



THE CANADIAN CLUB OF MONTRÉAL

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

**Montréal, June 2, 2010
Only the spoken version is accepted as accurate**

INTRODUCTION

Hello,

I would like to salute the members of the Canadian Club and thank them for inviting me.

This is a place steeped in history.

And to see far into the future, a knowledge of history is important.

Here's a short excerpt from the speech delivered by Premier Jean Lesage when the Caisse was created 45 years ago:

"The Caisse is expected to become the most important and most powerful financial instrument in Québec."

He was right.

With net assets of more than \$130 billion, the Caisse has become a significant financial instrument—not only in Québec but also in Canada and worldwide.

This is no small feat.

That's why this institution has become an object of great pride for Québécois.

But that was before the financial crisis.

A crisis that hit global financial institutions hard—and the Caisse was no exception.

Confidence in our institution has been shaken.

It's as if a financial earthquake left cracks in the Caisse's foundations.

For us, it was necessary to examine these foundations before fixing them and restore to this institution the strength, agility and excellence that our depositors and Québécois expect.

This is a long-term task that we undertook.

A task that must be done step by step, stone by stone.

To date, we have accomplished much.

We're just at the beginning, but I can say today, before you, the Caisse is already much stronger than a year ago.

FIVE STRATEGIC PRIORITIES

What happened in 2007 and 2008 taught us well; we have no intention of reliving such experiences.

Much of what we accomplished in 2009 was done in this light.

But we must not remain stuck in the past.

Québec and the Caisse must move forward.

The time has come to look to the future.

We therefore adopted, at the beginning of the year, five strategic priorities.

1: We are implementing a new collaboration model with our depositors.

This means that they must be the everyday focus of our people.

That we must understand their needs and ensure they understand our investment strategies.

There is a need for transparency and constant dialogue.

2: We strive to act in a fiduciary spirit.

In other words, our people must manage depositor money as if it were their own:

- On the one hand, by providing risk-adjusted returns based on their needs; and
- On the other hand, by offering them a portfolio flexible enough for a customized strategy.

3: We aim to fully demonstrate our economic leadership in Québec.

That means investing in Québec companies, of course.

But it also means providing Québec with the benefit of our expertise and global networks.

In addition, we have the responsibility to share information, contribute to public debate, add our financial and economic perspective to the mix and nurture a new generation of high-calibre Québec professionals.

4: We plan to further strengthen our risk management to become a world leader in this area.

And 5: We aim to create a service culture.

This cultural transformation is one of the greatest challenges we face.

We want to become an organization truly focused on the long term.

A successful organization, whose primary objective is to serve.
Serve our depositors and serve Québec.

IMPLEMENTATION

Developing a strategy is one thing.

The key, though, is to implement it with passion, with rigour, right until the end.

In this area, we have already made much progress.

With respect to collaboration with our clients:

- We adopted a charter of commitments that clearly defines our roles and responsibilities.
- We increased exchanges at all levels between the Caisse's experts and depositors: the result is an unprecedented commitment to transparency.

In a fiduciary spirit:

- We closed portfolios that were inappropriate, overly complex or too risky.
 - In short: we cleaned house!
- We increased choice and simplified portfolios.
- As I said, we want our people to manage depositor money as if it were their own.
 - This requires senior management to invest a portion of their incentives in a co-investment portfolio that will grow with the Caisse's returns.

When it comes to leadership in Québec's economic development:

- In 2009, we changed our strategy by focusing on Québec's private sector and committed an additional \$1.6 billion.
- In a very real sense, we made our networks and expertise available to companies by partnering with the Desjardins Group to create a \$600-million fund that will support SMEs over three years.
- We also partnered with French firm AXA Private Equity to better help Québec companies expand abroad.
- We take our economic development role very seriously and aim to further intensify our efforts in this area.

And, of course, there's risk.

In our industry, risk management is key.

- In 2008, the Caisse adopted a three-year plan that we successfully executed in nine months.
- We dedicated 30,000 working hours to meeting international standards.

- Through these exhaustive efforts, we have greater capacity and skills to analyze and adapt to market fluctuations in real time.

Finally, there is the challenge of culture change.

- We renewed the Caisse's leadership.
- We implemented a very innovative compensation program based on long-term performance and a risk-return balance.
- Since the beginning of the year, we have striven to integrate risk management into the organization's culture itself.

Collaboration, performance, leadership in Québec, risk management, service culture.

Ladies and gentlemen, our progress is fast and our changes, deep.

We rebuilt our foundations and, day after day, we make them stronger.

We are building a transparent, strong, agile and responsible institution.

A successful institution, committed entirely to its depositors and Québec.

FACING A WORLD OF TURBULENCE

We have made much progress.

But be aware that, like all investment funds, the Caisse will continue to be exposed to today's market volatility.

The global crisis of 2008 has its roots in overly risky strategies, disproportionate leverage in the financial world and household debt.

To avoid the worst, governments responded *en masse*.

This first stage—stemming the financial crisis to avoid economic depression—has been a success.

But now the onus has shifted from the balance sheet of banks to the balance sheets of states.

Uncertainty weighs heavily on the public sector.

This shows we still have much to do to rebuild the world economy and financial system on sounder footing.

What must we do?

First, we had to react *en masse* to contain Greece's financial debacle and prevent an epidemic.

That is exactly what the European Union and the European Central Bank did, with support from the IMF and western countries.

It was a necessary yet insufficient first step.

It makes you wonder, for example, if Greek debt will be restructured.

It is possible and, if so, there will be an impact on European banks.

Greece's problems showed that some of these banks remained fragile and will need support.

Then, there are other European countries, like Portugal and Spain, that find themselves in a precarious financial situation.

Both countries announced austerity measures to clean up their balance sheets—a signal that was necessary to send.

It's far from certain that these moves will be enough, so it is likely that the euro will remain weak for some time.

Ironically, this very weakness is rare good news because it will stimulate domestic production and European exports.

So today, all eyes are on Europe.

But at the same time, in our blind spot, there is another significant problem for the world economy: China.

To maintain an engine of global growth, China needs to rebalance its economy — a challenge on two fronts:

- first, China must increase its reliance on domestic consumption as an engine of growth;
- and, at the same time, boost the value of its currency, without slowing exports too abruptly.

We have our eyes on Europe. We see China in our blind spot. But we must also take a look in the mirror.

And here we see a problem approaching quickly—the huge U.S. deficit and the state of the U.S. economy.

Our neighbours to the south also have a major challenge, which is the exact opposite of the Chinese dilemma:

The Americans must rebalance their economy by relying less on domestic consumption and more on exports as an engine of growth.

The destinies of China and the United States are joined at the hip. For the world's sake, let's hope they dance to the same beat without stumbling.

No doubt we will have to wait until after the elections next November before getting a clearer picture of what the Americans will do.

Then again, we'll be at the beginning of the presidential campaign: faced with big tax and political agenda problems.

On the Québec and Canadian front, we are well positioned to tackle this environment, but we must continue to exercise some discipline.

Europe, China, the United States: it's clear that the world still has much work to do to correct global imbalances.

This will take time.

So, in the medium term, uncertainty will persist.

We must acknowledge that we live in a turbulent world.

UNDERLYING TRENDS

But we are a long-term investor, so we must also look further and examine long-term issues.

When markets overreact, it is a challenge to focus on the fundamentals, on the *big picture*.

It is a challenge, but it is also an advantage for the Caisse.

This long-term view enables us to see beyond market volatility and distinguish between fads and trends.

And see the emergence of a new world order.

These transitional periods bring their share of changes.

It's like when the earth's tectonic plates begin to shift: there is upheaval and tremors until a new structure takes shape.

Our strategic challenge is to position the Caisse to perform and deliver the goods, while helping Québec, in this new, fast-approaching world.

In this emerging new world are very dynamic, large countries: China, India, Brazil and Turkey, for example.

This is where we will see the bulk of global growth in the coming years.

This is Trend No. 1.

Another fundamental trend is the rapid, sometimes uncontrolled, urbanization in emerging countries.

At the current pace, China will have at least 200 cities of more than one million inhabitants by 2025.

To give you some perspective: Europe now has 35.

This large-scale urbanization means that emerging countries will need to invest significantly in infrastructure.

An area that will be a tremendous market for many years.

Infrastructure is an area that the Caisse knows well.

When you talk about infrastructure, you're also talking about raw materials.

The booming demand for raw materials is here to stay.

This is another area we know well.

Finally, it also raises a host of sustainable development issues.

Environmental concerns are not a fad; they are here to stay and will represent significant investment opportunities.

Québec is very strong in this area and must benefit from it.

The global economic order is changing and rebalancing:

- market volatility will remain for awhile;
- growth in rich countries will be moderate, while it will be stronger in emerging markets; and
- this will create huge markets for infrastructure, natural resources and environmental expertise.

These trends are likely to extend over many years.

They represent exceptional investment opportunities.

At the Caisse, we aim to seize them and benefit Québec and our depositors to the fullest.

CONCLUSION

Since 2009, the Caisse has learned the necessary lessons and cleaned house.

We are better equipped to face today's turbulent world.

We are moving forward with a strategic plan that will solidify our foundations for years to come.

And now we must ask these fundamental questions:

How can we profit from this emerging new world?

How can we, in this new world, serve the best interests of Québec and our depositors?

These questions are central to our strategic thinking.

But what we already know is that we will act in an orderly manner, in line with our principles of simplicity, rigour, performance and customer focus.

We'll do it step by step, first by developing the expertise and skills we need before investing.

This is the only way to build a strong, successful institution.

An institution that reflects what Premier Lesage had in mind at the Caisse's inception.

An institution that will meet the expectations of our depositors and better serve the interests of Québec.

THANK YOU.