



# The Civil Service Superannuation Board

## 2005 Report to Members

We are pleased to provide you with this summary of The Civil Service Superannuation Board's (Board) 2005 Annual Report. You can also request a copy of the full Annual Report by contacting the Board office, or it can be viewed on our website at [www.cssb.mb.ca](http://www.cssb.mb.ca).

### Highlights

<b>FINANCIAL</b>	<b>2005 (*)</b>	<b>2004 (*)</b>
Rate of Return on Investments	<b>14.50%</b>	13.71%
Investments at Market Value	<b>3,384,202</b>	2,946,144
Net Investment Income	<b>96,680</b>	99,857
Current Period Change in Fair Value of Investments	<b>297,292</b>	229,857
Employee Contributions	<b>90,885</b>	77,755
Employer Payments	<b>100,715</b>	89,725
Pension Benefits Paid	<b>195,061</b>	181,004
Refunds and Transfers	<b>18,306</b>	12,930

\* \$Thousands unless otherwise noted

### MEMBERSHIP

Non-Retired Members	<b>29,750</b>	29,611
Pensioners and Other Recipients	<b>13,528</b>	12,999
Total Members	<b>43,278</b>	42,610

### Member Services

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

- Individual meetings
- Pre-Retirement Planning Seminars
- Employee Pension and Insurance Seminars
- Personal and General Enquiries
- Electronic Communications

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

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

### Online Services

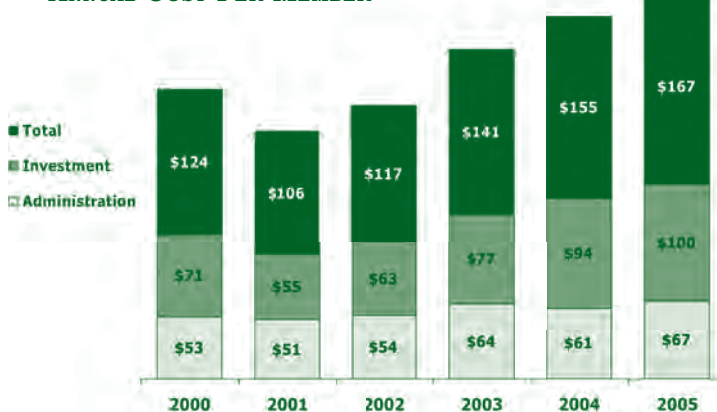
Members made over 72,000 pension estimates in 2005. That's tripled since the Online Pension Estimator's launch in 2002. As expected, our Online Services has proven to be very popular.

To register, print the Online Services Registration Form from our website, complete it and return it to our office.

### Administration and Investment Cost

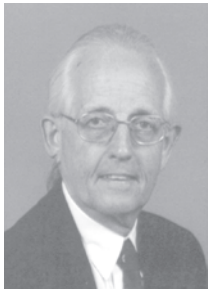
The Board's annual administration and investment cost per member continues to be one of the lowest in Canada for complex defined benefit plans.

ANNUAL COST PER MEMBER



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*Service* relates to quality and accessibility. Delivering a professional and comprehensive benefits package is important to members whether at a convenient location in Winnipeg or elsewhere in Manitoba. The Board employs a complement of qualified

staff to be responsive to your needs in a timely fashion, whether in person or over the Internet. Technology plays a key role in this delivery and the Board continues to be a leader in this field. You are now able to access your personal pension and insurance information at any time from the comfort and privacy of your home.

*Commitment* comes from providing members, their families and beneficiaries with a strong benefits program. The Board's ongoing support of staff education and keeping ahead of technological advancements assist them in meeting this goal. While your benefits may be a result of negotiations, the Board is committed to administering them with excellence.

*Integrity* is a key when communicating benefits information. The Board employs many internal and external checks and balances in its everyday work. Detailed reports are regularly written and provided to the Board and its Committees to ensure the ongoing timely communication of essential information.

You can rest assured that there is security in your benefits. *Security* can be influenced by investment income, the major contributor to the Fund. Without at least earning the required rate of return as set by an actuary, we could not provide the full level of benefits to you. The return of 14.50% earned in 2005 certainly provides that cushion to allow superior benefit levels. The long-term stability of the Fund is our ultimate goal and earning returns of this magnitude is extremely important and strengthens our commitment to the future. Therefore, the asset mix review completed in early 2005 provides guidelines for the Board's investment professionals in making their investment decisions to achieve these long-term goals.

Investment decisions are also made with diversification in mind. While the Board

encourages investment in Manitoba, it does so only with "all things being equal." Their focus is on one objective – providing a stable benefits program and this may or may not include investments in this province. However, having 18% of the real estate holdings invested in Manitoba does show that the Board is confident in investment right here at home. Furthermore, through the participation in local investment funds managed by experienced partners, the Board takes part in supporting local business usually through mezzanine financing but only after lengthy periods of due diligence.

The Board is committed to maintaining a positive, professional work environment that will continue to attract and retain highly qualified staff. Investment in its human resources enhances the Board's position as a leader in the pension, benefits and investment industry. Competency comes from the retention, education and investment in people. Once again, I'd like to congratulate the staff for another impressive year of delivering a comprehensive benefits program to our members.

## Message from the General Manager Robert H. Covernton



The Board is a highly respected organization that administers a variety of benefits programs for more than 43,000 stakeholders. Key goals of its day-to-day administration are – *service* quality and accessibility; *commitment* to providing a benefit to members, their families

and beneficiaries; employing processes that ensure the *integrity* of information being communicated; and *security* of benefits.

These objectives cannot be met without dedicated and qualified staff members. The Board provides strong support for their professional development and recognizes the value earned by participating in networking opportunities. In a dynamic administrative and investment industry, keeping abreast of recent developments either through the Internet, face-to-face meetings or in a classroom setting is vital to providing the highest level of benefits services. To that end, many of the Board staff have secondary certifications or degrees and oftentimes membership with professional organizations.

Results do not only come in the form of a quality benefits program. When you employ and retain skilled and seasoned professionals to

make investment decisions within acceptable pre-approved guidelines, there can be promising outcomes. Active management of assets this year earned the Fund 14.50%. Compared to a benchmark return of 12.39%, this resulted in a value added amount of \$63 million (\$408 million over the last 5 years). Appropriate asset mix decisions along with solid returns from the Board's oil and gas company and real estate portfolio have helped to add to a surplus that can be used either to enhance benefits in the future or to provide a buffer during the times when investment returns do not meet the Actuary's expectations.

Over the past year the Board has seen further improvements in governance, respecting the monitoring and reporting of the assets under its administration. By virtue of The Civil Service Superannuation Act, the Board can delegate decision making to certain committees. Whether a Board or committee member, or investment staff member, each of these individuals are bound by policies that cover situations of conflict of interest or professional conduct. These policies are reviewed and amended, if necessary, and are required to be acknowledged and signed each year. This is just one way the Board addresses prudent management of Fund assets.

Technology continues to play an integral role in extending information to our members in a very timely manner, whether it's with a visit to

the Board office or from the comfort of your own home 24 hours a day, 7 days a week. Active members and pensioners continue to access online pension estimates and other services in record numbers, as evidenced by the fact that they have tripled in the past four years to more than 72,000 enquiries. These online services, which include the receipt of monthly pension statements by more than 200 registered pension recipients, will be further enhanced in 2006 with the implementation of the Board's new website. Management Information Systems continue to be responsive to these types of advancements as well as to a dynamic pension and benefits industry in general. Whether it's changes in the calculations for commuted value factors, the electronic transmission of data with new vendors, or developing new programs to manage changes to existing plans, their mandate is to meet the needs of both members and the administration.

*Service, Commitment, Integrity, and Security* underlie the Board's commitment to its stakeholders. A team of highly skilled and dedicated members work together to deliver this quality service to you. I would like to thank the members of the Board and every staff member for their impressive dedication to providing quality service and leadership in the pension and benefits industry.

## Investment Overview

The year proved to be a better year than the last for generating returns. Short-term rates were steadily raised by the U.S. Federal Reserve Bank, but this did not have the expected similar effect on longer-term rates as plentiful excess world liquidity flowed into the relatively large U.S. debt markets. The rising rates were, however, a factor in lackluster U.S. equity returns. Contrary to many expectations, the U.S. dollar appreciated almost 10%, which further depressed U.S. multinational companies' profits. Commodities were again a major story, with oil and gas being significant factors. Oil, as measured by West Texas Intermediate Crude Oil Prices, moved from \$41 to \$70 U.S. per barrel before closing the year at \$62. Continued unrest in several of the world's exporting countries, coupled with the destructive effects of two major hurricanes causing havoc with both production and refining centres in the U.S., were behind this strength.

On the positive side of the ledger, significant political reform in Japan resulted in brighter economic prospects for the world's second largest economy, which was reflected in strong equity returns. The weakening Euro also provided some stimulus to European economic growth and this too was reflected in better equity market returns. Aside from the U.S., there is ample positive liquidity in the world seeking returns. Emerging markets were a major beneficiary of this situation.

## Strategy and Outlook

We expect the world economy will become more balanced, with the U.S. slowing down somewhat and Japan, Europe and Asia showing increased growth.

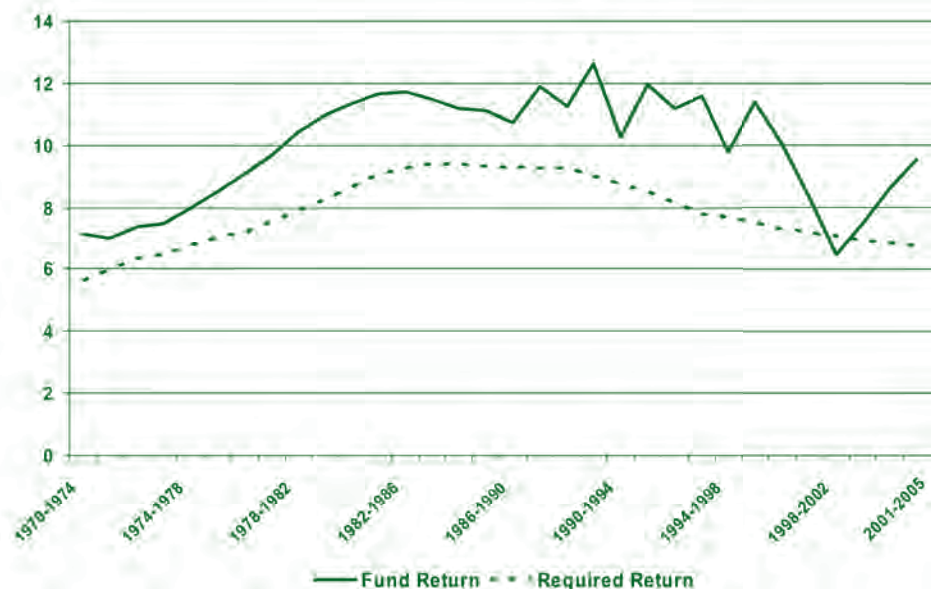
The main driver of a moderation in U.S. growth should be housing activity driven by affordability issues. Affordability for first time home buyers, a necessary condition for strong housing prices, has dropped to historically very low levels over the past year. This weakness should work its way through to house prices fairly quickly, which is already showing up in moderating prices.

Aside from the overall economic impact of slowing volumes of home construction and the associated spin offs for furniture, appliances and decorating, the biggest impact should be on the "wealth effect" of several years of rising home equity. Home equity withdrawals for consumption, refinancing balance sheets, or a multitude of other purposes, has been a factor in the strong economic growth of the U.S. over the past few years. If home price appreciation moderates and flattens out as we expect, then the slowing effect on GDP will be noticeable, as was the case when Australian and UK home prices went through the same housing cycle over the past year and a half.

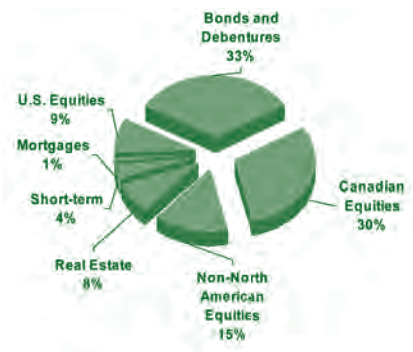
For another year, all asset classes that the Fund invests in experienced positive returns. Driven by stellar Canadian equity and real estate markets, the Fund benchmark, or expected return was 12.39%, well above the actuarial requirements. Through a positive contribution from asset mix, emerging equity markets, Superman Resources Inc. and real estate, active management added a further 2.11% for a Total Fund return of 14.50%. This translates into approximately \$63 million of added value (\$408 million over the last five years). For the

second year running, Superman Resources Inc., which is approximately 5% of the Fund, produced the highest return at 65.94%. The real estate portfolio experienced its best year ever, returning 25.24%. Canadian equities, led by oil and gas and other commodities, produced a return of 25.84%. The global emerging markets portfolio, initiated in 2003, generated a 33.17% return, far in excess of EAFE's 10.69%. Bond returns at 7.86% and U.S. equities at 2.01% were the relative laggards.

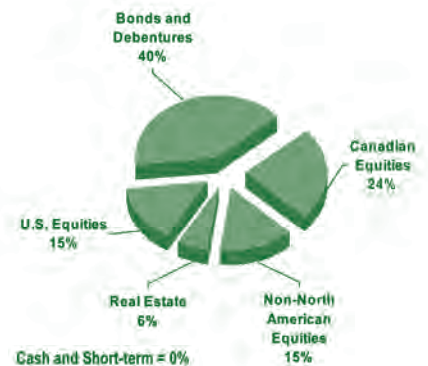
FIVE-YEAR MOVING AVERAGE



FUND INVESTMENTS



INVESTMENT POLICY  
AS OF APRIL 1, 2005



A recent additional factor is a tightening of mortgage standards for high ratio and adjustable rate mortgages. This slowing in economic activity should allow the U.S. Federal Reserve to ease up on monetary tightening and perhaps lead to a reduction in short-term interest rates over the next few quarters.

Aside from the U.S., monetary growth is positive for global liquidity in most of the rest of the major economies, including China. This increasing global liquidity should continue to provide a solid underpinning for financial markets, both equities and fixed income. Emerging markets, with strong profit growth and generally improving balance sheets, should continue to outperform. While a number of these markets have seen strong price appreciation over the past six months, which increases the risk of a pullback in prices, they are generally well supported by earnings growth and positive economic fundamentals at the country level.

Where could things go wrong? Political uncertainty is always present. There has been a noticeable swing to the left in a number of Latin and South American countries, coupled with varying degrees of anti-establishment rhetoric.

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This could override good economic fundamentals leading to a withdrawal or slowdown of fund flows to the affected markets.

The Middle East continues to be an area of turmoil and uncertainty, most recently emanating from Iran and the oil producing states of the Gulf. Russia's dispute with the Ukraine over natural gas prices and the temporary stoppage of flows to the Ukraine, which is the main conduit to Western Europe, increase uncertainty in this region as well as growth prospects for continental Europe.

The international flow of funds could change patterns unexpectedly. Asia, particularly Japan, Taiwan and South Korea, were the beneficiaries of very strong inflows of foreign capital during the second half of 2005. There are early signs that this may be moderating and will likely have an effect on the financial markets in these countries. More recently, Thailand has attracted strong flows leading to a noticeable improvement in the Thai market.

In summary, we continue to analyze these developing conditions with a view to realigning the portfolios to take advantage of anticipated changes. Currently, we are continuing to emphasize emerging markets and Canadian equities and beginning to increase our U.S. equity exposure as values present themselves. We expect longer-term interest rates to trend sideways for the foreseeable future. We have committed to a real estate development in Tokyo where we expect to earn superior returns to those currently available in Canadian markets.

## Cost-of-Living Account

It costs more to be a consumer today. Whether it's filling up the tank for a weekend getaway or paying more for goods and services as interest rates creep upwards, solid investment returns and a strong COLA Program may provide a source of comfort for members as they approach their retirement years.

In 2003, the Board's Actuary reported on the status of the COLA Program. Following a discussion, the Board directed the General Manager and the Actuary to jointly write a letter to the Employer Advisory Committee and the Employee Liaison Committee expressing concerns about the viability of the Program. The letter indicated that without changes to the current COLA Program, sustainable indexing may not be possible over the next 10 years.

The Board has been advised that the Employer Advisory Committee and the Employee Liaison Committee have had discussions concerning the transfer of existing surplus to the COLA Program.

## Governance

An independent accounting firm conducted its second CFA Institute Verification of the Board's performance measurement practices. Once again, the Board received an unqualified opinion that its methodology used for calculating Fund rates of return was being performed in accordance with CFA Institute Standards. The Board will be engaged in another review in April 2006.

The Board and its Investment Committee regularly receive compliance-related information. For the first time in 2005, this detailed investment information was contained within the Board's Quarterly Report on Investments. This all-encompassing booklet is prepared by an independent department of investment and accounting professionals and assists the Board in meeting their fiduciary responsibilities. Furthermore, the Board regularly oversees decisions being made at the Investment and Finance and Audit Committee levels through the receipt of the minutes of each meeting.

In the Board's ongoing effort to keep on top of best practices in the investment industry, they initiated:

- presentations from investment custodian banks and software vendors
- annual on-site meetings and discussions with peers and vendors from across Canada
- staff attendance at events where education and networking opportunities are prevalent
- the research of peer websites
- the participation in various local and national investment associations

Policies and procedures that continue to guide investment decisions include:

- Proxy Voting Policy and Guidelines
- Investment Manager Mandates
- Statement of Investment Policies and Procedures
- Soft Dollar Standards
- Conflict of Interest and Standard of Conduct Guidelines
- Professional Conduct Policy

## Committee Members

### Board

#### Chair

**Gary N. Coopland**, Retired  
Vice-President Investments  
The Great-West Life Assurance Company

#### Employee Representatives

**Ray Erb**, Manitoba Government and General Employees Union  
**Katherine Johnson\*** (until 05/05), Manitoba Finance  
**David Jurkowski\*** (effective 05/05), Manitoba Finance  
**Bill Loxton\***, Manitoba Hydro-Electric Board  
**Susan Rusk**, Intergovernmental Affairs and Trade

#### Employer Representatives

**Tom Bleasdale**, Retired, Assistant Deputy Minister of Labour  
**Gabriel Forest, f.c.a.**, Chartered Accountant  
**Carme Peter**, Solicitor  
**Dr. G. Les E. Ulyot**, Family Physician

#### Finance and Audit

**Gabriel Forest, f.c.a.**, Chair  
**Carme Peter**, Employer Representative  
**David Jurkowski**, Employee Representative

#### Compensation

**Gary N. Coopland**, Chair  
**Tom Bleasdale**, Employer Representative  
**Bill Loxton\***, Employee Representative

\* Katherine Johnson served on the Board until May 2005 at which time she was replaced by David Jurkowski.

† Bill Loxton retired December 31, 2005 and was replaced by Brent Reed, effective January 1, 2006.

### Investment

**Gary N. Coopland**, Chair\*, Retired  
Vice-President Investments  
The Great-West Life Assurance Company

**Dick Archer**, Chair, I.G. Investment Management Ltd.\*

**Ewald Boschmann**, Deputy Minister of Finance,  
Province of Manitoba†

**Robert H. Covernton**, General Manager, Board†

**Charlie Curtis**, Retired, Deputy Minister of Finance,  
Province of Manitoba†

**Ray Erb**, Manitoba Government and General Employees  
Union (employee representative)\*

**Peter G. Munro**, Executive Vice-President, Chief  
Investment Officer, The Great-West Life Assurance  
Company\*

**Stan Susinski**, Retired, Chief Investment Officer, Alberta  
Finance\*

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.

**Vince Warden**, Vice-President, Finance and  
Administration and CFO, Manitoba Hydro-Electric  
Board

\* Appointed based on investment expertise  
† Required by legislation

## THE CIVIL SERVICE SUPERANNUATION BOARD

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