corporate financing) as well as results from net investments related to third-party and bank-sponsored asset-backed term notes ("third-party and bank-sponsored ABTNs") held in the specialized Bonds portfolio (760).

INDIVIDUAL FUNDS

The individual funds are comprised of diversified investments, and each fund has only one depositor that exclusively makes participation deposits therein. The individual funds are for the use of the following depositors:

Fund 300: Fonds du Régime de rentes du Québec administered by the Régie des rentes du Québec;

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

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

Fund 303: Individual plans administered by the Commission administrative des régimes de retraite et d'assurances;

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

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence administered by the Aon Conseil;

Fund 307: Fonds d'assurance automobile du Québec administered by the Société de l'assurance automobile du Québec;

Fund 311: Supplemental Pension Plan for employees of the Québec construction industry – general account – administered by the Commission de la construction du Québec;

Fund 312: Supplemental Pension Plan for employees of the Québec construction industry – retirees account – administered by the Commission de la construction du Québec;

Fund 313: Supplemental Pension Plan for employees of the Québec construction industry – supplementary account – administered by the Commission de la construction du Québec;

Fund 314: Fonds d'assurance-dépôts administered by the Autorité des marchés financiers;

Fund 315: Fonds d'assurance-prêts agricoles et forestiers administered by La Financière agricole du Québec;

Fund 316: Fonds d'amortissement du régime de retraite – RREGOP administered by the ministère des Finances, Government of Québec;

Fund 317: Fonds d'amortissement du régime de retraite – RRPE administered by the ministère des Finances, Government of Québec;

Fund 318: Fonds d'amortissement des autres régimes de retraite administered by the ministère des Finances, Government of Québec;

Fund 326: Fonds d'assurance-récolte administered by La Financière agricole du Québec;

Fund 327: Fédération des producteurs de bovins du Québec;

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

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

Fund 330: Fonds de la santé et de la sécurité du travail administered by the Commission de la santé et de la sécurité du travail;

Fund 332: Fonds des cautionnements des agents de voyages – cautionnements individuels administered by the Office de la protection du consommateur;

Fund 333: Fonds d'indemnisation des clients des agents de voyages administered by the Office de la protection du consommateur;

Fund 341: Fonds pour l'éducation et la saine gouvernance – Fonds de trésorerie administered by the Autorité des marchés financiers;

Fund 342: Régime de retraite de l'Université du Québec administered by the Comité de retraite du Régime de retraite de l'Université du Québec;

Fund 343: Fonds d'assurance parentale administered by the Conseil de gestion de l'assurance parentale;

Fund 347: Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec administered by the Aon Conseil;

Fund 348: Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec administered by the Comité de retraite du Régime complémentaire de retraite des employés syndiqués de la CCQ;

Fund 351: Fonds des générations administered by the ministère des Finances, Government of Québec;

Fund 353: Régime de retraite des membres de la Sûreté du Québec – caisse participants administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 361: Régime de rentes pour le personnel non enseignant de la Commission des écoles catholiques de Montréal administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 362: Régime de retraite pour certains employés de la Commission scolaire de la Capitale administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 363: Régime de retraite des employés de la Ville de Laval administered by the Comité du Régime de retraite des employés de la Ville de Laval;

Fund 368: Fonds pour l'éducation et la saine gouvernance – Fonds capitalisé administered by the Autorité des marchés financiers;

Fund 369: Fonds des congés de maladie accumulés administered by the ministère des Finances, Government of Québec (created January 1, 2009).

SPECIALIZED PORTFOLIOS

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

- Short Term Investments (740)
- Real Return Bonds (762)
- Bonds (760)
- Long Term Bonds (764)
- Canadian Equity (720)
- U.S. Equity – hedged (731)
- U.S. Equity – unhedged (734)
- Foreign Equity – hedged (730)
- Foreign Equity – unhedged (733)
- Emerging Markets Equity (732)
- Québec International (761)
- Investments and Infrastructures (781) (consolidated statements)
- Private Equity (780) (consolidated statements)
- Real Estate Debt (750) (consolidated statements)
- Real Estate (710) (consolidated statements)
- Commodity Financial Instruments (763)
- Hedge Funds (770) (consolidated statements)
- Asset Allocation (771)

02 ACCOUNTING POLICIES

The preparation of the combined financial statements of the Caisse in accordance with generally accepted accounting principles in Canada requires that management make estimates and assumptions, which have an impact on the accounting of assets and liabilities, the presentation of contingent assets and liabilities at the date of the financial statements and the accounting of revenues and expenses during the financial year covered by the financial statements. Actual results may differ from such estimates.

A statement of cash flows is not presented as it would provide no further useful information for the comprehension of cash flows during the year.

A. COMBINED FINANCIAL STATEMENTS

The combined financial statements comprise the accounts of the subsidiaries controlled by the Caisse, 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 upon in an arm's-length transaction between competent, willing parties in conditions of full competition, established at the year-end.

Transaction costs which are directly attributable to the acquisition and sale of investments are included in income and applied against gains and losses on the sale of investments. Transaction costs include commissions and stock exchange fees.

FIXED-INCOME SECURITIES

Fixed-income securities comprise short-term investments, bonds, ABTNs and mortgages. Acquisitions and sales of fixed-income securities are recorded at the transaction date, except for mortgages which are recorded at the settlement date.

i. VALUATION METHOD

The fair value of short-term investments and bonds is determined by the market price, when such a value is available. When a market price is not available, the fair value of the securities is established according to valuation methods used in capital markets, such as discounting of future cash flows, or according to similar transactions on an arm's-length basis. These valuations are supported by observable or non-observable input data, such as interest rate yield curves, credit spreads, discount rates, credit ratings and recovery rates. The valuation method for third-party and bank-sponsored ABTNs is discussed in note 4B.

The fair value of mortgages is determined from the present value of future contractual cash flows at the market interest rate. The rate is that which could be obtained for loans or securities with similar conditions and maturities. Where the spread of future cash flows cannot be estimated in a reasonably reliable fashion, the fair value corresponds either to the fair value of any collateral on the security, less expected realization costs and any amount legally owed to borrowers, or to the observable market price for the security.

The fair value of most fixed-income securities is reviewed biannually by a valuation committee made up of independent experts or by an independent external firm.

The valuation methods are applied on a consistent basis.

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. Income from mortgages is reduced by operation expenses and financial costs of commercial mortgage-backed securities (CMBS) and is recorded under the item Investment Income – Fixed-income securities.

Gains and losses on the sale of investments represent the difference between the amortized cost and the net realizable value on the sale of investments. The amortized cost corresponds to the acquisition cost adjusted to reflect amortization of the premium or the discount.

ACCOUNTING POLICIES (cont.)

VARIABLE-INCOME SECURITIES

Variable-income securities comprise equities and convertible securities as well as real estate holdings. Acquisitions and sales of equities and convertible securities are recorded at the transaction date, whereas acquisitions and sales of real estate holdings are recorded at the settlement date.

i. VALUATION METHOD

The fair value of equities and convertible securities traded on a stock exchange is determined from prices on major stock exchanges as well as those provided by recognized financial institutions. For unlisted equities and convertible securities, valuations are made according to commonly used valuation methods, such as the earnings multiples of comparable listed companies or discounting of cash flows, or on the basis of similar transactions on an arm's-length basis. These valuations are supported by observable or non-observable input data, such as EBITA multiples, price/earnings multiples, price/book value ratios, discount rates and future cash flows. The valuations of unlisted equities and convertible securities are reviewed biannually by a valuation committee made up of independent experts or by an independent external firm.

The fair value of investment funds is determined from the fair value provided by the general partner, in accordance with commonly used valuation methods.

Real estate holdings include partial or full ownership of income properties through interests in a company or a partnership. The fair value of income properties included in real estate holdings is determined and certified biannually by external, recognized and independent chartered real estate appraisers. The valuation techniques used for income properties are based mainly on three recognized methodologies: discounting of cash flows at the market rate, comparison with recent similar market transactions and capitalization of earnings. These valuations are supported by observable or non-observable input data, such as leases, operating expenses, rates of return and discount rates. The valuations are established in accordance with commonly used professional valuation standards.

The valuation methods are applied on a consistent basis.

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, and is recorded 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 of investments corresponds to the acquisition cost, except for the cost of investments in joint ventures, which are accounted for according to the equity method.

DERIVATIVE FINANCIAL INSTRUMENTS

In managing its investments, the Caisse conducts transactions involving various derivative financial instruments to manage the risks associated with exchange rate, interest rate and market fluctuations.

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

i. VALUATION METHOD

Derivative financial instruments are recorded at their fair value at year-end. These values are established from prices on the major stock exchanges as well as those provided by recognized financial institutions. For unlisted instruments, fair value is determined from similar transactions on an arm's-length basis or with recognized, commonly used models. The models used include discounting of future cash flows at the current rate of return and the Black-Scholes model. These models require the use of assumptions regarding the amount and maturity of future cash flows and the current rate of return. The assumptions are prepared with observable and non-observable input data, such as interest rate yield curves, credit spreads and foreign exchange rates as well as the volatility and correlation of equity prices, commodity prices and interest rates. The fair value estimates of most unlisted derivative financial instruments are reviewed biannually by an independent external firm.

The valuation methods are applied on a consistent basis.

ii. INVESTMENT INCOME AND GAINS AND LOSSES ON THE SALE OF INVESTMENTS

Investment income from derivative financial instruments is included with income from fixed-income and variable-income securities, whereas gains and losses pertaining to derivative financial instruments are included with gains and losses on the sale of investments as a function of the underlying investments.

ACCOUNTING POLICIES (cont.)

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS

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

SHORT SELLING OF SECURITIES

Short selling of securities represents the commitment by the Caisse to purchase securities from third parties to cover its positions. Interest expenses related to commitments involving short selling of short-term investments and bonds are recorded under Investment income – Fixed-income securities, whereas 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 (losses) on the sale of investments – Fixed-income securities, whereas those related to short selling of equities are recorded in Gains (losses) on the sale investments – Variable-income securities.

HIERARCHY OF FAIR VALUE

The Caisse's financial instruments are classified according to the following hierarchy:

Level 1: Calculation of the fair value of the instrument is based on prices (not adjusted) quoted on active markets for identical assets or liabilities.

Level 2: Calculation of the fair value of the instrument is based on data other than the quoted prices contemplated in level 1, which are observable either directly (in the form of prices) or indirectly (determined from prices). This level includes instruments whose valuation is based on prices quoted on markets that are not active for identical instruments, instruments whose valuation is based on prices observed for similar instruments as well as valuation techniques based on assumptions that take into account observable market data.

Level 3: Calculation of the fair value of the instrument uses data that are not based on observable market data (non-observable data). This level includes instruments whose valuation is based on prices observed for similar instruments, adjusted to reflect the differences between the instruments being valued and the available market data. This level also includes instruments whose valuation is based on valuation techniques using assumptions that take into account market data that are observable but are adjusted significantly to reflect the specific characteristics of the instrument being valued.

The classification of financial instruments in the levels of the hierarchy is established at the time of the initial valuation of the instrument and reviewed on each subsequent valuation date. Transfers between the hierarchical levels are measured at fair value at the start of each quarter.

In certain cases, the assumptions used in the valuation techniques are based on non-observable data or on observable market data adjusted significantly.

The quantitative information on the hierarchy of fair value is given in note 4E.

C. ADMINISTERED PROPERTY AND PROPERTY UNDER MANAGEMENT

The Caisse and its subsidiaries 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. The Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and securitized loans.

ACCOUNTING POLICIES (cont.)

D. FOREIGN CURRENCY TRANSLATION

The fair value of investments as well as 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 equities and that of real estate holdings from integrated foreign operations and the amortized cost of investments in short-term investments, bonds and mortgages are translated at the rate of exchange 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.

E. LOAN SECURITIZATION

The Caisse periodically securitizes loans and mortgages by selling them to a collaterized security entity, which subsequently issues securities to investors. Such transactions are recorded as sales where the Caisse is deemed to have relinquished 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 AcG-12 *Transfers of receivables* in the Canadian Institute of Chartered Accountants (“CICA”) Handbook. At the time of securitization, no beneficial right attached to the securitized loans is retained. Any gains or losses deriving from such transactions are recorded under Gains (losses) on the sale of investments – Mortgages and Bonds.

Companies under common control usually continue to manage loans after disposition. Since management fees are established on the basis of the market for such services, no assets or liabilities under management are recorded at the date of disposition.

F. OPERATING EXPENSES

Operating expenses represent all expenses related to portfolio management and administration, with the exception of those related to external management. Operating expenses are recorded under a specific item in the “Combined statement of income and changes in net assets.” Expenses related to management of the specialized real estate and real estate debt portfolios are included in operating expenses. Expenses related to the real estate and real estate debt subsidiaries are deducted from real estate holdings investment income and mortgages investment income, respectively.

G. EXTERNAL MANAGEMENT FEES

External management fees represent amounts paid to external financial institutions, principally institutional fund managers active on international stock markets, for the management of Caisse funds on behalf of the Caisse. External management fees are presented under a specific item in the “Combined statement of income and changes in net assets.”

03
ADOPTION OF AMENDMENTS TO SECTION 3862 FINANCIAL INSTRUMENTS – DISCLOSURES AND ABSTRACT EIC-173 CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

For the year ended December 31, 2009, the Caisse adopted the amendments to Section 3862 *Financial Instruments – Disclosures*. The purpose of the amendments is to improve the requirements regarding information to be provided in the notes to financial statements with respect to valuation at fair value and to extend the obligations regarding information on liquidity risk. The additional information to be provided is included in notes 2B and 4E.

In January 2009, the Emerging Issues Committee (EIC) issued abstract EIC-173 *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The abstract requires that the fair value of financial instruments take into account the entity’s own credit risk and the counterparty’s credit risk in the determination of the fair value of financial assets and financial liabilities, including derivative financial instruments. The adoption of EIC-173 did not have a significant impact on the financial statements of the Caisse.

04 INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A. INVESTMENTS

(in millions of dollars)	2009 Fair value	2009 Cost	2008 Fair value	2008 Cost
Fixed-income securities				
Short-term investments				
Canadian	4,625	4,684	5,826	5,910
Foreign	2,376	2,860	3,580	4,522
	7,001	7,544	9,406	10,432
Bonds				
Issued or guaranteed by:				
Government of Canada	21,652	21,600	16,552	15,211
Province of Québec	7,859	7,380	9,265	8,517
Other Canadian provinces	3,158	3,154	3,047	2,969
Municipalities and other Canadian bodies	1,279	1,276	1,611	1,597
Canadian government corporations	10,482	9,883	11,091	10,201
U.S. government	510	741	823	740
Other foreign governments	346	339	1,812	1,594
Mortgage securities				
Canadian	245	258	272	276
Foreign	233	2,408	711	2,438
Canadian corporations	9,830	10,257	12,592	13,623
Foreign corporations	2,062	2,949	2,911	4,076
Inflation-indexed securities				
Canadian	667	618	587	604
Foreign	–	–	1,973	1,611
Hedge funds	72	99	439	460
	58,395	60,962	63,686	63,917
Third-party and bank-sponsored ABTNs *(note 4B)*	7,229	12,351	7,186	12,787
Mortgages				
Canadian	5,944	6,104	6,451	6,431
Foreign	2,871	5,427	5,342	5,738
	8,815	11,531	11,793	12,169
Total fixed-income securities	81,440	92,388	92,071	99,305
Variable-income securities				
Equities and convertible securities				
Canadian	14,676	14,756	12,523	16,055
U.S.	14,407	19,156	10,968	14,604
Foreign and emerging markets	19,693	19,794	17,714	21,180
Hedge funds	3,615	3,689	4,688	4,933
	52,391	57,395	45,893	56,772
Real estate holdings				
Canadian	10,930	9,279	11,884	8,987
Foreign	9,012	10,578	11,032	10,450
	19,942	19,857	22,916	19,437
Total variable-income securities	72,333	77,252	68,809	76,209

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

	2009		2008	
	Fair value	Cost	Fair value	Cost
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	6,171	6,171	2,900	2,901
Foreign	1,928	1,963	2,780	2,730
Amount pertaining to derivative instruments				
Canadian	1,106	21	2,465	26
Foreign	4,577	896	13,468	1,681
	13,782	9,051	21,613	7,338
Total investments	167,555	178,691	182,493	182,852

Investments – Real estate holdings includes investments in joint ventures reported on an equity basis. The details of these investments at fair value are as follows:

(in millions of dollars)	2009	2008
Investments in joint ventures	8,319	9,097
Real estate holdings	13,601	15,889
Mortgages	2	–
Short-term investments	2	15
Investment income, accrued and receivable	13	10
Other assets	505	678
	14,123	16,592
Other loans payable	64	74
Mortgage loans payable	5,088	6,284
Other liabilities	596	1,026
Non-controlling interests	56	111
	5,804	7,495

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

B. THIRD-PARTY AND BANK-SPONSORED ABTNs

As at December 31, 2009, the Caisse held asset-backed term notes ("ABTNs") issued under the Montréal Accord. The notes are divided into three types:

- "Third-party ABTNs" that have been restructured under the restructuring agreement of the Pan-Canadian Investors Committee;
- "Other third-party ABTNs" that have been restructured (White Knight Trust) or whose restructuring has failed (Devonshire Trust); and
- "Bank-sponsored ABTNs" that have been restructured (Apex Trust, Great North Trust and Superior Trust).

The assets that were exchanged as at January 21, 2009, were investments in the Canadian asset-backed commercial paper ("ABCP") market. The subprime mortgage crisis in the United States caused disruption on the international markets, which resulted in a liquidity crisis on the Canadian third-party ABCP market in mid-August 2007. Since that time, the Caisse has not been able to have redeemed amounts due under third-party ABCP. The investors and banks that purchased credit default protection then agreed to a standstill period and began discussions within the framework of the Montréal Accord and the Pan-Canadian Investors Committee.

The details of the assets underlying the notes are as follows as at January 21, 2009:

	MAV 1	MAV 2	Other conduits[1]
	%	%	%
Underlying assets			
Credit default swaps	86.8	89.4	75.0
Commercial mortgage loans	7.6	6.5	25.0
Canadian non-prime residential mortgage loans	3.1	2.4	–
Other assets	2.5	1.7	–

1. The other conduits represent third-party ABTNs not covered by the agreement and restructured bank-sponsored ABTNs.

ABTNs are debt supported by a range of financial instruments. The underlying assets, such as residential mortgage loans or commercial loans, or exposure to risk, such as credit default swaps, as well as certain other assets, are acquired by a conduit by means of various types of transaction, primarily the issuance of commercial paper or term notes.

Third-party ABTNs

The efforts to restructure the ABCP resulted in the conclusion of an agreement in principle on December 24, 2008, which gave rise to an exchange of securities on January 21, 2009. The ABCP covered by the restructuring plan confirmed at that date was replaced by new variable-rate notes with longer maturities corresponding better to those of the underlying asset, with the grouping of certain assets.

The key aspects of the restructuring agreement are as follows:

- Creation of three new structures in the form of trusts called "master asset vehicles" ("MAV 1", "MAV 2" and "MAV 3").
- MAV 1 and MAV 2 consist of the transactions of the ABTN conduits constituted solely of synthetic assets or of hybrid assets, namely a combination of synthetic and traditional assets. They also include the high-risk assets associated with these transactions.
- Establishment of margin funding facilities in support of MAV 1 and MAV 2 to finance possible collateral calls.
- The main difference between MAV 1 and MAV 2 is that the margin funding facility is self-funded for the participants in MAV 1, whereas it is provided by third-party lenders in the case of MAV 2.
- The holders' ability to transfer the MAV 1 notes is subject to considerable constraints.
- MAV 3 consists of transactions of the ABTN conduits constituted exclusively of high-risk assets and traditional assets.
- Widening of "spread-loss triggers," which, if reached, will trigger collateral calls.
- Establishment of an initial 18-month standstill period ending July 21, 2010, during which no additional collateral calls may be effected on the credit default swaps.
- The Government of Canada, the governments of Québec, Alberta and Ontario, and the Caisse took part in the final agreement by establishing an additional senior margin funding facility.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

On January 21, 2009, the investors, including the Caisse, received from the MAV 1 and MAV 2 structures a combination of Class A-1, A-2, B and C notes with a planned average maturity of December 2016. The MAV 1 high-risk assets were separated and the Caisse received tracking notes that reproduce the return on the individual underlying assets. A third vehicle, MAV 3, was created to hold in a silo structure each series guaranteed exclusively by traditional assets or high-risk assets. Two main classes of notes were created, namely tracking notes for traditional assets and tracking notes for high-risk assets, and are related to the net return and maturities of their respective underlying assets.

There was no difference between the fair value of the ABCP held by the Caisse as at December 31, 2008, namely before the official allocation of the ABTNs, and the fair value of the notes issued on January 21, 2009.

The Class A-1, A-2 and B notes issued by MAV 1 bear interest at the three-month bankers' acceptance ("BA") rate + 0.30%. The Class A-1, A-2 and B notes issued by MAV 2 bear interest at the three-month BA rate – 0.50%. Interest on the Class B notes is cumulative and payable only when the principal and interest for the A-1 and A-2 notes are settled in full. Interest on the Class C notes (BA + 20%) is cumulative and payable only when the principal and interest for the A-1, A-2 and B notes are settled in full. All the tracking notes bear interest at a rate that will be adjusted as a function of the return on the underlying assets. Given the measurement uncertainty, the Caisse has recorded interest income only for the A-1 and A-2 notes.

A subordination sequence is built into in the notes: the C notes are subordinate to the B notes, the B notes are subordinate to the A-2 notes, and the A-2 notes to the A-1 notes. This waterfall structure is designed to ensure that the subordinate tranches absorb the first losses up to their notional amount so as to immunize the superior tranches. As a result of the waterfall structure, the C and B notes absorb the greatest decreases in value.

Other third-party ABTNs

Only one of the 22 conduits affected by the Montréal Accord was restructured in 2007, namely Skeena Capital Trust (restructured under the name of White Knight Trust). The Caisse received replacement securities and liquid assets on completion of the restructuring. Initially rated AAA by DBRS, the notes were successively downgraded to AA (low) in November 2008 and B (high) in October 2009. The Caisse took a provision for the loss of its entire investment in this trust as at December 31, 2009 ($92 million in 2008).

The restructuring of another trust, Devonshire Trust, failed. Legal proceedings to recover the collateral posted by this trust, which would enable the Caisse to recover its investment, were undertaken on January 13, 2009. The Caisse had taken a provision for the loss of its entire investment in this trust as at December 31, 2008.

Bank-sponsored ABTNs

The Caisse holds ABTNs issued by trusts sponsored by financial institutions, including Sitka Trust (since restructured under the name of Apex Trust), Great North Trust and Superior Trust. As a result of market turbulence, these trusts received substantial collateral calls from purchasers of credit protection. The trusts were therefore restructured in 2008. The replacement securities for Apex Trust, Superior Trust and Great North Trust received by the Caisse are not rated by an external agency. The Caisse took a provision for the decline in the value of its investment in these trusts, resulting in a decrease in value of $301 million as at December 31, 2009 ($394 million in 2008).

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

BALANCES AS AT DECEMBER 31

As at December 31, 2009, third-party and bank-sponsored ABTNs consist of the following elements:

(in millions of dollars)			2009
	Fair value	Cumulative unrealized decrease in value	Cost
Third-party ABTNs			
MAV 1			
Class A-1	4,071	(476)	4,547
Class A-2	2,428	(1,397)	3,825
Class B	–	(652)	652
Class C	–	(279)	279
Tracking notes for high-risk assets	–	(597)	597
Class X notes[1]	282	(26)	308
	6,781	(3,427)	10,208
MAV 2			
Class A-1	101	18	83
Class A-2	17	(10)	27
Class B	–	(5)	5
Class C	–	(4)	4
	118	(1)	119
MAV 3			
Tracking notes for traditional assets	478	(59)	537
Tracking notes for high-risk assets	–	(70)	70
	478	(129)	607
Margin call facilities	(589)	(589)	–
Third-party ABTNs subtotal	6,788	(4,146)	10,934
Other			
Third-party ABTNs not restructured	–	(385)	385
Third-party ABTNs restructured	–	(290)	290
Bank-sponsored ABTNs restructured	441	(301)	742
	7,229	(5,122)	12,351

1. As a result of a collateral call, a portion of the Class A-1, A-2, B and C notes issued by MAV 1 has been converted into MAV 1 Class X notes.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

As at December 31, 2008, investments in third-party and bank-sponsored ABCP consisted of the following elements:

(in millions of dollars)			2008
	Fair value	Cumulative unrealized decrease in value	Cost
Third-party ABCP restructured under the agreement of the Pan-Canadian Investors Committee			
Synthetic and hybrid assets[1]	6,017	(3,725)	9,742
Traditional assets[2]	623	(115)	738
High-risk assets	–	(890)	890
	6,640	(4,730)	11,370
Other			
Third-party ABCP not restructured	–	(385)	385
Third-party ABCP restructured	198	(92)	290
Bank – sponsored ABCP restructured	348	(394)	742
	7,186		12,787
Cumulative unrealized decrease in value before restructuring costs		(5,601)[3]	
Restructuring costs		(86)	
Cumulative unrealized decrease in value		(5,687)	
Writeoff of assets		(171)	
Losses on the sale of investments and cumulative unrealized decrease in value		(5,858)	
Accrued back interest receivable[4]		389	
		(5,469)	

1. The investments reflect the commitment made by the Caisse in 2008 to acquire MAV 2 notes at a discount at the time of the restructuring. The notional amount and the agreed-on purchase price for the notes are $170 million and $119 million respectively.
2. Not including an amount of $550 million representing the Caisse's share of repayment of underlying assets redeemed by the conduits as of December 31, 2008.
3. Includes the fair value of the commitments estimated at a negative amount of $634 million.
4. Received on January 21, 2009.

PRESENTATION IN COMBINED INCOME AND CHANGES IN NET ASSETS

The following table gives the changes in the combined net assets of the Caisse as at December 31:

(in millions of dollars)	**2009**	2008
Cumulative unrealized decrease in value, beginning of year	**(5,601)**	(1,867)
Cumulative unrealized decrease in value, end of year	**(5,122)**	(5,601)
Increase (decrease) in fair value	**479**	(3,734)
Receipt in 2009 of back interest and restructuring costs of 2008	**(333)**	–
Back interest and restructuring costs	**–**	333
Unrealized increase in value (decrease in value) of investments *(note 6E)*	**146**	(3,401)
Receipt in 2009 of back interest and restructuring costs	**559**	–
Writeoff of assets	**(192)**	(171)
Gains (losses) on the sale of investments *(note 6D)*	**367**	(171)
	513	(3,572)

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

COMMITMENTS ASSOCIATED WITH THIRD-PARTY AND BANK-SPONSORED ABTNs

The following table summarizes commitments regarding third-party and bank-sponsored ABTNs as at December 31:

(in millions of dollars)		2009	2008
	Ultimate maturity	Commitments	
Agreement of the Pan-Canadian Investors Committee			
MAV 1 MFF – basic	July 2017	**5,767**	5,767
MAV 1 MFF – additional interest	July 2017	**400**	400
MAV 1 and MAV 2 SFF	July 2017	**300**	300
Subtotal		**6,467**	6,467
Bank-sponsored ABTNs restructured	December 2016	**–**	323
Total		**6,467**	6,790

Margin funding facility (“MFF”)

In addition to the assets already provided as collateral to the purchaser of credit default protection, the final agreement of the Pan-Canadian Investors Committee provides that MAV 1 and MAV 2 must have an MFF to cover any collateral calls. The Caisse has decided to self-fund its share of the MFF, which explains its interest in MAV 1.

The Caisse’s share of this credit commitment amounts to $5,767 million, has the same rank as that of the other participants and matures in July 2017 or at an earlier date if all the credit default swap transactions are settled beforehand. The Caisse will receive no fee in respect of this credit commitment. The advances that could be made under this MFF will bear interest at a rate based on the bankers’ acceptance rate or the prime rate. The Caisse will have to maintain a credit rating equivalent to AA (high) with at least two of the four rating agencies specified in the agreement, failing which it will have to provide collateral or another type of credit support to MAV 1 or fulfill its commitments through another entity with a sufficiently high credit rating.

Under a separate agreement, the Caisse has agreed to take an interest of $400 million in the MFF commitments of a MAV 1 participant in exchange for a commitment fee of 1.2% per annum, namely the same rate as the third-party institutions that have underwritten the equivalent MAV 2 MFF. This facility is at the same subordination level as the Caisse’s interest in the MFF, which means that these facilities would be called simultaneously in the event of a collateral call.

Senior funding facility (“SFF”)

In the event that the MAV 1 MFF and the equivalent MAV 2 facility prove insufficient to meet the collateral calls of the vehicle in question, an SFF has been put in place with the participation of the governments of Canada, Québec, Alberta and Ontario and the Caisse for MAV 1 and MAV 2 to provide access to additional liquid assets. The Caisse’s share of these credit commitments is $154 million for MAV 1 and $146 million for MAV 2. The Caisse will receive a commitment fee of 1.19% per annum until December 2016 in respect of this credit commitment. These commitments expire in July 2010, unless an amount has been drawn down and remains unpaid at that date, in which case all the liquid assets available for repayment in MAV 1 or MAV 2, as the case may be, will be used to pay the interest and principal of the SFFs before payment of the interest and principal of the relevant MFF and before payment of the interest and principal of the notes issued by the vehicle in question. The advances that may be made under this facility will bear interest at a rate based on the bankers’ acceptance rate or the prime rate.

Commitments associated with bank-sponsored ABTNs

The bank-sponsored ABCP securities restructured in 2008 and the Class X notes include four securities that represent interests in trusts that have indirect interests in credit default swaps. To protect its interest in the underlying assets, the Caisse may agree to take part in collateral calls in the event of additional collateral calls by three trusts. If it does not take part, the underlying positions will be liquidated, and the Caisse’s investments will in all likelihood be lost. As at December 31, 2009, the Caisse had not taken part in any collateral call. The securities and the related commitments mature at the latest in December 2016.

ESTABLISHMENT OF FAIR VALUE

Given that there is no active market for third-party and bank-sponsored ABTNs, the Caisse has established fair values for the various ABTNs using a valuation technique based on a financial model whose assumptions and probabilities reflect uncertainties regarding the amounts, the return and the maturity of the cash flows, the illiquidity risk, the nature and credit risk of the debt and the underlying financial assets, and credit spreads reflecting market conditions as at December 31, 2009.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

The assumptions use observable market data, such as interest rates and credit quality, as much as possible. They are based in part on non-observable data or observable market data adjusted significantly to reflect the characteristics of the instruments being valued. The fair value of the securities has been established from an estimate of the present value of cash flows according to various default and credit-loss scenarios on all the underlying assets for each note, the maturities corresponding to those of the underlying assets and the interest rates reflecting the cash flow available within the vehicles and takes into account the leverage rate of the various structures as well as the subordination of the restructured notes, where required. Once adjusted to take into account the impact of the credit risk of the underlying assets, the expected cash flows on the securities are discounted at a risk-free rate, plus a financing and illiquidity premium. The Caisse has taken into account the probability that historic cumulative default rates corresponding to the discount period will be more severe in the years to come. For the synthetic and hybrid assets, the estimated default rates apply to all the underlying assets.

Given the foregoing, the Caisse recorded an increase of $479 million in the fair value of the ABTNs during the year ended December 31, 2009 (decrease of $3,734 million in 2008). This increase is attributable mainly to the narrowing of credit spreads as well as the impact of time decay, offset partly by the lower credit quality of the notes as well as an increase in the default rates.

The main assumptions considered in the model, excluding the high-risk assets, are as follows as at December 31:

	2009	2008
Interest rate of the notes		
MAV 1 A-1 and A-2 notes	**BA[1] + 0.30%**	BA[1] + 0.30%
MAV 2 A-1 and A-2 notes	**BA[1] – 0.50%**	BA[1] – 0.50%
Default rate and credit loss	**S&P 1981-2008 table; Default rated adjusted as a function of a downgrade; Level of loss with a 70% default rate**	S&P 1981-2007 table; Default rated adjusted as a function of a downgrade; Level of loss with a 70% default rate
Financing and illiquidity premiums	**2.15%**	4.50%
Financing premium in respect of the margin funding facilities	**The financial impact of the facilities has been calculated on the basis of an annual commitment fee of 1.6%**	The financial impact of the facilities has been calculated on the basis of an annual commitment fee of 1.6%
Planned maturity of the notes	**December 2016 for the MAV 1 and 2 notes**	December 2016 for the MAV 1 and 2 notes
Credit rating of the notes	**A for the series A-1; A weighted average credit rating for the MAV 1 Class A-2 notes; BBB (low) for the MAV 2 Class A-2 notes; The series B and C notes are not rated**	A for the series A-1 and A-2 notes; The series B and C notes are not rated

1. The three-month bankers' acceptance rate.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

The estimate of the fair value of the ABTNs as at December 31, 2009, takes into account such factors as the credit ratings assigned to the notes. The credit rating is an integral part of a model that includes several other assumptions and data that cannot be considered in isolation. On August 11, 2009, DBRS downgraded the MAV 2 Class A-2 notes, lowering their rating from A to BBB (low) and placing them "under review with negative implications." Moreover, the credit rating for the MAV 1 Class A-2 notes was maintained at A and they were placed "under review with negative implications."

On February 9, 2010, DBRS issued a press release confirming the credit rating of the MAV 1 Class A-2 notes at A and removed them from "under review with negative implications." As the main reason for maintaining the rating, DBRS cited the stability of the credit market in recent months and the amortization of the structure (time-decay concept), which renders the assets underlying the notes less risky. The press release also refers to the substantial risks that the holders of the notes continue to assume, including exposure to credit volatility, current and future deterioration of the underlying assets and the possibility that the spread-loss triggers will be reached and could give rise to collateral calls at the end of the standstill period. Since confirmation of the credit rating for the MAV 1 Class A-2 notes takes into account events that occurred after December 31, 2009, and is not related to observable circumstances and events prevailing at that time, no adjustment has been made to the valuation of December 31, 2009. Valuation of the ABTNs in 2010 will take into account all data and assumptions, including the DBRS press release as well as other market events.

As already stated, the Caisse has provided funding facilities totalling $6,467 million under the final restructuring plan. The Caisse has estimated the financing premium normally required to be 1.6% in respect of the three facilities. These lending commitments must be recorded at their fair value. There is no active market from which the Caisse could derive the fair value of these commitments. Accordingly, the Caisse has established the fair value by applying a valuation technique that takes into account the fair value of substantially similar commitments and an analysis of discounted cash flows.

The estimated fair value of the ABTNs as at December 31, 2009, is not likely to be indicative of their definitive value or future fair value. Although management believes that its valuation technique is appropriate in the circumstances, the use of reasonably possible alternative assumptions could have a material impact on the fair value of the ABTNs in the years to come. Accordingly, resolution of these uncertainties could mean that the definitive value of the investments in subsequent periods differs considerably from management's current best estimates.

The impact on fair value of substitution of alternative assumptions for the main assumptions is detailed as follows:

- An increase of 50 basis points in the financing premium in respect of the margin funding facilities would decrease the fair value by about $183 million. Similarly, a decrease of 50 basis points would increase the fair value by about $183 million;
- An increase of 50 basis points in the estimated discount rate would decrease the fair value by about $215 million. A decrease of 50 basis points would increase the fair value by about $207 million; and
- A downgrading of the expected credit rating by one notch would affect the anticipated default rates and would decrease the fair value by about $385 million. An increase in the expected credit rating of one notch would increase the fair value by about $275 million.

When the financial statements were prepared, there was still no active market for third-party and bank-sponsored ABTNs.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

C. LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)		2009		2008
	Fair value	Cost	Fair value	Cost
Securities sold under repurchase agreements				
Canadian	**9,115**	**9,113**	19,161	19,120
Foreign	**1,223**	**1,458**	4,596	4,576
Commercial paper payable				
Canadian	**1,288**	**1,288**	5,415	5,407
Foreign	**–**	**–**	956	927
Term notes				
Canadian	**–**	**–**	158	154
Foreign	**5,075**	**5,345**	–	–
Short selling of securities				
Canadian	**4,593**	**4,145**	4,444	4,856
Foreign	**2,980**	**2,616**	3,344	3,304
Mortgage loans payable				
Canadian	**855**	**833**	935	932
Foreign	**3,351**	**3,513**	2,688	2,859
Other loans payable				
Canadian	**833**	**836**	514	537
Foreign	**1,162**	**1,210**	1,605	1,684
Amount pertaining to derivative instruments				
Canadian	**422**	**53**	1,277	37
Foreign	**3,913**	**1,214**	17,519	1,590
	34,810	**31,624**	62,612	45,983

D. NON-CONTROLLING INTERESTS

(in millions of dollars)		2009		2008
	Fair value	Cost	Fair value	Cost
Canadian	**1,208**	**1,252**	1,264	1,246
Foreign	**352**	**771**	551	769
	1,560	**2,023**	1,815	2,015

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

E. HIERARCHY OF FAIR VALUE

As at December 31, 2009, the fair value of the financial instruments can be broken down among the three levels of the hierarchy as follows:

(in millions of dollars)				2009
	Level 1	Level 2	Level 3	Total
Investments				
Fixed-income securities				
Short-term investments	–	5,973	1,028	7,001
Bonds	–	55,809	2,586	58,395
Third-party and bank-sponsored ABTNs	–	–	7,229	7,229
Mortgages	–	3,751	5,064	8,815
Total fixed-income securities	–	65,533	15,907	81,440
Variable-income securities				
Equities and convertible securities	25,974	3,504	22,913	52,391
Real estate holdings[1]	–	–	19,942	19,942
Total variable-income securities	25,974	3,504	42,855	72,333
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements	–	8,099	–	8,099
Amount pertaining to derivative instruments	36	5,181	466	5,683
	26,010	82,317	59,228	167,555
Liabilities related to investments				
Securities sold under repurchase agreements	–	10,338	–	10,338
Commercial paper payable	–	1,288	–	1,288
Term notes	–	5,075	–	5,075
Short selling of securities	5,382	1,919	272	7,573
Mortgage loans payable	–	1,306	2,900	4,206
Other loans payable	–	1,682	313	1,995
Amount pertaining to derivative instruments	31	3,871	433	4,335
	5,413	25,479	3,918	34,810

1. Investments in real estate holdings include partial or full ownership of income properties through interests in a company or a partnership.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

LEVEL 3: RECONCILIATION BETWEEN OPENING AND CLOSING BALANCES

For the financial instruments classified in level 3 of the hierarchy, the details of the reconciliation between the opening and closing balances are as follows:

(in millions of dollars) — 2009

	Opening balance	Total gains (losses) recorded in the results[1]	Purchases	Sales	Issuance	Settlement	Net transfers to and from the level 3	Closing balance	Total gains (losses) chargeable to investments held at year-end, recorded in results[2]
Short-term investments	1,478	(267)	–	–	91	(261)	(13)	1,028	(46)
Bonds	4,444	(429)	206	(899)	76	(711)	(101)	2,586	(698)
Third-party and bank-sponsored ABTNs	7,186	288	–	–	–	(245)	–	7,229	479
Mortgages	6,592	(2,372)	–	(40)	1,069	(1,208)	1,023	5,064	(2,373)
Equities and convertible securities	24,352	(2,133)	3,271	(2,474)	–	–	(103)	22,913	(1,927)
Real estate holdings	22,916	(3,889)	1,633	(718)	–	–	–	19,942	(3,021)
Amount pertaining to derivative instruments[3]	(673)	38	20	(20)	–	673	(5)	33	(165)
Short selling of securities	(460)	8	182	(2)	–	–	–	(272)	11
Mortgage loans payable	(2,632)	274	–	–	(546)	4	–	(2,900)	85
Other loans payable	(434)	15	–	–	(107)	213	–	(313)	19

1. Recorded under the items Net investment income, Gains (losses) on the sale of investments and Unrealized increase (decrease) in investments.
2. Recorded under the items Net investment income and Unrealized increase (decrease) in investments.
3. Derivative assets and derivative liabilities are recorded on a net basis in the reconciliation between opening and closing balances.

TRANSFERS BETWEEN LEVELS 2 AND 3 OF THE HIERARCHY OF FAIR VALUE

During the year, mortgages with a fair value of $1,111 million were transferred out of level 2 and added to the level 3 instruments as a result of additional non-observable data that were taken into account in the valuation method.

LEVEL 3: VALUATION AT FAIR VALUE BASED ON REASONABLE ALTERNATIVE ASSUMPTIONS

In certain cases, the assumptions used in the valuation techniques are based on non-observable data or observable market data adjusted significantly to reflect the specific characteristics of the instrument being valued. Although the Caisse believes that its valuations at fair value are appropriate, the use of reasonably possible alternative assumptions could result in different fair values. It is possible that different entities will arrive at different valuations of the fair value of the same financial instrument on the same measurement date. Even so, the valuation techniques and input data used by both entities can meet the objective of fair value measurement. The fact that different valuations of fair value exist reflects the judgment and assumptions applied, as well as the uncertainty surrounding fair value measurement of instruments.

Substitution of alternative assumptions for the main assumptions would result in an increase of about $1,152 million or a decrease of about $1,021 million in the total fair value of the level 3 instruments. The impact of such substitution on the fair value of the third-party and bank-sponsored ABTNs is described in note 4B.

05 DEPOSITORS' HOLDINGS

Demand and term deposits bear interest, and constitute indebtedness on the part of the Caisse toward the depositors.

During the year, the Caisse paid $8 million ($39 million in 2008) of interest on demand and term deposits.

Participation deposits are expressed in units, and each unit gives its holder a proportionate share in the net equity and the 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 the 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.

During the year, the Caisse paid $1,950 million ($219 million in 2008) in net income to participation deposit holders.

(in millions of dollars)	2009	2008
Caisse's indebtedness toward depositors		
Demand deposits	475	2,038
Term deposits	9	98
Interest on demand and term deposits	–	2
Net income to be paid out to participation deposit holders	592	980
	1,076	3,118
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	134,015	131,560
Units issued	5,573	10,140
Units cancelled	(2,465)	(7,685)
Balance, end of year	137,123	134,015
Gains (losses) not allocated on the sale of investments	7,248	(257)
Unrealized decrease in value of investments and other related assets and liabilities	(13,859)	(16,788)
	130,512	116,970
Depositors' holdings	131,588	120,088

06

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

A. INVESTMENT INCOME

(in millions of dollars)	2009	2008
Fixed-income securities		
Short-term investments	92	426
Bonds	2,591	2,622
Mortgages *(note 6B)*	506	676
	3,189	3,724
Variable-income securities		
Equities and convertible securities	1,104	1,639
Real estate holdings *(note 6C)*	681	830
	1,785	2,469
Other income	28	41
Non-controlling interests	(95)	(73)
	4,907	6,161

Investment income – Fixed-income securities were reduced by $240 million ($773 million in 2008) in net expenses related to securities sold (acquired) under repurchase (reverse repurchase) agreements.

B. NET INCOME FROM MORTGAGES

(in millions of dollars)	2009	2008
Income from mortgages	527	726
Less:		
Expenses related to real estate debt subsidiaries		
Operation expenses	164	31
Financial costs of CMBS	18	19
	182	50
Other income	161	–
	506	676

Other income and operation expenses for 2009 include the income and expenses of a subsidiary consolidated since December 31, 2008, but previously recorded on an equity basis.

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

C. NET INCOME FROM REAL ESTATE HOLDINGS

(in millions of dollars)	2009	2008
Income from real estate holdings	2,964	2,963
Less:		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	1,532	1,556
Operation expenses	74	88
Loan financial expenses	681	499
	2,287	2,143
Other income	4	10
	681	830

D. GAINS (LOSSES) ON THE SALE OF INVESTMENTS

(in millions of dollars)	2009	2008
Fixed-income securities		
Short-term investments	(617)	96
Bonds	(710)	356
Mortgages	94	(43)
Third-party and bank-sponsored ABTNs *(note 4B)*	367	(171)
	(866)	238
Variable-income securities		
Equities and convertible securities	5,832	(22,828)
Real estate holdings	(359)	(507)
	5,473	(23,335)
Non-controlling interests	31	(9)
	4,638	(23,106)
Less:		
Transactions costs of investments	117	122
	4,521	(23,228)

In addition, gains in the amount of $4,521 million (losses of $23,228 million in 2008) on the sale of investments recorded in the “Combined statement of income and changes in net assets” include $2,200 million in foreign exchange gains ($5,572 million in foreign exchange losses in 2008).

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

E. UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	2009	2008
Fixed-income securities		
Short-term investments	(1,718)	1,689
Bonds	(6,206)	4,496
Mortgages	(2,346)	(325)
Securities acquired under reverse repurchase agreements	(67)	(164)
Third-party and bank-sponsored ABTNs *(note 4B)*	146	(3,401)
	(10,191)	2,295
Variable-income securities		
Equities and convertible securities	2,532	(13,733)
Real estate holdings	(3,452)	(1,344)
	(920)	(15,077)
Total investments	(11,111)	(12,782)
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	(294)	(144)
Commercial paper payable	(37)	39
Term notes	(274)	3
Short selling of securities	1,184	(1,225)
Mortgage loans payable	28	(149)
Other loans payable	51	(108)
Derivative financial instruments	(14,101)	11,682
Non-controlling interests	(263)	(445)
	(13,706)	9,653
	2,595	(22,435)

The unrealized increase in value in the amount of $2,595 million (unrealized decrease in value of $22,435 million in 2008) recorded in the "Combined statement of income and changes in net assets" includes an unrealized decrease in value of $3,984 million related to foreign exchange (unrealized increase in value of $7,920 million related to foreign exchange in 2008).

07 OPERATING EXPENSES

(in millions of dollars)	2009	2008
Salaries and employee benefits	117	129
Professional services	56	52
Data services and subscriptions	19	18
Premises and equipment	16	17
Depreciation of fixed assets	22	19
Other	11	15
	241	250
Safekeeping of securities	9	13
	250	263

08 IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS

The Caisse has implemented a number of policies, guidelines and procedures to oversee its operations. Investment policies oversee the activities performed by the portfolio managers. For each specialized portfolio, the investment policy defines the philosophy, management type, investment universe, benchmark index, value-added target and risk oversight, which includes concentration limits. The managers are aware of and must abide by the limits on their investment operations.

Risk management is based on an integrated risk management policy adopted by the Board of Directors. This policy, which is revised on a regular basis, is intended to promote a risk management culture and ensure stringent risk management practices to help the Caisse carry out its mission on behalf of its depositors. More specifically, the policy defines risk management governance within the Caisse, establishes the acceptable level of risk so as to avoid excessive loss, links the level of risk to the target value added to net assets and promotes an efficient allocation of risk.

Governance of risk management is based on three levels of control:

Level 1 – Portfolio managers are primarily responsible for managing the risks related to their daily operations;
Level 2 – The Depositors and Risks committees (DRC and DRC – Transactions) and the Executive Committee; and
Level 3 – The Board of Directors and its Risk Management Committee, as well as Internal Audit.

The policy includes reporting mechanisms for each of these levels. It also includes a framework for outsourcing management of investments, management of operational risks and management of derivative financial instruments.

To ensure the objectivity and rigour required to manage risks, teams that are independent of the portfolio managers are responsible for defining and monitoring the integrated risk management policy as well as the investment policies applying to the specialized portfolios.

The integrated risk management policy defines the following financial risks:

A. Market risk
B. Credit and concentration risk
C. Counterparty risk
D. Financing-liquidity risk

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

A. MARKET RISK

Market risk represents the risk of financial loss arising from changes in the value of financial instruments. The value of a financial instrument is affected by changes in certain market variables such as interest rates, exchange rates, share and commodity prices, as well as their volatility. The risk derives from the volatility in the price of a financial instrument, which itself results from the volatility of such market variables.

The Caisse manages all market risks according to an integrated and comprehensive approach; the major factors contributing to risk, such as sectors, countries and issuers, are taken into account in its analysis of market risk.

The Caisse may use derivative financial instruments traded on exchanges or directly with banks and securities dealers, to manage the market risks to which it is exposed.

The Caisse measures its market risk using the method known as Value at Risk (VaR), which is based on a statistical measurement of the volatility of the market value of each position and its correlations. VaR is a statistical technique used to determine the worst loss expected during a given period according to a predetermined confidence level. The Caisse uses a 99% confidence level for its calculations. The Caisse estimates the VaR for each instrument in all the specialized portfolios and aggregates the information for the overall portfolio.

The Caisse uses the historical-simulation method to estimate VaR. The historical-simulation method is based essentially on the assumption that the future will be similar to the past. This method requires that the series of historical data on all the risk factors needed to estimate the returns on instruments be available. In the absence of historical data, alternative methods are used. A horizon of 1,300 days of observation of risk factors, such as variations in exchange rates, interest rates and financial asset prices, is used to estimate the volatility of returns and the correlation between asset returns. Before 2009, the Caisse used an 84% confidence level and an 800-day horizon to calculate VaR.

The Caisse calculates two types of risk: absolute risk and active risk. The absolute risk, or absolute VaR, of the Caisse's benchmark portfolio (target portfolio of the depositors as a whole) is the result of the risk (volatility) of the benchmark indexes of the asset classes in the portfolio. For example, should the depositors as a whole elect to increase the weight of equities in their benchmark portfolios, such risk would increase automatically because of the higher level of volatility of this asset class. Consequently, the expected absolute return would also increase. The absolute risk of the overall portfolio (consisting of the actual investments) corresponds to the risk (volatility) of the positions in the Caisse's overall portfolio. The absolute risk of the overall portfolio and that of the benchmark portfolio are calculated with the same method but they relate to different portfolios, namely the overall portfolio actually invested by the Caisse and the benchmark portfolio targeted by depositors.

Active risk, or VaR related to active management, represents the possibility that the Caisse will record a return different from that of its benchmark portfolio as a result of active management of its overall portfolio. The higher the active risk, the more the expected return from the overall portfolio will differ from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio, the absolute risk of the overall portfolio and the active risk are measured on a regular basis.

The tables below show the overall portfolio's absolute risk and active risk for each specialized portfolio, according to a 99% confidence level and a 1,300-day horizon as of December 31.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

ABSOLUTE RISK OF THE OVERALL PORTFOLIO

(in basis points)	2009	2008
Specialized portfolios		
Short Term Investments (740)	18	22
Real Return Bonds (762)	2,310	2,171
Bonds (760)	943	892
Long Term Bonds (764)	1,711	1,685
Canadian Equity (720)	5,542	5,055
U.S. Equity – hedged (731)	5,793	5,124
U.S. Equity – unhedged (734)	5,554	4,938
Foreign Equity – hedged (730)	5,247	4,963
Foreign Equity – unhedged (733)	4,649	4,527
Emerging Markets Equity (732)	4,844	5,109
Québec International (761)	4,949	4,986
Investments and Infrastructures (781)	6,938	7,372
Private Equity (780)	6,143	6,290
Real Estate Debt (750)	1,290	1,775
Real Estate (710)	4,681	4,797
Commodity Financial Instruments (763)	n/a	3,516
Hedge Funds (770)	1,426	2,027
Asset Allocation (771)	2	143
Absolute risk of the overall portfolio	3,810	3,518

ACTIVE RISK OF THE OVERALL PORTFOLIO

(in basis points)	2009	2008
Specialized portfolios		
Short Term Investments (740)	100	81
Real Return Bonds (762)	233	219
Bonds (760)	226	223
Long Term Bonds (764)	251	283
Canadian Equity (720)	731	608
U.S. Equity – hedged (731)	103	384
U.S. Equity – unhedged (734)	94	387
Foreign Equity – hedged (730)	133	223
Foreign Equity – unhedged (733)	139	232
Emerging Markets Equity (732)	248	468
Québec International (761)	256	351
Investments and Infrastructures (781)	4,361	5,011
Private Equity (780)	2,876	3,306
Real Estate Debt (750)	1,002	1,399
Real Estate (710)	1,758	2,331
Commodity Financial Instruments (763)	n/a	354
Hedge Funds (770)	367	668
Asset Allocation (771)	48	494
Active risk of the overall portfolio	1,029	1,014

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

EXCHANGE RISK

Exchange risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of variations in foreign currency prices. This risk is integrated into the overall measurement of VaR.

As part of its exchange risk management, the Caisse also uses instruments negotiated with banks; the maturities generally range from one to 12 months for forward contracts and options, and from one to two years for foreign currency swaps. On maturity, new derivative financial instruments are negotiated to maintain effective long-term management of the foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

The tables below summarize the allocation of net investments denominated in foreign currencies and amounts related to derivative products.

(in millions of dollars) December 31, 2009

		Currency[1]					
	Canadian dollar	US dollar	Euro	GBP	Other	Subtotal	Total
Investments							
Fixed-income securities	72,831	5,745	1,451	466	947	8,609	81,440
Equities and convertible securities	14,305	19,318	6,127	3,392	9,249	38,086	52,391
Real estate holdings	10,930	3,146	4,197	868	801	9,012	19,942
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	6,171	1,326	602	–	–	1,928	8,099
Amount pertaining to derivative instruments	1,106	3,982	379	96	120	4,577	5,683
	105,343	33,517	12,756	4,822	11,117	62,212	167,555
Liabilities related to investments							
Conventional products[2]	16,677	11,079	2,227	477	15	13,798	30,475
Amount pertaining to derivative instruments	422	3,431	329	36	117	3,913	4,335
	17,099	14,510	2,556	513	132	17,711	34,810
Subtotal	88,244	19,007	10,200	4,309	10,985	44,501	132,745
Non-controlling interests	1,208	130	30	192	–	352	1,560
Net investments	87,036	18,877	10,170	4,117	10,985	44,149	131,185

1. Investments are recorded under the currency they are denominated in and are translated into Canadian dollars.
2. Conventional products include liabilities related to investments with the exception of the amount pertaining to derivative products.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

(in millions of dollars) December 31, 2008

		Currency[1]					
	Canadian dollar	US dollar	Euro	GBP	Other	Subtotal	Total
Investments							
Fixed-income securities	73,839	11,964	1,952	1,555	2,761	18,232	92,071
Equities and convertible securities	12,055	18,077	5,912	3,346	6,503	33,838	45,893
Real estate holdings	11,884	4,245	5,341	762	684	11,032	22,916
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	2,900	1,916	–	54	810	2,780	5,680
Amount pertaining to derivative instruments	2,465	11,037	1,365	607	459	13,468	15,933
	103,143	47,239	14,570	6,324	11,217	79,350	182,493
Liabilities related to investments							
Conventional products[2]	30,657	6,350	2,674	1,283	2,852	13,159	43,816
Amount pertaining to derivative instruments	1,277	14,146	2,298	524	551	17,519	18,796
	31,934	20,496	4,972	1,807	3,403	30,678	62,612
Subtotal	71,209	26,743	9,598	4,517	7,814	48,672	119,881
Non-controlling interests	1,264	170	42	339	–	551	1,815
Net investments	69,945	26,573	9,556	4,178	7,814	48,121	118,066

1. Investments are recorded under the currency they are denominated in and are translated into Canadian dollars.
2. Conventional products include liabilities related to investments with the exception of the amount pertaining to derivative products.

The translation of the fair value of foreign currency investments into Canadian dollars results in a market impact of -$6,157 million (+$11,285 million in 2008). The impact of exchange rate hedging related to a portion of such investments is +$4,373 million (-$8,937 million in 2008). The net impact on net investment results is -$1,784 million (+$2,348 million in 2008).

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All the interest-bearing assets and liabilities as well as their effective rates are shown in the table presenting the exposure to liquidity risk. This risk is integrated into the overall measurement of VaR.

PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes arising from interest rate risk or foreign exchange risk), whether such changes derive from the characteristics of the instrument itself or of its issuer, or from elements affecting all similar financial instruments traded on the market. This risk is integrated into the overall measurement of VaR.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

B. CREDIT AND CONCENTRATION RISK

Credit risk is the possibility of a loss of market value in the event that a borrower, endorser, guarantor or counterparty does not honour its obligation to repay a loan or to fulfill any other financial commitment, or sees its financial situation deteriorate.

The analysis of concentration risk measures the fair value of a group of financial products (fixed-income and variable-income securities) related to a single issuer or to a group of issuers[1] with similar characteristics (geographical area, sector, credit rating).

The concentration limit by group of issuers is 3% of the Caisse's total assets, with the exception of securities issued by the Government of Canada, the Government of Québec or another Canadian province or territory, as well as by their departments and agencies, which are not subject to concentration limits[2]. Sovereign issuers with a AAA credit rating are also excluded from this concentration limit.

The concentration by credit rating of the Caisse's groups of issuers was as follows as at December 31:

	2009	2008
	Value in % of investments[3]	
Credit rating[4]:		
AAA - AA	**24.4**	23.5
A	**19.8**	15.3
BBB	**8.5**	5.6
BB or lower	**2.6**	2.5
No credit rating:		
Real estate assets	**17.0**	20.1
Third-party and bank-sponsored ABTNs[5]	**0.7**	4.7
Private equity	**3.9**	7.1
Hedge funds	**8.7**	9.0
Mortgages and mortgage securities	**5.6**	7.1
Other	**8.8**	5.1
	100.0	100.0

1. A group of issuers is a number of issuers under the control of a parent company.
2. The exposure to an issuer deriving from positions in derivative financial instruments is not accounted for in the analysis of concentration risk.
3. The percentage of investments represents net positions by group of issuers.
4. Credit ratings are obtained from major credit rating agencies and are aggregated according to an algorithm developed in house. For the purposes of this concentration, only long-term credit ratings from major agencies are used.
5. Refer to note 4B for unrated ABTNs.

The analysis of credit risk includes measuring the probability of default and the rate of recovery on debt securities held by the Caisse, as well as monitoring the changes in the credit ratings of issuers and groups of issuers whose securities are held in the Caisse portfolios.

In 2009, the major credit rating agencies increased the long-term credit ratings of 107 groups of issuers whose securities are held by the Caisse and lowered those of 286 others.

In the table above, the groups of issuers for which no credit rating is available are categorized. For most of these groups, the absence of a credit rating is due to the private nature of the investments, the absence of any debt, restructuring of the investments or a combination of these elements.

In the case of mortgages not assigned a credit rating, the analysis of credit risk is based in part on the loan-to-value ratio. In this ratio, the amount of the loan is divided by the market value of any asset received as collateral on the subscription date or the date funds were granted, or at any other time during the term of the loan.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

The table below shows the breakdown of mortgages by stratum of loan-to-value ratio as at December 31:

	2009	2008
	Value in % of mortgages	
Loan-to-value ratio		
0 to 55%	25.4	11.6
55 to 65%	19.9	26.8
65 to 75%	18.1	45.0
75 to 85%	10.9	16.4
More than 85%	25.7	0.2
	100.0	100.0

It is important to note that the Caisse manages all loans and receivables, including mortgages and private corporate bonds, in the same way as it does any financial asset in the bonds portfolio, namely in terms of total return rather than according to the various factors that can affect fair value, such as credit risk.

C. COUNTERPARTY RISK

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving the Caisse's over-the-counter derivative financial instruments.

Transactions involving derivative financial instruments are negotiated with financial institutions whose credit ratings are established by recognized credit rating agencies and whose operational limits are specified by management. In addition, the Caisse signs agreements making it possible to benefit from the offsetting effect of amounts at risk and the exchange of collateral to limit its net exposure to this credit risk.

This risk is measured by counterparty, according to the agreement in effect, on the basis of which it is possible to calculate the net exposure resulting from over-the-counter derivative financial instruments and collaterals exchanged.

As at December 31, 2009, the Caisse's net exposure to counterparty risk totalled $377 million and involved 78 active counterparties.

D. FINANCING-LIQUIDITY RISK

Financing-liquidity risk corresponds to the possibility that the Caisse may not always be able to fulfill the commitments related to its financial liabilities without having to obtain funds at abnormally high prices or having to sell assets.

Compliance with established rules is monitored on a monthly basis, and the liquidity status is determined daily. The Caisse uses various scenario simulations to estimate the potential impact of various market events on its liquidity. Cash managers evaluate the liquidity of the markets on which the Caisse obtains financing for its operations. They also ensure that the Caisse is active on various financial markets and maintains relationships with the credit rating agencies that rate the Caisse as well as capital providers.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

The table below presents a summary of maturities at par value of investments and liabilities related to investments.

(in millions of dollars)	2009					2008	
	Less than 1 year	1 to 5 years	More than 5 years	Total	Effective interest rate %	Total par value	Effective interest rate %
Fixed-income securities							
Short-term investments							
Canadian	4,665	161	–	4,826	1.4	6,193	2.5
Foreign	2,763	291	–	3,054	3.1	4,435	4.5
	7,428	452	–	7,880	2.0	10,628	3.3
Bonds							
Securities issued or guaranteed by:							
Government of Canada	1,784	9,122	9,304	20,210	2.6	14,087	2.9
Province of Québec	27	1,040	5,845	6,912	4.5	7,991	4.7
Other Canadian provinces	–	68	2,889	2,957	4.2	2,904	4.6
Municipalities and other Canadian bodies	134	549	595	1,278	4.6	1,662	4.8
Canadian government corporations	46	5,119	4,186	9,351	3.7	9,381	4.0
U.S. government	–	–	521	521	3.1	886	3.7
Other foreign governments	–	–	320	320	4.5	1,684	3.6
Mortgage securities							
Canadian	4	216	52	272	8.0	297	12.3
Foreign	58	316	3,699	4,073	3.9	6,321	11.6
Canadian corporations	1,189	2,301	6,751	10,241	4.6	13,359	4.5
Foreign corporations	1,371	392	981	2,744	7.1	4,383	5.5
Inflation-indexed securities							
Canadian	–	5	409	414	2.0	409	2.1
Foreign	–	–	–	–	–	2,064	1.3
	4,613	19,128	35,552	59,293	3.8	65,428	4.7
Third-party and bank-sponsored ABTNs	–	–	12,351	12,351	–	12,787	–
Mortgages							
Canadian	2,164	2,741	1,204	6,109	5.0	6,437	6.0
Foreign	3,002	1,586	852	5,440	4.5	5,738	6.0
	5,166	4,327	2,056	11,549	4.8	12,175	6.0
	17,207	23,907	49,959	91,073	3.8	101,018	4.8
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements							
Canadian	6,171	–	–	6,171	0.3	2,901	1.6
Foreign	1,928	–	–	1,928	0.2	2,780	0.2
	8,099	–	–	8,099	0.3	5,681	0.9
Liabilities related to investments							
Securities sold under repurchase agreements	10,272	–	–	10,272	0.8	23,636	2.1
Commercial paper payable	1,289	–	–	1,289	0.3	6,388	2.3
Term notes	–	2,097	3,145	5,242	4.2	156	4.6
Short selling of securities	–	879	1,139	2,018	2.4	2,468	2.8
Mortgage loans payable	1,219	3,113	14	4,346	4.4	3,791	5.6
Other loans payable	1,372	575	86	2,033	2.1	2,326	2.5
	14,152	6,664	4,384	25,200	2.4	38,765	2.6

09 DERIVATIVE FINANCIAL INSTRUMENTS

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

The notional amount of a derivative financial instrument represents the value of the notional principal to which a rate or a price applies to determine the exchange of future cash flows, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include the following:

> Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying value, the quantity and price of which are determined in the contract, which includes a predetermined maturity 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 flows on predetermined conditions that include a notional amount and a term.
>
> An option is a contract that is negotiated by mutual agreement or traded on an organized market and 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 date.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as from related derivative financial instruments.

Derivative financial instruments that are traded on exchanges or with banks and securities dealers are used to manage the interest rate and market risks of the total investment portfolio, as well as to generate trading income, which is included in investment income from fixed-income and variable-income securities.

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

A. SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)				2009	2008
		Fair value			
	Notional amount	Assets	Liabilities	Net amount	Net amount
Foreign exchange risk management					
Foreign currency swaps					
Purchases	1,605	123	2	121	(151)
Sales	859	–	54	(54)	(272)
Forward contracts	5,330	135	22	113	(1,405)
Over-the-counter foreign currency options					
Purchases	178	1	–	1	17
Sales	39	–	–	–	(9)
	8,011	259	78	181	(1,820)
Interest rate and market risk management					
Interest rate and foreign currency swaps	87,744	2,787	2,616	171	(19)
Equity swaps	14,446	448	83	365	(507)
Credit risk swaps	4,411	61	178	(117)	(38)
Commodity swaps	5,533	474	560	(86)	419
Forward contracts	36,766	908	119	789	(1,031)
Futures contracts	19,880	–	–	–	–
Over-the-counter options					
Purchases	14,431	685	–	685	2,644
Sales	9,277	–	670	(670)	(2,680)
Exchange-traded options					
Purchases	936	36	–	36	326
Sales	618	–	31	(31)	(198)
Warrants	51	25	–	25	41
	194,093	5,424	4,257	1,167	(1,043)
Total derivative financial instrument contracts	202,104	5,683	4,335	1,348	(2,863)

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

B. SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENT MATURITIES

(in millions of dollars)				2009	2008
	Notional amount – Maturity				
	Less than 1 year	1 to 5 years	More than 5 years	Total	Notional amount
Foreign exchange risk management					
Foreign currency swaps					
Purchases	403	1,202	–	1,605	2,296
Sales	98	623	138	859	1,221
Forward contracts	4,737	354	239	5,330	21,727
Over-the-counter foreign currency options					
Purchases	–	178	–	178	636
Sales	–	39	–	39	465
	5,238	2,396	377	8,011	26,345
Interest rate and market risk management					
Interest rate and foreign currency swaps	12,673	49,975	25,096	87,744	153,225
Equity swaps	14,216	230	–	14,446	39,766
Credit risk swaps	1,126	2,818	467	4,411	19,618
Commodity swaps	2,912	2,552	69	5,533	16,677
Forward contracts	34,752	2,014	–	36,766	76,266
Futures contracts	19,738	142	–	19,880	38,613
Over-the-counter options					
Purchases	6,589	6,738	1,104	14,431	57,516
Sales	2,975	5,198	1,104	9,277	55,041
Exchange-traded options					
Purchases	933	3	–	936	11,641
Sales	615	3	–	618	12,699
Warrants	11	39	1	51	128
	96,540	69,712	27,841	194,093	481,190
Total derivative financial instrument contracts	101,778	72,108	28,218	202,104	507,535

10 SECURITIZATIONS

In the course of Caisse securitization operations, CMBS and notes payable acquired by the Caisse over the past few years from a collateralized security entity are recorded in the “Combined statement of net assets” under Mortgages securities. As at December 31, 2009, these securities amounted to $237 million ($648 million in 2008). Securitization operations allowed companies under common control to generate management fees representing $21 million during the year ($21 million in 2008).

11
COMMITMENTS AND CONTINGENCIES

Given the nature of its operations, the Caisse has a number of commitments.

Commitments to buy investments mean the Caisse is committed to buying investments that will be settled in the coming financial years, in accordance with the terms and conditions in each agreement.

For the Caisse, collaterals and loan guarantees consist in providing guarantees to financial institutions and corporations regarding future income deriving from the sale of investments and transactions on derivative financial instruments as well as the reimbursement of loans made by investee companies. Collaterals related to the reimbursement of loans have no specific maturity date, except in some cases where the terms range from one to eight years.

(in millions of dollars)	**2009**	2008
Commitments to buy investments	**12,129**	16,457
Collaterals and loan guarantees (maximum amount)	**707**	802
Third-party and bank-sponsored ABTNs[1]	**6,467**	6,790
	19,303	24,049

1. For the description of the commitments related to third-party and bank-sponsored ABTNs, refer to note 4B.

12
COLLATERALS

In the normal course of business, the Caisse conducts transactions involving the lending and the borrowing of securities and on derivative products, in exchange for collaterals or assets, with various counterparties with which clearing agreements have been concluded to limit credit risk. In such transactions, the Caisse received assets as collateral. As at December 31, 2009, the Caisse had pledged and received as collateral assets for amounts of $18,444 million and $11,176 million ($31,690 million and $7,585 million in 2008), respectively. The amount of assets pledged as collateral includes assets with a value of $1,279 million ($792 million in 2008), which were pledged with depositaries to participate in clearing and payment systems.

13
SUBSEQUENT EVENTS

On January 12, 2010, CDP Financial carried out, in Canada, a private placement of $2 billion of senior notes, consisting of $1 billion of senior notes at a variable rate (CDOR + 0.45%) maturing in 2015 and $1 billion of senior notes at 4.6 % maturing in 2020. The notes are fully and unconditionally guaranteed by the Caisse.

14
COMPARATIVE FIGURES

Certain figures from the 2008 financial statements have been reclassified to conform to the presentation adopted in 2009.

SUPPLEMENTARY INFORMATION

SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS

(in millions of dollars)	SHORT TERM INVESTMENTS (740)		REAL RETURN BONDS (762)		BONDS (760)		LONG TERM BONDS (764)		CANADIAN EQUITY (720)	
Consolidated net assets as at December 31	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Assets										
Investments at fair value										
Real estate holdings	–	–	–	–	–	–	–	–	–	–
Equities and convertible securities	–	–	–	–	–	–	–	–	12,549.9	10,386.4
Bonds	–	–	667.1	579.4	54,653.6	65,233.9	3,227.2	3,075.2	–	–
Mortgages	–	–	–	–	–	–	–	–	–	–
Mortgages securities	–	–	–	–	–	–	–	–	–	–
Short-term investments	2,726.7	4,531.3	–	–	10,405.6	16,198.3	–	–	9,100.9	6,494.4
Securities acquired under reverse repurchase agreements	–	–	–	–	11,907.8	7,126.2	145.7	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–	–	–
Third-party and bank-sponsored ABTNs	–	–	–	–	7,228.5	7,186.2	–	–	–	–
Derivative financial instruments related to third-party and bank-sponsored ABTNs	–	–	–	–	5,122.0	5,601.1	–	–	–	–
Demand deposits in the General Fund	–	–	–	–	–	–	855.1	1,406.8	–	–
	2,726.7	4,531.3	667.1	579.4	89,317.5	101,345.7	4,228.0	4,482.0	21,650.8	16,880.8
Other assets	1.0	–	8.2	5.4	1,483.6	2,263.8	28.1	32.8	23.6	76.8
	2,727.7	4,531.3	675.3	584.8	90,801.1	103,609.5	4,256.1	4,514.8	21,674.4	16,957.6
Liabilities										
Advances from the General Fund	12.8	62.7	22.5	18.4	10,101.7	1,785.8	–	–	467.5	270.9
Securities sold under repurchase agreements	–	–	–	–	10,113.6	20,615.1	1,069.7	1,448.2	–	–
Notes payable	–	–	–	–	19,814.2	21,299.0	–	–	–	–
Temporary funding attributable to foreign currency fluctuations	–	–	–	–	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities	–	–	–	–	–	–	–	–	–	–
Participating debenture	–	–	–	–	–	–	–	–	–	–
Short selling of securities	–	–	–	–	8,609.7	5,866.5	84.0	–	4,075.3	3,271.4
Derivative financial instruments	–	–	–	–	2,860.8	9,221.1	–	–	26.6	524.3
Other liabilities	1.3	6.6	0.6	4.8	1,927.5	510.8	11.5	38.5	98.8	64.2
Non-controlling interests	–	–	–	–	–	–	–	–	–	–
	14.1	69.3	23.1	23.2	53,427.5	59,298.3	1,165.2	1,486.7	4,668.2	4,130.8
Net holdings of funds	2,713.6	4,462.0	652.2	561.6	37,373.6	44,311.2	3,090.9	3,028.1	17,006.2	12,826.8
Statement of consolidated income for the year ended December 31										
Income										
Investment income										
Real estate holdings	–	–	–	–	–	–	–	–	–	–
Equities and convertible securities	–	–	–	–	–	–	–	–	386.9	468.0
Bonds	–	–	13.5	31.4	2,270.8	923.7	134.0	137.2	–	–
Mortgages	–	–	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–	–	–
Short-term investments	28.4	65.1	–	–	247.4	584.8	–	–	65.1	316.7
Demand deposits in (advances from) the General Fund	(0.1)	(2.8)	(0.3)	(0.6)	(10.9)	55.1	–	1.1	(0.8)	(15.1)
	28.3	62.3	13.2	30.8	2,507.3	1,563.6	134.0	138.3	451.2	769.6
Other income	–	–	–	–	–	–	–	–	–	6.3
	28.3	62.3	13.2	30.8	2,507.3	1,563.6	134.0	138.3	451.2	775.9
Operating expenses	0.5	0.2	0.3	0.6	42.4	35.9	1.3	2.3	35.0	32.8
External management fees	–	–	–	–	–	–	–	–	–	–
Income before the following items	27.8	62.1	12.9	30.2	2,464.9	1,527.7	132.7	136.0	416.2	743.1
Interest on notes payable	–	–	–	–	113.7	290.9	–	–	–	–
Non-controlling interests	–	–	–	–	–	–	–	–	–	–
Net investment income (loss)	27.8	62.1	12.9	30.2	2,351.2	1,236.8	132.7	136.0	416.2	743.1
Changes in consolidated net assets for the year ended December 31										
Net investment results										
Net investment income (loss)	27.8	62.1	12.9	30.2	2,351.2	1,236.8	132.7	136.0	416.2	743.1
Gains (losses) on sale of investments	13.6	23.3	16.3	31.2	(61.3)	1,173.6	(7.6)	45.4	1,945.6	(3,961.2)
Unrealized increase (decrease) in value of investments and liabilities related to investments	(0.8)	(6.1)	65.8	(51.4)	203.7	(405.2)	(62.4)	(44.3)	2,205.3	(3,039.3)
Net investment results	40.6	79.3	95.0	10.0	2,493.6	2,005.2	62.7	137.1	4,567.1	(6,257.4)
Participation units issued (cancelled)	(1,761.2)	2,084.8	8.5	(280.2)	(7,080.0)	4,331.4	132.8	(136.6)	28.5	(104.1)
Net investment loss (net income) recovered from (allocated to) participation unit holders	(27.8)	(62.1)	(12.9)	(30.2)	(2,351.2)	(1,236.8)	(132.7)	(136.0)	(416.2)	(743.1)
Increase (decrease) in consolidated net assets	(1,748.4)	2,102.0	90.6	(300.4)	(6,937.6)	5,099.8	62.8	(135.5)	4,179.4	(7,104.6)
Consolidated net assets, beginning of year	4,462.0	2,360.0	561.6	862.0	44,311.2	39,211.4	3,028.1	3,163.6	12,826.8	19,931.4
Consolidated net assets, end of year	2,713.6	4,462.0	652.2	561.6	37,373.6	44,311.2	3,090.9	3,028.1	17,006.2	12,826.8
Investments and liabilities at cost as at December 31										
Assets										
Investments										
Real estate holdings	–	–	–	–	–	–	–	–	–	–
Equities and convertible securities	–	–	–	–	–	–	–	–	10,712.1	11,468.5
Bonds	–	–	619.9	598.0	52,577.2	59,022.8	3,249.4	3,035.0	–	–
Mortgages	–	–	–	–	–	–	–	–	–	–
Mortgages securities	–	–	–	–	–	–	–	–	–	–
Short-term investments	2,726.6	4,530.4	–	–	9,712.4	13,852.3	–	–	9,095.6	6,410.7
Securities acquired under reverse repurchase agreements	–	–	–	–	11,917.4	7,116.5	145.7	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–	–	–
Third-party and bank-sponsored ABTNs	–	–	–	–	12,350.5	12,787.3	–	–	–	–
Demand deposits in the General Fund	–	–	–	–	–	–	855.1	1,406.8	–	–
	2,726.6	4,530.4	619.9	598.0	86,557.5	92,778.9	4,250.2	4,441.8	19,807.7	17,879.2
Liabilities										
Securities sold under repurchase agreements	–	–	–	–	10,112.3	20,572.9	1,069.7	1,448.3	–	–
Notes payable	–	–	–	–	19,846.6	21,277.5	–	–	–	–
Temporary funding attributable to foreign currency fluctuations	–	–	–	–	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities	–	–	–	–	–	–	–	–	–	–
Participating debenture	–	–	–	–	–	–	–	–	–	–
Short selling of securities	–	–	–	–	8,644.7	5,689.8	84.0	–	3,442.0	3,760.2
Derivative financial instruments	–	–	–	–	344.0	1,000.4	–	–	0.3	12.2
Non-controlling interests	–	–	–	–	–	–	–	–	–	–

U.S. EQUITY HEDGED (731)		U.S. EQUITY UNHEDGED (734)		FOREIGN EQUITY HEDGED (730)		FOREIGN EQUITY UNHEDGED (733)		EMERGING MARKETS EQUITY (732)		QUÉBEC INTERNATIONAL (761)		INVESTMENTS AND INFRASTRUCTURES (781)		PRIVATE EQUITY (780)	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1,723.9	1,250.3	–	–	7,514.8	4,164.7	–	–	4,946.0	2,999.6	134.3	218.9	6,736.4	6,671.7	12,187.2	11,766.8
–	–	–	–	–	–	–	–	–	–	10,211.8	4,975.9	943.3	1,529.7	169.2	285.1
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4,665.2	2,206.3	4,115.7	1,896.7	1.4	0.4	4,923.4	3,468.5	–	–	2,726.2	1,548.7	2,882.0	3,545.4	270.5	401.9
–	–	–	–	–	–	–	–	–	–	853.2	148.9	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
177.2	650.3	–	–	2.6	–	–	149.3	60.5	29.5	3,624.1	–	507.6	–	381.8	–
6,566.3	4,106.9	4,115.7	1,896.7	7,518.8	4,165.1	4,923.4	3,617.8	5,006.5	3,029.1	17,549.6	6,892.4	11,069.3	11,746.8	13,008.7	12,453.8
4.1	48.5	4.0	5.0	11.6	45.1	3.9	3.0	3.1	8.0	86.7	71.0	87.4	60.8	13.4	19.6
6,570.4	4,155.4	4,119.7	1,901.7	7,530.4	4,210.2	4,927.3	3,620.8	5,009.6	3,037.1	17,636.3	6,963.4	11,156.7	11,807.6	13,022.1	12,473.4
–	–	4.0	28.2	–	145.3	2.1	–	–	–	–	468.4	–	654.9	–	111.3
–	–	–	–	–	–	–	–	–	–	3,812.4	1,404.8	–	–	–	–
4,115.7	1,881.1	–	–	4,920.6	3,436.5	–	–	–	–	234.4	297.3	5,026.7	5,563.8	1,060.6	797.3
–	–	–	–	–	–	–	–	–	–	–	–	–	–	599.9	1,400.0
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1,194.6	1,294.0	–	–	49.7	61.4	–	–	62.2	–	0.7	233.1	–	–	100.9	119.5
93.6	610.1	22.6	–	37.0	41.6	207.6	42.4	0.1	5.2	21.1	90.5	123.6	544.6	2.6	308.7
510.3	23.9	–	2.8	437.3	13.6	1.8	1.5	9.0	20.5	768.4	249.4	85.5	47.1	23.2	19.4
–	–	–	–	–	–	–	–	–	–	–	–	633.2	723.9	–	–
5,914.2	3,809.1	26.6	31.0	5,444.6	3,698.4	211.5	43.9	71.3	25.7	4,837.0	2,743.5	5,869.0	7,534.3	1,787.2	2,756.2
656.2	346.3	4,093.1	1,870.7	2,085.8	511.8	4,715.8	3,576.9	4,938.3	3,011.4	12,799.3	4,219.9	5,287.7	4,273.3	11,234.9	9,717.2
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
18.7	104.1	–	–	147.0	456.9	–	–	89.2	125.7	1.6	17.2	327.4	309.2	119.2	133.3
–	–	–	–	–	–	–	–	–	–	290.3	459.6	59.1	92.1	29.9	44.0
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
24.0	109.7	37.2	154.2	0.3	4.5	118.1	286.3	–	4.4	13.9	112.0	116.4	229.7	46.0	47.8
1.0	(3.5)	(0.1)	0.1	(0.4)	0.8	(0.1)	(0.7)	(0.5)	4.4	(2.5)	(22.3)	(0.7)	(15.7)	(0.2)	(9.5)
43.7	210.3	37.1	154.3	146.9	462.2	118.0	285.6	88.7	134.5	303.3	566.5	502.2	615.3	194.9	215.6
–	–	–	–	–	–	–	–	–	–	–	–	22.7	18.6	4.5	2.6
43.7	210.3	37.1	154.3	146.9	462.2	118.0	285.6	88.7	134.5	303.3	566.5	524.9	633.9	199.4	218.2
3.9	6.6	21.5	19.7	2.6	7.4	10.9	13.4	11.6	15.6	19.8	20.0	32.9	35.8	19.7	23.6
–	0.9	0.1	3.8	1.6	7.3	6.4	12.7	6.9	10.6	1.8	8.7	–	–	4.3	4.0
39.8	202.8	15.5	130.8	142.7	447.5	100.7	259.5	70.2	108.3	281.7	537.8	492.0	598.1	175.4	190.6
37.2	158.0	–	–	118.1	305.7	–	–	–	–	2.8	32.8	129.6	300.3	23.6	3.9
–	–	–	–	–	–	–	–	–	–	–	–	29.6	27.1	–	–
2.6	44.8	15.5	130.8	24.6	141.8	100.7	259.5	70.2	108.3	278.9	505.0	332.8	270.7	151.8	186.7
2.6	44.8	15.5	130.8	24.6	141.8	100.7	259.5	70.2	108.3	278.9	505.0	332.8	270.7	151.8	186.7
(68.9)	(1,057.1)	366.6	(1,357.8)	(650.6)	(156.8)	309.3	(2,315.2)	(387.1)	(403.0)	2,767.4	(7,779.4)	38.8	(143.3)	711.2	(1,472.2)
191.2	478.9	22.9	108.9	898.0	(1,556.8)	0.1	91.0	1,995.1	(2,131.0)	(78.4)	(111.2)	954.2	(3,685.0)	218.8	(3,124.8)
124.9	(533.4)	405.0	(1,118.1)	272.0	(1,571.8)	410.1	(1,964.7)	1,678.2	(2,425.7)	2,967.9	(7,385.6)	1,325.8	(3,557.6)	1,081.8	(4,410.3)
187.6	(1,596.8)	1,832.9	(1,068.2)	1,326.6	(1,386.6)	829.5	(494.6)	318.9	543.2	5,890.4	(2,445.4)	21.4	1,692.8	587.7	2,982.2
(2.6)	(44.8)	(15.5)	(130.8)	(24.6)	(141.8)	(100.7)	(259.5)	(70.2)	(108.3)	(278.9)	(505.0)	(332.8)	(270.7)	(151.8)	(186.7)
309.9	(2,175.0)	2,222.4	(2,317.1)	1,574.0	(3,100.2)	1,138.9	(2,718.8)	1,926.9	(1,990.8)	8,579.4	(10,336.0)	1,014.4	(2,135.5)	1,517.7	(1,614.8)
346.3	2,521.3	1,870.7	4,187.8	511.8	3,612.0	3,576.9	6,295.7	3,011.4	5,002.2	4,219.9	14,555.9	4,273.3	6,408.8	9,717.2	11,332.0
656.2	346.3	4,093.1	1,870.7	2,085.8	511.8	4,715.8	3,576.9	4,938.3	3,011.4	12,799.3	4,219.9	5,287.7	4,273.3	11,234.9	9,717.2
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1,431.6	1,225.8	–	–	7,416.6	5,153.3	–	–	4,045.4	4,096.9	129.2	247.1	9,118.8	9,087.4	16,830.7	16,447.2
–	–	–	–	–	–	–	–	–	–	10,194.1	4,803.3	1,066.2	1,732.4	439.1	563.6
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4,697.3	2,222.6	4,036.0	1,862.5	–	–	4,682.4	3,392.8	–	–	2,742.7	1,556.6	3,294.5	4,515.2	398.1	412.2
–	–	–	–	–	–	–	–	–	–	853.2	148.9	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
177.2	650.3	–	–	2.6	–	–	149.3	60.5	29.5	3,624.1	–	507.6	–	381.8	–
6,306.1	4,098.7	4,036.0	1,862.5	7,419.2	5,153.3	4,682.4	3,542.1	4,105.9	4,126.4	17,543.3	6,755.9	13,987.1	15,335.0	18,049.7	17,423.0
–	–	–	–	–	–	–	–	–	–	3,812.3	1,404.9	–	–	–	–
4,036.0	1,862.5	–	–	4,682.4	3,392.8	–	–	–	–	235.7	297.4	5,293.3	6,091.5	1,094.9	857.9
–	–	–	–	–	–	–	–	–	–	–	–	–	–	600.0	1,400.0
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1,016.9	1,605.1	–	–	47.3	59.1	–	–	54.4	–	0.4	250.9	–	–	76.2	84.1
7.4	34.9	–	–	0.1	–	–	–	–	–	2.9	3.6	9.1	3.9	–	–
–	–	–	–	–	–	–	–	–	–	–	–	1,017.8	989.8	–	–

SUPPLEMENTARY INFORMATION

SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS (cont.)

(in millions of dollars)	REAL ESTATE DEBT (750)		REAL ESTATE (710)		COMMODITY FINANCIAL INSTRUMENTS (763)		HEDGE FUNDS (770)		ASSET ALLOCATION (771)	
Consolidated net assets as at December 31	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Assets										
Investments at fair value										
Real estate holdings	–	–	19,831.8	23,050.7	–	–	–	–	–	–
Equities and convertible securities	–	–	4,149.1	5,015.8	1,077.5	3,069.5	3,619.9	4,606.0	20.1	1,075.9
Bonds	–	–	–	–	–	891.3	21.8	264.6	103.5	4,097.4
Mortgages	8,156.8	10,814.0	680.3	1,143.2	–	–	–	–	–	–
Mortgages securities	579.4	1,322.8	92.5	99.7	–	–	–	–	–	–
Short-term investments	15.0	42.1	3,288.5	1,581.4	–	222.8	106.8	170.2	–	1,129.7
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–	–	864.1
Real estate held for resale	272.7	58.5	–	–	–	–	–	–	–	–
Third-party and bank-sponsored ABTNs	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments related to third-party and bank-sponsored ABTNs	–	–	–	–	–	–	–	–	–	–
Demand deposits in the General Fund	524.1	528.2	–	–	102.9	–	82.2	–	428.6	609.2
	9,548.0	12,765.6	28,042.2	30,890.8	1,180.4	4,183.6	3,830.7	5,040.8	552.2	7,776.3
Other assets	715.1	894.1	893.4	587.1	1,224.5	289.8	3.8	18.3	0.3	108.8
	10,263.1	13,659.7	28,935.6	31,477.9	2,404.9	4,473.4	3,834.5	5,059.1	552.5	7,885.1
Liabilities										
Advances from the General Fund	–	–	51.5	525.2	–	443.4	–	607.6	–	–
Securities sold under repurchase agreements	–	–	–	–	–	–	–	–	–	3,319.2
Notes payable	–	–	200.0	200.0	–	–	–	–	–	367.9
Temporary funding attributable to foreign currency fluctuations	–	–	–	–	–	–	–	–	–	–
Loans payable	238.5	583.5	8,421.2	8,790.9	–	–	–	–	–	–
Mortgage loans payable	232.4	–	3,973.9	3,770.7	–	–	–	–	–	–
Commercial mortgage-backed securities	249.1	311.2	–	–	–	–	–	–	–	–
Participating debenture	74.2	93.3	–	–	–	–	–	–	–	–
Short selling of securities	–	–	–	–	–	–	–	181.3	–	668.9
Derivative financial instruments	267.2	1,118.3	430.8	2,022.2	1,163.5	2,554.6	–	270.3	52.6	3,161.1
Other liabilities	136.9	603.8	761.0	1,182.6	4.2	127.1	8.0	12.0	0.5	275.5
Non-controlling interests	18.3	38.3	909.0	1,052.5	–	–	–	51.7	–	–
	1,216.6	2,748.4	14,747.4	17,544.1	1,167.7	3,125.1	8.0	1,122.9	53.1	7,792.6
Net holdings of funds	9,046.5	10,911.3	14,188.2	13,933.8	1,237.2	1,348.3	3,826.5	3,936.2	499.4	92.5
Statement of consolidated income for the year ended December 31										
Income										
Investment income										
Real estate holdings	–	–	521.1	506.1	–	–	–	–	–	–
Equities and convertible securities	–	–	10.3	25.6	–	(0.1)	3.4	(2.0)	–	0.2
Bonds	–	–	–	–	–	–	(0.1)	(2.0)	8.9	35.4
Mortgages	266.9	1,724.8	38.8	83.9	–	–	–	–	–	–
Mortgage securities	–	–	6.2	7.4	–	–	–	–	–	–
Short-term investments	0.1	0.5	71.4	100.1	1.5	9.8	–	0.5	–	–
Demand deposits in (advances from) the General Fund	13.7	10.3	(0.4)	(8.2)	(1.5)	(6.2)	(6.4)	(0.3)	2.0	(19.0)
	280.7	1,735.6	647.4	714.9	–	3.5	(3.1)	(3.8)	10.9	16.6
Other income	–	13.2	–	–	–	–	–	–	–	–
	280.7	1,748.8	647.4	714.9	–	3.5	(3.1)	(3.8)	10.9	16.6
Operating expenses	8.3	7.5	15.8	11.2	5.8	4.8	12.8	19.8	9.1	16.2
External management fees	–	3.1	–	–	–	–	–	–	–	0.2
Income before the following items	272.4	1,738.2	631.6	703.7	(5.8)	(1.3)	(15.9)	(23.6)	1.8	0.2
Interest on notes payable	–	–	–	–	–	–	–	–	2.0	39.1
Non-controlling interests	4.5	–	60.5	45.7	–	–	–	–	–	–
Net investment income (loss)	267.9	1,738.2	571.1	658.0	(5.8)	(1.3)	(15.9)	(23.6)	(0.2)	(38.9)
Changes in consolidated net assets for the year ended December 31										
Net investment results										
Net investment income (loss)	267.9	1,738.2	571.1	658.0	(5.8)	(1.3)	(15.9)	(23.6)	(0.2)	(38.9)
Gains (losses) on sale of investments	(109.5)	(476.2)	(6.3)	(1,352.2)	685.9	(893.2)	219.8	(1,176.2)	(609.1)	(1,187.4)
Unrealized increase (decrease) in value of investments and liabilities related to investments	(2,469.9)	(2,199.2)	(2,364.4)	(3,278.4)	(590.5)	499.9	230.9	107.6	642.6	(506.6)
Net investment results	(2,311.5)	(937.2)	(1,799.6)	(3,972.6)	89.6	(394.6)	434.8	(1,092.2)	33.3	(1,732.9)
Participation units issued (cancelled)	714.6	2,118.2	2,625.1	1,102.1	(206.5)	(781.9)	(560.4)	(176.7)	391.0	1,072.3
Net investment loss (net income) recovered from (allocated to) participation unit holders	(267.9)	(1,738.2)	(571.1)	(658.0)	5.8	1.3	15.9	23.6	0.2	38.9
Increase (decrease) in consolidated net assets	(1,864.8)	(557.2)	254.4	(3,528.5)	(111.1)	(1,175.2)	(109.7)	(1,245.3)	424.5	(621.7)
Consolidated net assets, beginning of year	10,911.3	11,468.5	13,933.8	17,462.3	1,348.3	2,523.5	3,936.2	5,181.5	74.9 [1]	714.2
Consolidated net assets, end of year	9,046.5	10,911.3	14,188.2	13,933.8	1,237.2	1,348.3	3,826.5	3,936.2	499.4	92.5

1. Adjusted opening balance

Investments and liabilities at cost as at December 31	REAL ESTATE DEBT (750) 2009	2008	REAL ESTATE (710) 2009	2008	COMMODITY FINANCIAL INSTRUMENTS (763) 2009	2008	HEDGE FUNDS (770) 2009	2008	ASSET ALLOCATION (771) 2009	2008
Assets										
Investments										
Real estate holdings	–	–	19,151.7	19,206.6	–	–	–	–	–	–
Equities and convertible securities	–	–	4,195.0	4,239.2	730.8	716.8	3,627.6	4,839.3	31.7	240.2
Bonds	–	–	–	–	–	891.3	22.0	26.2	79.0	2,987.7
Mortgages	10,779.9	11,116.7	751.4	1,193.1	–	–	–	–	–	–
Mortgages securities	2,561.3	2,592.1	104.8	122.3	–	–	–	–	–	–
Short-term investments	15.0	42.1	3,287.2	1,581.4	–	222.8	101.3	156.0	–	534.5
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–	–	824.9
Real estate held for resale	546.4	69.7	–	–	–	–	–	–	–	–
Third-party and bank-sponsored ABTNs	–	–	–	–	–	–	–	–	–	–
Demand deposits in the General Fund	524.1	528.2	–	–	102.9	–	82.2	–	428.6	609.2
	14,426.7	14,348.8	27,490.1	26,342.6	833.7	1,830.9	3,833.1	5,021.5	539.3	5,196.5
Liabilities										
Securities sold under repurchase agreements	–	–	–	–	–	–	–	–	–	3,299.7
Notes payable	–	–	200.0	200.0	–	–	–	–	–	284.9
Temporary funding attributable to foreign currency fluctuations	–	–	–	–	–	–	–	–	–	–
Loans payable	247.7	598.9	8,601.1	8,979.8	–	–	–	–	–	–
Mortgage loans payable	278.7	–	4,067.9	3,932.3	–	–	–	–	–	–
Commercial mortgage-backed securities	246.1	305.4	–	–	–	–	–	–	–	–
Participating debenture	99.9	100.0	–	–	–	–	–	–	–	–
Short selling of securities	–	–	–	–	–	–	–	194.5	–	445.1
Derivative financial instruments	0.5	92.4	26.9	47.9	885.1	860.6	–	0.6	–	243.0
Non-controlling interests	22.8	38.3	982.6	987.4	–	–	–	55.7	–	–

FINANCIAL CERTIFICATE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

I, Michael Sabia, President and Chief Executive Officer and Chief Financial Officer of the Caisse de dépôt et placement du Québec, certify that:

1. **Review**: I have reviewed the Combined financial statements, the schedules (tables of returns), the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of the Caisse de dépôt et placement du Québec (the "Caisse") for the year ended December 31, 2009.

2. **No false or misleading information**: To the best of my knowledge, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation**: To the best of my knowledge, the Combined financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of the Caisse as at the closing dates of the periods presented in the Annual Filings, as well as the results of its operations for those years.

4. **Responsibility**: I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for the Caisse, in accordance with the responsibilities entrusted to me under section 5.12 of the Caisse Act.

5. **Design**: Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, as at fiscal year-end, I have:

   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:

      i) Material information relating to the Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.

      ii) Information required to be disclosed by the Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.

   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the Combined financial statements have been prepared, with a view to publication of financial information, in accordance with generally accepted accounting principles in Canada.

5.1. **Control framework**: The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

5.2. **ICFR material weakness relating to design**: Not applicable.

5.3. **Limitation of scope of design**: Not applicable.

6. **Evaluation**: I have:

   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of the Caisse at fiscal year-end and disclosed in its Annual Report my conclusions about the effectiveness of this evaluation.

   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of the Caisse at fiscal year-end and disclosed in its Annual Report the following information:

      i) My conclusions about the effectiveness of the ICFR at the fiscal year-end based on that evaluation.

      ii) Description of any material weakness relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes in ICFR**: The Caisse disclosed in its Annual Report any change in ICFR that occurred during the accounting period beginning on January 1, 2009 and ending on December 31, 2009 that has had, or is likely to have, a material impact on ICFR.

8. **Reporting to Auditors and the Board of Directors or Audit Committee**: I have disclosed, based on our most recent valuation of ICFR, to the Auditor General of Québec and the Board of Directors of the Caisse or its Audit Committee any fraud that involves management or other employees who have a significant role in the ICFR.

MICHAEL SABIA
President and Chief Executive Officer
and Chief Financial Officer

March 26, 2010

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In 2009, the Disclosure Committee oversaw efforts to update existing documents and evaluate the design and effectiveness of internal control over financial reporting. The evaluation of internal control over the Caisse's main financial processes aims at ensuring that the Caisse meets its quality objectives related to financial reporting, in all material respects.

The framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) usually adopted by North American corporations was used to evaluate the design and effectiveness of internal control over financial reporting. This undertaking enabled the Disclosure Committee to conclude that the design of control over financial reporting is adequate and effective to provide reasonable assurance with respect to the reliability of the financial information presented in the Annual Filings, as defined in the financial certification policy, and that the Caisse's Combined financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The Caisse's management also carried out work that enabled it to determine that, for the year ended December 31, 2009, improvements have been made with respect to overall controls over information technology, making them more effective, particularly with respect to server and database access management.

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Under the Caisse's financial certification policy, the design and effectiveness of disclosure controls and procedures pertaining to Annual Filings, i.e. the Combined financial statements, the schedules of returns, the press release announcing the annual results and the Annual Report, must be evaluated.

As with the evaluation of internal control over financial reporting, the Disclosure Committee oversaw efforts to update existing documents and evaluate the design and effectiveness of disclosure controls and procedures.

As at December 31, 2009, based on the evaluation, disclosure controls and procedures are adequate and effective, and provide reasonable assurance that all relevant information is gathered and submitted in a timely fashion to senior management, in particular to the President and Chief Executive Officer and the Chief Financial Officer, to ensure that appropriate decisions concerning disclosure can be made.

The Board of Directors also approved the 2009 Annual Filings before their public disclosure.

GENERAL NOTES

1. The Caisse's operations comply with the requirements of the Act respecting the Caisse de dépôt et placement du Québec[1] and with investment industry practices. Its financial statements are prepared in accordance with generally accepted accounting principles in Canada. Each year, the Auditor General of Québec conducts, in the manner seen fit by the Auditor, the financial audit, the audit concerning the compliance of operations with the requirements of the law, regulations, policies and guidelines, as well as the audit of systems and processes implemented to monitor and protect assets.
2. The 2009 Annual Report Additional Information is an integral part of the 2009 Annual Report and presents the Schedules (tables of returns) as at December 31, 2009, relating to the composites of the Caisse's depositors' accounts. The Schedules and calculations have been audited as at December 31, 2009, by Deloitte & Touche LLP for compliance with the Global Investment Performance Standards (GIPS®).
3. The returns on the specialized portfolios represent the time-weighted rate of return.
4. The benchmark indexes for the investment sectors are the weighted average of the benchmark indexes of the specialized portfolios they manage.
5. Unless otherwise stated, returns are presented before operating expenses and external management fees. They include the return on cash and cash equivalents, and they take into account a foreign exchange hedging position. The return spreads related to the operating expenses of each specialized portfolio are presented in the Schedules of the 2009 Annual Report Additional Information.
6. Certain returns are expressed in basis points (b.p.). One hundred basis points equal 1.0% and one basis point equals 0.01%.
7. Unless otherwise stated, all figures are given in Canadian dollars. The letters M and B used with dollar amounts designate millions and billions, respectively.
8. Totals (figures or percentages) may vary because of rounding of figures.
9. Unless otherwise stated, all data in the tables and figures are from studies conducted by the Caisse.
10. The tables listing the top ten investments present, in alphabetical order, the main cash positions based on information shown in tables 9, 10, 11 and 12 of the 2009 Annual Report Additional Information, net of short selling.

1. The Act respecting the Caisse de dépôt et placement du Québec is available on the Caisse's website.

- The 2009 Annual Report and the 2009 Annual Report Additional Information are available at www.lacaisse.com.
- Information: 514 842-3261, info@lacaisse.com
- *Le Rapport annuel 2009 et le document Renseignements additionnels au rapport annuel 2009 sont disponibles en français sur www.lacaisse.com.*
- Legal Deposit – Bibliothèque et Archives nationales du Québec, 2010
  ISSN 1705-6462
  ISSN online 1705-6470

BUSINESS OFFICE

Centre CDP Capital
1000, place Jean-Paul-Riopelle
Montréal (Québec) H2Z 2B3
Tel.: 514 842-3261
Fax: 514 847-2498

HEAD OFFICE

Édifice Price
65, rue Sainte-Anne, 14e étage
Québec (Québec) G1R 3X5
Tel.: 418 684-2334
Fax: 418 684-2335

CDP U.S. INC.

1540 Broadway, Suite 1600
New York, NY 10036
United States
Tel.: 212 596-6300
Fax: 212 730-2356

Hearing impaired
514 847-2190

www.lacaisse.com