



Speaking Notes

Paul Cantor, Chair, Board of Directors

**Annual Public Meeting
Public Sector Pension Investment Board
December 10, 2009**

**Sussex Room
Government Conference Centre
2, Rideau Street
Ottawa, Ontario**

Check against delivery

Good afternoon ladies and gentlemen.

On behalf of PSP Investments, I welcome you to this, the first Annual Public Meeting of the Public Sector Pension Investment Board. In Investment management circles, the Board carries on business under the name PSP Investments

The Public Sector Pension Investment Board is a crown corporation established by Parliament by the Public Sector Pension Investment Board Act. Its mandate is to invest the proceeds of the net contributions received from the government since April 1, 2000 for the pension plans of the federal Public Service, the Canadian Forces and the Royal Canadian Mounted Police, and since March 1, 2007 for the pension plan of the Reserve Force.

Annual net contributions to these pension funds, that is the extent to which contributions exceed pension liabilities, are approximately \$4 billion and forecasted net contributions are expected to remain positive for the next 21 years.

Our head office is located in Ottawa. Our principal business office is in Montreal. We are very pleased to see you in attendance today. Also in attendance are some of my colleagues who sit on the Board (Mike Mueller, Bob Baldwin, Jamie Baillie)

I began my message in this year's annual report with "Well. That was quite a year" ... Quite a year indeed...

Instead of belabouring the point, I would like to move directly to four key issues: 1) Fiscal Year 2009 financial results and our recovery; about which Mr Fyfe will provide you with more information 2) Board and Executive compensation; 3) Risk Tolerance and, 4) Governance.

1. 2009 Financial results and recovery

PSP recorded a 22.7% reduction in portfolio value in fiscal 2009.

That is a very discouraging number. But we have to keep in mind that in the short term, markets go up and markets go down. This time, in the greatest downturn since the Great Depression, markets went way down. In the long term, markets have gone up, and we are in this for the long term. In the meantime, what we can do is reduce the impact of down markets, and take advantage of diversification and our skill to increase our relative return in all markets. In particular, our continuing diversification reduced our dependence on publicly traded stocks and bonds, as investments in real estate, private equity and infrastructure helped cushion the blows.

Our President and Chief Executive Officer, Gordon Fyfe, will be reporting on the specifics of our financial results in a few moments.

I am encouraged to see that in only the first 6 months of this fiscal year, we have generated investment income of \$5.2 billion for an investment performance of 15.0 %.

What is equally encouraging is that many markers now indicate the economic recovery is here... and, so far, that it is showing signs of sustainability.

These positive results demonstrate the importance of keeping a long-term perspective when it comes to investment performance.

2. Board and Executive Compensation

For the reasons already outlined by the Chief Actuary, and which will be further discussed by Mr Fyfe, we need to take risk to generate investment returns. When we do so, we are in competition with investment managers and pension funds throughout the world for the returns that we generate. Human talent is key to the success of PSP Investments in this global competition.

That's why we have designed human resource programs and compensation plans that attract and retain the best people... that reward individual performance for the achievement of objectives... and individual and collective achievement for performance above pre-established benchmarks... Equally, our compensation plan must take into account performance when results are unsatisfactory.

2009 definitely falls into the unsatisfactory camp. As a result of 2009's underperformance, there were no short-term or long-term bonuses paid or allocated to any employees in respect of 2009 for fund's overall performance. Moreover, there were no salary increases for officers nor for senior management. The Board rolled back and did not take a previously agreed increase in compensation for Board members.

What the Board did pay were short-term bonuses to employees based on the achievement of individual scorecard objectives that had been set at the beginning of the fiscal year. Payouts were also earned by some participants in asset classes where their own investment performance exceeded performance incentive thresholds.

In addition, there were amounts paid this year that were earned in the period 2004, 2005, 2006 and 2007 that resulted from the strong performance achieved over that four year period. The bonuses vested in 2007 provided that the employees remained with PSP until 2009. The Board reviewed these payments, and decided that it would honor the terms of the contracts that it had made.

Our Incentive Plans are based on four-year investment performance periods which reduces the impact of extreme performance in any given year.

What does this mean? What it means is that the underperformance of fiscal year 2009, will have a negative impact on incentive compensation for 2009, 2010, 2011 and 2012.

We also undertook an extensive analysis of our overall compensation practices and procedures and evaluated their compliance with the compensation recommendations of the G-20 Working Group Report and Financial Stability Forum Principles for Sound Compensation Practices.

Our analysis and evaluation demonstrated that our compensation framework and policies are well aligned with the standards set out by the G-20... and that our compensation programs are designed to reward good performance while avoiding excessive risk taking.

In the interest of sound governance and impartiality, we wanted to make sure that our conclusions were correct. So we hired an independent firm – Deloitte & Touche – to conduct the same review. I will read for you their three-part conclusion:

“PSP Investments has established and implemented compensation programs and processes which are consistent with the organization’s long-term goals and risk management practices.”

“The Board and the Human Resource Compensation Committee play an active role in the design and operation of compensation schemes; and they have appropriate mechanisms for review and monitoring, independently of management.”

And last: “PSP Investments has established processes and compensation programs, which are designed to reduce the potential for rewarding excessive risk taking.”

I also want to point out that managing assets internally represents substantial savings when compared to having external portfolio managers manage assets.

If we outsourced all of PSP Investments’ asset management to outside fund managers, it would cost an additional \$135 million in management fees per year, after taking into account the savings in salaries and benefits.

3. Risk Tolerance

So far, I have told you that we’re on a trajectory of economic recovery... that our first six months are showing a strong investment performance... and that our compensation policies and plans meet international standards. Now, let me share my thoughts on our Risk Tolerance

One of our initiatives in 2009 was to more thoroughly understand the link between our investment strategies and the pension plans’ liabilities.

This is important because understanding this link allows us to make sure that our investment approach and our results will contribute to the long-term sustainability of the plans and promote the stability of contributions.

Over the long term, the Office of the Chief Actuary has determined that to sustain the current level of contribution requirements and the current level of pension benefits, we must deliver a 4.3% rate of return after subtracting inflation. A 4.3% rate of return above inflation necessarily implies that a certain level of market risk must be borne to reach that target.

Allow me to clarify...

If we were to adopt a “no-risk” portfolio, investment returns would likely be lower resulting in additional financing requirements.

As an example, a 1% reduction in the expected investment long-term return would result in an additional aggregate financing requirement of \$1 billion per year.

Our President and Chief Executive Office, Gordon Fyfe, will further explain the balance between current contribution rates, investment and investment returns and current benefit levels.

The legislation under which we operate calls on us to maximize investment returns without undue risk of loss. A year like last year focuses one's attention on the words "undue risk of loss", particularly on the word "undue". We need to ensure that that phrase is one that is understood in the same manner by all. In the coming months, we are going to clarify the definition of undue risk of loss, bearing in mind the objects and powers given to us by the legislator.

4. Governance and board activities

Generally speaking, an effective Board of Directors both steers and counsels a company's executives. This is why your Board of Directors needs to have expertise in a wide range of disciplines... including risk management: credit risk, market risk and operational risk.

Other relevant areas of expertise include finance, economics, accounting, law, actuarial science, human resources and compensation and information technology.

In addition, at PSP Investments, within our core competency of investment management, we need extensive expertise in portfolio composition, fixed income, equities and their derivatives, and in private market classes.

Since its inception, PSP Investment's Board has been functioning quite effectively with 12 board members, and four to five board committees, with an appropriate number of directors on each committee. They have been working diligently to make sure that our senior executives and management fulfill our mission.

I would like to take this opportunity to express our appreciation to board members who have served PSP Investments for a number of years and have decided to retire from our Board.

Anil Rastogi resigned last April and Bill Saunderson recently indicated that he would not stand for reappointment. They were both esteemed colleagues. On behalf of all Board members, I wish to express my appreciation to Mr. Rastogi and Mr. Saunderson for their services and dedication to PSP Investments and wish them the best.

I would also like to announce the re-appointment of Tony Gage to our Board. We look forward to continue working with Tony over the upcoming years and we are fortunate to benefit from his expertise and insights.

5. Conclusion

Ladies and gentlemen, after a very tough year, our total fund performance for the first six months of fiscal year 2010 is at 15% percent.

Our economy is showing signs of recovery and this recovery is showing signs of sustainability.

In such times, it is extremely important to remain focused on the long-term results and be grounded in our decision making for the benefit of our contributors and beneficiaries.

To do so, it is critical that we move ahead with our goals and objectives.

This is exactly what PSP Investments is determined to do in the coming years.

Thank you.