

2010 Report to Members

We are pleased to provide you with this summary of The Civil Service Superannuation Board's (Board) 2010 Annual Report. You can request a copy of the full Annual Report by contacting the Board office, or it can be viewed at www.cssb.mb.ca.

FINANCIAL	2010 (*)	2009 (*)
Rate of Return on Investments	12.67%	14.06%
Investments at Market Value	\$4,915,555	\$4,001,189
Net Investment Income	122,516	133,003
Current Period Change in Fair Value of Investments	417,440	364,891
Employee Contributions	109,924	107,593
Employer Payments	151,255	139,556
Pension Payments	291,168	270,006
Refunds and Transfers	27,517	24,238

* \$Thousands unless otherwise noted

MEMBERSHIP

Non-Retired Members	32,833	32,210
Retired Members and Other Recipients	16,661	16,023
Total Members	49,494	48,233

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THE CIVIL SERVICE SUPERANNUATION BOARD

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Member Services

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

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

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

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

Cost-of-Living Allowance

- Pensioners and beneficiaries receive an annual increase to a maximum of $\frac{2}{3}$ of the increase in the Canadian Consumer Price Index (CPI)
- The COLA paid July 1, 2010 was 0.88%

Governance

The Board and subcommittees 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.

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

Message from the Chair Al Morin

With positive results shown by the financial markets over the past year, there is some reason for optimism for continued recovery and growth looking ahead to 2011. While the investment rate of return for The Civil Service Superannuation Fund (Fund) was quite favorable at 12.67% this year, we still have some ground to make up from the financial market collapse of a couple of years ago that had an effect on most pension funds, including our own.

Despite holding a reserve to help offset years of poorer investment returns, no one anticipated that we would be affected by the worst returns in the history of the Fund. I can assure you that the Board is taking active measures to help solidify the financial position of the Fund and not simply sitting back in hope that a few years of strong returns will make up previous losses.

As discussed in my report last year, I want to reaffirm the Board's commitment to continue to conduct annual Actuarial Valuations until such time as we feel confident that we are again well positioned to meet the Fund's future pension liabilities. The valuation as at December 31, 2010, which will be the second consecutive year (as opposed to every three years), is currently underway and once completed, will provide a clearer picture, and will help to determine a course of action to ensure we continue along the road to recovery.

These Valuations will help to determine whether contributions and investment returns are sufficient to fund future benefits. Previous years that produced funding surpluses have contributed to plan


improvements and/or maintaining steady contribution rates. Should valuations indicate that estimated past service contributions are insufficient, such as the valuation completed for December 31, 2009, future service contribution rates may need to be increased to help address the shortfall. As a result, our Actuary has put forth a recommendation to both the Employee Liaison and Employer Advisory Committees that the contribution rate be increased approximately 2% on all pensionable salary.

Another event during 2010 that had a significant impact on the Board, specifically service delivery to our membership, was the implementation of changes to the Pension Benefits Act (PBA). Although the Board operates under The Civil Service Superannuation Act, all pension plans in Manitoba fall under the jurisdiction of the PBA. Given the relatively short implementation notice, Board staff were required to review detailed documentation outlining the changes, determine the impact on our computer programming and service delivery, and formulate a strategic plan to prioritize the workload in an extremely tight timeframe. It was decided to focus on the changes to the areas that could potentially have the greatest affect on our membership. Given the magnitude of the changes, Board staff were faced with some difficult, but necessary decisions. As a result, some processing, such as termination refunds were temporarily suspended to avoid creating incorrect payments and potential overpayments. I am pleased to report however, that changes with the greatest impact have been successfully resolved and

staff continue to work through other areas on a priority basis. Your continuing patience is greatly appreciated.

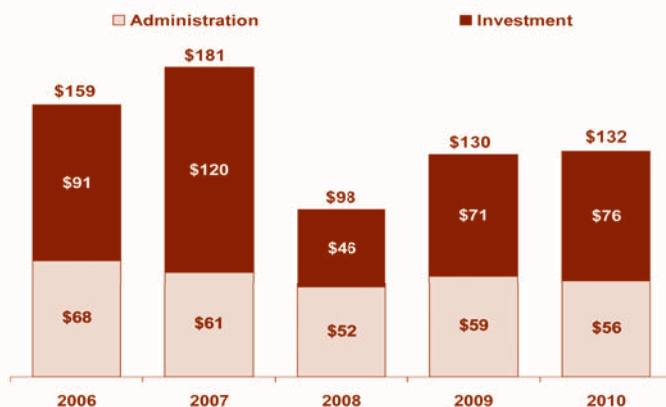
The Board has made a commitment to the development and maintenance of an appropriate and effective governance structure for the CSSB. I can assure you that this remains a high priority and something the Board takes very seriously. The Board undertook a major review of the governance structure of the plan starting in 2009. The review provided the Board with insight as to where the processes currently in place could be strengthened and, to that end, the Board continues to work in consultation with the Governance Committee to ensure that the Board adheres to the timetable and the processes necessary to fulfil its mandate.

With the January 31, 2011 expiration of the terms for appointed members of the Board, I would like to take this opportunity to welcome new Board Members Mr. Ed Balcewicz and Mr. Wayne D. McGimpsey, who were recently appointed to the Board. There are two Board members who will be leaving us in 2011. Mr. Merv Worden served on the Board for the past three years and Ms Carmele Peter, who was the longest serving member with 17 years on the Board. On behalf of your colleagues on the Board, management and staff, as well as all of the members and stakeholders, our sincere appreciation and thanks to you for your assistance and contributions as members of The Civil Service Superannuation Board.



Administration and Investment Cost

The Board's annual administration and investment cost per member continues to be one of the lowest in Canada for complex defined benefit plans. The total annual cost per member for 2010 was \$132 consisting of \$56 for administration and \$76 for investment related expenses.



Message from the General Manager **Bruce Schroeder**

I am pleased to report that The Civil Service Superannuation Fund (CSSF) had a solid year of investment returns in 2010. The 2010 rate of return was 12.67%, exceeding both the benchmark set by the Board of 10.50% and the assumed actuarial rate of 6.00%. Exceeding the actuarial rate continues to help the plan offset the negative returns experienced in 2008. To maintain stability, the cornerstone of a defined benefit pension plan, our philosophy and strategy remains constant, the pension plan invests with a long-term horizon in mind. It is important that the investment strategy remains consistent and does not “chase” the popular trends of the day.

2010 was an extremely busy year for The Civil Service Superannuation Board (CSSB). The Pension Commission announced at the end of March 2010 that there would be changes to the Pension Benefits Act Regulation (PBAR) effective May 31, 2010. The changes were substantial and required much consideration and research to ensure that the CSSF would remain in compliance with the requirements. The changes to the regulations resulted in some delays in processing, but those were generally cleared

up by the end of 2010, although some areas that require change are still in process. We continue to work at re-programming our systems to accommodate the multitude of changes. The major impact areas of the changes are outlined on our website at www.cssb.mb.ca.

As reported in last year’s report, the CSSF performed an actuarial valuation as at the end of 2009. The results were presented to the Board and are also available on the Board’s website.

Approximately every ten years the CSSB hosts a pension conference with participants from all the major public sector plans across Canada. In 2010 it was our turn to host. The conference provides us with access to the experience and knowledge of the largest plans in Canada such as Ontario Teachers’, the Federal Government pension plan, and OMERS. Having access to the knowledge and experience of the largest pension plans in Canada provides an invaluable exchange of ideas and provides a forum where solutions to issues common throughout the Canadian pension industry can be discussed.

In 2011 we plan to continue with the implementation of the remaining PBAR changes. We will also continue to work at developing and improving delivery of our web based services. The CSSB is also undertaking a major initiative in the area of business continuity and disaster recovery planning. We are looking at areas of our current plans that require strengthening so that an unforeseen event will not cause a major disruption of service to our membership. Our goal is to continue providing services in the unlikely event that an unforeseen circumstance does occur.

As always, a successful year is determined by the staff and their high level of commitment to service. The staff of the Board worked through a challenging year in the face of PBAR changes and I would like to thank them for their efforts to maintain services in trying circumstances.

I would also like to thank the Board for their guidance and support.



The Civil Service Superannuation Board

Chair
Al Morin

Employee Representatives

Ray Erb
Monica Girouard
Denise Hickson
Stephen Watson

Employer Representatives

Ed Balcewich
Gabriel Forest, f.c.a.
Wayne McGimpsey
Vacant Position

Investment Committee

Chair
Peter G. Munro

Dick Archer
Richard Brownscombe
Hugh Eliasson
Monica Girouard
Al Morin

A. Scott Penman
Robert G. Puchniak
Bruce Schroeder
Vince Warden

Finance and Audit Committee

Chair
Gabriel Forest, f.c.a.

Ray Erb **Wayne McGimpsey**
Stephen Watson

Governance Committee

Chair
Denise Hickson

Ed Balcewich **Ray Erb**

Compensation Committee

Chair
Ray Erb

Ed Balcewich **Monica Girouard**

Investment Overview

The Fund was up 12.67% in 2010, which represents the second straight year of double digit gains. Such a rebound in financial markets should be expected following the poor market conditions in 2008. With the Fund's benchmark up 10.50%, the Fund's return exceeded it by 2.17% (217 basis points). Most asset classes contributed to this outperformance. Non-North American equities were the best relative asset class, earning 11.85% versus a benchmark of 5.07%. The Fund's overweight in emerging markets was a major factor. Fixed income, the largest asset class, also added significant value, earning 10.13% versus a benchmark of 8.60%. Canadian equities produced the highest asset class return, earning 19.11% versus a benchmark of 17.78%. Real Estate valuations recovered well and the portfolio earned 12.49% versus a benchmark of 11.12%. U.S. equities underperformed, 7.54% versus 9.35%.

Many of the problems generated by the financial crisis have yet to be solved, however most world central banks and governments remained accommodative during the year, supporting financial markets. Problems remain to be dealt with, specifically major developed country fiscal imbalances. Many European countries continue to be in difficulty and some of the smaller ones may have to default and restructure their debts. That doesn't appear to be imminent and the financial authorities

are aware of the issues and are using several approaches to contain the problems. At the end of the day, it is difficult to see how everything can be moved on-side without stronger growth.

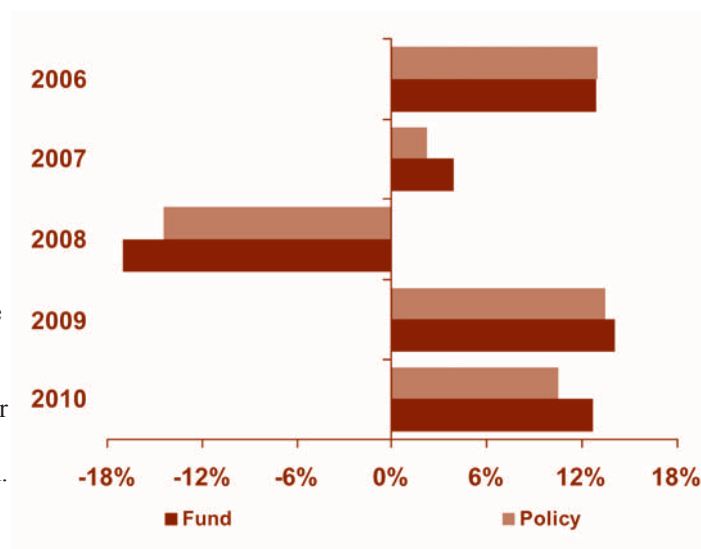
The large deficits and growing debt service costs adding up year-after-year make strong, sustained growth in most of the western economies doubtful. Inflation is becoming more of an issue, particularly in the strong emerging economies. Several innovative strategies are being employed by central banks to contain both rising inflation and rising currencies. China is making heavy use of moral suasion and increasingly tough measures to contain home prices and inflation in general. These measures all bring the risk of further problems, but can be effective in the short-term.

There are basically two worlds at the moment. Firstly, a slow growth, deficit laden, developed nation group, whose main challenge is to reduce large deficits while trying to stimulate economic growth.

Secondly, a large group of developing or emerging countries who are experiencing strong economic growth, but are trying to restrain inflation.

Our strategy of overweighting equities in general and emerging markets in particular worked well in 2010.

FUND RATE OF RETURN



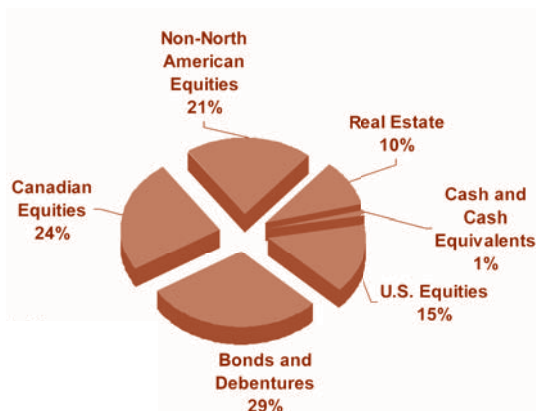
Strategy and Outlook

After two years of strong returns following the financial melt-down in 2008, we expect strong returns will be more difficult to generate in 2011. With many central banks beginning to remove some of the

excess liquidity in the financial system, and inflationary pressures resurfacing, we believe there is better value in equities than bonds, given their historically low interest rates. We expect more volatility in markets compared to the very strong returns of

the last two years, and high single digit returns are more likely to result. In this environment the Fund's assets will continue to emphasize equities over fixed income.

INVESTMENT POLICY NORMAL ALLOCATION



FUND INVESTMENTS

