



BOARD OF TRADE OF METROPOLITAN MONTREAL

**Speaker's Notes for
Mr. Michael Sabia
President and Chief Executive Officer**

Montréal, November 4, 2010

Check Against Delivery

Thank you.

Good afternoon, everyone.

When I enter the office every morning, just across from here, on Place Jean-Paul Riopelle, I think about the privilege of leading the Caisse — an important Québec institution, an institution with immense potential.

The most urgent task, upon my arrival 18 months ago, was to get back on track.

Since then, we have made significant changes:

- We renewed our management team
- We simplified our investment strategies
- We reduced risk and tightened our risk controls
- We developed a client-centric culture

Our performance has improved.

We still have work to do, but it's better now.

Now that the Caisse is resting on more solid foundations, it is time to look to the future.

In doing so, we will address a series of questions and issues that give us the tools to seize opportunities for building a strong, successful Caisse in the coming years.

Our strategies for addressing these challenges represent a new chapter for the Caisse.

Today, I will focus only on one of these strategies: our contribution to Québec's economic development.

To do this, it is essential to return to a moment in history.

In the 60's, Québec launched reforms that brought many changes.

This revolution — a quiet revolution — was sparked by the intelligence and visionary spirit of Québécois of the time.

Allow me to share a Premier Lesage quote from 1965:

“A financial institution may be revolutionary by its very nature.”

It seems to me that the spirit that led to these changes can be summarized as follows:

Realize your potential

The genius of the Caisse's architects — Lesage, Parizeau, Castonguay, Marier — was to understand the importance of adding a financial institution to all the other reforms, a financial institution to make Québec's social and economic transformation possible.

The Caisse was founded to serve this purpose.

At that time, the world was very different.

It was cut in half, immersed in the Cold War.

In China, a revolution was just beginning: the infamous Cultural Revolution.

The European Union was still light years away.

There was no free trade and nobody talked about globalization.

There was no Internet, no laptops, no cell phones, no Google.

Imagine such a world.

The world has changed.

Almost 50 years later, the Cold War is over.

We have global markets.

Instant communications.

And a global world.

China has become the world's second-largest economy.

The euro is the currency for a market of more than 350 million people.

India, Brazil and many other countries are also becoming leading economic powers.

Quebec has also changed.

We've become a world centre of high value-added sectors:

- Multimedia
- Aerospace
- Engineering
- Biotechnology
- Environment technology

There are Laurent Beaudoin, the Lemaire brothers, Serge Godin, Alain Bouchard, Marcel Dutil and many others.

And now we see a whole new generation: Pierre Beaudoin, Sophie Brochu, Marc Dutil, Guy Laliberté, Monique Leroux, Pierre Karl Peladeau and more.

It has become quite normal to see Francophones at the head of the Québec economy. What's surprising now is to see an Anglophone Quebecer at the head of the Caisse... This just shows you how much things have changed.

How do we best serve Québec in 2010?

Here, we must ask a fundamental question.

In this incredibly different world, how can the Caisse serve the best interests of Québec?

Must we adapt to a new reality?

The answer is yes. The Caisse is ready to keep pace with this new emerging world.

This must be based on our comparative advantages:

- Our in-depth knowledge of Québec
- Our role as a long-term investor
- Our critical mass
- Our international scope

The objective of the Caisse remains the same.

Here's what Mr. Lesage had to say about the Caisse in 1965 — and I quote:

"It must both meet the criteria for adequate profitability and make funds available for Québec's long-term development."

As in 1965, we must grow the assets of our long-term depositors, so they can meet their obligations. This is vital for Québec.

It has never been more important than today, as many Québecers are about to retire.

Québecers must know that they will have access to their pension funds.

This is crucial. That's why we reinforced the Caisse's foundations.

That's why we make investments based on our comparative advantages.

We are willing to take risks — calculated risks — by investing in high-quality companies.

Well-managed, promising companies.

And where can we invest with a clear comparative advantage?

In Québec.

We have an intimate knowledge of the local market, economy and companies.

It is only natural that, in the pursuit of healthy returns, we invest here.

You cannot artificially separate the issues of returns and Québec's economic development.

The two go hand in hand.

Accordingly, we aim to seek and seize profitable private equity, stock and real estate investment opportunities.

In small, medium-sized and large companies.

In every region of Québec.

In this respect, our commitment is quite clear.

The \$1.4 billion increase in our private sector investments in 2009 is very real.

We're here to serve our clients, to serve Québécois.

Invest for the long term

How? By making long-term, stable and profitable investments in the areas we know well.

Take, for example, Gaz Metro:

- It's profitable
- It's low risk
- It has good cash flow
- It operates in one of Québec's vital industries

This investment is perfectly in line with the needs of our clients.

And, at the same time, with our Québec development objective.

That's why we recently decided to increase our stake in Gaz Metro by purchasing SNC-Lavalin shares.

Invest in SMBs

Right now, I'm talking about a big company, but we also focus on SMBs.

Québec has been successful for 30 years as a remarkably diversified economy.

Such a thing is possible with dynamic SMBs.

International companies sometimes start in the basement.

Serge Godin literally started CGI in his basement.

Today, it's a company with 30 000 employees in 15 countries.

Cascades, originally a family business, is another example of how an economy can grow over time.

Of course, there are dozens of Québec SMBs that may turn into major global organizations.

There are hundreds of young entrepreneurs, extraordinary managers, scientists and technicians — determined, full of new ideas.

They are the ones who are building the Québec of tomorrow.

We must invest in the best, the most promising.

Not only to contribute to Québec's development, but also to seize business opportunities.

SMBs are everywhere in Québec. But not the Caisse.

How can we ensure that SMBs have access to our expertise and financial resources?

Our response: by forging a partnership with Desjardins, a financial institution very well integrated into the social and economic fabric of Québec.

Together, we created a \$600 million fund.

We have already started investing...

From Montreal to Daveluyville
From Métabetchouan to Val-d'Or
All the way to Havre-Saint-Pierre

We will make sure to find SMBs dedicated to a bright future and provide our services and funds to develop Québec — as a whole — over the long term.

As far as I'm concerned, I will continue doing my part.

I'll go to any region and talk to people about what we do.

What we can do *with* them and *for* them.

Looking Ahead

Our contribution need not only be our financial investments.

Given the volume and scope of the Caisse's activity, this institution can act as a financial integrator.

We are active, directly or indirectly, in any business related to finance.

The Caisse can, as a result, help broaden Québec's financial expertise.

This brings us to our relationships with Québec universities.

For years, we've had ties with UQAM, McGill and HEC.

Now we've gone even further:

- Within the Caisse, an ongoing internship program
- With the Université Laval and UQAM, research programs in financial analysis
- With Sherbrooke, an agenda for research on investment practices
- With École de technologie supérieure, a financial engineering program
- And with Concordia, a sustainable investment program

So these are altogether another type of investment...in Québec's financial expertise.

An investment, so to speak, with a very healthy return.

Develop the financial environment

As a financial integrator, we do not only work with universities.

In the normal course of our business — including our subsidiaries — our operating expenses in Québec reach hundreds of millions of dollars a year.

This critical mass was intended by Caisse's creators.

We use it to help maintain a vibrant, modern financial sector in Québec.

By, for example, favouring Québec suppliers with the right expertise and price.

We can also encourage foreign companies with whom we do business to locate here.

That is what the Caisse did in the past with *State Street*, under the leadership of Michel Nadeau.

Or by supporting structural initiatives.

For example, the Montreal financial cluster project.

This too will deliver healthy returns, because a vibrant financial sector can create wealth.

Wealth for all of Québec.

The international challenge

The Caisse is very active as a financial investor and integrator in Québec.

My question: Is it enough?

In a world that has changed profoundly, is that enough to fulfill our long-term Québec development role?

Is the Caisse doing everything it can to help Quebec realize its potential?

My answer is no.

Because, to succeed, Québec must also realize its potential internationally.

Therein lies the challenge.

The world we have known since the fall of the Berlin Wall no longer exists.

There is another profound transformation underway.

After the fall of the Berlin Wall, free trade, globalization and international finance had the wind in their sails.

Optimism reigned.

This era is over.

Since then, certainty has given way to uncertainty.

Optimism has given way to anxiety.

Now we live in a more complex, turbulent world.

In this environment, we may be quick to withdraw, worry.

It would be a tragic mistake. A step backwards.

In the late 80s, it was Quebec that led the charge for free trade.
And it served us very well.

Today, we must again choose to take on the world, a world of ferocious competition between countries, where trade is not always free and where countries and companies

relentlessly seek ways to tip the balance in their favour. Quebec cannot hide from such a world. Quebec must win. And to win, we must be willing to realize our potential.

Today and tomorrow, competition will come from all corners of the globe.

So will business opportunities.

Québec has the ability to meet this challenge and seize these opportunities.

And the Caisse can play a major role.

The objective remains the same, but this is the way to do what must be done in this era.

The Caisse must become a bridge — a bridge to Quebec companies that can conquer global markets.

The Caisse: An international bridge

In this incredibly different world, the challenge will not be easy.

For 20 years, Quebec's share of Canada's total exports has declined.

The ratio of exports to GDP of Quebec is lower than the Canadian average.

Only 30% of Québec's small and medium-sized export companies are in Europe.

Only 16% of these SMBs are in Asia.

That's just too little.

Québec is facing an international challenge.

To enrich itself, to build large companies, Québec should export more.

And it should do it around the world.

There is no doubt in my mind that Québec's economic future will be partly decided by our ability to penetrate major markets worldwide.

The fact that a society of fewer than 8 million people has such a financial institution is not a common phenomenon.

And given the limited size of the Québec and Canadian economies, the Caisse has been motivated to expand its presence in international markets over time.

45% of our equity securities are international.

55% of our real estate portfolio is located abroad.

And 70% of our private equity is outside Canada.

To obtain returns for our depositors, we will continue to expand our presence in new international markets.

The Caisse's international perspective.

Our investments worldwide.

Our network of international contacts.

Our expertise from new markets.

All of it can be put to the service of Québec companies.

First, in the U.S. market.

Despite the difficulties of our neighbours, we are, after all, talking about the world's largest economy and a market we know well — a market that must remain a priority.

Québec must also broaden its presence in Europe, a market of more than 500 million people.

To simplify Québec company access to this market, we entered into a partnership with AXA Private Equity, a large French firm, in October 2009.

At the same time, of course, we must look toward Asia and South America — to countries with very strong growth.

With this in mind, we just forged a partnership with HSBC, a global financial institution with a strong presence in Asia and Brazil.

This agreement aims to provide Québec companies with the support of both institutions.

They offer financing for international projects of over \$10 million.

This expertise and these networks are for our depositors, Québec businesses and, in turn, Québec.

At the same time, we launched a co-investment strategy with Québec companies.

Cirque du Soleil, already well-established in many countries, is a good example.

With Cirque du Soleil, we recently co-invested \$25 million in a production and development fund. The goal? Create new products that will broaden the Cirque's presence worldwide. The Caisse has critical mass, expertise, scale and credibility in international markets.

And we aim to further extend our network of contacts and expertise around the world, especially in emerging countries.

In the future, we will develop more partnerships with international institutional investors who share our long-term vision.

Sovereign wealth funds or other international pension funds in Canada, Norway, China or Singapore.

I think that's where a vital part of the Caisse's contribution can be made — where the Caisse can serve as a bridge between our portfolio companies and the world.

This is *the* part of our economic development strategy that we must emphasize and intensify.

The Caisse's international dimension, which contributes to Québec's brand image and reputation worldwide, is part of the legacy we have inherited from our predecessors. A legacy that we must continue.

Conclusion

After Mr. Lesage stated that a financial institution could be revolutionary, he added:

"It must evolve, however, only by accepting the most rigorous principles."

By reinforcing the Caisse's foundations, we wanted to go back to basics.

To the rigorous principles that guide everything we do to generate returns.

By contributing to Québec's economic development, we will do the same.

Guided by common sense, advancing step by step, building upon our comparative advantages.

The world is changing.

To realize its potential, Québec must meet this challenge, seizing every opportunity along the way.

That's why we're determined to be a bridge between Québec and the world.

THANK YOU.