



OVERALL PORTFOLIO MANAGEMENT

SUMMARY FOR THE YEAR

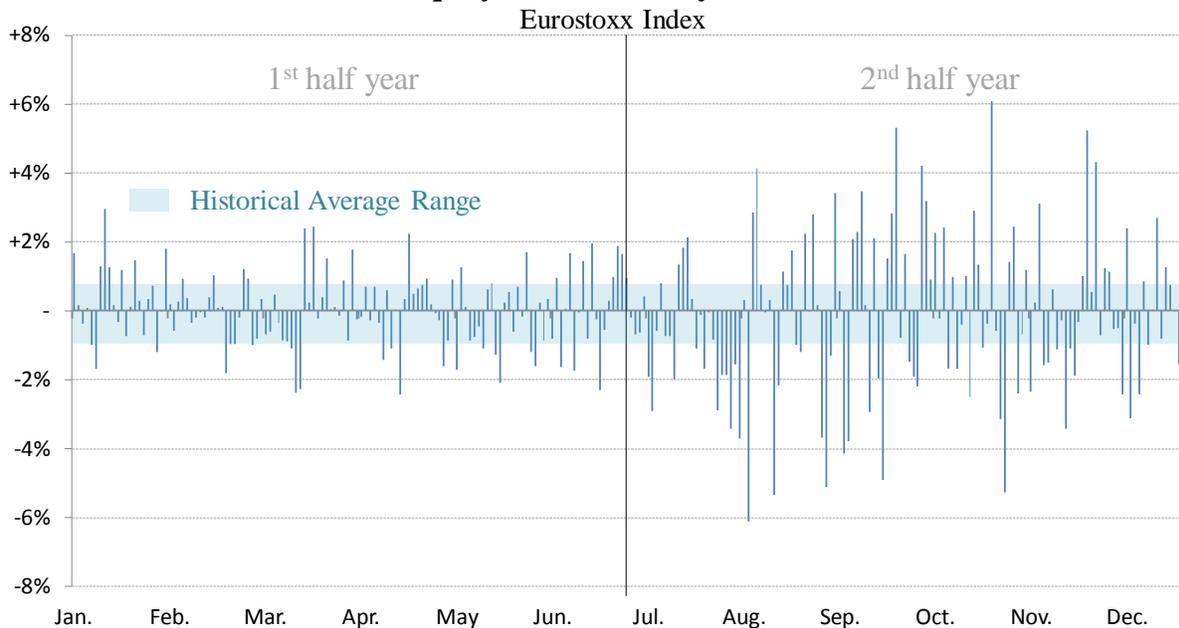
In a year marked by the European economic crisis and global uncertainty, there was a sharp rise in market volatility, essentially in the latter half of the year. In this context, overall portfolio management began to include protecting assets against a major decrease in equity markets. Due to efforts made and the tools developed in the past three years, hedging positions were managed in a flexible manner to take changing risk into account. As a result, the volatility for Caisse portfolio returns was significantly reduced.

MARKET CONDITIONS

The year started off with the Arab spring and the Tsunami in Japan. However, although these were major events, they ultimately had only a marginal impact on equity markets. Buoyed by a good outlook for growth and continuing expansionist monetary policies, in addition to major increases in profits recorded by publicly listed companies, western equity markets saw growth of approximately 1% to 3% in the first half of the year. Most importantly, this growth was achieved in an environment marked by little volatility, showing that investors were starting to regain their confidence in the markets.

There was a completely different story in the second half of the year. The downgrade of the U.S. credit rating and, especially, a deepening crisis in Europe had an impact on equity markets around the world. In the third quarter, markets tumbled by between -7% (U.S.) and -16% (Europe and emerging countries). Canadian markets declined by 12%. In addition to these equity market declines, there was a substantial increase in volatility which also remained in the fourth quarter. This illustrates the extent of the systemic risk at the height of the European economic crisis.

Equity Market - Daily Return



PORTFOLIO MANAGEMENT

During the first six months, and considering the improvement in the market environment, the asset allocation for the overall portfolio remained close to the benchmark. Equity market exposure therefore remained around 37%.

During the summer, the deteriorating economic outlook in the U.S., the downgrade of the U.S. credit rating, and Europe's inability to find a credible solution to the crisis in Greece led the Caisse to put in place defensive measures to protect the overall portfolio. In September, there was the risk that the crisis in Greece would spread to the rest of Europe, affecting the banking sector as well as peripheral countries. Due to the threat of a systemic crisis, the Caisse further reduced its equity market exposure, which stood at 30% in September.

The European Summit held in October made it possible to officially recognize the need to recapitalize European banks and to recognize major losses on Greek debt. This systemic risk then gradually diminished with changes of government in Greece and Italy, followed by the arrival on the scene of the European Central Bank in December. In this context, hedging positions were significantly reduced without being completely cancelled.

In addition to these equity market hedging positions, the Caisse ensured prudent cash management throughout the year. Cash varied between \$5 billion and \$9 billion during the second half of the year.

The following chart presents changes in Caisse equity market exposure:

