CSSB The Civil Service Superannuation Board

2018
Annual Report

Our Vision for the future:

A professional, sustainable pension plan, designed for the future of our members.

Our Mission and Purpose is:

To deliver to our plan members their pension entitlements.

We do this by:

- Acting **collaboratively** with each other, with employers and with the plan sponsor, constantly seeking **member-focussed outcomes**
- **Prudently investing and monitoring** plan assets
- Delivering **timely, accurate information** to members, allowing them to make educated, informed decisions
- Fostering a working environment that attracts & retains **motivated, talented people**

Our Values

In our relationships, decisions, words and actions, we are guided by the following values:

- Staying resolutely **member-focussed**; always seeking the **best outcomes** for our members;
- Acting with **integrity, professionalism** and **excellence**;
- Ensuring **transparency** and **accountability** to our members and other stakeholders;
- Pursuing and rewarding **innovation**, in the interests of best outcomes;
- Modelling and fostering **collaboration** and **respectful action** as the means of pursuing best member outcomes.

Contents

MINISTER RESPONSIBLE
FOR THE CIVIL SERVICE SUPERANNUATION ACT

Legislative Building
Winnipeg, Manitoba CANADA
R3C 0V8

June 7, 2019

The Honourable Janice C. Filmon, C.M., O.M.
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

May It Please Your Honour:

As Minister Responsible, I have the privilege of presenting for the information of Your Honour, the 80th Annual Report of The Manitoba Civil Service Superannuation Board for the calendar year ended December 31, 2018.

Respectfully submitted,

Honourable Scott Fielding
Minister of Finance,
Minister Responsible for
The Civil Service Superannuation Act

CSSB The Civil Service Superannuation Board

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June 6, 2019

Honourable Scott Fielding
Minister of Finance,
Minister Responsible for The Civil Service Superannuation Act

Sir:

In conformity with the provisions of The Civil Service Superannuation Act, I am pleased to forward to you, the Minister Responsible for The Civil Service Superannuation Act, the 80th Annual Report of The Civil Service Superannuation Board.

This report covers the period January 1, 2018 to December 31, 2018 and includes a review of the Board's activities for that period as well as the Report of the Office of the Auditor General and attached audited financial statements for that period.

Respectfully submitted,

Al Morin, Chair
The Civil Service Superannuation Board

Board and Standing Committee Members

The Civil Service Superannuation Board

Chair

Al Morin
Retired, President and Chief Executive Officer
Assiniboine Credit Union

Employee Representatives

Ray Erb
Civil Service Representative
Retired, Manitoba Government & General Employees Union

Jody Gillis
Civil Service Representative
Red River College

Dan Marchant
Manitoba Hydro Representative
Retired, Manitoba Hydro-Electric Board

Doug Troke
Civil Service Representative
Department of Finance

Employer Representatives

Ed Balcewich
Investment Advisor, FMA, FSCI.

Andrew Clarke
Financial Planner

Normand Collet, MBA

Wayne D. McGimpsey, CPA, CA

Finance and Audit Committee

Chair
Doug Troke - Employee Representative

Normand Collet - Employer Representative
Ray Erb - Employee Representative
Wayne McGimpsey - Employer Representative

HR and Governance Committee

Chair
Jody Gillis - Employee Representative

Ed Balcewich - Employer Representative
Andrew Clarke - Employer Representative
Dan Marchant - Employee Representative

Investment Committee

Chair

A. Scott Penman *
Retired, Executive Vice-President and
Chief Investment Officer
Investors Group Inc.

Brian Allison *
Executive Vice-President, Chief Investment Officer
The Canada Life Assurance Company

Richard Brownscombe *
President
Montrose Mortgage Corporation Ltd.

Jody Gillis ^
Civil Service Representative

Al Morin ^
Chair
The Civil Service Superannuation Board

Elizabeth Marr, CFA *
Vice President and Director, Institutional Relationships
TD Greystone Asset Management

Bruce Schroeder ^
General Manager
The Civil Service Superannuation Board

Garry Steski ^
Assistant Deputy Minister of Finance
Province of Manitoba

The Investment Committee also manages the assets of the Manitoba Hydro Employer Fund and three Centra Gas portfolios. Manitoba Hydro appointed the following person as their representative to those committees in conjunction with the above members.

Paul Desorcy
Director, Human Resources and Workplace Safety & Health
Manitoba Hydro-Electric Board

* Appointed based on investment expertise
^ Required by legislation

The Board has the fiduciary responsibility for the administration of the Plan and management of the investment funds in the best interest of all Plan members and beneficiaries. It is also responsible to:

- Ensure that staff fulfil the investment and administrative obligations set out in the Act and comply with the requirements of both the Pension Benefits Act of Manitoba and the Income Tax Act
- Delegate the day-to-day management to the General Manager and staff
- Provide overall direction and approval of policy items

These duties are vested in four members that are elected by participating employees and five members including a chair that are appointed by Government. The Board meets 10 to 12 times per year.

As the Plan trustee, the Board is required to:

- Manage The Civil Service Superannuation Fund (Fund) in accordance with the rules of the Plan, governing legislation, and common law in the interest of Plan members and their beneficiaries
- Obtain an actuarial valuation every three years
- Regularly review its investment policy
- Obtain an independent audit each year
- Prepare an Annual Report

The day-to-day management of investment assets and delivery of pension and insurance benefits is accomplished by a dedicated and diverse team consisting of approximately 50 staff members.

CSSB MANAGEMENT TEAM

Bruce Schroeder
General Manager

Dale Allen
Director, Management Information Systems

Patti Malbasa
Director, Communications and Client Services

Dawn Prokopowich
Director, Client Services Administration

Rick Wilson
Director, Finance and Investment Communications & Management Services

Peter Josephson, CFA
Chief Investment Officer

Ellement Consulting Group
Consulting Actuary

Fillmore Riley
Legal Counsel

Office of the Auditor General
Auditor

YOUR PENSION PLAN

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. While some employers prefund (to the extent required by legislation) employee contributions, others are obligated to fund their share of benefits paid in the future.

The amount of pension a member will receive is not directly related to investment returns. Good investment returns are necessary to secure the Fund's ability to continue to meet its current and future obligations to pay benefits, and are the major contributor to surplus.

A member may be eligible to retire as early as age 55. Unless the person is age 60 or older with 10 years of service, or has achieved the Rule of 80 (age plus service), there is a reduction for early retirement. Members who reach age 65 may receive an unreduced pension providing they have at least one year of service.

All employees who are employed full time are required to join the Plan. Seasonal and part-time employees are required to join after meeting an earnings test (when they have earned 25% of the Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan in each of two successive calendar years).

		2018 (*)	2017 (*)
Financial	Rate of Return on Investments	(0.90)%	10.80%
	Investments at Market Value	7,199,516	7,561,547
	Net Investment Income	281,345	225,037
	Current Period Change in Fair Value of Investments	(359,959)	511,031
	Employee Contributions	161,003	164,100
	Employer Payments	312,795	288,584
	The Province of Manitoba Unfunded Pension Liability Trust Account	2,098,635	2,217,480
	Pension Payments	505,303	466,122
	Refunds and Transfers	167,985	156,450
	General Expenses - Net	2,489	2,262

* $Thousands unless otherwise noted

		2018	2017
Membership	Non-Retired Members	32,691	33,449
	Retired Members and Other Recipients	22,103	21,172
	Total Members	**54,794**	**54,621**

Other Plans Under Administration	Manitoba Telecom Services Inc.^	5,492	5,544
	Money Purchase Accounts Plan	3,195	3,281
	Centra Gas^	761	779
	Winnipeg Child and Family Services^	236	251
	MLA's^	95	95
	Legislative Assembly Pension Plan	113	112
	Total Membership (all Plans)	**64,686**	**64,683**

^ Active and Retired

AL MORIN

On behalf of myself and the members of the Board, I am pleased to present the 2018 Annual Report for The Civil Service Superannuation Fund (Fund).

Late in the year, members of the Fund were surveyed by a third-party to determine which CSSB services are being used by members and what their satisfaction level is of each service. The survey identified specific services or communication products provided by CSSB and asked if the participant had made use of that service or product, and what their level of satisfaction was with specific aspects of that service.

The initial goal was to gather responses from 500 active employees and 500 pensioners. This sample size was considered sufficient to provide results that were statistically representative of the membership as a whole. The number of responses to the survey was significantly higher than anticipated, resulting in 6,476 responses.

The main takeaways from the membership survey were that the satisfaction levels among members who have had direct or indirect person-to-person contact were excellent, with all aspects exceeding 84% satisfaction. I am very proud of the staff at the CSSB and commend them all for the high level of service they provide to plan membership. As well, the survey indicated that the most frequently used services the CSSB provides are its websites and this is an area where we will focus attention on upgrading and improving in 2019.

Up until October of 2018, the Fund's return on investments was favourable and on track to meet our actuarial required rate of return. However, with the market having its worst quarter since the third quarter of 2011 along with the second worse December since 1931, the effect on the Fund was significant. The effect was widespread across the industry as many Canadian defined benefit pension plans ended 2018 in negative territory. For 2018 as a whole, the Fund underperformed its benchmark as it returned -0.90% versus -0.48% for the benchmark. The pension environment has changed significantly since the Plan was introduced in 1939 and there are sustainability considerations that need to be discussed. The Board had been discussing these matters within its own strategic planning and enterprise risk process and want to expand the discussion to include a broader set of stakeholders.

On the Board's request, the plan's actuary, Ellement Consulting, completed a 20-year Projection Valuation. It was presented in October 2018 to the Board as well as to members of the Employer Advisory Committee and the Employee Liaison Committee. Each of those committees had an opportunity to ask questions and request that Ellement Consulting run further scenarios to determine how well certain changes may serve to remedy the sustainability of the Plan.

Accordingly, Ellement Consulting completed these additional scenarios, and in early 2019, members of the Board, senior management at the CSSB, as well as members of the Employer Advisory and Employee Liaison Committees met to discuss the long-term sustainability of the pension plan. Further discussions are planned for later in 2019.

As another year as the Board Chair comes to a close, I would like to recognize the management and staff of The Civil Service Superannuation Board for their focus and innovation as they continue to provide incredible service to plan membership. Their continual desire to develop new systems to improve efficiencies while also educating stakeholders on the security and future of their plan is unparalleled.

A Morin

Message from the General Manager

Bruce Schroeder

The story of 2018 was the rapid deterioration of the markets at the end of the year. Until October, our investments were on target to achieve a return approaching the required actuarial rate of return of 6%. As a result of the downturn during the last two months of the year, the rate of return settled at (0.90)%. The good news was that January and February of 2019 saw a dramatic recovery and the Fund gained back a significant portion of the return that was lost in those last two months of 2018.

On the administrative side of our operations we had a productive year. We accomplished our goals that were set at the beginning of the year, one of which was to conduct a survey of the membership. The survey response was fantastic with more than 6,400 members responding to the survey. There were some common themes that we found. While the website satisfaction results were positive with a 77% approval rating, we think we can do better and we will review our website to determine what improvements can be made to enhance the user experience. The satisfaction ratings of our other member contact points, including phone, email, seminars and in person were very positive. Results were in the range of 84% for those who were satisfied with our email communications to 95% satisfaction for those who attended the office and had in person visits.

As this survey was the first general survey we have done in many years, we chose to ask questions that could be answered by rating the service provided. We anticipate future surveys will be more targeted and will ask members for their comments to better understand specific areas that are of interest. As always we welcome comments and suggestions through our askus@cssb.mb.ca email.

One of our other 2018 goals was to rework the pension final and pension acknowledgement letters information. These are the letters provided to members upon retirement. They include information specific to a member's choice of options as well as other information pertinent to the retirement process. Our goal was to make the letters more intuitive and address some of the most common questions that are asked by members once they retire. In an effort to streamline the process and make it more environmentally and cost efficient, those members who are registered for Online Services will have their letters automatically sent to their Online Services Document Centre.

Another project for 2018 involved developing a program to scan and search obituaries that are reported through various newspapers. This process provides us another tool to determine when a member's pension payment needs to be stopped. While it is not a widespread problem, this initiative will assist in preventing an overpayment situation from occurring.

We also began and completed a review of our operations to ensure we were in compliance with the new accessibility legislation. We are pleased to report that we have developed the necessary policies and made other minor adjustments that were required to meet the legislation.

As a result of the member survey, we will review our website to determine if a refresh is required in 2019. We will also undertake a project to develop a comprehensive onboarding package for new members. Another initiative will involve a review of our disaster recovery process. These new initiatives, along with other challenges that come up, will keep us busy for 2019.

Management and staff look forward to continuing to provide exceptional service in 2019 and would like to thank the Board for their support.

Investment Information

Policies and Procedures

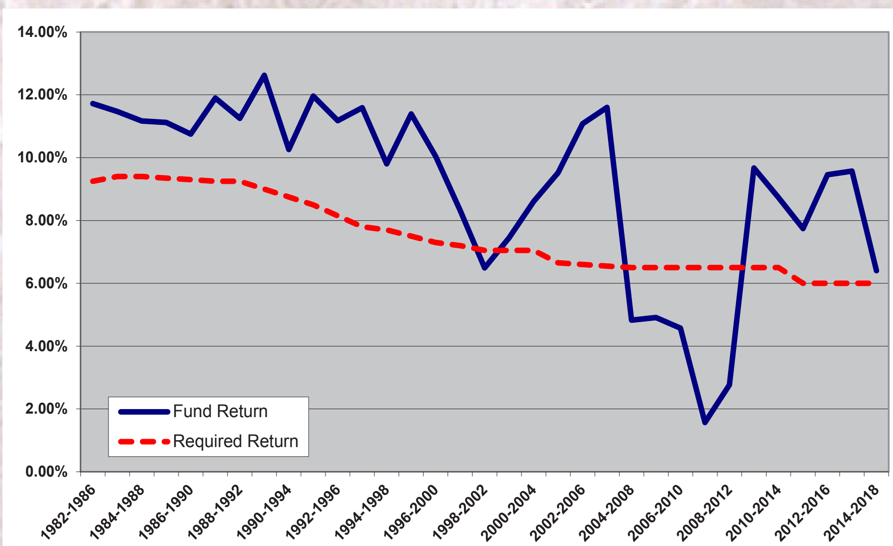
The Fund's Statement of Investment Policies and Procedures (SIP&P) guides the investment decision making process. This document is created by independent consultants and matches the Fund's assets with its liabilities, now and into the future. Upon its approval by the Board, this document is put into effect and is monitored for compliance. The SIP&P includes such things as appropriate asset mix limits, investment grade quality, holding limits, investment objectives, valuation procedures and investment management structure.

Asset mix is the single most important factor in determining pension fund performance. Different risk elements relating to market volatility and potential returns are factored into an investment decision. Investments that produce lower returns are generally a result of lower risk or volatility. In order to optimize returns and reduce investment volatility, Fund assets are diversified among the various asset classes and across the world's economic regions.

Long-term Success of Investment Policy

The ultimate success of the Fund's investment policy is measured by how well it meets the long-term obligations for its members. An actuarial valuation on the Fund is the best way to measure this obligation. Pension fund rates of return are sometimes measured in five-year periods to emphasize longer-term trends which are more relevant to pension funding, rather than short-term volatility. The following chart compares the Fund's five-year moving rate of return and the actuarially required rate (converted from three-year rates to five-year moving rates for comparison).

FIVE-YEAR ANNUALIZED RETURN



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

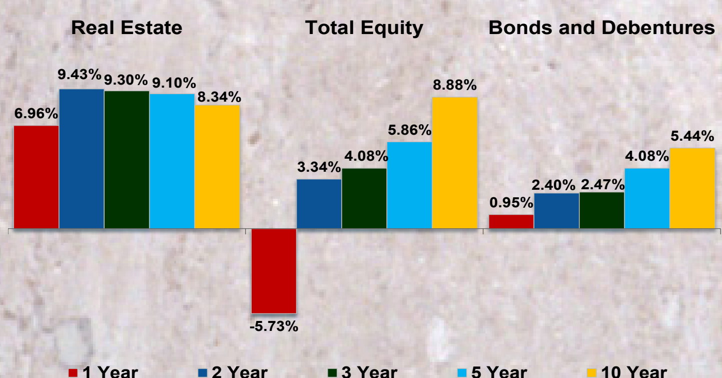
Market behaviour in 2018 was in stark contrast to 2017 where volatility was at historical lows, negative news was ignored, and returns were exceptional in all major asset classes. In 2018, global equity markets posted their worst annual performance since the financial crisis in 2008, and while markets had been under pressure for most of the year, the U.S. market proved resilient with the S&P 500 making a new record high in September and the Dow following in October.

These gains quickly evaporated in the fourth quarter however, and other global equity markets fell to new lows for the year. The damage to markets was severe over the December quarter with the U.S. posting a 14% (USD) decline. That was the worst quarterly return since Q3, 2011 during the depths of the European financial crisis. The decline in equity values was most pronounced in December, where at the lows, the S&P was down 16% and from the peak in September it had fallen close 20% (bear market levels). Although the U.S. market recovered somewhat from its lows, it still lost 9.0% and according to Ned Davis Research, was the second worst December since 1931.

The dramatic decline in global equity markets was driven by a perfect storm of negative events and headlines which hit investor confidence simultaneously:

- Heightened China/U.S. trade tensions,
- Mounting evidence of decelerating global growth,
- Peaking corporate earnings, and
- Rising geopolitical tensions.

Annualized Rates of Return



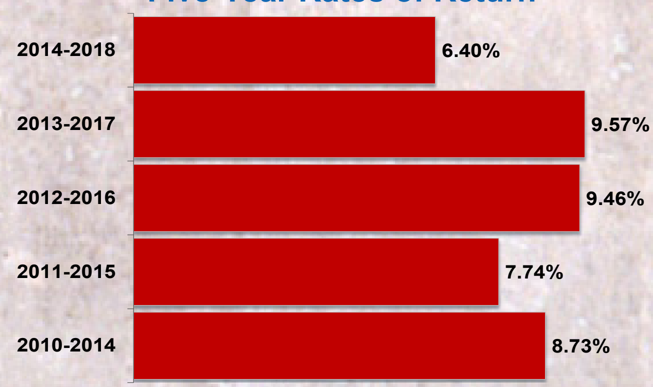
Additionally, concerns mounted that the Federal Reserve had tightened excessively and that the balance sheet reduction (removal of QE) had put undue strain on capital market liquidity. This view was exacerbated when in early October Chairman Powell reiterated the Fed's position that rates may need to rise above the "neutral level" that four additional rate hikes were planned for 2019 and the balance sheet reduction plan was on autopilot. It is our view that this statement shocked market participants and heightened concerns the Fed may be on track towards a policy mistake, leading to a U.S. recession.

To further cloud the global outlook, Chinese economic data in the December quarter indicated the economic slowdown was more significant than expected. The Chinese manufacturing PMI fell below 50 (indicating contraction) in December for the first time in almost two years, retail sales softened, auto sales fell and trade volumes weakened.

Other major regions in the global economy including the Euro area and Japan also suggested weakness, with macro-economic indicators pointing to slower growth. This was even more prevalent in emerging market economies where growth had been negatively impacted by a strong USD, rising US rates, the slowdown in China and weak commodity prices.

Other factors weighing on capital markets included fears over Brexit, the 35% decline in oil prices, increased U.S. political turmoil with the Democrats winning control of the House and the increased possibility of impeachment proceedings for President Trump.

Total Fund Annualized Five-Year Rates of Return



Cash and Cash Equivalents

Cash remains a relatively small portion of the Fund. Active management added 18 basis points (bps) with a return of 1.56% compared to the FTSE TMX Canada 91 Day T-Bill return of 1.38%.

Bonds and Debentures

The Canadian yield curve flattened again in 2018 as short yields shifted higher following three interest rate hikes by the Bank of Canada. Long yields remained well anchored as the outlook for both economic growth and inflation remained muted. Overall the FTSE Canada Universe Bond Index posted a return of 1.41% for the year. The long portion of the universe had the biggest divergence in total returns among the main sectors.

Long federal debt outperformed with a total return of 3.57% as long Canada yields ended the year 8 basis points lower.

Meanwhile material spread widening for both long corporate and long provincial debt led to negative returns of (0.40)% and (0.59)% respectively.

The Bond portfolio underperformed by 11 bps with a return of 0.95% versus 1.06% for the benchmark. The underperformance was mainly due to widening credit spreads as the fund ended the year overweight corporate debt and in particular long corporate debt.

Real Return

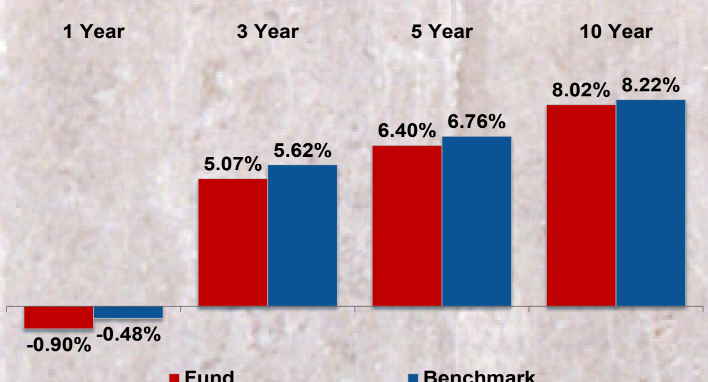
Products such as Index-Linked Mortgages remain a designated vehicle to fund the Cost-of-Living Account for future benefits. Real return investments earned 6.38% in 2018 compared to 5.30% for the benchmark.

Total Equity

Global capital markets were extremely challenging in 2018 as all major publicly traded asset classes suffered losses in local currencies, with the exception of fixed income. Markets were highlighted by significant increases in volatility with directional moves highly sensitive to macro events, both economic and political.

For 2018 (in USD), the S&P 500 fell 4.49% (+4.2% CAD), the DJIA lost 3.5% (4.7% CAD), while the broadly- based Russell 2000 declined 11% (-3.5% CAD). Canadian equity market returns were decidedly negative as the S&P/TSX fell by 8.9% (16.0% in USD).The significant weakness in the CAD versus the USD (-8%) had a positive impact on non-Canadian equity returns.

Total Fund Annualized Rates of Return versus Benchmark

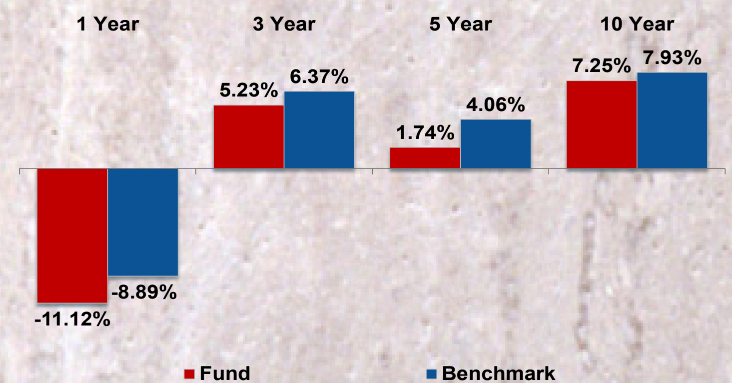


For the major global indices, returns (in USD) for 2018 were also significantly negative. The MSCI (all world index ex-Canada and US) lost 10.4% (-5.8% CAD), MSCI EAFE declined -16.1% (-6.0% CAD), MSCI Europe fell -17.3% (-10.3% CAD) while MSCI emerging markets retreated -16.6% (-6.9% CAD). In the Asia pacific region, Japan's Nikkei index fell -9.7% (-2.1% CAD), Hong Kong dropped -13.8% (-6.5% CAD) while China's equity market plummeted 28.7% (-22.7% CAD).

Canadian Equity

The Canadian equity market ended the year down 8.9%, suffering its worst performance since the 2008 global financial crisis, and 8th weakest return since 1956. December was enormously challenging for the market, with 79% of index constituents closing lower in the month. A variety of macro factors including US/China trade negotiations, Brexit uncertainty, the path of interest rates, and energy market sentiment drove volatility much higher through the last quarter of the year.

Annualized Canadian Equity Rate of Return

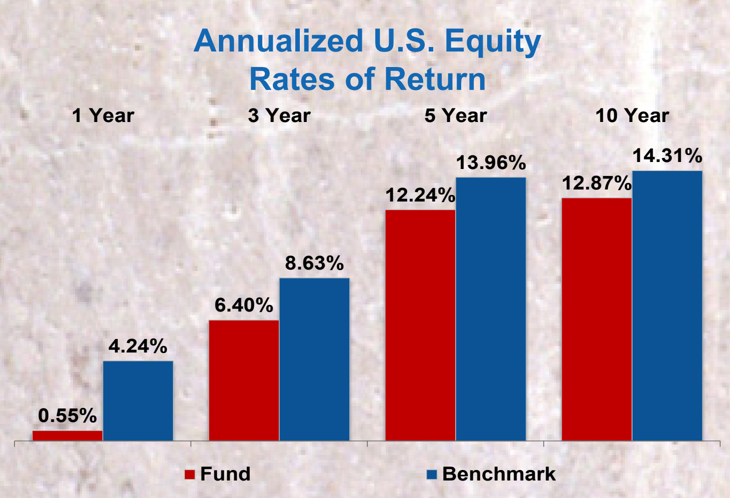


The technology sector was the clear winner in 2018, with Shopify pushing the tech index to a 13% return. The more defensive consumer staple and real estate sectors were the only other two to post positive returns. Discretionary, healthcare, and energy all posted double digit declines for the period.

The Canadian Equity portfolios together generated a (11.1)% return. The Canadian Equity I portfolio lagged its benchmark by 51 basis points (bps) with its energy and technology positions driving underperformance. The Canadian Equity II portfolio lagged its benchmark by 133 bps, attributable to its energy and industrial selections.

U.S. Equity

2018 was an eventful year in the stock market. Until the end of Q3 our process was working well with the U.S. Equity Fund, up 13.4% for the year, and up 21.5% on a trailing 12 month basis; both roughly in line with the S&P 500. Q4 experienced a market sell off where the S&P 500 fell 20% from peak to trough, and we ended the year lagging the benchmark by 323 basis points (bps). Consistent with our global macro view, we were underweight some of the more defensive areas of the market such as Utilities, Telecoms, Consumer Staples and REITs and this caused some of the underperformance. In addition, our stock selection within the sectors was also geared towards a more positive overall market outlook with security selection in Healthcare, Communication Services and Materials dragging on performance. On the positive side, security selection in Technology, Industrials and Consumer Staples all outperformed. We used the opportunity in Q4 to add exposure to our favourite names and have reduced the size of some bets as the market climbed higher in Q1 2019.



For our allocation to U.S. Midcap Stocks, our factor based approach was out of favour in 2018. The factors we are exposed to remain consistent with our original strategy and remain statistically significant over the back tested periods, even when redone as of the end of the 2018 calendar year. We are now in a period where the growth factor outperformance over the value factor is at the extremes seen during the Tech bubble of 2000 which explains a large portion of the underperformance. The U.S. Midcap equity fund lagged its benchmark by 642 bps in 2018.

For our allocation to U.S. Low Volatility Dividend Stocks, our factor based approach worked well in 2018. The allocation to U.S. Low Volatility Dividend Stocks was designed to provide superior risk adjusted returns than the S&P 500, lagging during strong up periods, and holding in better during periods of draw-down. For the first nine months of 2018, while the S&P 500 was up 14%, the U.S. Low Volatility Dividend fund lagged the S&P500 by 570 bps. During Q4, when the S&P 500 fell 8.62%, the U.S. Low Volatility Dividend fund outperformed the S&P by 446 bps. In terms of the fund performance versus the S&P Low Volatility benchmark index, the fund underperformed the low volatility index by 544 bps in 2018 primarily due to its underweight exposure to REITS and Utilities.

Non-North American Equity

The Non-North American Equity portfolio returned (6.15)% compared to the benchmark return of (5.79)%, underperforming by 36 bps. Value was detracted due to the overweight positioning in emerging markets and the underperformance of the emerging markets portion of the Fund. The MSCI EAFE index returned (6.03)% while the MSCI Emerging Markets index returned (6.87)%. The Fund's Emerging Markets manager underperformed by 1.03%. The EAFE and Asia Pacific fund managers outperformed and the internal fund was roughly flat relative to their respective benchmarks.

Private Equity

Gain Energy returned (8.07)% in 2018 versus its 6% required actuarial rate of return benchmark. Despite a 5.7% increase in reserves, a lower operating cost structure and larger weighting to oil (vs gas), weak commodity pricing and voluntary summer gas production shut-ins pushed returns down.

Private Credit

2018 was an active year for the Private Credit program, which is in its third year and is still in its infancy as we execute on the strategy. The NAV for the program is very quickly approaching $300 million total, with $148 million attributed to Antares. Overall the Private Credit program generated a return of 19.2% versus the actuarial required rate of return benchmark, which currently sits at 6%. The majority of the return can be attributed to our co-investment in Antares.

Investments include:

- Antares
- Brookfield Real Estate Finance Fund V
- Grosvenor True North II
- Northleaf Private Credit Fund I
- Sagard Credit Partners

Infrastructure

It was another busy year in the infrastructure group and performance was excellent. Overall the group of funds and co-investments managed to beat the 6% benchmark by a decent margin in gaining 9.68% for the year. Total dollars invested now exceeds $500 million.

Investments include:

- Borealis
- Brookfield Infrastructure III
- InstarAGF - AMPORTS
- InstarAGF - Essential Infrastructure Fund
- InstarAGF - Project Wrangler
- Northleaf NICP II
- Northwest Parkway

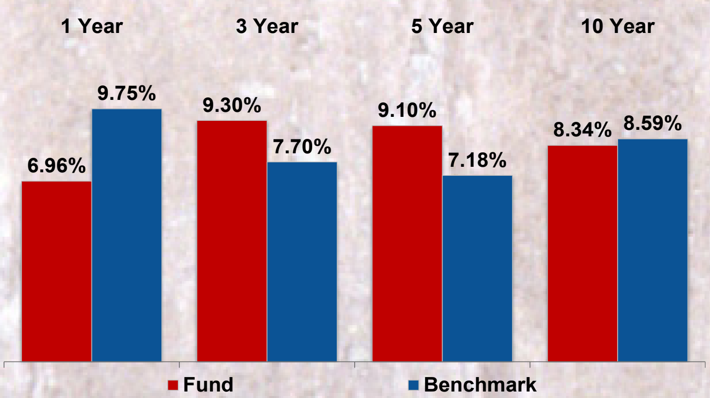
Hedging Program

On September 28th, we began passively hedging the U.S. dollar portion of the Alternative Assets by entering into a forward agreement matched to the most current valuations. The currency hedging is to reduce volatility in these asset classes, which totalled $295 million USD at the end of the year. The cost of the hedge is offset by the accrued interest from an allocated bond and the use of Repurchase Agreements with Canadian banks.

Real Estate

The real estate portfolio returned 6.96% during 2018 compared to a 9.75% return on the IPD index. Returns were hurt by our retail property exposure across Canada as we continue to face a negative sentiment towards many of these property types. Retail centres that focus on everyday needs based items, like grocery stores, continue to retain strong valuations. Office, industrial and multi-family assets across Canada experienced strong rental increases which drove higher valuations.

Annualized Real Estate Rates of Return



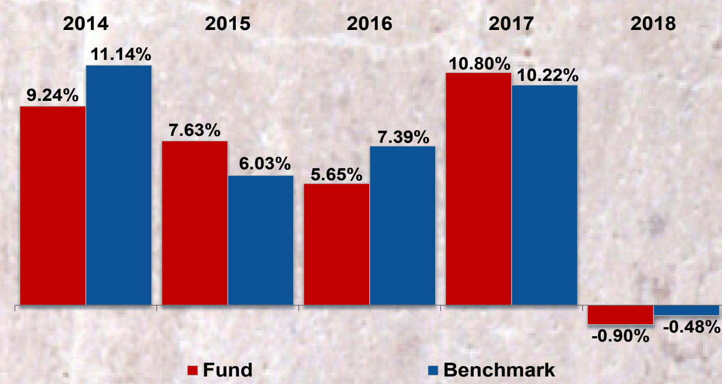
By geography, Toronto and Vancouver continue to lead the major markets as land constraints combined with exceptional population growth has put upward pressure on rental rates. Overall property fundamentals across Canada remain healthy with low vacancy and steady rental rate increases. We are focused on off-market transactions as a means to acquire real estate at attractive valuations and undertake select development opportunities where risk adjusted returns are appropriate.

Total Fund

For 2018 as a whole, the total fund returned (0.90)% versus (0.48)% for the benchmark. This was the result of the funds underweight to fixed income and underperformance of most internal and external managers to their respective benchmarks. Supporting the 2018 total fund return were the allocations to infrastructure and private credit. These asset classes provided strong returns relative to their benchmarks.

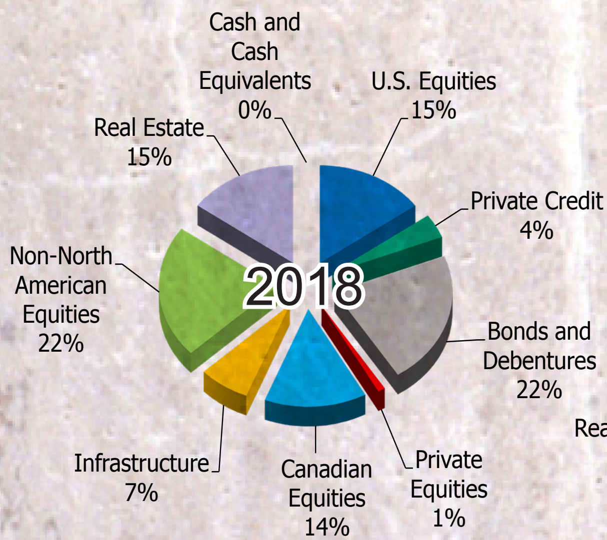
Regarding fixed income markets, the disruption and steep decline in risk assets over the last quarter caused a flight to safety into the North American fixed income markets late in 2018. Rates across all maturities were in an uptrend with 10-year U.S. treasuries rising to over 3.5% and in Canada the 10-year peaked at 2.5%.

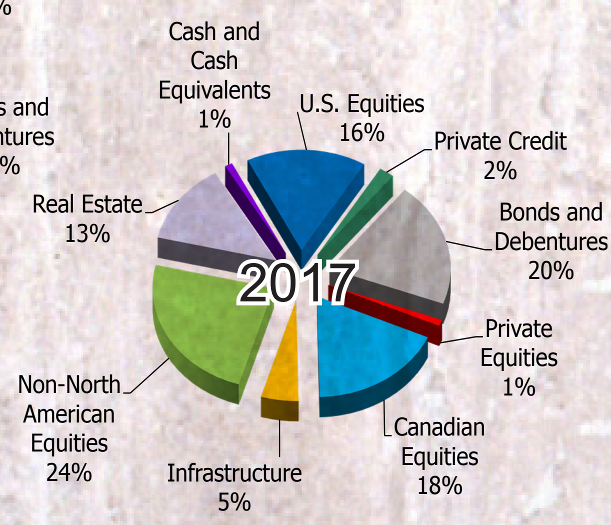
Total Fund Annual Rates of Return versus Benchmark



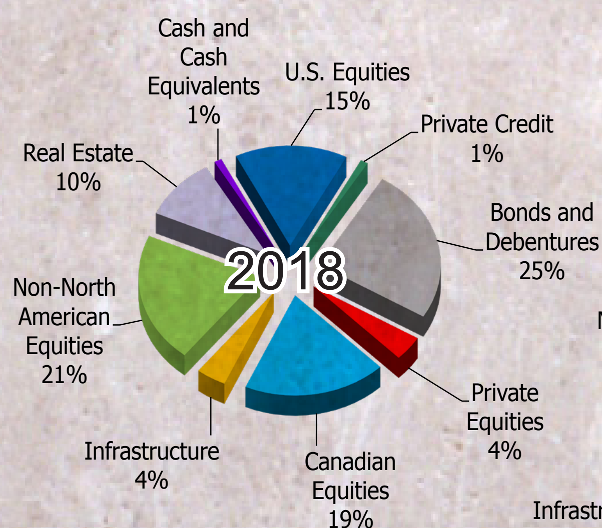
However, as the correction in equities intensified these yields fell to 2.6% and 1.96% respectively. These declines led to the fixed income market returns for 2018 moving modestly into positive territory. The FTSE/TMX universe index advanced 1.4%, both the short and mid-term indices rose 1.9% respectively while the long index gained a meagre 0.3%. The CSSB's custom fixed income benchmark managed a modest return of 1.06% in 2018.

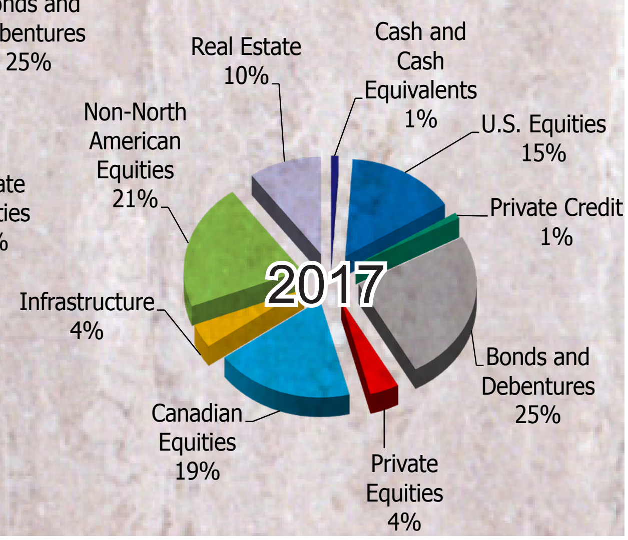
Fund Investments





Investment Policy Normal Allocation





A professional, sustainable pension plan, designed for the future of our members.

Fund Investments

	2018(*)	2017(*)
Contractual Investments		
Cash and Short-term	46,528	53,997
Bonds and Debentures	1,506,066	1,505,963
Mortgages	11,575	14,324
Public Equity Investments		
Canadian Equities	1,001,732	1,341,662
U.S. Equities	1,114,996	1,217,884
Non-North American Equities	1,563,223	1,796,902
Non-Public Equity Investments		
Real Estate	1,082,695	978,538
Private Equity	74,122	82,745
Infrastructure	511,283	409,015
Private Credit	287,296	160,517
Total Investments	7,199,516	7,561,547

* $Thousands

As we enter 2019, it is our view that concern about a significant slowdown in global economic activity is overdone.

While we recognize that the outlook for 2019 faces significant challenges and risks, presently there is little evidence to suggest an imminent collapse in global growth as equity markets had suggested late in 2018.

However, we do expect a further moderation in global real GDP growth to approximately 3.5%-3.7% in 2019. This is premised on:

- a modest slowdown in U.S. economic growth,
- stabilization in European, Japanese and Chinese economies,
- a pause in the Fed tightening cycle,
- progress on U.S./China trade negotiations,
- stabilization in oil prices, and
- a constructive Brexit resolution.

The U.S. economy appears to have ended 2018 on solid footing, supported by strong employment gains, low unemployment, modestly rising wages, healthy consumption, and solid retail sales over Christmas. Corporate earnings are up 25%, there has been a modest recovery in capital spending, consumer confidence is healthy, and the tax cuts and fiscal stimulus have provided an added boost to U.S. growth.

However, as we enter 2019 there are some areas of concern that bear monitoring; housing and auto sales have slowed due to rising rates and lower levels of demand and the U.S. manufacturing PMI, although still registering ongoing expansion, posted its largest month over month decline since 2008.

Another area of concern is whether the Fed has made a policy error and raised rates too aggressively. The Fed has raised rates nine times since they began to normalize policy, including four times in 2018. In their statement post the December announcement, the Chairman appeared to be hawkish on further rate hikes and continued balance sheet reductions.

As was the case after the Chair's comments in October, the market reaction to his words was violently negative. At time of writing, given the significant global equity market pullback, criticism from market prognosticators and not surprisingly President Trump, the Fed has significantly walked back this hawkish stance. In fact, at a recent conference, Chairman Powell indicated the Fed may pause further rate hikes in 2019 should economic data warrant. He also stated the $50B balance sheet reduction plan could be reviewed if financial conditions are perceived as being too tight. This more flexible, data dependent and dovish position worked to sooth markets and investors.

The Chinese/U.S. trade negotiations and deadline for a resolution by March is a major concern for U.S. and global growth. A failure to resolve or indicate substantial progress in these negotiations would result in a further escalation in the tariff wars. This would put both the U.S. and Chinese economies (and perhaps Europe and Japan) at risk of a global trade war. This would be decidedly negative for the global economy.

The final major risk we see for the U.S. economy is politics. With the Democrats controlling the House post the mid-term elections, the Trump agenda, and perhaps Presidency, is at risk. Political gridlock now appears inevitable over the next two years as is currently demonstrated by the U.S. government shutdown over Trump's demands for the funding of his campaign promise of a southern border wall. Regarding the Mueller investigation and potential impeachment, many of the newly elected democratic congress members are already pushing to start the impeachment process.

Despite these major areas of concern, we continue to suggest that the U.S. real GDP will continue to grow in 2019, albeit at a rate closer to the trend rate of growth experienced since the 2008 financial crisis, at approximately 2.5%. This lowered expectation is to a great extent the result of the lessening impact of the tax cuts and fiscal stimulus applied to the U.S. economy in 2018.

Turning to China, the second largest economy in the world, the outlook has deteriorated over 2018 as government policies were implemented to restrain credit growth and deleverage the financial system. This, in combination with the U.S. trade conflict, has resulted in a significant slowing in the Chinese economy. The December reading for the Chinese PMI moved into contractionary territory at 49.7 versus 50.2 in November. Retail sales and consumption were also weaker than expected, industrial production lost ground and trade volumes weakened.

Over the past year, Chinese authorities have been attempting to moderate the decline in economic growth through modest targeted stimulus. For instance, they have lowered reserve requirements for certain banks four times, reduced personal taxes, announced small infrastructure projects and lowered property regulations in certain cities. Post the release of the Chinese PMI report, the central bank appears to have become slightly more aggressive in terms of economic policy to stabilize growth. In early January they announced another 100 basis point decrease in reserve requirements for all banks and pulled forward a significant infrastructure spend on railways. It is our view that the Chinese have powerful fiscal and monetary tools that they will not hesitate to utilize should economic stability become a major concern. However, our forecast is that Chinese GDP will slow further in 2019 to approximately 6% from 6.5% in 2018.

The European economy lost momentum over the last half of 2018. Economic activity was impacted by global trade tensions, the slowdown in China, slowing auto production, slowing industrial production, and a moderation in global trade volumes. Other factors impacting the region are the ongoing rise in populism with protests in France, the unresolved Brexit issue and political uncertainty in Italy. Finally, at the most recent European Central Bank meeting, they confirmed the end of the EU quantitative easing program and reiterated that they would not raise rates for an extended period. For 2019, we expect Euro area growth to slow modestly to approximately 1.5% from 1.8% in 2018.

In Japan, economic growth was fragile, and negatively impacted by natural disasters (flooding, typhoons, and earthquakes). For 2018, the economy likely advanced close to expectations of 1% and in 2019 we do not expect much change as the Japanese economy will face the headwinds of slowing U.S. and Chinese economies and ongoing trade tensions. The economy is expected to be supported by a tight labour market, low interest rates, and ongoing Bank of Japan simulative monetary policy. Additionally, wages are growing modestly, business confidence is improving and investment should remain strong as the 2020 Olympics related spending ramps up. The one caveat for Japan is the proposed introduction of a value added tax and its potential negative impact on consumer spending.

Emerging market economies have faced the headwinds of rising U.S. rates, a strong U.S. dollar and a slowing Chinese economy. For these economies to rebound, Chinese growth will have to stabilize, commodity prices have to firm, oil prices need to recover and U.S. dollar strength must moderate. Nevertheless, the emerging market economies should see real GDP growth in excess of 5% in 2019.

The Canadian economy has remained surprisingly resilient with 2018 growth estimated at 2%. However, given the expectation that Canada's largest trading partners (U.S. and China) will experience a soft patch in growth in 2019, the outlook is less optimistic. In addition, Canada's economy continues to be challenged by the steep decline in oil prices, an over-leveraged consumer and a slowing housing market.

With regard to equity capital markets, post the severe correction in global markets late in 2018, valuations have moved to historically attractive levels. Multiples have fallen almost 30% and are now below historical averages. While earnings growth will now certainly slow from the impressive 25% growth in 2018, the consensus expectation for 2019 remains a healthy 5-9% expansion in earnings. This, combined with the recent comments from Fed Chairman Powell regarding a softer stance on monetary tightening, should provide support to the outlook for global equities. It is interesting to note that since the start of 2019 and post Powell's comments, the U.S. equity market has rallied almost 10% from its recent lows. While this is certainly a welcome relief rally, we would expect the market trend will be choppy and it may retest the prior lows. A solid bottoming process will take time and investor confidence needs to be restored.

Other positive factors that would lift markets include progress on China/U.S. trade negotiations and a more aggressive economic stimulus package from Chinese authorities. This is a reasonably optimistic outlook given the recent market retrenchment and the challenges that face global capital markets/economies over the forecast period, however markets have now discounted much of the worst case scenarios and we believe offer reasonable return expectations of approximately 6-8%. In 2019, we should expect heightened market volatility and reactions to news, positive or negative, may cause outsized market moves.

Regarding fixed income markets, rates for most of 2018 were in an uptrend until the final quarter. As discussed, global growth concerns and the equity market meltdown caused investors to move into more defensive areas such as fixed income or cash, resulting in a significant pullback in yields. Given a more modest outlook for U.S. and global growth in 2019 and a more cautious Fed regarding higher rates, we would expect that the upward path of rates may pause over the next 6-12 months. The main risk to this forecast is much stronger U.S./global growth than current consensus expectations causing the Fed to raise rates more than markets will tolerate. From a long-term perspective, we see little value in fixed income markets; however given a preponderance of short-term uncertainties, we plan to maintain a neutral weight to our policy benchmark for diversification and defensive purposes.

With respect to non-public assets, our view remains favourable given their risk diversification and stable return profiles. High quality real estate investments will be acquired as opportunities are presented. Infrastructure offers attractive cash flow, relatively stable returns and tends to have a low correlation to public equity markets.

In 2018, we added two new Asset classes to our Non-Public/Alternatives exposure, Private Credit and Private Equity, to further diversify the overall portfolio. Investments in these areas will be enhanced as opportunities are presented over the next few years.

Membership Information

Member Services

The Board offers the following services to members and their families, financial planners, solicitors, etc.:

1. **Individual Meetings**

   Members can meet with Board staff in Winnipeg and rural areas to discuss pension and insurance benefits. The Internet allows for services similar to those provided at the Board office in Winnipeg to be offered in rural areas like Brandon and Dauphin. Members are encouraged to bring anyone they wish to these meetings, like a spouse or financial planner.

2. **Pre-Retirement Planning Seminars**

   The pre-retirement planning seminar program is a half-day session designed for employees who are beginning to plan for retirement. They are presented in major centres throughout Manitoba for groups of 15 to 50 people, and members are encouraged to bring their spouses. The focus of these seminars is on pension and insurance benefits offered through the Board.

3. **Employee Pension and Insurance Seminars**

   The employee information seminars focus on pension and insurance benefits, such as eligibility, entitlement to benefits, family protection, disability, death, relationship separation, etc. They are presented to groups of 15 to 250 employees of the Government and its related boards, commissions, and agencies, and last for two to three hours.

4. **Personal and General Inquiries**

   Board staff are available to answer questions by way of phone and written communication.

5. **Electronic Communications**

   The Board has a website and Online Services, allowing members to view general information and obtain detailed personalized information at their convenience.

Staff are available to meet your information needs with respect to enrolment, retirement, disability, termination and pension projections for estate and retirement planning.

We ask that you have your personal identification number (PIN), social insurance number (SIN), or employee number ready when calling the office and that you make an appointment prior to visiting to assist us in serving you better.

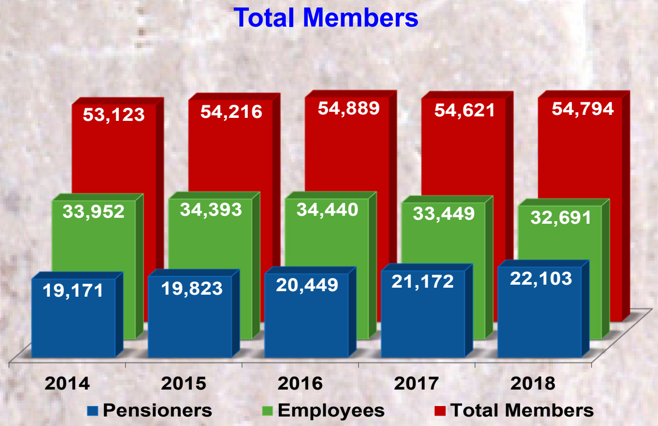
Governance

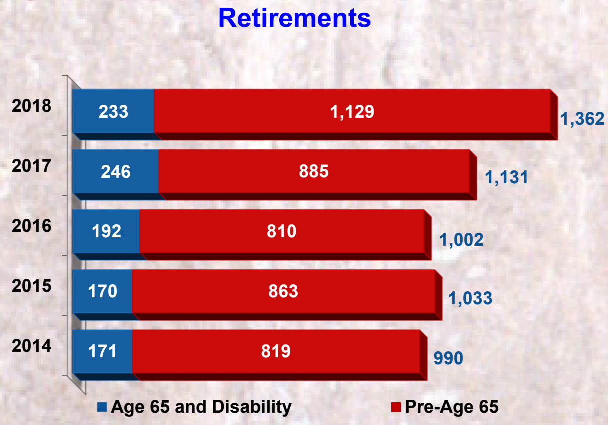
The Board and sub-committees regularly receive management certified compliance reports and informational material to assist with oversight requirements. In addition, the Board reviews and formally approves the minutes of all subcommittee meetings.

The Board is currently conducting a review of its governance processes. The results of the review will form the foundation of future Board policies and procedures.

Members/Retirements

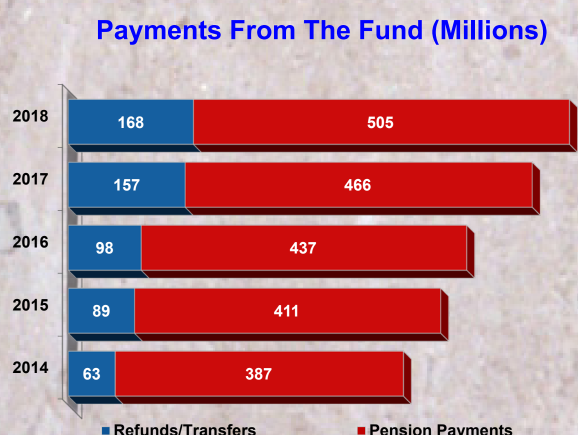
During 2018
- Total members increased by 173 to 54,794
- Employees/former employees participating in the Fund decreased by 758 to 32,691
- Pensioners/beneficiaries increased by 931 to 22,103

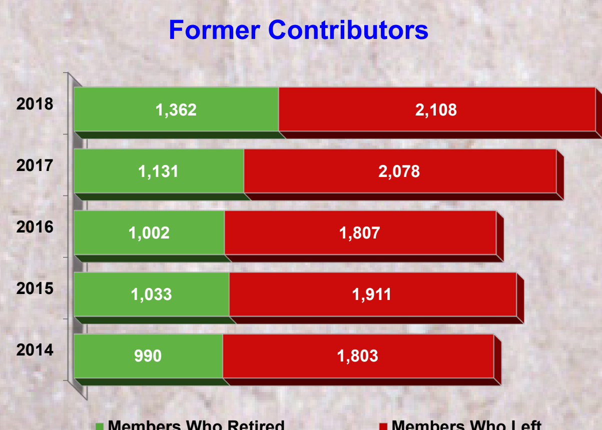




Paying Your Benefits

During 2018
- 22,103 pensioners/beneficiaries were receiving pension benefits at the end of the year
- $505 million was paid in pensions





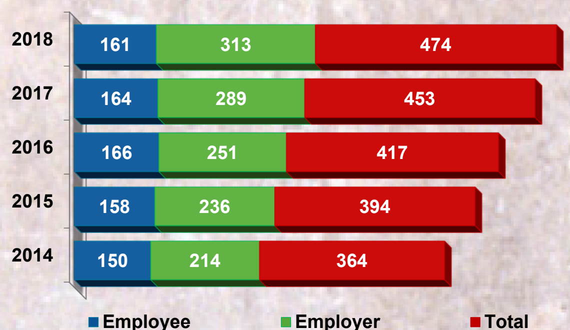
EMPLOYEE CONTRIBUTIONS/EMPLOYER PAYMENTS

During 2018
- Employees contributed $161 million to the Fund compared to $164 million in 2017
- Employers paid $313 million to the Fund compared to $289 million in 2017

Employees and Employers share the cost of the plan.
- 89.8% of your contributions fund basic pension and beneficiary benefits
- 10.2% of your contributions are allocated for cost-of-living benefits

Employer payments include:
- Approximately 50% of pensions paid and Transfer Values for terminations, relationship separations, and deaths for payment funding employers
- Payments made by prefunding employers

Contributions and Payments (Millions)



An employee contributes to the pension plan at one rate on salary up to his or her Canada pensionable earnings, and at a different rate on salary over of his or her Canada pensionable earnings. Canada pensionable earnings is the salary an employee receives in a year that does not exceed the Yearly Maximum Pensionable Earnings under the Canada Pension Plan. The Yearly Maximum Pensionable Earnings for 2019 is $57,400

COST-OF-LIVING ADJUSTMENT (COLA)

- 10.2% of employee contributions and prefunding employer payments go to a separate account to fund COLA
- The account funds approximately half the COLA increase while employers pay their share
- Pensioners and beneficiaries receive an annual increase to a maximum of ⅔ of the increase in the Canadian Consumer Price Index (CPI)
- The COLA paid July 1, 2018 was 1.25%

Cost-of-Living Account

The Board is concerned with the future viability of COLA. COLA is limited to the extent that the COLA account is, in the opinion of our actuary, able to pay for approximately one half of the increases. The employer pays for the remainder of the increases. The Board is concerned that the COLA account will not be able to continue to provide increases of ⅔ of the increase in the Canadian Consumer Price Index. Concerned members should contact the Pension and Insurance Liaison Committee.

Funding of Pension Benefits

The Fund's net assets available for benefits are primarily funded by:
- Investment income
- Employee contributions
- Employer payments

These assets are used to finance the payment of the Fund's portion of the basic pension, the indexing benefits, and the employers' share for several prefunding employers. The majority of employers are payment funding and defer payment of their share of pension benefits until the benefit is paid.

The Fund consists of two separate accounts:

1. Basic Benefits Account

- Finances the Fund's share of the basic pension benefit calculated as at a specific date (i.e. retirement, termination or death)

2. Indexing Benefits Account

- Has been specifically established to finance the Fund's share of cost-of-living benefits paid to members
- 10.2% of employee contributions and prefunding employer payments are credited annually to this account

The cost-of-living benefit payments are limited to the extent that the Indexing Benefits Account is able to finance its share of each increase. Legislation limits the maximum annual cost-of-living adjustment to ⅔ of the increase in the CPI until the account can prefund anticipated adjustments for the next 20 years.

The net assets available to finance pension benefits, the obligations for pension benefits, and any surplus in the Basic Benefits Account and the funds available to finance future cost-of-living adjustments as at December 31, 2018 are summarized below.

	Fund (*)	Payment Funding Employers (*)	Obligations Total (*)
1. Net Assets Available (Net of Actuarial Reserves)			
Basic Benefits Account	4,365,522		
Indexing Benefits Account	540,824		
Total	**4,906,346**		
2. Actuarial Obligations for Pension Benefits			
Basic Benefits Account (Excluding future benefits)	5,302,951	4,131,430	9,434,381
Indexing Benefits Account	355,799	328,716	684,515
Total	**5,658,750**	**4,460,146**	**10,118,896**
3. Actuarial Position/Funds Available			
Basic Benefits Account	(937,430)	(4,131,430)	(5,068,860)
Indexing Benefits Account (funds available to finance future adjustments)	185,026	(328,716)	(143,690)
Surplus/(Deficit)	**(752,404)**	**(4,460,146)**	**(5,212,550)**

* $Thousands

Refer to the Audited Financial Statements for additional information.

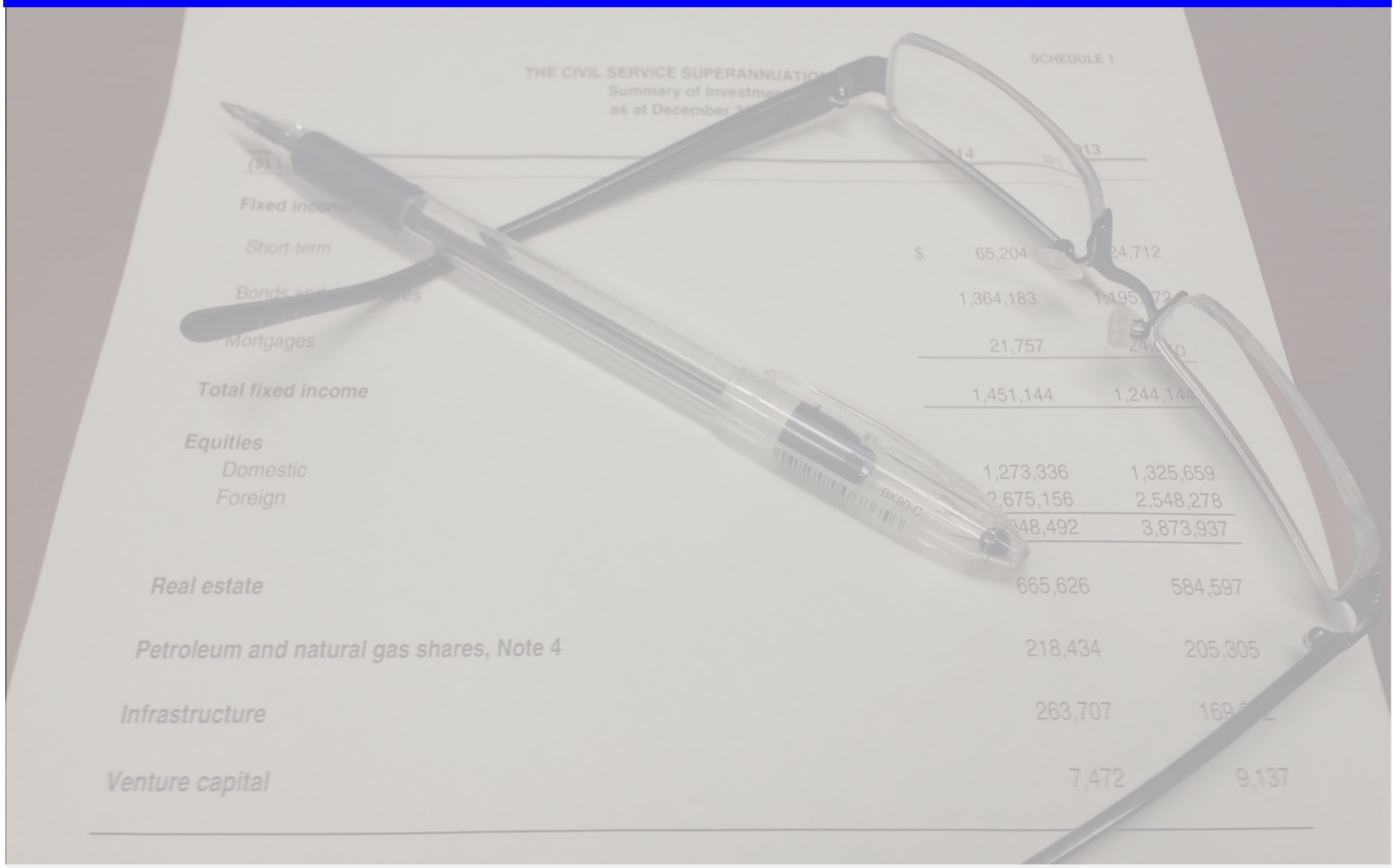
FIVE-YEAR COMPARATIVE STATISTICS

		2014 (*)	2015 (*)	2016 (*)	2017 (*)	**2018(*)**
Investments	Rate of Return	9.24%	7.63%	5.65%	10.80%	**(0.90)%**
	Market Value	6,554,875	6,885,208	7,077,658	7,561,547	**7,199,516**
Contributions and Payments	Employee Contributions	150,251	157,703	165,787	164,100	**161,003**
	Employer Payments	213,957	236,356	251,374	288,584	**312,795**
	Total	364,208	394,059	417,161	452,684	**473,798**
Payments from the Fund	Pension Benefits Paid	386,601	410,870	437,233	466,122	**505,303**
	Refunds and Transfers	62,857	88,961	97,803	156,450	**167,985**
Expenses	Administrative, net before recoveries from payment funding employers	3,268	3,345	3,867	3,908	**4,273**
	Investment, net	5,382	6,665	6,708	7,782	**11,003**

* $Thousands unless otherwise noted

		2014	2015	2016	2017	**2018**
Membership	Non-Retired Members	33,952	34,393	34,097	33,449	**32,691**
	Pensioners and Other Recipients	19,171	19,823	20,793	21,172	**22,103**
	Total Members	53,123	54,216	54,890	54,621	**54,794**
	Refunded/Transferred Members	1,803	1,911	1,807	2,078	**2,108**
	Retirements	990	1,033	1,002	1,131	**1,362**

Financial Information



MANAGEMENT RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of The Civil Service Superannuation Fund are the responsibility of management and have been prepared in accordance with Canadian accounting standards for pension plans, as stated in the notes to the financial statements. Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to safeguard the assets of the Fund. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to May 30, 2019.

The firm of Ellement Consulting Group has been appointed as consulting actuary for the Fund. The role of the actuary is to complete the triennial actuarial valuations of the Fund in accordance with actuarial practice and estimate the obligations for benefits for inclusion in the annual financial statements.

The Auditor General performs an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards. The resulting opinion is set out in the Auditor's Report attached to the financial statements.

Ultimate responsibility for the financial statements rests with the members of the Civil Service Superannuation Board. The Board established a Finance and Audit Committee to meet with Board staff and representatives of the Auditor General. It is the responsibility of the Finance and Audit Committee to review the financial statements, ensure that each group has properly discharged its respective responsibilities and make a recommendation to the Board regarding approval of the financial statements. The auditors have full and unrestricted access to the Board and to the Finance and Audit Committee.

The Board has reviewed and approved these financial statements.

On behalf of Management,

Bruce Schroeder
General Manager

Rick Wilson
Director, Finance

Auditor General
MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba

To the Civil Service Superannuation Board

Opinion

We have audited the financial statements of the Civil Service Superannuation Fund which comprise the statement of financial position as at December 31, 2018, and the statements of changes in net assets available for benefits, changes in pension obligations and changes in surplus (deficit) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Civil Service Superannuation Fund as at December 31, 2018, and the changes in net assets available for benefits, the changes in pension obligations and the changes in surplus (deficit) for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Civil Service Superannuation Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Civil Service Superannuation Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate the Civil Service Superannuation Fund or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Civil Service Superannuation Fund's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Civil Service Superannuation Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Civil Service Superannuation Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Civil Service Superannuation Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Norm Ricard

Winnipeg, Manitoba
May 30, 2019

Norm Ricard, CPA, CA
Auditor General

THE CIVIL SERVICE SUPERANNUATION FUND
Statement of Financial Position
as at December 31, 2018

($) Thousands	2018	2017
Assets		
Investments, Schedule 1 and Note 2(b)	$ 7,199,516	$ 7,561,547
Capital assets	379	654
Prepaid expenses	293	293
Debt due from the Province of Manitoba, Note 4	1,826	1,826
Receivables, Note 5	3,779	4,313
Accrued dividends and interest	15,175	13,615
Total assets	7,220,968	7,582,248
Liabilities		
Accounts payable and accrued liabilities	32,416	13,696
The Province of Manitoba Unfunded Pension Liability Trust Account, Note 6	2,098,635	2,217,480
Manitoba Hydro Enhanced Benefit Trust Account, Note 7	31,638	31,190
Correctional Officers' Trust Account, Note 8	12,317	12,316
Employer Trust Accounts, Note 9	100,774	101,854
Money Purchase Accounts Plan, Note 10	38,842	39,520
Total liabilities	2,314,622	2,416,056
Net assets available for benefits, Exhibit B	**$ 4,906,346**	**$ 5,166,192**
Pension Obligations and Deficit		
Actuarial value of pension obligations, Exhibit C, Note 11	$ 10,118,896	$ 9,538,444
Deficit, Exhibit D, Note 1(b), 11, 12 and 19	(5,212,550)	(4,372,252)
Pension obligations and deficit	**$ 4,906,346**	**$ 5,166,192**

The accompanying notes and schedules are an integral part of these financial statements.

Approved on behalf of the Board

Chairperson of the Board

Chairperson, Finance and Audit Committee

THE CIVIL SERVICE SUPERANNUATION FUND
Statement of Changes in Net Assets Available for Benefits
For the year ended December 31, 2018

($) Thousands	Basic Benefits Account	Indexing Benefits Account	2018 Total	2017 Total
Increase in assets				
Contributions, Schedule 2, Note 1(b) and 13				
Employees	$ 144,661	$ 16,342	$ 161,003	$ 164,100
Employers	282,345	30,450	312,795	288,584
Total contributions	427,006	46,792	473,798	452,684
Net investment income, Schedule 3	286,413	(5,068)	281,345	225,037
Current period change in fair value of investments, Note 14	-	-	-	511,031
Other	79	-	79	79
Total increase in assets	713,498	41,724	755,222	1,188,831
Decrease in assets				
Current period change in fair value of investments, Note 14	359,959	-	359,959	-
Benefits paid, Note 15	445,422	59,881	505,303	466,122
Refunds and transfers, Note 16	167,985	-	167,985	156,450
Administrative expenses, net, Note 17	2,489	-	2,489	2,262
Interest allocations to various trust accounts and Money Purchase Accounts Plan, Note 18	(20,668)	-	(20,668)	237,876
Total decrease in assets	955,187	59,881	1,015,068	862,710
(Decrease) increase in net assets	(241,689)	(18,157)	(259,846)	326,121
Net assets available for benefits, beginning of year	4,607,211	558,981	5,166,192	4,840,071
(Decrease) increase in net assets	(241,689)	(18,157)	(259,846)	326,121
Net assets available for benefits, end of year, Exhibit A	**$ 4,365,522**	**$ 540,824**	**$ 4,906,346**	**$ 5,166,192**

The accompanying notes and schedules are an integral part of these financial statements.

THE CIVIL SERVICE SUPERANNUATION FUND
Statement of Changes in Pension Obligations
For the year ended December 31, 2018

EXHIBIT C

($) Thousands	Fund	Payment Funding Employers	2018 Total	2017 Total
Basic Benefits Account				
Pension obligations, beginning of year	$ 5,081,672	$ 3,846,923	$ 8,928,595	$ 8,550,078
Change in pension obligations				
Experience loss	101,035	215,025	316,060	186,299
Benefits accrued	144,048	111,735	255,783	249,956
Benefits paid	(331,062)	(282,345)	(613,407)	(566,654)
Interest accrued on benefits	301,258	235,389	536,647	508,916
Change in actuarial assumptions	6,000	4,703	10,703	-
	221,279	284,507	505,786	378,517
Pension obligations, end of year	**$ 5,302,951**	**$ 4,131,430**	**$ 9,434,381**	**$ 8,928,595**
Indexing Account				
Pension obligations, beginning of year	$ 316,989	$ 292,860	$ 609,849	$ 565,253
Change in pension obligations				
Experience (gain)	(2,770)	(2,559)	(5,329)	(11,988)
Benefits accrued, Note 11(b)	47,569	43,948	91,517	78,627
Benefits paid	(31,125)	(28,756)	(59,881)	(55,919)
Interest accrued on benefits	19,195	17,734	36,929	33,876
Change in actuarial assumptions	5,941	5,489	11,430	-
	38,810	35,856	74,666	44,596
Pension obligations, end of year	**$ 355,799**	**$ 328,716**	**$ 684,515**	**$ 609,849**
Combined				
Pension obligations, beginning of year	$ 5,398,661	$ 4,139,783	$ 9,538,444	$ 9,115,331
Change in pension obligations	260,089	320,363	580,452	423,113
Pension obligations, end of year, Exhibit A	**$ 5,658,750**	**$ 4,460,146**	**$ 10,118,896**	**$ 9,538,444**

The accompanying notes and schedules are an integral part of these financial statements.

THE CIVIL SERVICE SUPERANNUATION FUND
Statement of Changes in Surplus (Deficit)
For the year ended December 31, 2018

($) Thousands	Fund	Payment Funding Employers	2018 Total	2017 Total
Basic Benefits Account				
Deficit, beginning of year,	$ (474,461)	$ (3,846,924)	$ (4,321,385)	$ (4,226,206)
(Decrease) increase in net assets	(241,689)	-	(241,689)	283,338
Change in pension obligations	(221,279)	(284,507)	(505,786)	(378,517)
	(462,968)	(284,507)	(747,475)	(95,179)
Deficit, end of year	**$ (937,429)**	**$ (4,131,431)**	**$ (5,068,860)**	**$ (4,321,385)**
Indexing Account				
Surplus (deficit), beginning of year,	$ 241,992	$ (292,859)	$ (50,867)	$ (49,054)
(Decrease) increase in net assets	(18,157)	-	(18,157)	42,783
Change in pension obligations	(38,810)	(35,856)	(74,666)	(44,596)
	(56,967)	(35,856)	(92,823)	(1,813)
Surplus (deficit), end of year	**$ 185,025**	**$ (328,715)**	**$ (143,690)**	**$ (50,867)**
Combined				
Deficit, beginning of year,	(232,469)	(4,139,783)	(4,372,252)	(4,275,260)
Change during the year	(519,935)	(320,363)	(840,298)	(96,992)
Deficit, end of year, Exhibit A, Note 19	**$ (752,404)**	**$ (4,460,146)**	**$ (5,212,550)**	**$ (4,372,252)**

The accompanying notes and schedules are an integral part of these financial statements.

($) Thousands

1. Description of Plan

The following description of the Civil Service Superannuation Plan (the "Plan") is a summary only. For more complete information reference should be made to the Civil Service Superannuation Act (the "Act").

(a) General

The Civil Service Superannuation Board (the "Board") and the Civil Service Superannuation Fund (the "Fund") were established under the Act in May 1939. The Board is responsible for administering the Act. The Act defines the basis of funding and the operation of the Plan as a defined benefit plan, which provides pension benefits to employees of the Government of the Province of Manitoba and its agencies participating in the Plan.

(b) Funding

The Act requires that employees contribute 8.0% of pensionable earnings up to the Canada Pension Plan (CPP) maximum pensionable earnings and 9.0% of pensionable earnings above that maximum. In accordance with the Act, 89.8% of the employee contributions are allocated to the Basic Benefits Account and 10.2% are allocated to the Indexing Benefits Account. The prefunding employer contribution rate is .9% less than the employee on pensionable earnings up to the Canada Pension Plan (CPP) maximum pensionable earnings and the same as the employee on Pensionable Earnings above that maximum.

Under provisions of the Act, payment funding employers defer contributing their share of employee pension benefits until they are billed for 50% of the benefit payments processed. However, payment funding employers are not billed for the cost of the pension formula improvement implemented in 2000. Prefunding employers similarly do not contribute toward the 2000 pension formula improvement.

The Fund's net assets available for benefits are primarily comprised of investments derived from contributions from employees and prefunding employers together with investment income. These assets are intended to finance the Fund's portion of the Plan's actuarially determined obligation for pension benefits accruing to employees for service to the date of these financial statements. The payment funding employers' portion of the obligation for pension benefits, as shown on Exhibit C and disclosed in Note 11, is unfunded.

The cost-of-living benefit payments are limited to the extent that the amount in the separate Indexing Benefits Account is actuarially able to finance one-half of that payment. Legislation limits the maximum annual adjustment to two-thirds of the increase in Consumer Price Index (Canada) until the Indexing Benefits Account can pre-fund anticipated adjustments for the next twenty years.

(c) Pension Calculation

The lifetime pension calculation equals:

(i) 2% of a member's best five-year average pensionable earnings multiplied by pensionable service.

(ii) minus .4% of the average CPP maximum pensionable earnings for the same period multiplied by pensionable service since January 1, 1966.

The lifetime pension is subject to an overall maximum of 70% of the average earnings described in (i) above. Some pensions for members retiring prior to age 60 are subject to an early retirement reduction.

($) Thousands

(d) Excess Contributions

On termination, retirement or death, if a member's contributions plus interest (less 10.2% allocated to the Indexing Benefits Account) exceed 50% of the commuted value of the pension for service after December 31, 1984, the excess contributions are payable to the member or the member's estate.

(e) Retirement

A member is eligible to retire as early as age 55.
All members must commence pension benefits no later than the last day of the calendar year in which the member attains 71 years of age.
Eligible members of the Province of Manitoba's Corrections Component may retire as early as age 50 if age plus years of qualifying service is greater than or equal to 75.

(f) Disability Pensions

A member with ten or more years of qualifying service is eligible to apply for a disability pension.

(g) Death Benefits Pre-retirement

Upon the death of an active member, a survivor's benefit is payable to a spouse or partner or the member's estate when there is no survivor.

(h) Death Benefits Post-retirement

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of the member's contributions plus interest.

(i) Withdrawal Refunds

Upon application and subject to lock-in provisions, withdrawal refunds are payable when a member ceases to be employed by a participating employer. Members may choose to leave their contributions in the Plan as a vested member.

(j) Income Taxes

The Plan is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

(k) Money Purchase Accounts Plan

The Board administers and maintains a separate Money Purchase Accounts Plan on a trust basis as provided for in the Act.

($) Thousands

2. Significant Accounting Policies

The significant accounting policies are summarized below:

(a) Basis of Presentation

The financial statements are prepared on a going-concern basis as a separate financial reporting entity, in accordance with Canadian accounting standards for pension plans. The Fund has selected Part II (accounting standards for private enterprises) of the CPA Canada Handbook for issues not directly addressed by these standards. In accordance with these standards, statements prepared include the statement of financial position, the statement of changes in net assets available for benefits, the statement of changes in pension obligations and the statement of changes in surplus (deficit). They are prepared to assist participants and others in reviewing the financial activities for the fiscal year.

(b) Investments

Investments are presented on a non-consolidated basis even when an investment is in an entity over which the Plan has control or can exercise significant influence.

Investments are recorded at fair value on a trade date basis. Fair values of investments are determined as follows:

Fixed Income

(i) Short-term investments are valued at cost, which approximates market and short term equivalents are valued at market by independent sources.

(ii) Bonds and debentures are valued at market by independent sources.

(iii) Index-linked mortgages are valued at amortized cost, which approximates fair value.

Equities

(i) Publicly traded securities are valued at year end market prices as listed on the appropriate stock exchange.

(ii) Pooled equity funds are valued at market by the external manager based on the fair value of the underlying assets.

Other Investments

(i) Real estate and Infrastructure investments are valued at fair value based on the most recent appraisals or external managers' valuations of the underlying properties.

(ii) Petroleum and natural gas shares are valued at fair value based on the discounted present value of proven petroleum and natural gas reserve information provided by external managers or are reflected at cost, which approximates fair value, until such information is available.

(iii) Private equity and Private credit investments are valued at the fair value of the underlying investments as established by the external managers or at cost, which approximates fair value, when no valuation has been prepared.

(c) Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from those estimates.

($) Thousands

(d) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The foreign currency translation of these transactions (except for any foreign currency translation related to the acquisition of investments) is included in investment income or the current period change in fair value of investments (net realized gains or losses on the sale of investments) or administrative expenses.

The fair value of investments denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect at year-end and the resulting change from the translation at acquisition (or the prior year end) is included in the current period change in fair value of investments (net unrealized market gains or losses).

(e) Forward Contracts

A forward contract is a contractual obligation to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate. Forward contracts are recorded at fair value which is the estimated amounts that the Fund would receive or pay to terminate the contracts at the reporting date. Realized and unrealized gains or losses on forward contracts are recognized with the current period change in fair value of investments.

(f) Equipment

Computer equipment costing less than $15 and all furniture purchases are charged to operations in the year of acquisition. Mid-range computer equipment cost is amortized over 5 years and microcomputer equipment cost is amortized over 3 years.

(g) Related Party Transactions

The Plan's sponsor and administrator (and their close family members) are related parties of the Civil Service Superannuation Fund. The sponsor of the Plan is the Government of the Province of Manitoba and the administrator of the Plan is the management of the Civil Service Superannuation Board (CSSB).

CSSB management and their close family members include board members, external committee members and senior management, as well as their spouses, and any controlled business or business subject to significant influence.

All related party transactions are recorded at the exchange amount. Material transactions, in aggregate, and balances are disclosed separately.

(h) Net Investment Income and Current Period Change in Fair Value of Investments

Dividend income is recognized based on the ex-dividend date; interest income and income from real estate, infrastructure, private equity, private credit and security lending are recognized on the accrual basis as earned. Current period change in fair value of investments includes both realized and unrealized gains and losses. Unrealized gains and losses are recognized only when the fair value of the investment is based on a quoted market price in an active market or a valuation using appropriate valuation techniques is performed and approved by management.

($) Thousands

3. Risk Management

The fair value of investments is exposed to market risk (interest rate risk, currency risk and price risk), credit risk, and liquidity risk.

(a) Market Risk

Interest Rate Risk

Interest rate risk refers to the impact of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities. The value of the Fund's assets is affected by changes in interest rates.

The Fund's exposure to interest rate risk is concentrated in its investments in bonds and debentures. To properly manage the Fund's interest rate risk, appropriate guidelines on the weighting and duration for bonds and debentures are set and monitored by the Fund's Investment Committee.

The Fund has invested approximately 22% (2017 – 21%) of its assets in fixed income securities as at December 31, 2018 which generated a rate of return of 0.95% (2017 – 3.87%). The returns on fixed income securities are particularly sensitive to changes in nominal interest rates. As at December 31, 2018, if prevailing interest rates were raised or lowered by 100 basis points, with all other factors held constant, fixed income investments would likely have decreased or increased respectively by approximately $137,770 (2017 - $145,373). The Fund's interest rate sensitivity was determined based on portfolio weighted duration.

Currency Risk

Currency risk relates to the possibility that foreign currency-denominated investments will change in value due to future fluctuations in foreign exchange rates. The impacts can be positive or negative and can be significant given the volatility of foreign exchange rates. CSSB management and external managers hedge some of the Fund's currency exposure in invested assets using forward contracts. As at December 31, 2018, the notional amount of all forward contracts held by the Fund was $720,287 (2017 - $6,900) with unrealized gains (losses) of $(19,568) (2017 - $105).

The Fund's exposure in cash and investments to foreign currencies, net of hedging, reported in Canadian dollars is shown below:

As at December 31, 2018	Actual Currency Exposure	Percentage
Canadian dollar	$ 4,582,334	63.6%
US dollar	1,294,225	18.1
Euro	276,198	3.8
Japanese yen	223,622	3.1
Pound sterling	156,117	2.2
Hong Kong dollar	136,397	1.9
South Korean Won	78,394	1.1
Indian Rupee	81,242	1.1
Australian dollar	73,798	1.0
Taiwan new dollar	45,507	0.6
Other currencies	251,682	3.5
Total investments	$ 7,199,516	100.0%

A 10 percent increase or decrease in exchange rates, net of hedging, with all other variables held constant, would result in a change in unrealized gains (losses) of $261,718 (2017 - $343,275).

($) Thousands

Price Risk

Price risk is the risk that the value of an investment will fluctuate as a result of a change in market conditions (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Fund's equity and private market investments are sensitive to market fluctuations. To assist in mitigating the impact of price risk, the Board has established appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks which they monitor on a regular basis. A decline or increase of 10 percent in fair values of equities and private market investments, with all other variables held constant, will impact the Fund's investments by an approximate loss or gain of $563,535 (2017 - $598,726).

(b) Credit Risk

Credit risk is the risk of loss from the failure of a counter party to discharge its contractual obligations. At December 31, 2018, the Fund's maximum credit risk exposure relating to bonds and debentures, cash and short-term investments and mortgages totaled $1,564,169 (2017 - $1,574,284), receivables of $3,779 (2017 - $4,313) and accrued interest of $7,857 (2017 - $6,803) totaled $1,575,805 (2017 - $1,585,400). The Fund's Investment Committee limits credit risk by concentrating on high quality securities and adhering to a Statement of Investment Policies and Procedures. The Policy establishes investment ownership limits and acceptable credit ratings. In the case of bonds and debentures, all bonds must be rated BBB- or higher at the time of purchase.

All transactions in listed securities are settled upon delivery using approved investment managers. The risk of default is considered minimal, as delivery of securities sold is only made once the investment manager has received payment. Payment is made on a purchase once the securities have been received by the investment manager. The trade will fail if either party fails to meet its obligation.

The breakdown of the Fund's bonds and debentures portfolio by credit rating from various rating agencies is presented below:

Credit Rating		2018 Fair Value			2017 Fair Value	
AAA	$	245,082	16.7%	$	447,883	30.9%
AA		200,039	13.7		104,070	7.2
A		876,183	59.9		760,847	52.5
BBB+		110,094	7.5		75,339	5.2
BBB and lower		31,955	2.2		61,248	4.2
		1,463,353	100.0%		1,449,387	100.0%
Cash and short-term		42,713			56,576	
Total bonds and debentures	$	1,506,066		$	1,505,963	

Credit risk associated with contributions receivable is minimized due to their nature. Contributions are collected from participating members through the payroll process. No provision for doubtful contributions receivable has been recorded in either 2018 or 2017.

($) Thousands

(c) Liquidity Risk

Liquidity risk is the possibility that investments of the Fund cannot be readily converted into cash when required to meet contractual obligations. The Fund may be subject to liquidity constraints because of insufficient volume in the markets for the securities of the Fund or other securities may be subject to legal or contractual restrictions on their resale. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active public market and can be readily sold. Although market events could lead to some investments becoming illiquid, the diversity of the Fund's portfolio and current contribution levels should ensure that liquidity is available for benefit payments.

The term to maturity and related market values of fixed income investments are as follows:

Term to Maturity	2018	2017
Less than one year	$ 90,639	$ 112,056
One to five years	321,966	241,208
Over five years	1,151,564	1,221,020
Total fixed income investments	$ 1,564,169	$ 1,574,284

(d) Fair Value

The following is a summary of the inputs used in the measurement of the fair value of the Fund's investments based on the fair value hierarchy:

	Level 1 Quoted Prices in Active Markets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total 2018
Assets				
Cash	$ 23,210	$ -	$ -	$ 23,210
Short-term	-	135,762	-	135,762
Bonds and debentures	-	1,463,353	-	1,463,353
Mortgages	-	11,575	-	11,575
Equities	3,022,019	591,783	-	3,613,802
Real estate	-	-	1,079,113	1,079,113
Infrastructure	-	-	511,283	511,283
Petroleum and natural gas	-	-	69,533	69,533
Private equity	-	-	4,589	4,589
Private credit	-	-	287,296	287,296
Total investments, Schedule 1	$ 3,045,229	$ 2,202,473	$ 1,951,814	$ 7,199,516

($) Thousands

		Level 1 Quoted Prices in Active Markets		Level 2 Significant Other Observable Inputs		Level 3 Significant Unobservable Inputs		Total 2017
Assets								
Cash	$	10,587	$	-	$	-	$	10,587
Short-term		-		198,595		-		198,595
Bonds and debentures		-		1,449,387		-		1,449,387
Mortgages		-		14,324		-		14,324
Equities		3,602,524		667,236		-		4,269,760
Real estate		-		-		966,617		966,617
Infrastructure		-		-		409,015		409,015
Petroleum and natural gas		-		-		75,640		75,640
Private equity		-		-		7,105		7,105
Private credit		-		-		160,517		160,517
Total investments, Schedule 1	$	3,613,111	$	2,329,542	$	1,618,894	$	7,561,547

All securities in Level 1 can be traded in an active market. During the year ended December 31, 2018, no equity investments were transferred from Level 1 to Level 2.

During the year ended December 31, 2018, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

		Real estate		Infrastructure		Petroleum & natural gas		Private equity		Private credit		Total
Beginning Balance	$	966,617	$	409,015	$	75,640	$	7,105	$	160,517	$	1,618,894
Purchases		49,971		94,632		-		-		107,674		252,277
Sales and withdrawals		(9,996)		-		-		-		-		(9,996)
Capitalized income		34,521		-		-		-		-		34,521
Return of capital		-		(8,103)		-		(7,236)		(3,037)		(18,376)
Dividend		-		(28,021)		-		-		(20,969)		(48,990)
Change in unrealized appreciation/ (depreciation)		38,000		43,760		(6,107)		4,720		43,111		123,484
Ending Balance	$	1,079,113	$	511,283	$	69,533	$	4,589	$	287,296	$	1,951,814

Section 3.29 of the Manitoba Pension Benefits Act Regulation requires disclosure of each investment asset that has a fair value greater than one percent of the fair value of the investment assets of the fund. As at December 31, 2018, the Fund held the following investments that met this classification:

ISHARES MSCI Japan ETF	$	94,097
Borealis Infrastructure Fund	$	320,170
Province of Ontario bond 59,396 06/37 4.70%	$	72,185
Northleaf Star Investor Corp.	$	147,521
Marathon M-L Investment Fund	$	591,783
Instar AGF Infrastructure Fund	$	78,700
Montez Real Estate Fund III LP	$	72,018

($) Thousands

(e) Securities Lending

The Fund has entered into a securities lending program through the lending agent, State Street Trust Company Canada. Under the program, the Fund will lend various securities in its possession to borrowers approved by the lending agent. The loans can be secured by either securities or cash collateral. The Fund has risks under this program including borrower default and reinvestment risk, mitigated by an indemnification clause in the securities lending agreement with State Street Bank and Trust Company.

4. Debt due from the Province of Manitoba

Under Section 24(1) of the Act, the Province of Manitoba assumed an accrued liability of $1,826 (2017 - $1,826) for its employees and pensioners as at May 1, 1939. The Province of Manitoba pays semi-annual interest at 4% per annum on this amount.

5. Receivables

	2018	2017
Contributions receivable		
Employers	$ 1,580	$ 1,901
Employees	190	96
	1,770	1,997
Other receivables	2,009	2,316
	$ 3,779	$ 4,313

6. The Province of Manitoba Unfunded Pension Liability Trust Account

The Province has established a fund for the purpose of accumulating funds for the eventual retirement of the Province's unfunded pension obligation.

Under the terms of a March 6, 2001 agreement between the Province and the Board, the Province established a fund with the Board and the Province is making the required contributions to this fund. As well, the Province is making contributions to this fund that is related to the Special Operating Agencies unfunded pension liabilities. Contributions received by the Board from the Province are held by the Board (as invested assets) in trust for and on behalf of the Province and are invested by the Board on behalf of the Province. The contributions received are not assets of the Plan and accordingly, they are accounted for by the Fund in the Unfunded Pension Liability Trust Account. This trust account earns investment income at a rate of return equal to the rate of return earned by the Fund. The Board receives an investment management fee for its services. The contributions made by the Province to the Board do not reduce the pension benefit obligations and deficit of the Fund.

The Trust Agreement was amended effective December 31, 2008, to make the trust irrevocable. Accordingly, the assets in the Trust Account can not be used for any purposes other than to fund the payment of pension benefits for which the Province is responsible and to pay the costs and expenses that are directly attributable to the administration of the Trust Account.

In October 2007, The Financial Administration Act was amended to allow for withdrawals from the fund to pay, or fund the payment of, pension benefits for which the Province is responsible.

($) Thousands

A continuity schedule of this trust account is as follows:

	2018	2017
Contributions received	$ 96,824	$ 99,125
Interest (charged) earned	(19,628)	221,294
Pension and refund payments made	(190,638)	(176,347)
Investment management fees charged	(5,403)	(4,543)
Change during the year	(118,845)	139,529
Balance, beginning of year	2,217,480	2,077,951
Balance, end of year	$ 2,098,635	$ 2,217,480

7. Manitoba Hydro Enhanced Benefit Trust Account

Effective January 1, 2012, Manitoba Hydro employees with pensionable service after May 31, 2006 are eligible for an additional benefit. The Enhanced Hydro Benefit Plan enhances the formula used in calculating pension benefits from 1.6% to 1.7% of earnings up to the Canada Pension Plan average Yearly Maximum Pensionable Earnings at the time of retirement. Manitoba Hydro will fund the enhanced pension benefit through contributions to a trust account that will be used to fund the additional benefit to employees. A continuity schedule of this trust account is as follows:

	2018	2017
Contributions received	$ 2,273	$ 2,374
Interest (charged) earned	(284)	2,977
Pension and refund payments made	(1,463)	(974)
Investment management fees charged	(78)	(61)
Change during the year	448	4,316
Balance, beginning of year	31,190	26,874
Balance, end of year	$ 31,638	$ 31,190

8. Correctional Officers' Trust Account

Effective November 19, 1996 employees who are members of the Province of Manitoba's Corrections Component are required to contribute an additional 1% of pensionable earnings. These additional contributions are credited to this trust account and are intended to fund the additional pension benefits for eligible employees who may retire as early as age 50 with no reduction for early retirement providing the total of age and qualifying service equals 75 or greater. A continuity schedule of this trust account is as follows:

	2018	2017
Contributions received	$ 1,398	$ 1,377
Interest (charged) earned	(133)	1,149
Pension and refund payments made	(1,257)	(623)
Expenses paid	(7)	(11)
Change during the year	1	1,892
Balance, beginning of year	12,316	10,424
Balance, end of year	$ 12,317	$ 12,316

($) Thousands

9. Employer Trust Accounts

The Fund is responsible for providing enhanced benefits enacted in the 1992 legislation agreed to by the Employee Liaison Committee and the Employer Pension Advisory Committee. These benefits are 100% financed from the Fund's net assets available for benefits. To facilitate this funding, trust accounts were established for payment funding employers participating in the Fund for their share of the actuarial valuation of these future benefit enhancements. Specific contributions from eligible employees are being transferred to the applicable trust account. A continuity schedule of this trust account is as follows:

	2018	2017
Contributions	$ 13	$ 16
Interest (charged) earned	(1,093)	9,750
Change during the year	(1,080)	9,766
Balance, beginning of year	101,854	92,088
Balance, end of year	$ 100,774	$ 101,854

10. Money Purchase Accounts Plan

Effective January 2, 1985 a separate Money Purchase Accounts Plan was established to enhance the portability of pensions. Contributors include employees, recipients of superannuation allowances, annuities or pensions payable under the Act, or persons on whose behalf the Board is required or requested to transfer moneys to this Plan. Refunds are made upon written request by the contributor. Administrative costs are recovered by the Board. A continuity schedule of this liability account is as follows:

	2018	2017
Contributions received	$ 1,479	$ 3,786
Interest earned	470	2,706
Refunds and administration fees paid	(2,122)	(2,957)
Annuities made	(505)	(633)
Change during the year	(678)	2,902
Balance, beginning of year	39,520	36,618
Balance, end of year	$ 38,842	$ 39,520

($) Thousands

11. Obligations for Pension Benefits

(a) Basic Benefits Account

In accordance with the Pension Benefits Act of the Province of Manitoba, actuarial valuations are required every three years. The stated purpose of the actuarial valuation is to:

- determine the financial position of the Plan as at the valuation date,
- determine the adequacy of the contributions being received in relation to the portion of the benefits financed by the Fund, and
- provide recommendations as to the future course of action based on the financial position revealed.

Actuarial valuations (going concern basis) for the Fund and Payment Funding Employers' pension obligations were prepared as at December 31, 2017 by Ellement Consulting Group. The actuarial present value of the accrued basic pension benefit obligations, based on service to date, was extrapolated by the actuary to December 31, 2018. The principal components of the changes in pension obligations during the year are presented in Exhibit C.

The payment funding employers' portion of the accrued basic pension benefit obligation is unfunded. These payment funding employers defer contributing their share of employee pension benefits until they are billed for approximately 50% of the benefit payments processed. Payment funding employers are not billed for the cost of the pension formula improvement that was effective from September 1, 2000.

Significant long-term actuarial assumptions used in the December 31, 2017 and 2016 valuations of the present value of the accrued basic pension benefit obligations were:

	2017	2016
Discount rate:		
(i) inflation component	2.00%	2.00%
(ii) real rate of return	4.00%	4.00%
	6.00%	6.00%
Annual salary escalation rates:		
(i) general increases		
a) inflation component	2.00%	2.00%
b) productivity component	0.75%	0.75%
	2.75%	2.75%
(ii) service, merit and promotional increases *		

* the rates used vary by age groupings from a high of 3.0% to a low of 0%

	2017	2016
Mortality rates:		
(i) mortality	CPM 2014 Public	CPM 2014 Public
(ii) mortality improvements	Scale B	Scale B

The extrapolations to December 31, 2018 were based on the assumptions used in the 2017 actuarial valuations, except the real rate of return is 3.75% for a total discount rate of 5.75%, and the salary escalation rates were changed to 2.5% in 2018, 0.0% in 2019 increasing to 2.50% by 2023 and thereafter. The extrapolation also used the CPM 2014 Composite Mortality rate projected using Scale B for the calculation of the commuted values of lump sum withdrawals from the Plan.

The next actuarial valuations for Basic Benefits will be prepared as at December 31, 2018 and will be completed by the fall of 2019.

($) Thousands

(b) Indexing Benefits Account

Under section 33(6) of the Act, the Board must approve a cost-of-living adjustment before it is in effect. The 2018 financial statements reflect the pension obligations for cost-of-living adjustments up to the change in the Consumer Price Index for 2018.

A 1.33% cost-of-living adjustment for the year ended December 31, 2018 at a cost of $91,517 (Fund - $47,569, Payment Funding Employers - $43,948) was approved March 28, 2019, with payment commencing July 2019.

These pension obligations are reported in the 2018 statement of changes in pension obligations (Exhibit C).

The December 31, 2018 actuarial valuations for the Fund's Indexing Benefits Account and the Payment Funding Employers' liability for indexing benefits were prepared by Ellement Consulting Group. The actuarial assumptions were the same as those used for the December 31, 2017 actuarial valuations for basic benefits, except the discount rate used was 5.25%.

The next actuarial valuations on the Indexing Benefits Account and the Payment Funding Employers' indexing benefits liability will be prepared as at December 31, 2019 and will be completed during 2020.

12. Employer Assets Provided for Pension Obligations

Readers should refer to the latest audited employer financial statements, including the financial statements of the Government of the Province of Manitoba and its participating agencies, to determine how employers fund their pension obligations.

The Fund also manages monies from payment funding employers designed to help offset their share of the unfunded pension obligation and deficit. These monies have not been included in the statement of net assets available for benefits. The breakdown of these total funds under management is as follows:

	2018	2017
Province of Manitoba, Note 6	$ 2,098,635	$ 2,217,480
Manitoba Hydro, Note 20	991,194	1,053,083
Total funds managed	$ 3,089,829	$ 3,270,563

The funds from the Province of Manitoba are included in both the assets (investments) and liabilities in the statement of financial position (Exhibit A) and thus have no impact on the net assets available for benefits and deficit. The funds managed for Manitoba Hydro are managed separately and are excluded from the statement of financial position.

($) Thousands

13. Contributions

		2018		2017
Employees				
Required contributions	$	157,623	$	159,485
Voluntary contributions		223		190
Past service contributions		1,567		1,403
Special contributions		1,590		3,022
		161,003		164,100
Employers				
Required contributions		17,057		16,628
Voluntary contributions		6		1
Special contributions [1]		295,732		271,955
		312,795		288,584
	$	473,798	$	452,684

[1] includes payment funding employers' pay-as-you-go portion of benefit payments

14. Current Period Change in Fair Value of Investments

		2018		2017
Net realized gains on the sale of investments	$	244,997	$	227,635
Net unrealized market gains (losses)		(604,956)		283,396
	$	(359,959)	$	511,031

15. Benefits Paid

		2018		2017
Pension benefit payments	$	495,251	$	456,343
Disability benefit payments		10,052		9,779
	$	505,303	$	466,122

16. Refunds and Transfers

		2018		2017
Termination refund payments	$	146,383	$	141,587
Death refund payments		15,839		10,191
Relationship separation refund payments		5,192		4,367
Reciprocal transfers out – prefunding employers		571		305
	$	167,985	$	156,450

($) Thousands

17. Administrative Expenses, Net

		2018		2017
Actuary fees	$	287	$	232
Audit fees		66		65
Legal fees		36		31
Consulting fees		20		-
Professional fees		409		328
Salaries and fringe benefits		4,178		3,854
Office and administration		1,195		1,212
Gross administrative expenses		5,782		5,394
Less: Recoveries				
From other administrated funds – regular administration		(1,465)		(1,483)
From other administrated fund – special administration		(45)		(4)
From payment funding employers		(1,783)		(1,645)
Administrative expenses, net	$	2,489	$	2,262

18. Allocations to the Various Trust Accounts and Money Purchase Accounts Plan

The various trust accounts and Money Purchase Plan Account are credited (charged) with interest equivalent or comparable to the Fund's annual rate of return. The breakdown of these allocations is as follows:

		2018		2017
The Province of Manitoba Unfunded Pension Liability Trust Accounts	$	(19,628)	$	221,294
Manitoba Hydro Enhanced Benefit Trust Account		(284)		2,977
Correctional Officers' Trust Account		(133)		1,149
Employer Trust Accounts		(1,093)		9,750
Money Purchase Plan Account		470		2,706
	$	(20,668)	$	237,876

($) Thousands

19. Deficit

	Fund	Payment Funding Employers	Total 2018	Total 2017
(Deficit) surplus, beginning of year,				
Basic Benefits	$ (474,461)	(3,846,924)	(4,321,385)	$ (4,226,206)
Indexing Benefits	241,992	(292,859)	(50,867)	(49,054)
	(232,469)	(4,139,783)	(4,372,252)	(4,275,260)
Change in net assets available for benefits, Exhibit B				
Basic Benefits	(241,689)	-	(241,689)	283,338
Indexing Benefits	(18,157)	-	(18,157)	42,783
	(259,846)	-	(259,846)	326,121
Change in pension obligations during the year, Exhibit C				
Basic Benefits	(221,279)	(284,507)	(505,786)	(378,517)
Indexing Benefits	(38,810)	(35,856)	(74,666)	(44,596)
	(260,089)	(320,363)	(580,452)	(423,113)
(Deficit) surplus, end of year, Exhibit D				
Basic Benefits	(937,429)	(4,131,431)	(5,068,860)	(4,321,385)
Indexing Benefits	185,025	(328,715)	(143,690)	(50,867)
	$ (752,404)	$ (4,460,146)	$ (5,212,550)	$ (4,372,252)

20. Managed Investment Funds

The Board acts as investment manager for other funds, which are separate and have been excluded from the statement of financial position (Exhibit A).

The fair values of these other funds under administration on a trade date basis at December 31 are:

	2018	2017
The Manitoba Hydro Pension Fund	$ 991,194	$ 1,053,083
Joint Board of Trustees of The Municipal Employees Benefits Program	684,834	710,619
The Public Service Group Insurance Fund	227,455	234,470
Centra Gas Manitoba Inc.	124,582	133,717
Manitoba Liquor & Lotteries Corporation	5,451	5,530
Winnipeg Child and Family Services Employee Benefits Retirement Plan	22,768	25,038
University of Winnipeg	20,770	20,788
Legislative Assembly Pension Plan	31,489	31,801
	$ 2,108,543	$ 2,215,046

The Board recovers its administrative costs for this service by charging an investment management fee, which is deducted from investment management expenses in Schedule 3.

($) Thousands

21. Future Commitments

The Fund has contractual obligations for future investment transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2018, the Fund's share of the outstanding commitment is $723.9 million (2017 - $666.9 million).

22. Capital Disclosures

Capital is defined as the net assets available for benefits. Externally-imposed capital requirements relate to the administration of the Fund in accordance with the terms of the Fund, The Pension Benefits Act of the Province of Manitoba and the provisions of the Income Tax Act (Canada). The Fund has developed appropriate risk management strategies, as described in Note 3, to preserve the net assets available for benefits. The Fund has complied with externally-imposed capital requirements during the year.

23. Comparative Figures

Certain of the 2017 comparative figures have been reclassified to conform with the presentation adopted for 2018.

THE CIVIL SERVICE SUPERANNUATION FUND
Summary of Investments
as at December 31, 2018

($) Thousands	2018	2017
Fixed income		
Short-term	$ 46,528	$ 53,997
Bonds and debentures	1,506,066	1,505,963
Mortgages	11,575	14,324
Total fixed income	1,564,169	1,574,284
Equities		
Domestic	1,001,732	1,341,662
Foreign	2,678,219	3,014,786
	3,679,951	4,356,448
Real estate	1,082,695	978,538
Petroleum and natural gas	69,533	75,640
Infrastructure	511,283	409,015
Private equity	4,589	7,105
Private credit	287,296	160,517
Investments, Exhibit A	**$ 7,199,516**	**$ 7,561,547**

The accompanying notes are an integral part of these financial statements.

THE CIVIL SERVICE SUPERANNUATION FUND
Schedule of Contributions
For the year ended December 31, 2018

($) Thousands	Employers	Employees	2018 Total	2017 Total
Payment Funding employers, Note 1 (b)				
Province of Manitoba Civil Service	$ 195,973	$ 73,103	$ 269,076	$ 253,837
Manitoba Hydro-Electric Board	83,479	37,904	121,383	112,785
Manitoba Public Insurance Corporation	15,258	10,131	25,389	26,472
Red River College	49	8,804	8,853	8,827
Addictions Foundation of Manitoba	1,988	1,573	3,561	3,152
Community Colleges				
Assiniboine Community College	9	2,016	2,025	2,049
University College of the North	-	1,865	1,865	1,854
Regional Health Authorities				
Winnipeg	-	577	577	621
Prairie Mountain Health	-	581	581	691
Southern Health	-	137	137	164
Interlake - Eastern	-	101	101	122
Northern	-	84	84	82
The Legal Aid Services Society of Manitoba	-	1,045	1,045	967
Manitoba Centennial Centre Corporation	596	210	806	758
Shared Health Inc.	-	290	290	336
Teachers' Retirement Allowances Fund Board	409	287	696	508
Communities Economic Development Fund	120	69	189	296
Manitoba Horse Racing Commission	17	14	31	29
Workers Compensation Board	1	-	1	1
Total payment funding employers	**$ 297,899**	**$ 138,791**	**$ 436,690**	**$ 413,551**

The accompanying notes are an integral part of these financial statements.

THE CIVIL SERVICE SUPERANNUATION FUND
Schedule of Contributions
For the year ended December 31, 2018

($) Thousands	Employers	Employees	2018 Total	2017 Total
Total payment funding employers, continued	**$ 297,899**	**$ 138,791**	**$ 436,690**	**$ 413,551**
Prefunding employers, Note 1 (b)				
Manitoba Liquor & Lotteries Corporation	9,206	9,918	19,124	18,429
Manitoba Housing	1,873	2,013	3,886	3,850
Manitoba Agricultural Services Corporation	1,605	1,065	2,670	2,394
CUPE Support Workers	1,226	1,382	2,608	2,483
All Nations Coordinated Response Family Services	776	855	1,631	1,554
Manitoba Government and General Employees' Union	786	828	1,614	1,485
Liquor, Gaming and Cannabis Authority of Manitoba	431	476	907	959
Civil Service Superannuation Board	431	458	889	851
Teranet Manitoba LP	593	538	1,131	1,193
Manitoba Floodway Authority	15	-	15	9
Food Development Centre	218	239	457	491
Manitoba Hydro Utilities Services	189	213	402	370
Travel Manitoba	191	194	385	371
Industrial Technology Centre	95	102	197	217
Dairy Farmers of Manitoba	106	116	222	231
Hams Marketing Services Co-op Inc.	51	55	106	89
Manitoba Pork Council	68	65	133	129
Manitoba Arts Council	53	59	112	124
Manitoba Film and Sound	58	62	120	123
Manitoba Health Research Council	53	59	112	126
Manitoba Chicken Producers	41	45	86	79
Crown Corporations Council	9	2	11	47
Horizon Lab Ltd.	25	28	53	52
Manitoba Turkey Producers	8	9	17	17
Economic Innovation and Technology Council	5	-	5	5
Total prefunding employers	**$ 18,112**	**$ 18,781**	**$ 36,893**	**$ 35,678**
Total employers, payment funding and prefunding	**$ 316,011**	**$ 157,572**	**$ 473,583**	**$ 449,229**

The accompanying notes are an integral part of these financial statements.

THE CIVIL SERVICE SUPERANNUATION FUND
Schedule of Contributions
For the year ended December 31, 2018

($) Thousands	Employers	Employees	2018 Total	2017 Total
Total employers, payment funding and prefunding	**$ 316,011**	**$ 157,572**	**$ 473,583**	**$ 449,229**
Other				
Employees on loan	-	-	-	6
Employees on workers compensation	-	5	5	9
Reciprocal agreement - transfers in	-	4,865	4,865	3,924
Reciprocal agreement - transfers out	(3,222)	(3,780)	(7,002)	(2,847)
Repayment of contributions previously refunded	-	52	52	149
Contributions based on prior non-pensionable employment	6	1,784	1,790	1,582
Transfer from Money Purchase Accounts Plan	-	505	505	632
Total other	**$ (3,216)**	**$ 3,431**	**$ 215**	**$ 3,455**
Total contributions, Exhibit B	**$ 312,795**	**$ 161,003**	**$ 473,798**	**$ 452,684**

The accompanying notes are an integral part of these financial statements.

THE CIVIL SERVICE SUPERANNUATION FUND
Schedule of Investment Income
For the year ended December 31, 2018

($) Thousands	2018	2017
Fixed income		
Short-term	$ 800	$ 445
Bonds and debentures	47,161	43,686
Mortgages	857	1,009
	48,818	45,140
Equities		
Domestic	37,772	36,181
Foreign	123,693	90,017
	161,465	126,198
Real estate	29,188	29,983
Petroleum and natural gas	-	1,833
Private credit	20,969	52
Private equity	797	2,101
Infrastructure	28,021	24,494
Security lending revenue	3,298	3,212
Gross investment income	292,556	233,013
Less:		
Investment management expenses, net, Note 20	11,003	7,782
Interest allocated to employee future benefits obligations	208	194
	11,211	7,976
Net investment income, Exhibit B	**$ 281,345**	**$ 225,037**

The accompanying notes are an integral part of these financial statements.

You may make an appointment to view any of the following at The Civil Service Superannuation Board (Board) office, Monday to Friday (except holidays) from 8:00 a.m. to 4:30 p.m.:

- A copy of The Civil Service Superannuation Act (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

Upon request, the Board will provide members, spouses or authorized representatives with detailed information and explanations regarding benefits payable in the event of a member's retirement, death, relationship separation, or termination of employment.

For further member information, visit our website www.cssb.mb.ca.

The Civil Service Superannuation Board

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