



## NEW FOCUS AT THE CAISSE DE DÉPÔT

As we start a new year, I want to provide Quebeckers with an update on our progress at the Caisse and on our priorities for 2010.

The Caisse has just lived through the most difficult time in our history. The economic and financial environment has changed radically. As a result, we have had to make important changes.

The leadership of the Caisse has been rebuilt with a mix of new talent with fresh perspectives, along with our most capable executives who know the institution well.

These changes are part of a broader plan to take the Caisse forward — the product of discussions with our employees, our depositors, and, of course, our Board of Directors who have given it their full support.

### **Plain old common sense**

Some basic principles have guided our work. They are based on the value of “plain old common sense”: simplicity, rigour, performance, and a focus on the client. It is on the basis of these principles that we are building solid foundations for our long-term success.

We simplified the way we work and returned the organization to its core capabilities, where we have a strong track record. Going forward, we aim to invest only in financial instruments that we understand and that we have mastered.

We have restructured and simplified the management of our investment activities, returned the focus of our Real Estate group to its proven operational skills and eliminated much of the financial engineering activities largely responsible for our 2008 results. And we have rebalanced our investment portfolio by progressively buying \$9 billion in equities to help us benefit from the rebound of the equity markets.

We have reviewed our risk management practices and capabilities with a fine-toothed comb. We have implemented a great many changes that were to take three years in ten months.

We have also changed how we communicate to be more transparent. For example, we have decided that from now on, we will provide an overview of our results at mid-year, every year — a first in Caisse history.

Given that we are a long-term investor, we need solid financial foundations that can weather market turbulence. So we have taken action to almost double our liquidity and we have reduced our financial exposures, including our debt, by some \$20 billion. We’ve also cut our dependence on short-term financing, replacing it with more stable, long-term bonds. In only two months, we have been able to refinance more than \$7 billion — a testimony to the confidence global investors have in the new directions at the Caisse.

All this to say, the Caisse is much healthier today than it was last spring.

## Five priorities

Despite our progress so far, there is still a great deal of work to do.

Our objective is to create a service-oriented culture at the Caisse, focused on taking well-understood risks, to provide our depositors with the long-term returns they need. In other words, the returns that are necessary to meet the requirements of the pension and insurance plans that serve all Quebeckers.

How will we do it? By making the needs of our clients — our depositors — the everyday focus of all of our people. To do this, we have established five priorities for the next 18 months.

Our first priority is a new model of broad-based **collaboration** with our clients — to make it easier for us to understand their needs and for them to understand our investment strategies. And we will develop detailed contracts that set out in clear terms our commitments to each of them.

Second, our investment strategies and objectives will be built on the principle of acting "in the **spirit of a fiduciary**" — in other words, always trying to generate risk-adjusted returns that are well aligned with the liabilities of our depositors. By drawing on our comparative advantages, the Caisse will offer them flexibility, competitive investment portfolios and customized strategies to better protect them against interest rate and inflation risks while providing sustainable returns.

Third, we have the opportunity to capitalize on our deep understanding of **Québec's** economy to take a larger role here. We can and should take advantage of our proximity to invest in promising Québec companies — especially small and medium enterprises — that can offer meaningful returns for our depositors. This is exactly the goal of the \$600 million partnership we have established with the Desjardins Group. We also intend to use our financial expertise and our networks of relationships to help mid-sized Québec firms in their development and to enable them to successfully expand abroad. Working in this way, we can deliver the returns our depositors need while contributing to the economic development of Québec. The two go hand in hand.

And we will continue improving our **risk management** capabilities: our fourth priority. To be clear: risk management is not about avoiding risks — risk is an inherent part of investing. Instead, we believe risk management is about understanding the risks we take and choosing them with judgment and precision. When we can do that, we can take and manage the risks that are necessary to generate the returns expected by our depositors over the long haul.

Our fifth priority: changing the **culture** of the Caisse — changing how we work. While this starts with understanding the needs of the client, it touches many other things: having our portfolio managers balance returns and risks in all their decisions; putting an emphasis on collaboration and teamwork; setting high standards; and perhaps most important, understanding that our expertise is at the service of our depositors and of Québec.

## **Building solid foundations**

Clearly, 2009 was a year of transition, marked by a number of major changes. That work will continue in 2010 as we implement our five priorities. Building solid foundations is essential to our long-term performance.

But delivering on these priorities is really only a first step — a necessary part of our evolution. To generate the sustainable and competitive returns that Quebeckers are right to expect for the future, we must build an institution that can seize opportunities and win in the markets of the world, particularly those offering the strongest rates of economic growth. So as we execute on our plan for 2010, we will be laying the groundwork to build the world-class capabilities we need to excel and to find our place among the world's great institutional investors.

Michael Sabia  
President and Chief Executive Officer  
Caisse de dépôt et placement du Québec