

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC



1983

HIGHLIGHTS OF THE YEAR

(millions of dollars)

FUNDS UNDER MANAGEMENT	1983	1982
Total stated value	18 221.9	16 238.8
Surplus realization value over stated value of investments	782.4	(129.3)
Total realization value	19 004.3	16 109.5

BREAKDOWN OF FUNDS UNDER MANAGEMENT

Investments		
Bonds	11 486.0	10 309.0
Mortgage financing	1 156.9	1 029.8
Total - Fixed income securities	12 642.9	11 338.8
Shares and convertible securities	4 852.7	3 075.8
Real estate investments	309.0	190.1
Total - Variable income securities	5 161.7	3 265.9
Short-term investments	829.1	1 170.4
Total investments	18 633.7	15 775.1
Other assets	370.6	334.4
Total realization value	19 004.3	16 109.5

DEPOSITORS' HOLDINGS

Régie des rentes du Québec	9 805.3	8 621.0
Commission administrative des régimes de retraite et d'assurances	3 685.4	2 807.7
Régie de l'assurance automobile du Québec	2 094.3	1 688.0
Commission de la santé et de la sécurité du travail	1 900.8	1 636.0
Office de la construction du Québec	1 394.7	1 210.1
Other depositors	19.3	70.8
Total - Depositors' holdings	18 899.8	16 033.6
Liabilities	104.5	75.9
Total realization value	19 004.3	16 109.5

DEPOSITORS' NET INCOME	1 772.3	1 569.0
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NET CONTRIBUTIONS	146.6	641.2
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INTERNAL RATE OF RETURN ON DEPOSITORS' TOTAL HOLDINGS	17.2%	34.5%
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Après vingt-cinq ans de sa
création, la Caisse de dépôt et
placement du Québec
cette année-là a
été révisée.

Caisse de dépôt et
placement du Québec
18^e rapport annuel 1983

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

Eighteenth Annual Report 1983

Upon termination of its 18th year of operation, the Caisse de dépôt et placement du Québec pays tribute to its former chairmen

The leadership of the Caisse de dépôt et placement du Québec became apparent shortly after the beginning of operations in January 1966. Indeed, the founding chairman and first general manager had cautiously and shrewdly paved the road on which this investment fund was resolutely to engage.

The death of Mr. Prieur on April 11, 1973, at 52 years of age, was deeply felt by all those who had worked with him. Looking back on things, it is appropriate, at this time, to recall the tribute paid to him by *Le Devoir*: "Mr. Prieur had at his disposal immense financial powers, which he used to create a reputation of strength, competence and efficiency around the Caisse and which were to contribute, more than anything else, to bestow this undisputed role of leader upon it, which today is recognized by everyone in the financial world."

Mr. Claude Prieur
Chairman and General Manager
1966 - 1973



During the six years of his term as chairman and general manager, the Caisse experienced substantial growth: the assets under management reached 10 billion dollars, mostly as a result of substantial inflow of capital from three new depositors, namely the Commission administrative des régimes de retraite et d'assurances, the Commission de la santé et de la sécurité du travail and the Régie de l'assurance automobile du Québec.

Called upon to assume the new role of adviser to his successor in 1979, his contribution was eloquently acknowledged by the board of directors: "The Board is pleased to express its appreciation for the manner in which Mr. Cazavan carried out his duties, for his dedication to the goals which had been set, for his sense of fairness, the wisdom of his judgment, as well as his human qualities."

Since November 1982, Mr. Cazavan is chairman of the board of the Trust Général du Canada.

Mr. Marcel Cazavan
Chairman and General Manager
1973 - 1980



COVER

In the usual order, stock market investment traders: Marcel Roy, chief of trading; Georgette Renaud-Messier, junior trader; Nicolas Damato, senior trader. Bond investment traders: Carole Provost, technician - trading; Roger Robert, trader; Diane Moisan, trader.

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Réjean Meloche

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Board of Directors



Jean Campeau
Chairman of the Board and
General Manager
Caisse de dépôt et placement du Québec



Claude Legault
Vice-Chairman of the Board
President
Régie des rentes du
Québec



**Judge
Richard Beaulieu**
President
Commission municipale du
Québec



Raymond Blais
President
La Confédération des caisses
populaires et d'économie
Desjardins du Québec



Louis Laberge
President
Fédération des travailleurs
du Québec



André Marier
President
Société québécoise
d'initiatives
agro-alimentaires



Robert Normand
Deputy Minister
Ministère des Finances
Gouvernement du Québec



Fernand Paré
President and General
Manager
La Solidarité
Compagnie d'assurance
sur la vie



Pierre Péladeau
President
Quebecor Inc



Gaston Pelletier
President
Lombardier Odier Trust
Company



Michel Caron
Executive Vice-President
Finance and Resources
Hydro-Québec

Report of Operations

Report of the Board of Directors

The financial results of 1983 reflect an excellent performance. Actually, the 17.2% internal rate of return on the Caisse investments for the year exceeds by 12.7% the inflation of 4.5%.

As a result, this performance positively influenced the compound average annual rate, computed over an 8-year period. Thus, for total funds under management, this rate was 12.3% at the end of the period while the average inflation rate was 8.8%. Therefore the funds under Caisse administration yielded 3.5% over inflation, for the 8-year period.

Nevertheless, these results cannot compare with those of 1982 which were outstanding, hitting an all-time high due, in part, to the heavy fluctuation in interest rates.

By and large then, the Caisse eighteenth year of operation proved to be one of ripening and stability.

The rapid growth of the funds entrusted to the Caisse during the years 1978 to 1980 boasted by rates of 23%, 22.1% and 20.4% belongs to history. For the years 1981 and 1982, the rates were 18.4% and 16.7%, and 12.2% at the end of 1983.

The decreasing growth is closely linked to the situation at the Régie des rentes du Québec. For the first time during the year, this organization stopped depositing new funds from contributions and was compelled to use part of the investment income it was paid instead of reinvesting that money. Similar conditions affected some of the pension funds administered by the Office de la construction du Québec.

On the whole, this means that from now on, the growth of the funds administered by the Caisse is basically dependent upon investment income. In 1983, total income attributed to depositors was 1 772 millions of dollars; in 1982, this amount represented 1 569 million and in 1981, 1 332 million.

Looking back on the activities of 1983, it should be remembered that the relatively more stable economic and financial environment enabled the Caisse, in keeping with its priorities, to increase the quantity of variable income securities - ownership titles and the like - in its overall portfolio. The strong measures implemented in 1981 with respect to fund allocation - which resulted in heavy investments in large companies - made steady progress in that direction much easier without reducing in any material way the amounts earmarked for investment in the Québec public sector. Consequently, at year-end, variable income securities had been upgraded by 882 millions of dollars and the Board authorized investments in Québec bonds at market conditions for 825 million, slightly less than the previous year.

The members of the Board also approved the constitution of a foreign stock portfolio. Considering the vast reservoir of funds the Caisse has available, this opening on foreign markets will take place without any prejudice to the funding of domestic firms by the Caisse. The outcome of this initiative will ensure greater liquidity and diversity in variable income securities and, together with the resulting knowledge of international markets and the regular presence of the Caisse on such markets, it is hoped that this will promote activities favorable to the Québec economy.

In addition, the rapid growth of the real estate portfolio incited the Board to promote the creation of a company to assume the daily administration of buildings and real estate development.

This company is intended to form groups of institutions with a view to syndicate the purchase of important buildings, and assist institutional investors in their real estate operations. This decision of the Board is in keeping with the policy of the Caisse not to interfere in the daily administration of companies.

Twelve meetings of the Board were held during the fiscal year to study

and approve the investment program, the operating budget and the financial statements. Also, several investment proposals recommended by Management were tabled. On that point, the Board is specially pleased to have sanctioned a larger number of participations in private corporate issues. However, despite the acceptable results of investments in Québec medium-sized enterprise shares that are not listed on the stock exchange - such results being favorably enviable when compared to those of other investors - it would have liked to witness a larger number of companies requesting the participation of the Caisse in profitable development projects in view of the climate of confidence inspired by the recovery in 1983.

The Caisse is very much aware that its activities are of increasing interest to the citizens and during the year it has redoubled its efforts to inform the people at large of its role, its operations and various involvements. Furthermore, it is our opinion that few financial corporations publish as much pertinent information on their affairs and their investments as the Caisse does.

During the fiscal year, the Board endeavoured to serve the economic interest of our community without ever losing sight of its goal for maximum return on investments. The Board was pleased to note, once again, that these two objectives are compatible and that an increasing number of financial institutions and companies share this concept and already successfully pursue this dual objective. Such a stand bodes well for the future because, in the long-term, maximum financial yield cannot be realized in an economically weak environment.

On behalf of the Board of Directors,



Jean Campeau
Chairman and General Manager
Montréal, March 2, 1984.

Report of Operations





Louise Charette, adviser; Serge Houle, director; Johanne Laramée - Vézina, technician.

Economic Context

In 1983, the financial and economic situation upon which depended the investments of the Caisse was very different from what it had been a few years earlier. On the one hand, interest rates were stable as compared to previous years and on the other, the recovery on the North American continent was vigorous. In Québec, following the slow growth experienced in 1980 and 1981 as well as the sharp decline in 1982, the real gross domestic product rallied during the last quarters and most of the major economic indicators now aim towards progress. The drop in interest rates during 1982 was the basis of this reversal, and now that the recovery seems well under way in the United States, the Québec economic climate will continue to improve.

AMERICAN ECONOMY

During 1983, the recovery was very rapid in the United States. Thus, during the first three quarters, the real gross national product increased by an average of 6.6%, on an annual basis.

Several factors were responsible for the American economic situation. Firstly, consumers increased their rate of expenditure as a result of income tax and interest rate reductions together with a sharp improvement in employment. For similar reasons, housing starts increased by over 60%. Taking advantage of the generous fiscal measures affecting depreciation, companies also increased capital expenditure as of the second quarter of 1983.

This phenomenon did not induce stronger inflationary pressures as feared by several. On the contrary, inflation continued to decrease until July, as the consumer price index merely grew by 2.5%, on an annual basis. Since then, inflation hardly increased; but despite it all, monetary authorities remained extremely cautious and consequently, interest rates stabilized during 1983.

CANADIAN ECONOMY

Canada also experienced a remarkable reversal situation in 1983. During the first three quarters, the real gross national product increased by over 7%, on an annual basis (**Graph 1**). This performance is essentially due to residential construction, the consumption of durable goods and inventory movements.

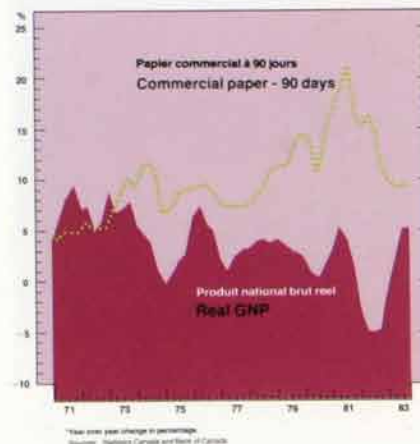
Various governmental homeownership programs enabled the construction sector to experience increased activity, but the withdrawal of the federal program caused the situation to deteriorate in the second semester. Consumer expenditures also increased sharply during the first semester in favor however of a decline in the savings rate and due to the temporary abolishment of certain provincial sales taxes on durable goods. In the second semester however, the rapid increase in income enabled consumers to somewhat restore their savings rate without having to reduce their expenditures. As a result of improved conditions and the sharply reduced interest rates, companies stopped liquidating inventories in the third quarter. Because of the considerable liquidation which took place in 1982, replenishment was an important factor in the growth of the GNP throughout the year. This change in consumption trend together with the low level of inventories allow us to be somewhat optimistic about 1984.

Moderate salary revisions coupled with large productivity gains have allowed for a drop in inflation during 1983; in December, inflation was at 4.5% (**Graph 2**). Despite it all, those responsible for economic policies remain cautious, some being preoccupied with the extent of the deficits and others with the behavior of the Canadian dollar in relation to the American currency. Consequently, the various sectorial recovery programs were often financed through budget reallocations rather than new appropriations. Moreover, monetary authorities maintained their policy of assuring the stability of the Canadian dollar on foreign exchange markets. As a result, after allowing interest rates to drop in the earlier part of the year, while the dollar was not subjected to sagging pressures, they promoted a recovery of the rates, late in the year, when the Canadian dollar was around 80 cents U.S.

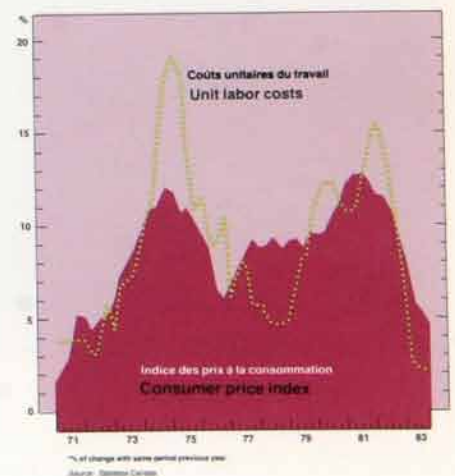
QUÉBEC ECONOMY

In Québec, lower interest rates during the second semester of 1982 improved conditions. The resulting benefits which were felt here more than elsewhere in Canada appeared very clearly in 1983 due to the more distinctive incidence of the 1982 interest rate shrinkage. This phenomenon was partly due to the fact that in Québec, companies were financed more on a short-term basis and had been severely affected by the record interest rates experienced from the beginning of 1980 to the middle of 1982.

1 COMPARATIVE EVOLUTION OF REAL* GNP AND SHORT-TERM INTEREST RATES IN CANADA



2 EVOLUTION* OF CONSUMER PRICE INDEX AND UNIT LABOR COSTS IN CANADA



The interest rate decline benefited firstly the housing construction sector which was also favored by various governmental homeownership programs. At 21 500 units in 1982, housing starts jumped to 40 000 units in 1983. Employment in the construction sector recorded a 6% increase and the wood industry (lumber and construction materials) gained from the increased activity in the housing sector, as well as the growing timber orders from the United States.

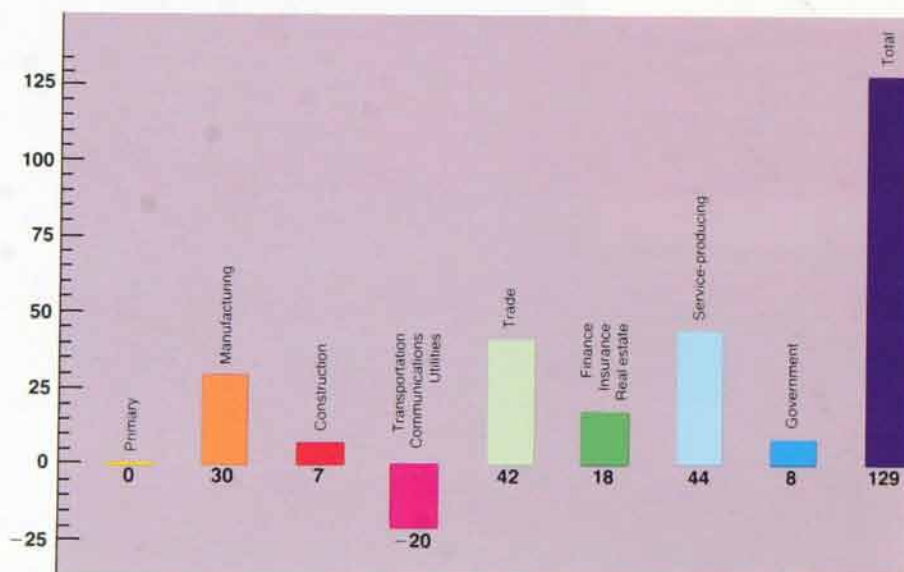
Consumers showed renewed confidence which became apparent in the second quarter when retail sales increased significantly; firstly in durable goods, automobiles, furniture and electrical appliances, and then, in all consumer goods.

At the end of the year, repercussions of the recovery were largely felt. Many sectors had not reached the pre-recession levels, but evident progress had been recorded in several areas. Thus, although unemployment had not improved significantly by year-end, the number of jobs created in one year was rather high: 129 000 between December 1982 and December 1983, with considerable gains in the manufacturing sector (30 000), the trade sector (42 000) and the service-producing sector (44 000) (Graph 3).

In brief, improved balance sheets enabled companies to rehire part of the workers laid off during the 1981 - 1982 recession.

Since the investment activity had not, for its part, resumed in 1983, it is only in 1984, when utilization capacity reaches higher levels, that we will notice progress in this field. As concerns the Québec economy, it should stir up optimism for 1984 as a result of increased income due to employment growth dating back to the beginning of the recovery, and as the economy of its major exterior market, the United States, continues to progress satisfactorily.

3 NON-FARM EMPLOYMENT IN QUÉBEC* INCREASE BY INDUSTRY IN 1983** (thousands)



*Labor Force monthly Survey.
**December 1983 over December 1982.

Source: Statistics Canada

Depositors

The Caisse administers funds it is entrusted with by various public agencies empowered to do so by an act of the Assemblée nationale. Of the Caisse 12 depositors, 7 accumulate reserves to meet future commitments and the other 5 entrust the Caisse with their operating liquidities.

At December 31, 1983, the realization value of total depositors' holdings with the Caisse was 18.9 billion dollars, an increase of 2.9 billion during the year.

At stated value and disregarding the general reserve, these funds represented 17.8 billion dollars, an increase of 1.9 billion which is due to reinvested investment income of 1 772 million and to the investment of net contributions of 147 million. The latter amount is the result of 403 million of new deposits on the part of 6 depositors, reduced by withdrawals of 256 million made by 6 other depositors.



Réal Trépanier, head of financial management; Josée Bouchard Young, financial management technician; Sylvie Cloutier, secretary; Denise Simard Chaput, vice-president.

4

THE DEPOSITORS

Régie des rentes du Québec

Commission administrative des régimes de retraite et d'assurances
Government and Public Employees Retirement Plan
General Retirement Plan for mayors and councillors of municipalities
Individual Plans

Régie de l'assurance automobile du Québec

Commission de la santé et de la sécurité du travail

Office de la construction du Québec

Supplemental Pension Plan for employees of the Québec construction industry
Active and retired participants
Complementary contributions

Fonds d'assurance-prêts agricoles et forestiers

Régie des assurances agricoles du Québec

Assurance-récolte du Québec

Régimes d'assurance-stabilisation des revenus agricoles

Régie des marchés agricoles du Québec

Régie de l'assurance-dépôts du Québec

GENERAL FUND

The Caisse first depositor is the Régie des rentes du Québec, the universal pension plan of Québec workers created in 1965. Its equivalent for the other provinces is the Canada Pension Plan.

Despite an increase of approximately 801 million dollars in assets during the period, the Régie des rentes du Québec had, for the first time since its inception, to fund current requirements by withdrawing 157 million from its 958 million income from investment.

Another depositor in the General Fund is the Régie de l'assurance automobile du Québec implemented in 1977 to provide insurance against bodily harm resulting from road accidents. The plan operates much as the workmen's compensation plan. Contributions are levied yearly to constitute a reserve for indexed benefits to be paid to victims. At December 31, 1983, the holdings of the Régie de l'assurance automobile reached 1.9 billion dollars, 329 million over last year. The increase is due to investment income of 198 million and to 131 million from new contributions. The plan represents over 11.1% of the overall depositors' holdings entrusted to the Caisse, and 17.5% of the General Fund.

Among the other unit holders in the General Fund, is the Fonds d'assurance-prêts agricoles et forestiers which maintains a minimum 10 million dollar reserve, as assurance against the loan guarantees it provides.

5

SUMMARY OF ASSETS UNDER MANAGEMENT

as at December 31, 1983
(millions of dollars)

	General Fund ¹	Individual Funds	Portfolios under management	Total	Net change in 1983	Total
	stated value					realization value
Investments						
Bonds	8 528.6	3 399.0	85.8	12 013.9	1 308.4	11 486.0
Mortgage financing	482.9	692.7	3.2	1 178.8	94.7	1 156.9
Shares and convertible securities	1 634.9	1 928.7	—	3 563.6	804.0	4 852.7
Real estate investments	263.3	2.7	—	266.0	78.4	309.0
Short-term investments	824.3	5.2	—	829.5	(339.1)	829.1
Deposits in General Fund	(156.7)	156.7	—	—	—	—
Total investments	11 577.3	6 185.0	89.0	17 851.3	1 946.9	18 633.7
Other assets	254.6	113.9	2.1	370.6	36.2	370.6
1983 Total	11 831.9	6 298.9	91.1	18 221.9	1 983.1	19 004.3
1982 Total	10 813.8	5 283.4	141.6	16 238.8	2 325.4	16 109.5
Net change in 1983	1 018.1	1 015.5	(50.5)	1 983.1		2 894.8

¹For purposes of this presentation, the assets of the General Fund reflect the reduction of demand deposits of the Individual Funds and the interest accrued on those deposits. Assets of real estate subsidiaries are included in the General Fund.

INDIVIDUAL FUNDS

As early as 1969, the Caisse was given the mandate to administer certain supplemental pension plans. The plans which entrust the Caisse with their assets could, until the end of the 1982 fiscal year, see to the distribution of their holdings by acquiring units in common funds, for instance in either one of the segregated funds of shares, mortgages, bonds and government bonds. To make operations easier the Caisse, after consulting the depositors, undertook to administer those plans by way of exclusive individual funds rather than common ones. Hence, as of January 1, 1983, the Caisse proceeded to transfer each depositor's share from the segregated funds into individual funds specially reserved for them. As a result, Individual Funds 301, 302, 303, 304, 311, 313 and 320 were created.

The first supplemental pension plan to make deposits with the Caisse was that of the employees of the construction industry. The type of benefits and contributions makes this plan rather special. At December 31, 1983, the funds in the construction industry pension plan totalled 1.3 billion dollars distributed between the basic plan and another one for complementary contributions from certain workers. During the year, the basic plan included the accounts of both active and retired participants. When allotting the Individual Funds, those numbered 311 and 313 were assigned to the employees of the construction industry. It must be noted that the growth of this plan has slackened during the last years due to the drop in construction activity which resulted in a decrease in working hours and in the number of workers. For the fiscal year, investment income of 128 million dollars was responsible for this fund's increase by an amount of 101 million, after withdrawals of 27 million.

6 SOURCE OF NEW DEPOSITS (millions of dollars)

- Depositors' net income
- Depositors' net contributions (deposits less withdrawals)



7 EVOLUTION OF INVESTMENTS as at December 31 (stated value - millions of dollars)

- Fixed income securities*
- Variable income securities



*Including deposits and short-term investments.

8

DISTRIBUTION OF TOTAL DEPOSITORS' HOLDINGS

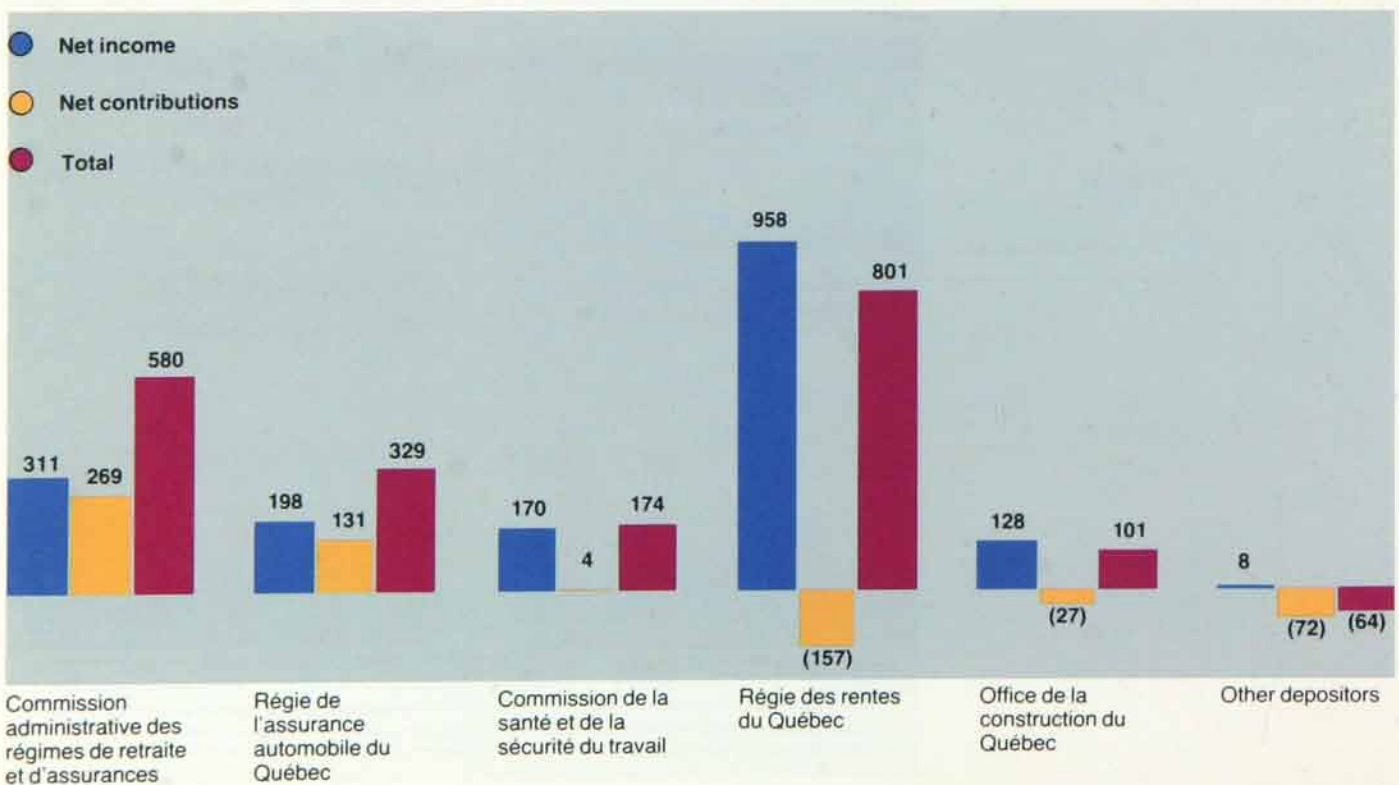
as at December 31
(percentage of realization value)

	1983	1982	1981	1980	1979
Régie des rentes du Québec	51.9	53.8	56.0	58.7	62.4
Commission administrative des régimes de retraite et d'assurances	19.5	17.5	16.5	15.3	13.3
Régie de l'assurance automobile du Québec	11.1	10.5	8.9	7.6	5.8
Commission de la santé et de la sécurité du travail	10.1	10.2	9.8	9.6	9.2
Office de la construction du Québec and other depositors	7.4	8.0	8.8	8.8	9.3

9

BREAKDOWN OF NET INCOME AND NET CONTRIBUTIONS BY DEPOSITOR

for fiscal 1983
(millions of dollars)



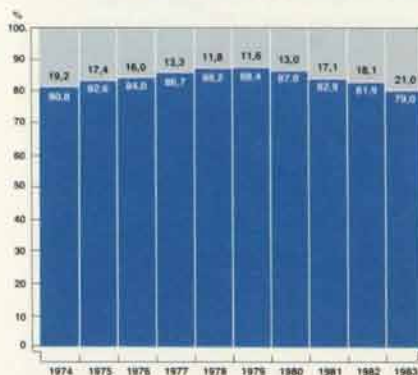
The second supplemental plan to entrust the Caisse with its assets was that of the government and public employees. This retirement plan was set up in 1974 and it covers the entire public sector: the employees of the government, of the education and the social affairs sectors. It is managed by the Commission administrative des

régimes de retraite et d'assurances which turns over to the Caisse the contributions of employees. A joint committee supervises the affairs of the plan. Since 1974, the plan has accumulated 3.2 billion dollars and this represents 19.4% of the Caisse depositors' holdings. The progression of this plan is meaningful, for several reasons: it is new, its members are increasing in number and relatively young. During the fiscal period, the plan increased its assets by 573 million dollars of which 265 million from contributions, the rest from reinvested income from investment. The Government and Public Employees Retirement Plan features two accounts: that of unionized employees and another for non-unionized persons. Funds 301 and 302 receive the bulk of the plan's assets.

10 EVOLUTION OF INVESTMENTS WITHIN TOTAL FUNDS UNDER MANAGEMENT as at December 31

(percentage at stated value)

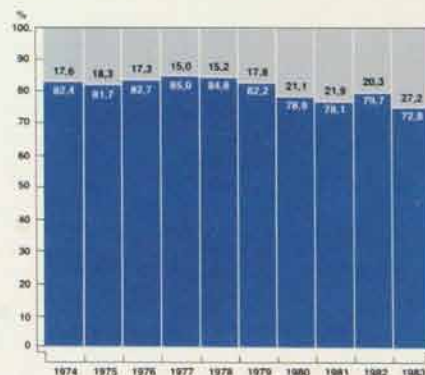
- Variable income securities
- Fixed income securities



11 EVOLUTION OF INVESTMENTS WITHIN TOTAL FUNDS UNDER MANAGEMENT as at December 31

(percentage at realization value)

- Variable income securities
- Fixed income securities





Jean Lacasse, office clerk; Roger Plante, office clerk; Claude Patenaude, responsible for the mail and supplies sector.

The Commission administrative des régimes de retraite et d'assurances also administers other pension plans of the public sector some of which entrust the Caisse with their assets. Such is the case of the General Retirement Plan for mayors and councillors of municipalities whose assets of 10 million dollars are invested mostly in Individual Fund 304. Similarly, several smaller plans, designated as Individual Plans, with funds of 16 million can be found in Individual Fund 303.

In addition, from 1971 to 1983, the Caisse administered part of the holdings of the Supplemental pension plan of the Université du Québec (Individual Fund 320). Investments of this Fund were realized in the course of the third quarter of 1983 and the proceeds were paid to the depositor.

The Commission de la santé et de la sécurité du travail entrusts to the Caisse the reserves it accumulates to meet workmen's compensation benefits it is required to pay and these benefits are indexed in the same way as the Québec pension plan. The Commission receives contributions from all employers who are then insured against accidents occurring in their sector or industry. At the start in 1973, the Commission transferred a portfolio of investments valued at close to 200 millions of dollars. At December 31, 1983, it had holdings of 1.9 billion, or nearly 10.1% of the Caisse total depositors' holdings. The economic situation of 1982, together with several changes brought to the plan, have limited the growth of the Commission's reserve; it increased by 174 million in 1983, of which, 4 million from net contributions and 170 million from investment income. The Individual Fund 330 was assigned to the CSST in 1977.

PERFORMANCE OF THE FUNDS

Table 12 shows the figures corresponding to the 1983 performance of the overall funds administered by the Caisse. The investment returns of the General Fund, the Individual Funds as well as that of the bond, stock, mortgage and real estate portfolios are outlined for the fiscal year and for an eight-year period which constitutes a complete economic and financial cycle.

It will be observed that for 1983, the Individual Funds which hold a greater proportion of variable income securities show a better return than the General Fund: 20.2% as opposed to 15.3%. This is due to the stock exchange index which appreciated more than that of the fixed income securities. Yet, when considering the eight-year period, the spread is smaller, the General Fund having registered a performance of 12.1% compared to 12.8% for the Individual Funds.



Denyse Chicoyne, adviser - stock market investments; Anh Tran, analyst - bond investments; Marie-Hélène Sarrazin, adviser - corporate investments.

12

INTERNAL RATE OF RETURN

	Fiscal 1983	Compound average annual rate for the 1976-1983 period (8 years)
TOTAL DEPOSITORS' HOLDINGS	17.2%	12.3%
General Fund	15.3%	12.1%
Individual Funds	20.2%	12.8%
FINANCIAL ASSETS		
Bonds	11.6%	10.6%
Mortgages	16.6%	12.3%
Canadian equity	37.6%	18.8%
Real estate	17.9%	—
MARKET ACCEPTED INDICES		
MYW 40/50 Bond Index	9.6%	10.4%
MYW Mortgage Index	18.7%	12.6%
Montreal Exchange Index (dividend not included)	32.2%	12.0%
Toronto TSE 300 Index (dividend included)	35.5%	18.1%

The internal rate of return method is a generally accepted benchmark for measuring the performance of funds invested.



Jeannine Thomas, secretary; Carmand Normand, senior vice-president; Philippe Girard, senior portfolio manager.

Variable Income Securities

SITUATION

Total investments in shares and convertible securities increased by 804 million dollars, reaching, as at December 31, 1983, 3.6 billion at stated value. On the same date, the realization value was 4.9 billion, which corresponds to 25.5% of the assets under the Caisse management. Profits of 80.5 million recorded as a result of the sale of securities are also worth mentioning.

The beginning of July 1982 marked the turning point of a 20-month bear market that had dragged the Montreal Stock Exchange Index to a 38.7% drop, between November 1980 and July 1982: from 382 to 234 (**TSE 300: 44.6%, from 2405 to 1332**). At the end of 1982, the index closed at 323

(**TSE 300: 1958**), approximately the same level as at year-end 1981. This thrust recorded at the end of December 1982 set the pace for the whole of 1983 as the index closed at 427 at year-end (**TSE 300: 2552**), an increase of 32.2% (**TSE 300: 30.3%**).

Several factors are responsible for this rallying of the stock exchange, among them the investors' anticipated increase in corporate profits, the upsurge of the Canadian economy, the substantial decline in interest and inflation rates and the resulting revision of the price/earnings ratio, together with massive equity purchases made by institutions.

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SUMMARY OF CANADIAN INVESTMENTS IN CORPORATE SHARES AND BONDS

as at December 31, 1983
(realization value - millions of dollars)

Status of corporations	Number of corporations	Shares and convertible securities	Bonds	Total	Percentage
Corporations and their subsidiaries whose shares are listed on the stock exchange	173	4 717.1	275.3	4 992.4	94.5
Private corporations	75	35.0	104.7	139.7	2.6
Corporations of the public and cooperative sectors	26	55.6	98.0	153.6	2.9
1983 Total	274	4 807.7	478.0	5 285.7	100.0
1982	275	3 075.8	682.9	3 758.7	
1981	281	2 447.8	693.4	3 141.2	

GENERAL POLICY

In 1983, the Caisse continued to allocate large sums to the purchase of shares and during the year, the sectors of energy and industrial products were favored. Investments in companies related to the transportation and consumer products sectors were maintained and the proportion of our investments in utilities and financial services was reduced. We should add at this point the program intended to provide Québec medium-sized firms that are profitable and promising with the funds necessary to consolidate their financial structure.

NEW DEVELOPMENTS

In 1983, the management of variable income securities expanded. More particularly, the Caisse invested on the international markets. This new policy aims at diversifying the portfolio by investing in sectors which have little or no representation in Canada, such as high technology, aeronautics, pharmaceutical products and other, and by so doing, the liquidity of the portfolio will increase. This involvement in foreign sectors that have no equivalent in Canada and which sometimes boast superior growth should provide better return and lessen the risk factor. By the second semester of 1983, 43 million dollars had been invested on foreign stock markets.

Purchase options and futures were also given much attention. Experience has proven that it was possible to use these vehicles in some sectors in order to lessen the variability of investments and to protect part of the unrealized profits.

PERFORMANCE

The performance of the stock portfolio was satisfactory in 1983, not only in terms of absolute value but also in terms of relative value, since it reached 37.6% as compared to 35.5% for the TSE 300.

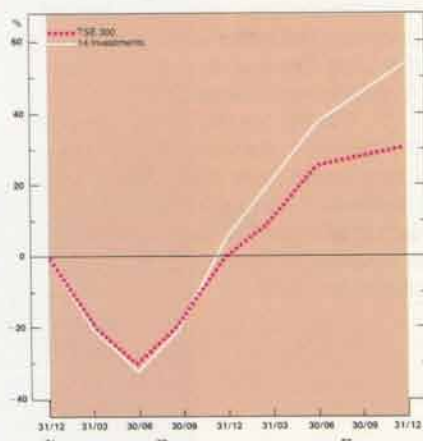
The reorganization of the portfolio through the sale in 1982 of over 200 million dollar's worth of so-called "defensive" stock has given it more strength and the outcome was very profitable. It should be noted however, that the true gauge for assessing a portfolio is the performance over an entire market cycle: this is how one can judge the results of management policy both for the bull and the bear markets.

Given this basis, the return of the stock portfolio on a yearly basis was 18.8% between 1976 and 1983, as compared to 18.1% for the TSE 300. Moreover, it is a relevant fact that despite inflation which plagued the past eight years, the purchasing power of this portfolio increased.



Michel Bastien, vice-president; Reynald N. Harpin, chief-research services.

14 APPRECIATION OF THE CAISSE FOURTEEN MAJOR INVESTMENTS





Diane Chevrier, secretary; Serge Leclerc, adviser; Paul-Henri Couture, adviser; Denis Giroux, vice-president.

In our case, the relative rate of return of this portfolio was positively influenced during the last two years by the fact that we have given more priority to high capitalization stock in comparison to other investors (**TSE 300**). Thus, theoretically, the appreciation of the 14 most important investments made by the Caisse was 54%, an increase which is quite similar to that recorded by the 14 most important components of the TSE 300 index, but a result much better than the 30.6% gain recorded for the overall 300 corporations in the Toronto Stock Exchange Index (**TSE 300**).

MAJOR TRANSACTIONS

The Caisse made sizeable acquisitions in the oil and gas sector throughout the year, particularly blocks of shares, in the form of private investments, in Sceptre Resources Ltd. and Geocrude Energy Inc. and also, through Brascade Resources Inc., a 30% participation in Westmin Resources. Also recorded during the year are a participation in Carron Inc., and private investments in John Labatt Limited and Bow Valley Industries Ltd. as well as one in Ivaco Inc.

Furthermore in 1983, the Caisse has given a fresh start to "Auberge des Gouverneurs", a well-known chain of hotels in Québec, with the help of its partners, the National Bank of Canada, the Trust Général du Canada and Assurance-vie Desjardins.

Finally, among the other major transactions, the investment in the Commercial Bank of Canada is worth mentioning and a participation in Groupe Robert Hamelin, an enterprise specialized in the manufacturing of plastic products.

MEDIUM-SIZED FIRMS

During 1983, the Caisse has increased its financial participation program promoting partnership in medium-sized firms located in Québec and not listed on the stock exchange. Indeed, by acquiring a minority interest in medium-sized enterprises that are well established, with a solid management team and whose growth potential is promising, the Caisse offers a solid support in the development of these dynamic Québec companies that are too often undercapitalized. Such investments are always made with a view of obtaining a performance which compares with other types of investments and take into account the risk factor inherent in these investments and their low liquidity. The Caisse particularly strives to assure the managers of these enterprises of its extended support and an added contribution through the expertise of the persons it suggests for their board of directors.

Moreover, the Caisse has agreed to increase existing loans, thus bringing the aggregate investments in medium-sized firms to 22 000 000 dollars for the period.

REAL ESTATE INVESTMENTS

In 1983, the Caisse continued investing in prime real estate. The net value of acquisitions was 78 million dollars. The real estate portfolio, valued at 266 million on December 31, had a realization value of 309 million.

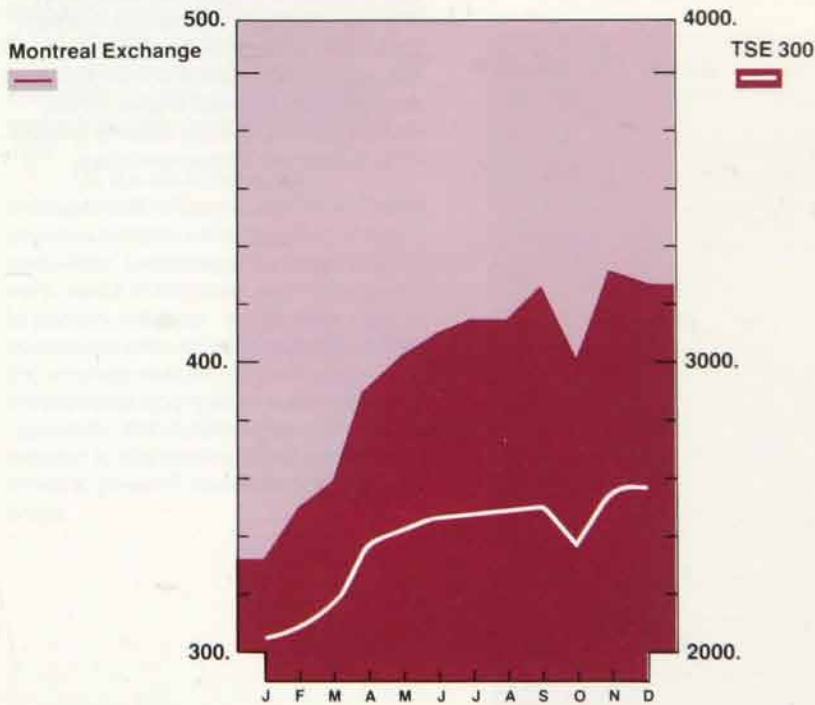
Moreover, the day-to-day management of some Caisse properties was entrusted to the Société immobilière Trans-Québec Inc., a specialized enterprise which the Caisse promoted and of which it is the controlling shareholder.



Alain Courville, adviser; Michele Tremblay, office clerk.

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INDICES OF THE TSE 300 AND THE MONTREAL EXCHANGE IN 1983





Yvon Sauvageau, vice-president; André Duchesne, analyst; Manon Belleau-Beaudet, analyst; Sylvie Dubois, computer operator.

Fixed Income Securities

SITUATION

During the fiscal year just ended, the evolution of the rate of return on fixed income securities, illustrated in Graph 18, stood in contrast with the heavy fluctuations of previous years. Thus, at year-end, the average return on long-term bonds, as well as the rate on commercial papers had only moved marginally when compared to December 1982. The rate

changes throughout the year were particularly small. For example, the return on Québec long-term bonds, after dropping to 12% following the 1982 movement, fluctuated around 12 $\frac{3}{4}$ %. On the other hand, short-term rates followed somewhat the same movement.

It should be noted that the economic climate which prevailed during the past years has left our society with an overall persisting fear that inflation would resume and has aroused new apprehensions regarding financial variables such as the exchange rate, stock market indices and interest rates. This disturbance has changed the very nature of fixed income markets to such an extent that interest rates fluctuate even before the situations apprehended can happen.

MANAGEMENT

Given the investment situation, the need for flexibility within fixed income portfolios became apparent because of interest rate movements. The securities included in the portfolios are classified according to the ease with which they are negotiable on the various markets. Securities with a high level of liquidity are those which can be accumulated or sold without any great impact on the market price; any other security is rated on a permanent investment basis.

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BREAKDOWN OF THE FIXED INCOME SECURITIES PORTFOLIOS ACCORDING TO ISSUERS

as at December 31, 1983

Securities	Realization value (millions\$)	Average nominal rate (%)	Average maturity (years)	Modified duration	Realization value (%)
Issued or guaranteed by the Gouvernement du Québec	8 812.1	11.74	11.38	5.65	69.7
Issued or guaranteed by the government of Canada	553.9	11.56	6.55	4.02	4.4
Issued by the U.S. government	368.3	11.09	4.04	3.09	2.9
Guaranteed by grant Municipal and school	461.0	12.35	5.57	3.45	3.6
Corporate and other	752.7	11.18	5.90	3.57	6.0
Mortgage financing	538.0	11.55	8.53	4.30	4.2
	1 156.9	11.72	5.61	2.56	9.2
Total	12 642.9	11.69	9.77	4.96	100.0

N.B.: Computation of the average maturity of bond securities was modified during the year to account for securities with maturity privilege; according to the new standards, the average maturity at year-end in 1982 was 12.12 years compared to 11.52 years as it was given.

The need for high liquidity securities derives from one major objective: to give more flexibility to the position of the various portfolios in order to act according to market behavior forecasts. Throughout the last period, outside of the domestic market, the major and most efficient source of such securities was the American bond market.

The management of high liquidity securities has to balance two important objectives: firstly, an optimal liquidity index must be maintained at all times for this portion of the portfolios, in order to control the overall risk through maturity structure modifications. Then, the disadvantage of holding high liquidity securities with a potentially lower return upon maturity must be reduced as much as possible.

In this regard, the Caisse has benefited from unusual but temporary conditions in 1983, the current rate of return obtained on American securities proved superior to that of equivalent Canadian securities, even after taking into account exchange variations. This situation prompted the managers to take advantage of this field of activity while offsetting the exchange risk inherent in this type of transaction by forward exchange contracts. It was thus possible to benefit from the high liquidity of the American bond market without committing ourselves as to eventual exchange rates, nor taking additional risks.

On the other hand, the management of permanent investments requires continuous monitoring of their maturities. Secondary markets are not very useful in this case, we must resort to primary markets: in selecting new purchases with different maturity dates, the average maturity of permanent investments changes as required. Generally, the duration hoped for with respect to this portion of the portfolios tends to present moderate risk at all times.

INVESTMENT STRATEGY

The main concern for 1983 was to define and implement investment strategies appropriate to each fixed income securities portfolio. The portfolios were analyzed in relation with the relative importance of the various investments, the value of securities in hand and the structure of maturities. Then, a program was devised to reduce the maturities through high liquidity securities. On the other hand, an average 6-year term was privileged for permanent investments.

Another concern was to place the bond and mortgage portfolios in an overall management of fixed income securities. In this regard, the modified duration concept is generally applied to measure the extent of the risk in relation to interest rate fluctuations.

As a whole, the realization value of fixed income securities held by the Caisse on December 31, was 12.6 billion dollars, the average nominal rate was 11.69% and the average maturity was 9.8 years. The average maturity of aggregate portfolios was reduced by 1.9 year while the average coupon dropped by ¼%.

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SUMMARY OF ACQUISITIONS BY THE CAISSE OF NEW BONDS ISSUED BY THE GOUVERNEMENT DU QUÉBEC AND HYDRO-QUÉBEC IN 1983

(nominal value - millions of dollars)

	Amounts of issues			Acquisitions by the Caisse ¹	
	Canadian market	Other markets	Total	Amount	Percentage of total
Gouvernement du Québec	1 030	632	1 662	825	
Hydro-Québec	560	935	1 495	150	
Total 1983	1 590	1 567	3 157	975	31
1982	1 458	2 901	4 359	1 025	23

¹Detailed information concerning acquisitions and distribution among the various funds will be found in the various tables of the Financial Statements and Financial Statistics Booklet.



Jacques Bouré, vice-president; Ginette Vincent, secretary; Damien St-Laurent, chief-administration services.

PERFORMANCE

In 1983, the performance of fixed income securities compared rather well with that of the average for the past eight years, without however getting closer to that of 1982 which was outstanding. As measured by the MYW 40/50 index, the bond annual performance was 9.6% compared to 10.4% for the 1976-1983 period as a whole. The Caisse bond portfolio, for its part, yielded 11.6% for the year and 10.6% annually for the eight-year period.

As for mortgage financing, over a one year period, the performance was 16.6%. This figure is 2.1% lower than that of the MYW mortgage index. The difference is due to a shorter average maturity of the Caisse securities portfolio in a declining mortgage rate environment. However, over an eight-year period, the difference between this market index and the Caisse portfolio is almost nil.

BOND INVESTMENTS

The net investments related to the overall bond portfolios during the period were 1.3 billion dollars, as compared to one billion in 1982. Purchases of new Gouvernement du Québec and Hydro-Québec bonds amounted to 975 million, respectively 825 and 150 million, as compared to 1 025 million in 1982, which corresponds to 31% of total issues.

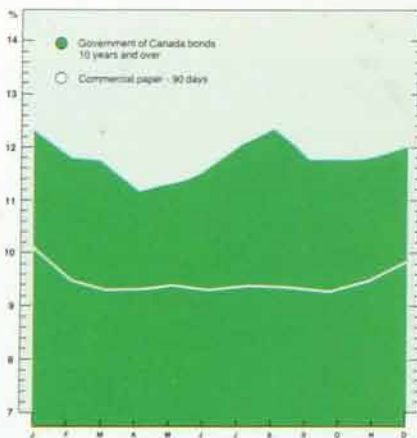
The acquisition of new bonds issued by municipalities, municipal bodies, school boards and those guaranteed by grant, totalled 41 million dollars in 1983, compared with 72 million for the previous year. Some variable rate investments must however be added to this amount, and they account for 24 million of the short-term securities portfolio.

The realization value of bonds held by the Caisse at December 31, was 11.5 billion dollars, the average maturity was 10.5 years and the average coupon was 11.7%. The average maturity of overall portfolios was reduced by 1.6 year.

CASH AND SHORT-TERM INVESTMENTS

As at December 31, short-term investments totalled 830 million dollars, a drop of 339 million over year-end 1982. The General Fund is the only active fund on this market; however a portion of each Individual Fund is directed in that market by means of demand or term deposits with the General Fund. The return on the General Fund short-term investment portfolio is 9.8%.

18 EVOLUTION OF YIELD ON CANADIAN SECURITIES IN 1983



Source: Bank of Canada Review

MORTGAGE INVESTMENTS

In mortgage financing generally, 1983 was a feverish year. Because of the economic environment, mortgage rates continued their downward trend initiated late in 1982. The strength of the economic recovery, together with the various government housing grants generated renewed activity in the construction sector which had been particularly affected by the last recession.

The increase in construction starts made the financing of housing by the Caisse easier. Thus, in 1983, the Caisse outlays for mortgage purposes increased by 100% as compared to the previous year and disbursements reached 206 million dollars for the period. From this amount, 60 million went to the Corvée-Habitation program in which the Caisse and other financial

institutions participate. This program was remarkably successful and enabled the housing construction sector to remain a key element in the Québec economic recovery.

At year-end, the stated value of mortgage financing was 1.2 billion dollars for the aggregate portfolios, and distribution was as follows: 57% for residential properties, 32.4% for commercial buildings, 6.4% for industrial buildings, and others, 4.2%.



Guylaine Couture, office clerk; Raymond Favron, responsible for the reception and delivery of securities; André Cayer, chief securities services; Suzanne Dutilly, office clerk; Yves Marois, accounting assistant.

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EVOLUTION OF LONG-TERM INVESTMENTS IN THE PRIVATE SECTOR

as at December 31
(stated value - millions of dollars)

	Shares and convertible securities	Bonds	Mortgage financing and real estate investments	Total
1983	3 563.6	519.7	1 444.8	5 528.1
1982	2 759.6	746.6	1 271.7	4 777.9
1981	2 316.7	887.4	1 159.9	4 364.0
1980	1 496.4	964.3	982.0	3 442.7
1979	1 105.7	945.9	881.2	2 932.8

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DISTRIBUTION OF MORTGAGE FINANCING

as at December 31, 1983
(stated value - millions of dollars)

Categories	Number	Balance	Percentage
Residential	21 967	672.2	57.0
Commercial	229	381.6	32.4
Industrial	94	75.0	6.4
Other	2	50.0	4.2
Total	22 292	1 178.8	100.0



Alain Tessier, director; Gilles Laporte, accountant; Danielle Tremblay, computer operator.

Administration

The Caisse administrative expenditures are paid for by the General Fund and apportioned among the various funds and portfolios on a pro rata basis of the weighted assets of each.

For 1983, administration expenditures amounted to 11 892 000 dollars, a 7.2% rise over the previous year. Of that amount, 6 864 000 dollars have been charged to the General Fund, 4 954 000 dollars, to the various Individual Funds and 74 000 dollars, to portfolios under distinct management.

The item "Salaries and fringe benefits" was, as in previous years, the greatest expenditure item claiming 53% of overall administrative expenditures. As regards employees, their number was 169 at the beginning of 1983 and 176 at year-end.

DATA PROCESSING

The implementation of the data processing master plan aimed at providing administrators with efficient working instruments was pursued during 1983. Efforts were mainly oriented towards the development of new management information systems. Moreover, new accounting software was installed and, in the Equity Investments Services, new individual micro-computers used for financial analysis purposes proved to be profitable. The Caisse also defined its office automation orientation for years to come.

Human Resources

The administration of human resources is a key factor of success in a corporation such as the Caisse which operates in a very specialized and strongly competitive milieu. The Caisse is aware of this fact and devotes much of its efforts and activities in the field of research.

Consequently, the Caisse has, during the fiscal period, implemented various measures to further invest in the field of applied research in the administration of human resources. It is worth underlining the setting up of a new assessment center for investment specialists. This multi-facetted method featuring, among others, situation exposure exercises, makes it possible to judge candidates and analyze the overall pertinent elements useful in the decision-making process of personnel administration.

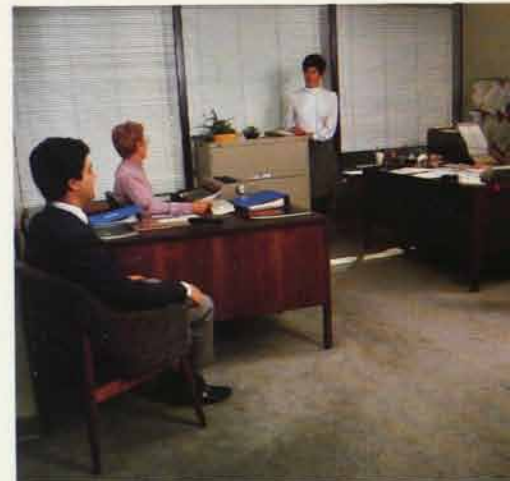
In addition, a master training plan was prepared for trainees; this program is intended for university graduates who are expected to become future replacement, and it has proved successful and helpful.

Major changes were brought during the year to the structure of the Caisse and this was an occasion to review the workload and functions of the Caisse senior personnel.

Employees continued to demonstrate great interest for state-of-the-art training; once again this year, a rather large number of our employees, supported by Management, enrolled in courses intended to develop their professional skills in fields that are relevant to Caisse operations or related to same.



Pauline Corbeil, switchboard-operator - receptionist; Lucie Desautels, switchboard-operator - receptionist; Antoinette Jagallo, computer operator; Oscar Dubuc, office clerk.



François Lefort, adviser; Denise Larocque, responsible for the payroll section; Louise M. Zakaib, director; Denise Lebeuf, office clerk.

Management Staff

Office of the Chairman of the Board and General Manager

Jean Campeau
Chairman of the Board and General Manager

Serge Desjardins
Director, Internal Audit

Planning and Depositors' Affairs Department

Denise Simard Chaput
Vice-President, Depositors' Affairs

Serge Houle
Director, Economic Analysis

Louis Journault
Director, Asset Mix

Fixed-yield Investments Department

Yvon Sauvageau
Vice-President, Bond Investments

Pierre Garceau
Senior Portfolio Manager, Operations

Bruno Bourgeois
Portfolio Manager, Transactions

Jacques Bouré
Vice-President, Mortgage Investments

Equity Investments Department

Carmand Normand
Senior Vice-President, Equity Investments

Denis Giroux
Vice-President, Corporate Investments

Serge Leclerc
Adviser, Corporate Investments

Michel Bastien
Vice-President, Stock Market Investments

Pierre Dufresne
Assistant to the Vice-President, Stock Market Investments

Philippe Girard
Senior Portfolio Manager

Maurice Hébert
Portfolio Manager

Claude L. Langevin
Portfolio Manager

Reynald N. Harpin
Chief, Research Services

Legal and Corporate Affairs Department

Jean-Claude Scraire
Senior Vice-President, Legal and Corporate Affairs

Marcel Camu
Secretary

Gérard J. Blondeau
Director, Information Projects

Administration and Control Department

Jean Trudel
Senior Vice-President, Administration and Control

Pierre E. Langlois
Assistant to the Senior Vice-President, Administration and Control

Yves Benoit
Director, Data Processing Services

Gody Lienhard
Director, Resources and Supplies

Alain Tessier
Director, Accounting Services

Louise M. Zakaib
Director, Human Resources

The Caisse Management wishes to take the opportunity of this annual report on 1983 activities to thank all employees for their support, which is one of the key factors for the results obtained. It is because of the expertise of its employees, their continuous efforts, their constant willingness to achieve efficiency, productivity and profitability that the Caisse can pursue its objectives successfully. Management is pleased to pay tribute to their loyalty and to thank them.



CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

Combined Summary Financial Statements

BALANCE SHEET

as at December 31, 1983

(thousands of dollars)

ASSETS	1983	1982
Investments		
Bonds	\$ 11 927 577	\$ 10 572 392
Shares and convertible securities	3 563 592	2 758 531
Mortgage financing	1 175 610	1 078 145
Real estate investments	265 981	188 303
Short-term investments	829 505	1 168 548
	17 762 265	15 765 919
Other assets	368 564	331 469
	18 130 829	16 097 388
LIABILITIES	105 197	74 776
DEPOSITORS' HOLDINGS		
General Fund	11 726 107	10 744 070
Individual Funds	6 299 525	5 278 542
	\$ 18 130 829	\$ 16 097 388

INCOME AND EXPENDITURE

for the year ended December 31, 1983

(thousands of dollars)

INCOME	1983	1982
Investment income	\$ 1 751 253	\$ 1 577 632
Gain and loss on sale of investments	60 856	63 812
Other income	329	352
	1 812 438	1 641 796
EXPENDITURE		
Administrative expenditures	11 818	10 986
Transfer of gain and loss to reserve	33 728	59 607
BALANCE OF INCOME	1 766 892	1 571 203
INCOME ATTRIBUTED		
Interest on demand and term deposits	30 487	51 338
Income on participation deposits	\$ 1 736 405	\$ 1 519 865

Note: Detailed financial statements are provided in the booklet entitled Financial Statements and Financial Statistics which is part of the 1983 Annual Report

CAISSE
DE DÉPÔT
ET PLACEMENT
DU QUÉBEC

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