



CHAMBRE DE COMMERCE ET D'INDUSTRIE DE QUÉBEC

“The Caisse in a Turbulent World”

**Speaker's notes
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Thank you very much for this invitation. I am pleased to be in Québec City to speak to you today.

I am also especially pleased to be here at the Château Frontenac, which is an important part of Québec's heritage in addition to representing a prestigious investment made by the Caisse.

As members of the business community, you face a volatile and turbulent world that is constantly changing and full of challenges each and every day.

We, at the Caisse, must deal with the same reality.

I would like to talk to you about the global economic situation and, in particular, how the Caisse plans to position itself for the future.

THE GLOBAL ECONOMIC SITUATION

We are being bombarded by bad financial and economic news every day.

- Excessively high sovereign debt and problems of contagion in Europe
- Weak growth in developed countries
- A weakening financial system

Which explains:

- The slide in the world's major stock markets, which have tumbled by 10% to 20% since August 1st
- The fall of stock prices for Société générale, one of the largest banks in France, by approximately 70% since February
- Increased variations in the S&P index in early August, sometimes up to 7% in one day

In a nutshell, we are in an uncertain and volatile environment.

I see two types of issues before us:

- In the foreground and in the shorter term, there is turbulence stemming from a financial and economic storm that is being felt especially in Europe.
- In the background, profound structural changes are being brought about by the spectacular rise of so-called emerging markets. In my view, this is equivalent to shifting tectonic plates in the global economy.

A storm combined with colliding tectonic plates. We are certainly living in changing times!

1. In the foreground: a financial and economic storm

First, the storm.

The most serious issues are being felt mainly in Europe. If these issues are not managed properly, the situation may spread to other economies. No country is immune.

Right now, Europe is caught in a vicious circle:

- Weak economic growth is raising fears regarding the size of sovereign debt...
- Which is raising doubts as to the market capitalization of banks...
- These doubts make it more costly for banks to obtain capital...
- All this results in lower business and consumer credit...
- Which, in turn, has an impact on economic growth, jobs and consumption...
- And then it all starts again!

Bold political measures are needed to break this vicious cycle.

Europe has to take action. However, to date, Europe's political leaders have failed in this area, with the greatest doubts being raised in Germany.

Unfortunately, similar problems are being felt in the U.S., which makes the situation even worse. The United States will have no alternative but to address these same issues itself.

However, given the political context, it will be unrealistic to do so before the November 2012 elections.

Consequences will obviously be felt in Canada and here in Québec. This is unavoidable. However, we are rather well positioned compared to other developed economies.

First of all, we have a solid financial and banking system that is the envy of the world.

We are also lucky to have an abundance of natural resources that are being sought following an explosion of demand on the part of emerging markets.

2. Structural changes

All this is a lot to manage at the same time.

But there are other underlying phenomena that must be considered as well.

What does all this mean?

Our geopolitical, economic and financial environment is undergoing a profound transformation.

This is the equivalent of shifting tectonic plates on a continental scale: an inescapable, gradual, and *irreversible* process.

The world is clearly evolving to have two global economic spheres, with weak growth in developed countries and strong growth in emerging economies.

The vitality of emerging markets is clear.

- These countries are creating new global manufacturing giants.
- They are seeing rapid urbanization, with 1.3 million people migrating to cities each week. In other words, this is equivalent to 10 new cities the size of yours each month!
- One billion new consumers will also be added to the middle class within the next 10 years.

What does all this mean? Investment opportunities.

Of course, there will be ups and downs. Nothing is perfect.

At the same time, however, developed economies seem to be sputtering as they try to take on various challenges, namely:

- Problems stemming from demographics,
- Growth-related problems, and
- Productivity issues.

It is the combination of these two major phenomena in the foreground and in the background that is creating the climate of instability and extreme volatility that we are currently experiencing.

This transformation will not be complete from one day to the next.

Adjustments will have to be made and there will clearly be some upheaval.

Yet it is not all doom and gloom. A highly volatile world also provides some investment opportunities.

For whom? Long-term investors like the Caisse.

The Caisse must adjust to this environment

This is the world that we face.

I'd like to say it again: *nobody is immune to the global economic crisis.*

Not the Caisse, not Québec, not any of our businesses.

This being said, however, the Caisse has never been in a better position.

Why? Because we have rebuilt our foundations in the last 24 months.

Thanks to our efforts, the Caisse is now on a more solid footing.

We have more flexibility and agility to navigate in these new turbulent waters.

But how should the Caisse position itself in this context to maximize its performance?

Also, what contribution will we make to position Québec and local businesses in this global environment?

This is quite a challenge—and one that the Caisse is ready to meet.

Our success will be measured in two ways: the return on our depositors' investments and our contribution to Québec's economic development.

These two components of our mission guide our decision-making each and every day.

The Caisse firmly took root here in Québec City when Jean Lesage gave a speech upon its creation in 1965.

Mr. Lesage said this:

“The Caisse must be able to meet satisfactory profitability criteria and make its funds available to ensure Québec's long-term development.”

Our strategy for achieving this is based on three pillars.

Québec: How can we best serve Québec's interests?

The world: How can we seize the best investment opportunities?

Our world: How can we provide the Caisse with the skills needed to achieve our ambitions both in Québec and in the global economy?

We firmly believe that knowledge will make the difference. But not just the ability to read balance sheets. We have to go much further, examine situations more carefully and better analyze the fundamentals. Yes, it is important to understand financial performance, but it is equally important to understand each investment operation.

It is this expertise that will allow us to distinguish ourselves. Given the current volatility in our business environment—which is going to last—this is the only way to make prudent, solid investment decisions that provide more stability for the future.

PILLAR #1: QUÉBEC

Québec is the first pillar in the strategy.

Our commitment is threefold:

- Investment in the most promising Québec companies
- Serve as a bridge between Québec and the rest of the world
- And, develop entrepreneurship

We have already invested more than \$36 billion in Québec.

We want to continue to invest in promising projects and high-quality Québec businesses—businesses that show promise.

Businesses that have made a name for themselves in their industry and that would benefit from Caisse funding to continue to grow, both here and abroad.

I would like to say this to Québec entrepreneurs and to all Quebecers:

The Caisse is ready to do business, now more than ever.

After all, if there is a place where we have an undeniable advantage, it's here in Québec.

We have intimate knowledge of the market, the Québec economy and local businesses, as well as the people who run them.

It is therefore very natural for us to invest here to get a return on our investment.

Invest in promising businesses

Our priority will be to invest more in medium-sized enterprises, which are a major economic driver in terms of innovativeness and job creation.

Medium-sized businesses represent excellent economic potential for Québec.

Consider Germany, a strong country whose actual net exports contributed to two-thirds of economic growth in the past ten years.

Germany successfully created a rather exceptional network of medium-sized businesses by focusing on specific market niches and companies specializing in high value-added products.

Québec, like Germany, has a lot of companies whose leaders are also the primary shareholders and are looking at the long-term picture.

I believe that the German model can serve as an inspiration for Québec SMBs.

That is what we are thinking when we invest in Teraxion, a Québec company well positioned in an area of expertise that is booming.

Teraxion exports 95% of its products and is also part of a pool of high calibre companies specializing in optical research here in Québec City.

Teraxion is but one example.

Of course, we want to continue supporting large Québec businesses, as we have always done.

That is why we invested an additional \$200 million in Industrial Alliance, a company headed by Yvon Charest, who is with us today.

Why? Because we believe that it is one of the best managed insurance companies in Canada.

A bridge to international markets

By placing emphasis on these companies, we also want to provide a **bridge to international markets** for Québec companies.

Because we firmly believe that Québec companies can win in global markets.

And because we believe that the best way to help the Québec economy to grow is to help it to branch out globally.

An OECD study shows that each dollar that a company invests abroad can generate significant benefits in the company's own market.

When a Québec company invests in a foreign market, it becomes stronger and Québec is made richer.

- That is why we financed an investment made by Cascades to strengthen its strategic position in the U.S.
- And why we supported Kruger, which had decided to invest in the U.S. to gain access to new markets and reposition itself compared to the competition.
- It is also why we invested in an important acquisition project by GVL in Austria, making this company one of the world leaders in its market niche.

The Caisse is there to serve you. Not just in Québec, but also abroad.

Entrepreneurship

The common thread in the history of Québec's business community is entrepreneurship. Entrepreneurs are the people who built the Québec of today.

Yes, I'm thinking of Armand Bombardier, Alain Bouchard, Serge Godin, Marcel Dutil and Pierre Péladeau.

These are the people who started up businesses and fought to make them grow and excel, resulting in the enrichment of the community.

That is why we are so intent on strengthening this culture of entrepreneurship, another component of our plan for Québec.

We also support a number of initiatives of organizations such as Université Laval's faculty of administration, the École d'Entrepreneurship de Beauce, the Fondation de l'entrepreneurship, and QG 100 led by Charles Sirois, a seasoned Québec entrepreneur.

PILLAR #2: THE WORLD

The second pillar of our strategy is the world. In other words, how can we make Caisse initiatives a part of this volatile world and how can we ensure that Québec benefits from this?

By placing even more emphasis on stability. And by having a longer term approach.

Our international strategy is based on:

- Private investments
- Stock market investments
- And greater exposure in markets experiencing strong growth

Private investments

Where the private equity sector is concerned, we will invest more in infrastructure, private placements and real estate.

These areas provide less volatile and more stable returns.

We have solid expertise relating to our excellent knowledge of operations.

There is enormous demand for infrastructure worldwide in both emerging markets and developed countries.

The OECD is planning to invest \$40,000 billion in global infrastructure in the next 20 years.

You heard correctly. I said \$40,000 *billion* ...

I understand why Pierre Duhaime, at SNC-Lavalin, is so busy ...

Moreover, in this uncertain world real estate is one sector where the Caisse has a comparative advantage since it is already one of the ten largest investors worldwide.

This is quite a platform for tackling new markets.

Stock market investments

Here is the situation for stock market investments.

We currently hold investments in more than 500 companies.

In the world in which we live, is it really possible to have an in-depth understanding of each of these companies? The answer is no.

We will focus our investment activity on fewer securities in order to analyze each one in much greater detail.

It is not enough for a company to be listed on the S&P 500 or the Dow Jones index.

In our view, it is now more important than ever to invest only in the best companies at the best possible time.

Companies with a strong management team:

- That are well positioned in their sector
- That have a solid brand

- That are very financially stable and profitable and often pay high dividends

I am thinking about Canadian National, a Canadian company that has become a North American leader and that creates major economic spin-offs.

A company that is extremely well managed and pays out reliable dividends.

A company that ships many of our products and natural resources and that therefore is a safe bet for the future growth of the North American economy.

CGI is another good example.

This is a very well-managed company that will benefit from the need on the part of developed countries to considerably improve their productivity to remain competitive. CGI is a winner for us.

Our role is to build a Caisse that is able to recognize promising businesses early in the process so as to invest at the right time.

It is only when we are convinced that a company represents a solid investment that we will invest more substantially in it for longer periods of time.

Our investment portfolios will be more *stable* because we will be investing in *more stable* companies that will provide *more stable* returns for our depositors and all Québécois.

Emerging markets

The Caisse will obviously continue to invest in developed countries. But we should also gradually turn our attention to emerging markets.

In 2000, emerging economies accounted for one third of global economic growth. According to Mark Carney, the Governor of the Bank of Canada, today emerging markets represent more than three-quarters of growth—a spectacular increase!

The Caisse and Québec must be there because there is growth. And growth is what counts.

We will rely on a partnership strategy as we invest throughout the world.

It is impossible for the Caisse to know everything in such a complex world.

We will therefore work with partners who have experience that we lack either on the ground or in a specific sector.

This will be good for the Caisse and good for Québec.

The more international partners we have, the easier it will be for us to serve as a bridge to international markets for local companies.

PILLAR #3: OUR WORLD

The third pillar of our strategy is ensuring that we have the means to do all this, both in Québec and abroad.

This pillar is *our* world, our people and our ways of doing things.

With our new investment philosophy, the Caisse will develop more and better expertise and knowledge of the world in the future.

We will hone our financial expertise with people who are highly skilled in operations.

People on the ground who understand production and marketing issues.

In short, people who provide us with a competitive edge as an investor.

Geologists, engineers, metallurgical engineers, project managers, and analysts in the high technology sectors...people who know their area of expertise inside out and backwards.

We will also need people to find the best partners in Brazil, Turkey or China...people who can adapt to different cultures and forge ties to bring people closer.

To make a long story short, we want to make the Caisse evolve from a financing company to an entity that will add operations analysis and geopolitical skills to its considerable financial expertise.

It is the fundamentals that count. It is knowledge that counts.

Knowledge of Québec, knowledge of the world...both thanks to the knowledge of *our* world.

CONCLUSION

The Caisse is seeing some major changes. But we are right at the beginning of a new chapter. Implementing these changes will take time and require a prudent approach. It is no surprise that changes are necessary.

As Jean Lesage said:

“A financial institution can play a groundbreaking role by its very nature.”

The world is changing. Québec is changing. The Caisse is changing, too.

We must adapt to a world that is in constant evolution.

Because we must be able to help Québec to change.

The fact that a nation of less than 8 million has a force like the Caisse is quite significant.

We are well aware of this.

We are as ambitious for the Caisse as you are for the Québec City region. And, we are all ambitious for Québec.

We want nothing less than to make this institution one of the best investors in the world, ensuring Québec's long-term development and serving our depositors as well as all Québécois.

THANK YOU!