The Civil Service Superannuation Board

2011 Report to Members

We are pleased to provide you with this summary of The Civil Service Superannuation Board's (Board) 2011 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	2011 (*)	2010 (*)
Rate of Return on Investments	(2.43)%	12.67%
Investments at Market Value	$4,845,227	$4,915,555
Net Investment Income	130,527	122,516
Current Period Change in Fair Value of Investments	(258,761)	417,440
Employee Contributions	109,736	109,924
Employer Payments	166,062	151,255
Pension Payments	315,051	291,168
Refunds and Transfers	35,123	27,517

* $Thousands unless otherwise noted

Membership		
Non-Retired Members	33,814	32,884
Retired Members and Other Recipients	17,370	16,661
Total Members	51,184	49,545

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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 ⅔ of the increase in the Canadian Consumer Price Index (CPI)
- The COLA paid July 1, 2011 was 1.57%

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

Following a year of relatively solid investment returns in 2010, we entered 2011 with cautious optimism. Unfortunately, after a promising start to the year that saw the markets reach a three year high in late April, the European debt crisis, congressional fighting in the U.S. over the debt ceiling, and the major western economies debt load took their toll on the financial markets. The end result was a year dominated by caution, fear and some of the wildest volatility the markets had encountered in years.

As I mentioned in my report last year, we have been closely monitoring the financial position of the Fund through annual actuarial valuations. These valuations help to determine whether contributions made to the pension plan are sufficient to pay for approximately half of future benefits. Despite the favorable 2010 rate of return of 12.67%, the Actuary presented a recommendation to both the Employer Advisory and the Employee Liaison Committees to increase the contribution rate to strengthen the financial position of the Fund and ensure it is well positioned to able to continue to meet the future pension liabilities. As the year progressed, it became even more evident that this was a prudent decision as the volatility of the markets took its toll, resulting in a Fund rate of return of (2.43)% by year's end. The proposed regulation to increase the contribution rate by 2% was approved by the Lieutenant Governor in Council and will be implemented gradually over a four year period effective July 1, 2012. The employee contributions are set to increase by .5% each year thereafter until 2015. At this point the contribution rate will be 8% on salary up to the Yearly Maximum Pensionable Earnings (YMPE) and 9% on salary over the YMPE. The Board is committed to continue to work closely with our Actuary to solidify the Fund's financial position.

The Board continues to work closely with the Governance Committee to further assess the effectiveness of our internal control framework. The Board has successfully implemented methods designed to monitor the various financial, operational, and compliance control processes to ensure all timeframes are adhered to. A draft Governance manual has also been created and it is anticipated that it will continue to grow and evolve as the Board moves towards strengthening its Governance practices.

The Board is pleased to welcome Ms C. Lynn Romeo as the last of the three new Government-appointed members who joined The Civil Service Superannuation Board in 2011. Ms Romeo joins Mr. Ed Balcewich and Mr. Wayne McGimpsey, who were all appointed to three year terms on the Board. The New Year will also signal the end of the current Employee Representatives three-year terms. In September 2012, all eligible plan members will receive a ballot package that will allow them to elect three new Board members for the Employee Group as well as one member to represent the Manitoba Hydro Employee Group.

Finally, I would like to take this opportunity to thank my fellow directors, the management team and all the staff for their dedication and hard work, in particular regarding the Pension Benefits Act (PBA) changes that had a significant impact on our computer programming and service delivery over the past year and a half. Despite the complexities, the CSSB staff did tremendous work implementing all of the required changes and they are to be commended for a job well done.

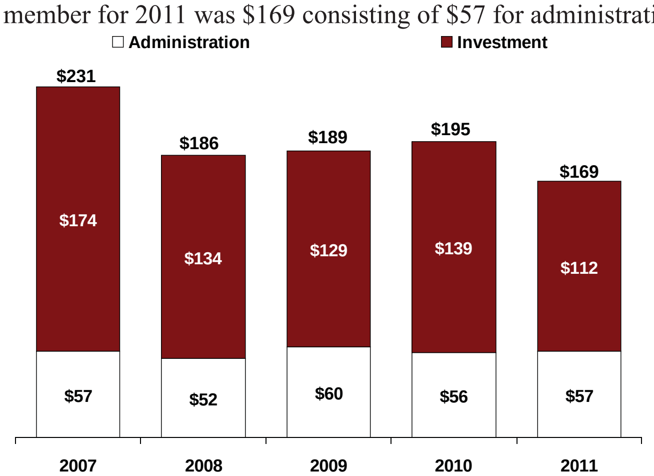
The Civil Service Superannuation Board

Chair
Al Morin

Employee Representatives	Employer Representatives
Ray Erb	Ed Balcewich
Monica Girouard	Gabriel Forest, f.c.a.
Denise Hickson	Wayne McGimpsey
Stephen Watson	C. Lynn Romeo

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 2011 was $169 consisting of $57 for administration and $112 for investment related expenses.



Message from the General Manager

Bruce Schroeder

The past year has certainly been a challenge for all pension plans and The Civil Service Superannuation Fund (CSSF) is no exception. The combination of economic uncertainty and record low interest rates have strained the funded status of defined benefit pension plans around the world. The CSSF is not immune to world markets and as such posted a -2.43% return for 2011. This return does not meet the actuarially required rate of 6.00%. Falling short of the actuarially required rate of return increases deficits in defined benefit plans such as the CSSF and requires monitoring. Although 2011 resulted in a return lower than the rate required by the actuary, we need to keep in mind that pension plans have a long investment horizon and the CSSF is invested based on this long-term view.

There were a number of changes in 2011 to The Civil Service Superannuation Act (CSSA) and we spent a substantial portion of the year implementing these changes along with continuing our implementation of Pension Benefits Act changes from 2010. The major changes to the CSSA were as follows:

- Calculation of transfer amount for some events on or after January 1, 2012 - The transfer amount for a member who ceases to be an employee on or after January 1, 2012, is the actuarial present value of the pension that would be payable at age 65, unless the member has accumulated at least 10 years of qualifying service and is at least age 55, or is at least age 65, in which case he or she could receive the actuarial present value of the immediate pension.
- Default pension where no valid election made - Where a member has ceased to be an employee and has given a notice of retirement to the Board, but is prevented by ill health or death from electing an optional pension, a minimum 10-year pension is now payable if there is no eligible spouse or partner.
- Purchase of service by reservist - An employee who receives a period of unpaid reservist leave to which he or she is entitled under The Employment Standards Code may purchase a period of service in relation to that period of leave in accordance with the regulations.
- Pre-retirement death benefits - Pre-retirement death benefits for an eligible surviving child or children are no longer specified under the plan. When a member dies prior to retirement, death benefits would be paid to his or her spouse or recognized common-law partner unless that spouse or partner has waived those rights. If there is no spouse or partner, or the spouse or partner has waived his or her entitlement, death benefits would be paid to the member's estate unless the member has made a beneficiary designation in compliance with The Beneficiary Designation Act.
- Employee contributions may be altered if jointly recommended - The Lieutenant Governor in Council may make regulations prescribing employee contributions and the percentage of employee contributions to be allocated to the superannuation adjustment account, if based on a joint recommendation of the Advisory Committee and the Liaison Committee and supported by an actuarial report confirming the viability of the recommendation.

A regulation was made in November of 2011 that will allow for an overall contribution rate increase of 2%. The increase will be done in steps beginning on July 1, 2012 and will increase .5% every year until January 2015. While no one enjoys paying increased contributions, the committees that are responsible for changes to the CSSF and the Board, with support from the Board's actuary, believe that an increase was required for the long-term viability of the CSSF.

2011 also brought substantial changes to the look and functionality of our online services. We have re-introduced the feature that allows a member to calculate an estimated amount in the event a member termination. The pension estimate portion of the online services has also changed to provide a more user-friendly interface.

The valuation for 2010 was completed and presented to the Board in fall of 2011 and revealed a continuing deficit. The Board will continue to monitor the situation by performing annual valuations and will provide advice or recommendations to the appropriate parties when required. The report in its entirety can be viewed on our website.

The Board continues to provide guidance and oversight of your plan in the uncertain economic environment which seems to have become the new norm. I would like to thank the Board for their continued vigilance and advice as well as the Board staff for continuing to provide superior service to all plan stakeholders.

Investment Committee

Chair
Peter G. Munro

Dick Archer
Richard Brownscombe
John Clarkson
Monica Girouard
Al Morin

A. Scott Penman
Bruce Schroeder
Vince Warden
Vacant Position

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
C. Lynn Romeo

Compensation and General Manager Performance Review Committee

Chair
Ray Erb

Ed Balcewich
Monica Girouard

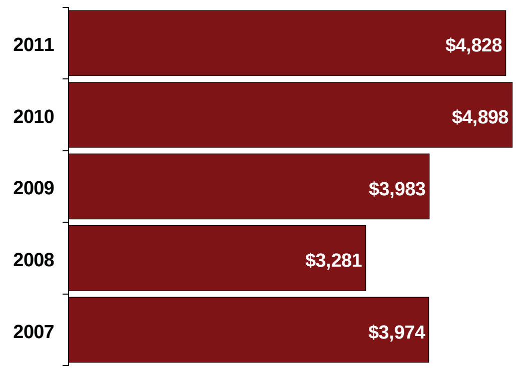
Investment Overview

Despite the spirited rally during the fourth quarter, 2011 proved to be a disappointing year for market participants as most global equity indices registered significant negative returns. The MSCI AW index lost 10%, Japan dropped 9%, Europe fell 12%, emerging markets dropped 16.6% and the Canadian index declined 8.7% (all in Cdn $ terms). The exceptions were in the U.S. equity market, where the Dow Jones Industrial Average advanced over 10% and the S&P 500 returned a modest 4.4%.

For 2011 as a whole, the total fund underperformed its benchmark by 3.55%, as it fell to (2.43)% versus a gain of 1.12% for the benchmark. The underperformance in 2011 was largely due to the Fund's asset allocation which emphasized equities over fixed income and within the allocation to equities, there was an overweight towards emerging markets. The best performing of the publicly traded asset classes in 2011 are the North American fixed income markets. As investors abandoned risk assets, there was an en masse flight to safety into the North American fixed income market. In the U.S., long-term treasuries returned over 30% while long-term Canadas gained 25%. In terms of the Canadian DEX fixed income universe benchmark, the return was 9.7% for 2011.

In addition, most of CSSB's equity managers underperformed their benchmarks, which negatively impacted relative performance for the year.

Investments At Market Value*
($ millions)

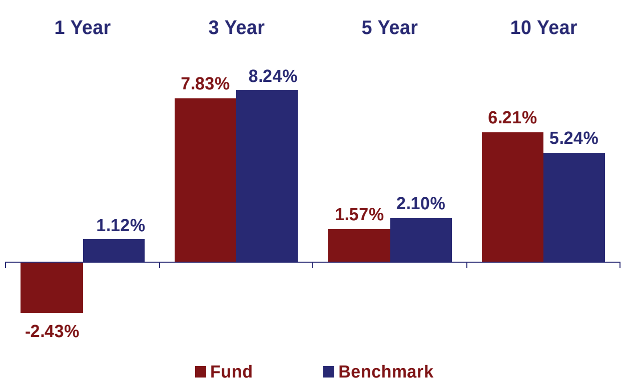


* Excludes index linked mortgages

Strategy and Outlook

It is our view that many of the significant macro headwinds that challenged global equity markets in 2011 are poised to moderate in 2012. This should allow investors to become somewhat less risk averse and focus more on the fundamental attractiveness of individual equities.

Fund Rate of Return



For much of 2011 global capital markets were extremely fearful that the 2-year old European sovereign debt crisis was spiraling out of control and financial Armageddon was imminent. It is our view that the aggressive actions by global central banks and the ECB late in the year were pivotal events in terms of the necessary preliminary steps to resolve the severe financial strains present in Europe. These actions which provided significant liquidity and funding to the European banking system should provide the European governments some time/flexibility to deal with their severe fiscal issues. Thus, while the European sovereign debt crisis is far from resolved, the recent actions by central bankers have set the stage for European policy makers to "muddle through" their fiscal issues over time. As for the European economy, it appears that an economic slowdown is unavoidable. The main issue is the magnitude and duration of a European slowdown and its resultant impact on global economic growth.

Our base case is that, barring a severe policy error in Europe, that global equity markets are poised to recover in 2012. In particular, we see significant opportunities in emerging market equities (which have underperformed over the last few years) where valuations are more compelling. While the U.S. equity market has enjoyed a significant rally since the October lows, we would consider enhancing the fund's exposure on short-term weakness as valuations are attractive and the fundamental outlook is improving. Further, the 10-year rolling total return for the S&P 500 remains at historically depressed levels, suggesting a more optimistic return environment for U.S. equities going forward. Regarding fixed income, we have underestimated the extent to which yields in North America could decline over the last year. However, from the current historic post-war low level of yields, it is hard to envision a further decline without a global recession or a financial system debacle. Thus we do not see value in the fixed income markets and intend to remain underweight our benchmark.

Concerning real estate, good quality properties with attractive yields remain difficult to acquire in the current environment. However, we continue to pursue opportunities as they are presented and have been successful in participating in three pooled funds during 2011 as well as various individual stand alone projects. Total fund cash levels are expected to remain modest over the next year.

Asset Mix as at December 31, 2011