



The Civil Service Superannuation Board

2008 Report to Members

We are pleased to provide you with this summary of The Civil Service Superannuation Board's (Board) 2008 Annual Report. You can request a copy of the full Annual Report by contacting the Board office, or it can be viewed at www.cssb.mb.ca.

FINANCIAL

	2008 (*)	2007 (*)
Rate of Return on Investments	(17.04)%	3.91%
Investments at Market Value	\$3,302,963	3,973,775
Net Investment Income	232,185	128,026
Current Period Change in Fair Value of Investments	(847,430)	(3,366)
Employee Contributions	98,635	92,374
Employer Payments	133,991	122,480
Pension Payments	250,532	230,630
Refunds and Transfers	33,367	29,692

* \$Thousands unless otherwise noted

MEMBERSHIP

Non-Retired Members	31,002	30,296
Retired Members and Other Recipients	15,450	14,812
Total Members	46,452	45,108

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Member Services

The Board offers the following services to members and their families:

- Individual Meetings
- Pre-Retirement Planning Seminars
- Employee Pension and Insurance Seminars
- Personal and General Inquiries
- Electronic Communications

You may make an appointment to view any of the following at the Board office:

- A copy of The Civil Service Superannuation Act (the Act) and all amendments
- The Annual Information Return submitted each year to the Pension Commission of Manitoba
- A copy of the latest Actuarial Valuation Report

Cost-of-Living Allowance

- Pensioners and beneficiaries receive an annual increase to a maximum of $\frac{2}{3}$ of the increase in the Canadian Consumer Price Index (CPI)
- The COLA paid July 1, 2008 was 1.59%

Governance

The Board and sub-committees regularly receive management-certified compliance reports and informational material to assist with oversight requirements.

In addition, the Board reviews and formally approves the minutes of all sub-committee meetings.

Policies and procedures that continue to guide or impact investment decisions include:

- Statement of Investment Policies and Procedures
- Investment Manager Mandates
- Proxy Voting Policy and Guidelines



What effect will the downturn in the investment markets and the current economic conditions have on my pension? This is a prudent question given the economic doom and gloom that greets us every time we pick up a newspaper, turn on the radio or watch the evening news. I would like to briefly touch on a few specific areas that I hope will help to alleviate some of your concerns.

Firstly, let me assure you that The Civil Service Superannuation Fund (the Fund) has been around since 1939. Historically, markets have fluctuated over the years and despite this, we are still here, still providing pension benefits. We have never been in a position where benefits have had to be reduced due to an adverse financial position of the Fund.

Your Plan is a defined benefit plan which means that your pension is based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on your years of service and average salary.

Although investment returns are not directly related to the amount of pension a member will receive, good investment returns contribute to the continued health of the Plan and in securing the ability to continue to meet its current and future obligations to pay benefits. A pension is a long-term investment and will inevitably have its ups and downs over the course of many years. Although it would be ideal to have positive returns every year, we certainly do not operate under such unrealistic expectations. We understand that there will be trying years and this is taken into consideration through our planning and forecasting processes. Ultimately, the success of the Fund's investment performance is measured by how it meets the long-term obligations to its members.

Investment decisions are guided by the Fund's Statement of Investment Policies and Procedures (SIP&P), which is established by the Board and reviewed annually. The SIP&P includes parameters such as asset mix, investment quality, holding limits, investment objectives, valuation procedures and the investment manager structure. The policy helps determine the proper allocation of investments to ensure the long-term financial stability of the Fund

by establishing a normal or standard asset mix. The asset mix is perhaps the most important determinant of pension fund performance. When making investment decisions, it is important to take different risk elements relating to market volatility and potential returns into consideration. Diversification of the Fund's various asset classes such as short-term investments, bonds and debentures, and equities, as well as diversifying across the world's economic regions helps reduce the impact of volatility in the financial markets.

While I acknowledge that investment performance is an important factor in being able to meet our financial obligations, I think it is important to know what measures are in place to deal with years that investment experience is unfavourable. The Civil Service Superannuation Act requires that an Actuarial Valuation Report on the financial position of the Fund be conducted at least every three years. The purpose of the Valuation is to determine the financial position of the Fund as at the valuation date and to determine the adequacy of the contributions being made in relation to the benefits being financed. This detailed report establishes estimated actuarial requirements for investment returns considered necessary to be able to continue to finance the Fund's future liabilities. Years that produce surpluses can result in benefit improvements and typically involve setting aside reserves to help offset years of poorer investment performance. The most recent valuation was performed as at December 31, 2007. By the time the report was completed and released later in 2008, it was already evident that unfavourable investment experience was developing for 2008. This is significant as the Actuarial Valuation Report provides recommendations for potential future courses of action based on the financial position revealed. Due to the timing of the release of the report, we were in a good position to make some recommendations to help address the current economic conditions.

In closing, I want to assure you that although lower investment returns can affect the Fund, it does not directly impact your pension benefit. There are safeguards in place such as the SIP&P and the Actuarial Valuations to help ensure The Civil Service Superannuation Fund is prepared for and able to react and adjust to

economic conditions so we can continue to meet the current and future financial commitments to our membership. While my first year as Chair of The Civil Service Superannuation Board has not been without its challenges, I am confident that we will weather this period of economic uncertainty and the markets will rebound. I have inherited a very experienced and dedicated staff committed to our long-term objective of growth and stability and continuing to provide our membership with quality benefits administration.

Market turmoil defined the pension plan landscape in 2008. The past year will be remembered as one of the worst years for world financial markets in history. Our Fund was not immune to the downturn in the markets. Although we maintained a well diversified portfolio, there was quite literally no place to invest in 2008 that would not have been affected by the market downturn. The rate of return for The Civil Service Superannuation Fund (CSSF) was (17.04)% which was less than our benchmark of (14.44)%. We were not alone in our negative rate of return as the median return for large Canadian pension funds in 2008, those with assets over \$1 billion, was (18.40)%. Although the last two years of investment returns have not been optimal, your pension remains secure. The latest Actuarial Valuation of the CSSF at December 31, 2007 revealed an amount in excess of liabilities of \$265 million on a going concern basis. The Civil Service Superannuation Board (Board) elected to add this amount to the existing investment reserve of \$110 million resulting in a total investment reserve of \$375 million. This reserve will assist in reducing the impact of the adverse investment returns and help provide stability going forward.

Given the market conditions over the last twelve months, members may be concerned with the stability of the plan benefits. I would like to address these concerns by explaining how the CSSF works. A common misconception about the CSSF is that it is similar to a Registered Retirement Savings Plan (RRSP) or a Defined Contribution (DC Plan) type of plan. In an RRSP or DC Plan, contributions and investment

returns are used to determine the amount of retirement income. The CSSF is a defined benefit plan which determines pension benefits based on a set formula. The CSSF's formula uses the average of the best five years of earnings and the number of years of service while a member of the plan multiplied by a set percentage. The result of this formula then determines the monthly benefit entitlement. There is no direct link between the benefit entitlement, investment returns, or contributions made to the plan. In our plan we have the advantage of time. The CSSF operates under a long investment horizon giving the Board the opportunity to work toward generating investment returns that are positive and exceed the actuarially required rate. Since the Board looks at results and makes decisions assuming an indefinite time horizon, we are able to absorb market shocks like those experienced in 2008 by reacting to poor returns in a measured and well thought out manner.

In 2009 we plan to do an Asset Allocation Review. The review, done with the assistance of independent external consultants, is completed every four to five years with the last study being done in 2005. The purpose of doing a periodic review is to determine if a change in asset mix is required based on current and expected future market conditions. It will also take into account any changes to the plan since the last review. The review will provide the Board with a framework to help determine the appropriate asset mix required to sustain benefits into the future.

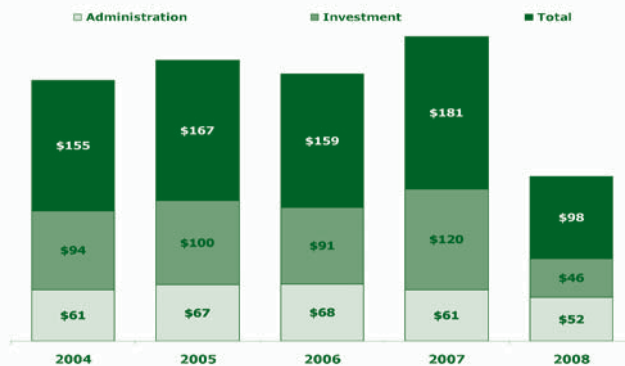
Our nerve centre and strength is our computer system and programs. We rely on our systems to provide members with pension payments and information. In 2008 we have taken additional steps to mitigate the inherent risk associated with relying on technology to provide pension payments. We have developed a recovery process which will allow us to use the facilities at IBM in Toronto to continue to provide critical services for an unforeseen event such as a prolonged power outage in our building or a failure of our mainframe computer for an extended period. In 2008 staff tested the process for recovery by running our required procedures from the IBM office in Toronto and the results were excellent. In the coming year staff will test the process from IBM's Winnipeg office which will further enhance our ability to respond to an unforeseen event quickly with minimal disruption. We also continue to enhance and further develop our recovery processes for less critical functions and are working towards having a framework in place by the end of 2009.

Securing the pension promise in the current environment is no easy task but our plan is designed for the long-term and we are confident the CSSF can weather the current economic turbulence and continue to meet the pension promise.

I would like to thank the Board and staff for their continued diligence and hard work in 2008 and look forward to a more stable 2009.

Administration and Investment Cost

The Board's annual administration and investment cost per member continues to be one of the lowest in Canada for complex defined benefit plans. The total annual cost per member for 2008 was \$98 consisting of \$52 for administration and \$46 for investment related expenses.



Investment Overview

The year experienced a once in a generation, or longer, confluence of events that produced extremely volatile moves in both equity and bond markets. Several years of aggressive lending over a wide range of financial instruments finally began to unravel as increasing numbers of borrowers experienced trouble meeting their obligations. The extent of the leverage built into the financial system, focused in the U.S. and Europe, was far greater than most market participants understood. The result was that significant components of the financial markets effectively ceased to function and numerous financial institutions worldwide suffered significant losses. The defining moment occurred when Lehman Brothers, one of the largest U.S. investment banks, was unable to meet its obligations and was put into bankruptcy. For the financial markets, this was similar to the economic shock coinciding with the first oil price crisis in 1972. OPEC's supply constraints and price increases severely affected the economies of the developed countries and resulted in massive dislocations to economies worldwide. It took the better part of a decade for the world economy to restructure and become more efficient. High inflation also took a toll.

In the current environment, the availability of credit resulting from upheavals in the financial system has been a shock to the

relatively smooth running of world trade and economic growth, not dissimilar to the oil price shock. It will take some years to work through the financial excesses built up over the past decade.

Commodities continued to catch the headlines. In addition to record high oil and coal prices, agricultural commodity prices also increased significantly. This general strength in commodity prices peaked out at mid-year and prices fell back across the board. Oil, for example, peaked at \$145 U.S. per barrel and closed the year at \$53, having traded down to the low \$40 range. With the general collapse in economic growth worldwide, inflation is unlikely to be an issue near-term, but will likely be a real concern at some point in the future when world economic growth returns to more normal levels. Withdrawing the massive stimulus measures enacted by governments worldwide will be very challenging.

The Fund return was negative for the first time, returning (17.04)%, which is down considerably from the 2007 return of 3.91%. Equity exposure, in any market, resulted in negative returns. Emerging markets, which were not very exposed to the toxic financial assets causing the problems, and consequently had more or less normally functioning banking systems, saw their equity markets catch up to the developed

markets on the downside over the last quarter of the year as investors became very risk averse. Emerging markets began outperforming the developed markets again beginning in late November 2008.

The Fund underperformed its investment policy return of (14.44)% by 260 basis points. The main contributors to this underperformance were an overweight position in equities, as well some financial holdings in the bond market portfolio which suffered in the stressed financial environment. Positive contributions came from real estate returns at 1.79% and short-term investments at 3.44%.

Despite the unfavourable return on equities in 2008, the Fund will continue to hold a significant portion of its investments in this asset class, as they present the prospect of higher returns going forward, especially given the very low levels of interest rates, attractive valuations and depressed market levels at this time. A fully invested position in bonds, especially at current interest rate levels, will not provide adequate returns to meet the Fund's long-term liabilities. The long-term investment policy attempts to balance risks and rewards associated with the various asset classes in which the Fund invests.

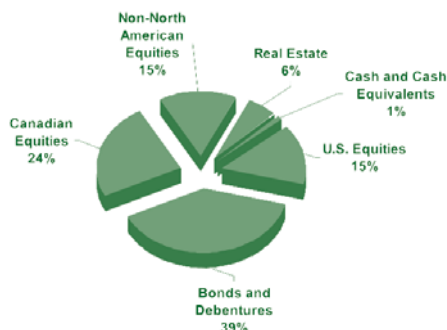
Strategy and Outlook

We anticipate a prolonged period of instability in world economies and markets. Volatility is not inherently negative as many opportunities are created and the Fund's management will endeavour to take advantage of some of these opportunities. Many of the larger emerging economies are

better positioned than most of the developed economies, as their banking systems have generally been relatively unaffected by the financial crisis. Their banking systems are still functioning well, and, particularly in China's case, fiscal and monetary stimulus has been well targeted and delivered quickly. We expect the Fund's investments in emerging markets will add value over developed markets going forward.

illiquid investments that were valued very conservatively in 2008. We do have concerns about the longer run inflationary impact of the many large fiscal and monetary stimulus measures that have been enacted to stem the financial crisis over the short-term.

INVESTMENT POLICY NORMAL ALLOCATION



Canadian bond yields are very low by historical standards and there does not appear to be much potential to add value from these levels. Corporate bonds, however, still offer attractive yields as the costs of credit risk and illiquidity have been re-priced sharply upward over the last year. A return to more normal conditions in financial markets, while still in progress, should enhance the value of some of our

FUND INVESTMENTS

