



Caisse de dépôt et placement
du Québec

THE CAISSE'S APPROACH TO THE OPTIMAL UTILIZATION OF RESOURCES

PREAMBLE

The initiatives of the Caisse with regard to the optimal utilization of resources are taken within the context of:

- / The Caisse's mission, which consists of managing depositors' funds in order to achieve an optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development;
- / The Caisse's ambition to become recognized as a benchmark organization among institutional fund managers, particularly by exercising leadership in the fields of governance and integrated management and by keeping in mind:
 - The Caisse's structures, activities and ways of conducting business;
 - The relevant work performed by Internal Audit.

WHAT IS MEANT BY OPTIMAL UTILIZATION OF RESOURCE?

The closest reference to the expression "optimal utilization of resources" is "value-for-money". According to this universally-recognized concept, all business processes are characterized by the use of a group of inputs (resources), which are transformed (activities) into outputs (results). The optimization of resources is based on three characteristics: economy, effectiveness and efficiency.

The economy of resources consists of acquiring resources of the required quality, at a reasonable cost and in a timely manner. The effectiveness of resources is aimed at ensuring the adequacy of resources relative to business needs and their appropriate use. The efficiency of resources is measured by the attainment of an organization's business objectives.

OPTIMAL UTILIZATION OF RESOURCES AT THE CAISSE

The Caisse's Board of Directors and senior management are committed to ensuring that:

- / The Caisse's strategic orientations, business plans, administrative management, operational and control practices as well as systems and tools are established or designed so that their implementation generally allows the organization to achieve the results it seeks, which is referred to as "effectiveness";
- / The resources needed to achieve results are acquired and managed with due regard for "economy" and "efficiency".

The Caisse's resources, processes, systems, tools and controls are designed to form a coherent whole so that it can meet the depositors' expectations. In order to achieve this objective, the Caisse's senior management optimizes its resources in order to:

- / Achieve depositors' performance objectives;
- / Develop management practices that correspond to the sound practices used by the institutional fund management industry;
- / Make proper use of the funds made available to manage its activities.

DEFINITION OF RESOURCES

The Caisse uses the following resources, grouped into two categories, to achieve its mission:

INVESTMENT RESOURCES

They consist of depositors' holdings as well as the asset mix resulting from the depositors' investment policies. This is the Caisse's most important type of resource. It is this resource for which the Caisse must strive to earn an optimal return within the framework of depositors' investment policies.

The four following resources are grouped together under "Operating Resources" since they represent the resources which are made available to the Caisse's senior management by the depositors and the Board of Directors. These resources are vital to the achievement of the depositors' objectives.

OPERATING RESOURCES

Financial Resources

They consist of all the financial means at senior management's disposal to manage depositors' holdings and realize the Caisse's business plan. They include operating budgets, capital budgets as well as all the costs pertaining to the trading of investments, most notably commissions and fees paid to professionals or financial intermediaries.

Human Resources

Internal Management

This refers to the Caisse's employees and the infrastructure set up to adequately manage the employer/employee relationship. These resources also include the consultants working within the Caisse.

External Management

This refers to the external managers mandated by the Caisse to actively manage a portion of the investment resources.

Technological Resources

These include the technology or computer infrastructure, equipment, systems, software, tools and applications supporting the realization of the Caisse's business plan. They include technology outsourcing resources.

Information Resources

These consist of the inputs and outputs of state-of-the-art operational research, meaning all information that can be used to generate a return on investments (databases, terminals, external research, internal research (macroeconomic, investment policy and by asset class) and documentation centre). They also include the information resources of the Caisse's information department.

FUNDAMENTAL COMPONENTS OF THE OPTIMAL UTILIZATION OF RESOURCES

Optimal resource use at the Caisse is based on the following fundamental principles:

- / The Caisse promotes a culture of ongoing improvement. When an opportunity for improvement arises, employees are therefore encouraged to convey this opportunity.
- / The Caisse conducts complex, diversified fund management activities. Investment and management decisions are centralized in Montréal. This centralization enables weaknesses in the different investment or management processes to be identified rapidly and corrective action to be taken.
- / As part of its day-to-day operations, the Caisse conducts benchmarking work on its main activities and systems in order to identify the best practices. This work can result in additional analyses leading to changes which generally have a positive impact on the optimal use of resources.
- / The Caisse has signed a service agreement with the majority of its depositors. These agreements impose several requirements on the Caisse. The Caisse periodically mandates an outside firm to assess the depositors' level of satisfaction with the Caisse.

- / The Caisse manages the depositors' individual funds in accordance with the specific investment policy of each depositor. It reports to the depositors on a regular basis on changes to their funds. Returns are periodically transmitted and explained to the depositors.
- / The Caisse actively manages its specialized portfolios in accordance with investment policies. The returns of the specialized portfolios and those of the indices are monitored periodically by the Performance Measurement and Analysis team, which works independently from the investment groups.
- / At year end, the financial statements and calculations of the returns on the specialized portfolios are subject to an independent audit and disclosed in the Caisse's annual report.
- / The remuneration of the Caisse's officers and employees is based on the best practices in this field. Compensation policies are approved by the Board of Directors and officers and employees are familiar with them. A formal performance evaluation process is in effect and incentive wages are based on audited financial data.
- / The Caisse has teams, separate from the investment groups, that are responsible for monitoring budgets for operating expenses, human resources, information technology and major suppliers.
- / The Caisse has a policy on the granting of contracts, which ensures that skilled suppliers are selected at reasonable prices.
- / With regard to the costs pertaining to employee compensation and other operating expenses, the Caisse conducts regular analyses in order to compare its costs with those of the institutional fund management industry.
- / Internal Audit has the resources necessary to accomplish its mandate, which includes auditing the optimization of resources. This team reports directly to the Audit Committee of the Board of Directors. The Audit Committee approves the three-year plan and annual work plan, reviews the results of the work completed and may require that additional work be performed. Internal Audit may use recognized independent experts to help it carry out its audit missions, including those relating to the optimization of resources.
- / The Caisse's control culture provides for major deficiencies to be communicated to the appropriate persons and corrected rapidly in accordance with the costs and efforts required. Internal Audit conducts a follow-up of the recommendations made as part of its duties.

APPENDIX A

The following diagram outlines the process used for the optimal utilization of the Caisse's resources.

1. Operating resources are acquired and managed using mechanisms that enable adequate resources to be available in order to perform the main activities and prudently manage costs and their evolution.
2. Investment resources are actively managed using the operating resources needed to perform activities which have a major impact on returns.
3. The efficiency of resources is measured as a whole, by assessing results relative to industry standards, that is in comparison with benchmark indices.

