# 2008
# CSS Annual Report

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*A copy of the Co-operative Superannuation Society Pension Plan's Annual Report, including the complete financial statements of the Pension Plan's operations is distributed to every contributing member, to each retiree who is receiving a monthly income directly from the Pension Plan, and to all former employees of member organizations who still have funds in the Pension Plan.*

# MISSION & VISION

The Co-operative Superannuation Society (CSS), a non-profit pension society incorporated on a membership basis, serves as administrator and fund holder for the CSS Pension Plan (Registered Pension Plan #0345868). The Society's original Act of incorporation states *"The principal purpose [of the Society] is to provide retirement benefits to and for its members."* For almost seventy years, in partnership with its co-operative and credit union employer members, the Society has administered the CSS Pension Plan following this guiding principle.

## Mission

To enable employees of member Co-operatives and Credit Unions to prepare for and fund their retirements, by providing saving and income products and services through a member owned and controlled, non-profit organization..

## Vision

CSS membership will be highly valued.

## Values

- Service
- Fairness
- Simplicity
- Self-help
- Democratic control
- Integrity
- Trust
- Balance
- Life-long Learning
- Member ownership

## Objectives

- To be member-focused;
- To provide practical retirement solutions;
- To earn competitive investment returns;
- To prudently manage risks;
- To communicate openly and understandably;
- To meet and exceed applicable regulatory standards;
- To maintain a position of leadership and influence in the pension sector;
- To employ qualified and committed employees, suppliers and consultants;
- To control expense.

# OVERVIEW

The CSS Pension Plan is a defined contribution pension plan, sometimes referred to as a money purchase pension plan. As the name implies, it is the contributions that are defined, not the benefit at retirement. The amount of retirement income a member receives depends upon the amount of pension funds accumulated in his/her account. Three factors influence the amount of funds a member accumulates in his/her pension account: (i) the amount contributed by the member and his/her employer; (ii) the investment earnings on those accumulated contributions, and; (iii) the length of time the pension funds are invested.

At December 31, 2008, the CSS Pension Plan continued to offer two investment options, a Balanced Fund and a Money Market Fund.

The Money Market Fund invests entirely in short-term money market instruments. The Balanced Fund is a broadly diversified portfolio of stocks and bonds. The asset mix as of December 31, 2008 for each Fund appears on the next page *(please refer to Graphs 1 and 2)*.

The Money Market Fund's January 1 unit price of $11.0788 increased to $11.4734 at yearend, which translates into a return of 3.56%. The Balanced Fund's January 1 unit price of $12.8990 decreased to $10.5034 at yearend, which translates into a return of –18.57%. The chart on the next page shows how each Fund's unit price changed throughout 2008 *(please refer to Graph 3)*.

There is a potential reward for accepting the risks associated with investing in a diversified portfolio of stocks and bonds like the Balanced Fund. The long-term average return of the Balanced Fund is expected to be higher than that of a lower risk / lower return portfolio, such as the Money Market Fund. However, in the short-term it is possible for the Balanced Fund to have a negative return, which was the case in 2008. The chart on the next page shows how the accumulated balances compare by investing contributions of $100 per month into each the Balanced Fund and the Money Market Fund (based on each Fund's benchmark portfolio) *(please refer to Graph 4)*.

At the end of 2008, there was $1,944,500,000 and $70,924,000 in the Balanced Fund and the Money Market Fund respectively.

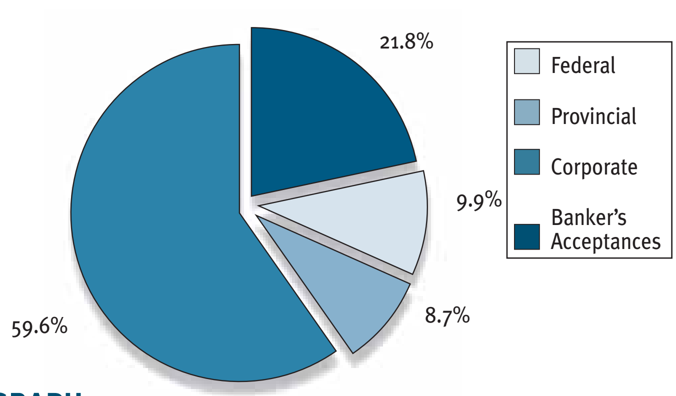
In 2008, the Balanced Fund's return was –18.57%, while its benchmark portfolio's return was –18.52%. For the four-year period ending December 31, 2008, the Balanced Fund's annualized total return was 1.24%, while the benchmark portfolio's return for the same period was 0.98% *(please refer to Graph 5)*.

The chart on the next page shows the Balanced Fund's rates of return for each of the last 10 years *(please refer to Graph 6)*.

The Balanced Fund's real rate of return, which is the return over and above inflation, was –19.77% for 2008 (i.e., –18.57% - 1.20% = –19.77%). The 4, 10 and 20-year average real rates of return, ending December 31, 2008 were 0.23%, 3.23% and 6.49% respectively. The Balanced Fund's long-term real rate of return objective is 4% *(please refer to Graph 7)*.-

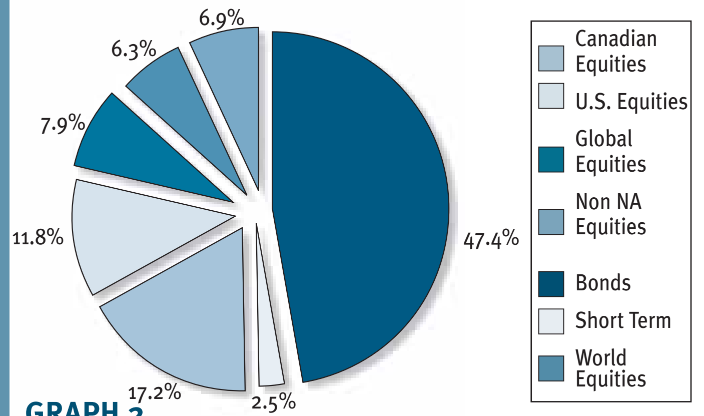
The Pensions Fund (formerly called the Annuity Fund) holds high-quality long-term bonds to support the pensions of approximately 5,800 retired members who are receiving a monthly pension from the Plan (95.63% of the bonds and debentures are rated "A" or better by recognized bond rating agencies). The latest actuarial valuation (dated December 31, 2006), as well as ongoing quarterly in-house valuations, confirms that pensions are adequately funded. At the end of 2008, the market value of the Pensions Fund was $494,410,000 *(please refer to Graph 8)*.

## MONEY MARKET FUND



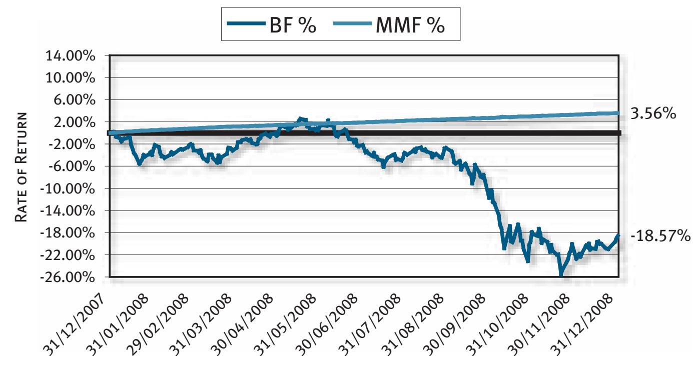

GRAPH 1

## BALANCED FUND




GRAPH 2

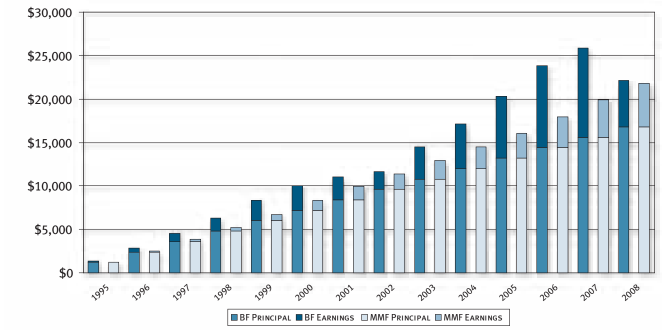
## DAILY UNIT PRICES 2007-2008




GRAPH 3

## BALANCED FUND vs MONEY MARKET FUND

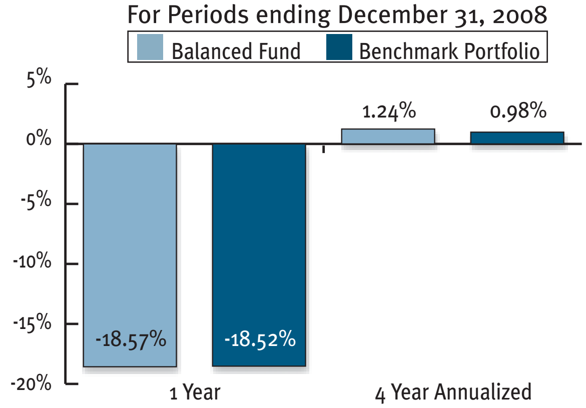
Accumulated Balance (Contributions of $100/month)




GRAPH 4

## BALANCED FUND RETURNS

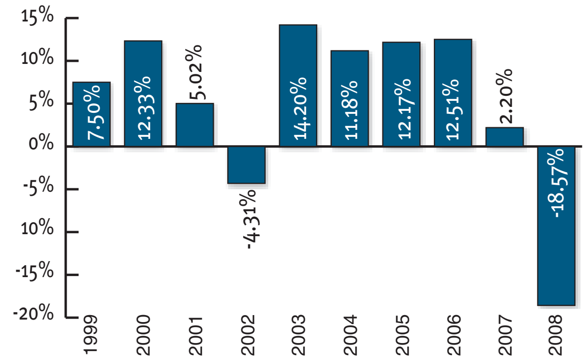
For Periods ending December 31, 2008




GRAPH 5

## BALANCED FUND

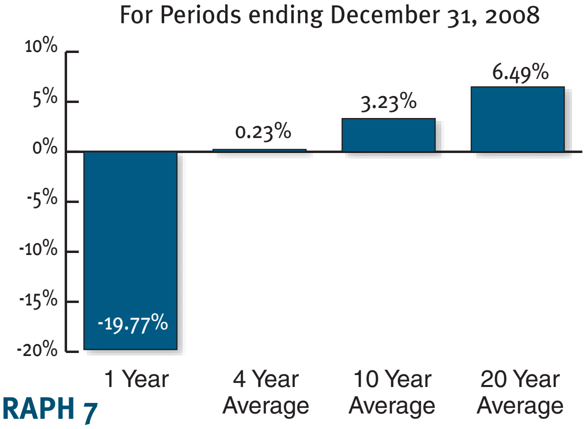
Annual Rates of Return




GRAPH 6

## BALANCED FUND REAL RATES RETURN

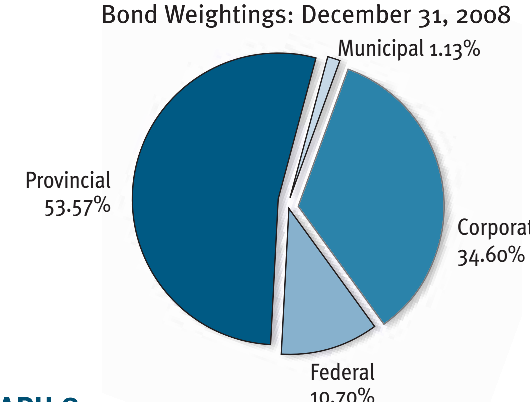
For Periods ending December 31, 2008




GRAPH 7

## PENSIONS FUND

Bond Weightings: December 31, 2008




GRAPH 8

# DIRECTORS' REPORT

**TO BE PRESENTED BY**

**Peter E. Zakreski, President, to the 2009 Annual Meeting, Friday, March 20, 2009.**

***On behalf of your Society's Board of Directors, I am pleased to present this summary of operations and results for 2008.***

# INVESTMENT FUNDS

## 2008 Financial Results

The Plan offers two investment funds to CSS members – the CSS Balanced Fund and the CSS Money Market Fund.

The Balanced Fund's primary objective is long-term growth. It holds mainly equities and fixed income investments. On average, it is expected to produce moderate growth, but with the risk of occasional short-term losses. The Money Market Fund's primary objective is to protect capital. It offers a low risk/low return investment option for members who are near retirement or have already reached their retirement savings objective. The short-term returns of the Money Market Fund are expected to be less volatile than those of the Balanced Fund.

In 2008 the Balanced Fund lost 18.57% as world equity markets suffered their worst collapse in almost eighty years. The Money Market Fund returned 3.56%. Over the long-term the Balanced Fund is expected to produce a higher average return than the Money Market Fund.

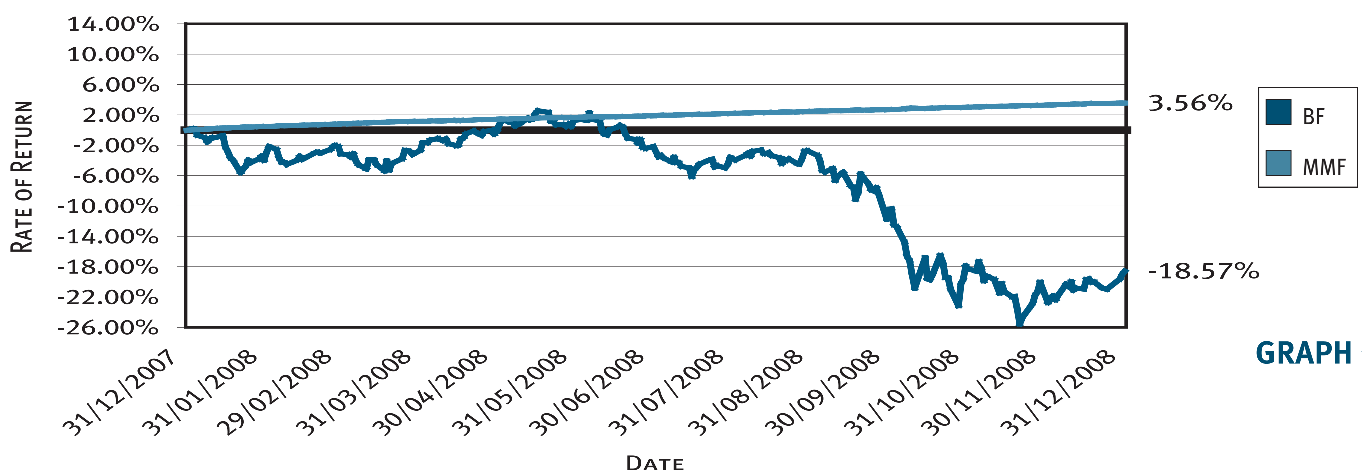
## Balanced Fund

From December 31, 2007 to December 31, 2008, the unit price of the Balanced Fund decreased from \$12.8990 to \$10.5034. This represents a loss of 18.57%.[1] This return was allocated to members' accounts on a daily basis through changes in the Balanced Fund's unit price. After allowing for inflation, the real rate of return[2] for the Balanced Fund in 2008 was –19.77%. The Balanced Fund's average **real** rates

1 The unit price for the Balanced Fund includes dividends and interest received as well as realized and unrealized market gains and losses for the year. The unit price is calculated net of the Plan's operating and investment management costs.

2 Real rate of return refers to the non-inflationary growth of a member's equity in the Pension Plan. It is calculated as the fund's total return minus Canada's 2008 inflation rate of 1.2%.

**2007-2008 DAILY UNIT PRICES**



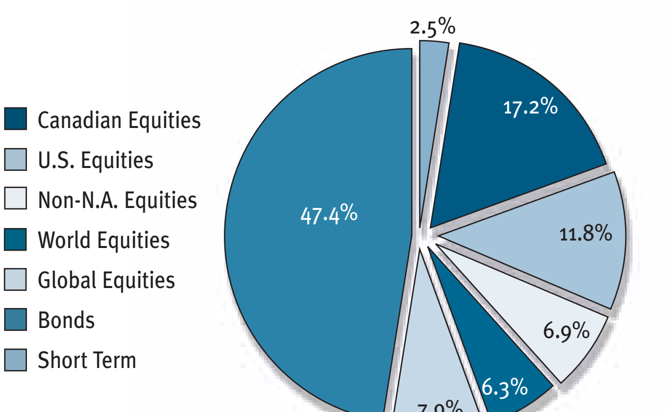

**GRAPH 1**

of return for the past 4, 10 and 20-year periods are 0.23%, 3.23% and 6.49% respectively. The Balanced Fund's long-term real rate of return objective is 4%.

In 2008, the Balanced Fund's return, at –18.57%, failed to exceed its combined benchmark at –18.52%. This under performance was due, in part, to under performance by the Plan's active Global equity manager, Brandes Investment Partners, L.P., and the active Canadian equity and fixed income manager, Addenda Capital (formerly Co-operators Investment Counselling Limited).

Over the year, the equity weighting of the Balanced Fund gradually declined as a result of market losses. Early in 2009, this triggered a rebalancing of the fund back to its target asset allocation under the Plan's Investment Policy.

**BALANCED FUND ASSET MIX**
**DECEMBER 31, 2008**



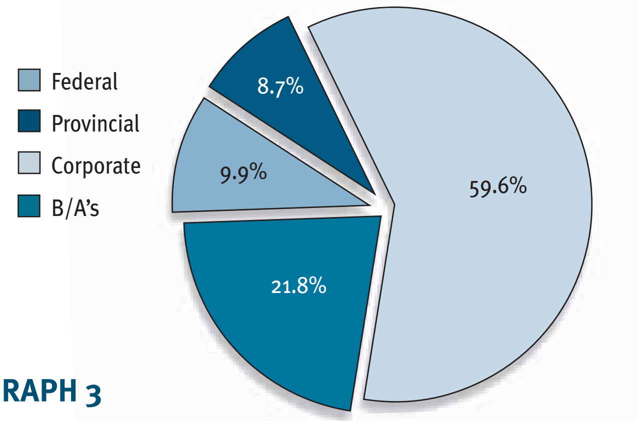

**GRAPH 2**

## Money Market Fund

In 2008, short-term interest rates fell as Canadian and American central banks lowered target rates in response to economic weakness. This lowered the returns on short-term investments somewhat. Nevertheless, from December 31, 2007 to December 31, 2008, the unit price of the Money Market Fund increased from \$11.0788 to \$11.4734[3]. This represents a total return of 3.56%. This return was allocated to members' accounts continuously through changes to the unit price of the Money Market Fund. In 2008, the Money Market Fund earned a real return[4] of 2.36%.

The Money Market Fund is invested in only one asset class – Canadian short-term investments. It is expected to produce a lower but relatively stable return, similar to prevailing short-term interest rates in Canada. The Fund contains high-quality money market instruments, including commercial paper, bankers' acceptances, and federal and provincial short-term debt.

**MONEY MARKET FUND ASSET MIX**
**DECEMBER 31, 2008**




**GRAPH 3**

## Pensions Fund

The Plan pays monthly pensions to CSS retirees from the Pensions Fund.[5] In 2008, the Plan's annual pension payroll totaled more than \$41.4 million while the Pensions Fund produced a loss of 1.11% for the year. Government bond prices rose as central banks lowered rates and investors sought a safe haven from collapsing world equity markets. Corporate bond prices declined in response to falling corporate profits as the global economy entered a severe recession.

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3 The unit price for the Money Market Fund is calculated net of the fund's operating and investment management costs.

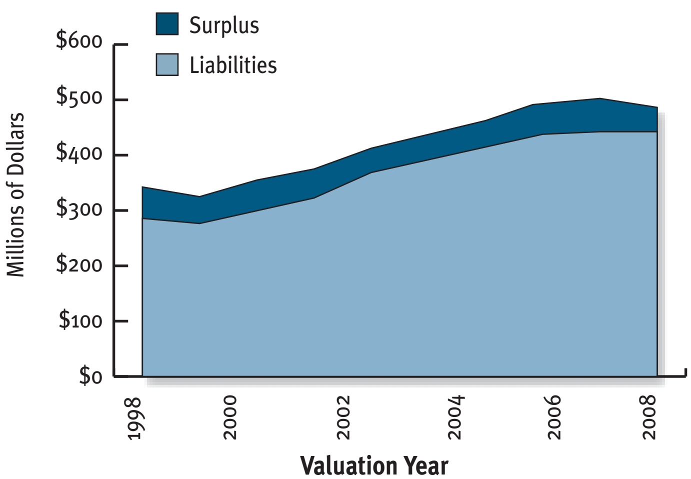
4 Real rate of return refers to the non-inflationary growth of a member's equity in the Pension Plan. It is calculated as the fund's total return minus Canada's 2008 inflation rate of 1.2%.

5 For those retiring members who choose a monthly pension from the Plan, the Pensions Fund is where their equity is transferred, and from which their monthly pension payments are made. The funded status of the Plan's pension liability is tested internally on a quarterly basis and is actuarially valued every three years.

## Funded Status of Pensions

According to pension legislation, an actuarial valuation of the assets held in the Pensions Fund and the Plan's pension liability must be conducted at least every three years. As of December 31, 2006, the date of the last actuarial valuation, the Plan's pension liability was determined to be fully funded including a surplus to protect against adverse deviations from assumptions.

**PENSIONS FUND - TOTAL ASSETS**




**GRAPH 4**

Quarterly in-house valuations confirm that the Plan's pensions continue to be adequately funded although the Pensions Fund surplus has declined by approximately $20 million. This decline resulted from falling corporate bond prices, as investors avoided corporate issues and favored government bonds. This situation is expected to reverse as the economy recovers and corporate bond prices return to more normal levels. The next actuarial valuation of the Pensions Fund will be completed as of December 31, 2009.

## 2008 Retirements

For over thirty-five years, the Plan has offered members a fixed, annuity-style pension at retirement. In 2008, one hundred and eighty-eight members started a CSS pension at an average age of 60.05, converting total equity of approximately $24.2 million. The Plan's pension conversion rate improved slightly in 2008, averaging 5.02%, but fluctuating from 4.6% to 5.5% over the year. Pension costs therefore remained near historic highs.

The Plan also offers a second internal retirement income option – Variable Benefit (VB) Payments. VB Payments are simply periodic withdrawals by a retiree from his or her own CSS pension account. VB Payments have the advantage of permitting the member to remain in the Plan and retain control over his or her accumulated balance after retirement. However, because VB Payments do not provide a guaranteed income for life like a traditional pension, they leave the member exposed to investment and mortality risk – the risk of running out of money during retirement. In 2008, 79 retired members elected to start receiving VB Payments at an average age of 59.45, converting total equity of approximately $30.1 million.

The Plan does not promote one retirement income option over another. The choice is an individual one. The Plan recommends that members consult with their own qualified financial advisor.

## Pension Adjustments

The Board continued the Plan's ad hoc pension adjustment program in 2008. Under this program, each pension is considered for an ad hoc increase on its ninth, fifteenth and twentieth anniversaries. The objective of the program is to ensure that pensioners receive the benefit of "better than expected" earnings within the Pensions Fund, whenever possible. However, no pension is ever decreased as a result of being considered for an ad hoc adjustment.

In 2008, pensions started in 1999 were considered for a first adjustment and increased by 2.25%. Pensions started in 1993 were considered for a second adjustment and increased by 1.5%. Finally, pensions started in 1988 were considered for a third adjustment and increased by 1.25%.

Given current economic uncertainty and the small loss experienced in the Pensions Fund in 2008, the Plan's actuary has recommended that the Plan's ad hoc pension adjustment program be suspended. Regretfully, therefore, the Board has resolved to accept this recommendation until current market uncertainties resolve.

## Transfers and Repayments

More than 2,000 terminated and retired members transferred approximately $103.8 million out of the Plan in 2008, as compared to 1,900 members and $113.9 million in the previous year. One hundred and seventy-five of these members used their funds in the Plan to purchase a Life Income Fund (LIF), a Locked-in Retirement Income Fund (LRIF), a Prescribed Registered Retirement Income Fund (PRRIF) or a Life Annuity from financial institutions of their choosing.

### Condolences

The Board of Directors wishes to extend their condolences to the families and friends of the pensioners who passed away in 2008.

## MEMBER SERVICES

Through its member information programs, the Pension Plan continues to promote its vision of a "balanced and planned approach" to retirement saving. Our Plan continues to be recognized as a leader in this area, offering a wide range of materials, information sessions, workshops and seminars.

The Plan's **Retirement Income Options (RIO)** workshop helps members to understand the options for converting their pension funds into retirement income. It also includes basic information on "investment choice" and financial planning. Overall participation in this program increased again in 2008, with over 7,000 members and spouses participating in this workshop since its introduction in 1995. Strong interest in the Plan's **Retirement Planning Seminar (RPS)** also continued in 2008.

An equally important education program, primarily designed for new members but available to all, is our **Future Financial Freedom** "self study" financial planning workbook. This publication places a special emphasis on the message that financial planning and saving for retirement should begin at the earliest possible age. Approximately 2,600 copies of the workbook were distributed in 2008.

Communication with the Plan's retirees continues through the Annual Report, *TimeWise* magazine and the Plan's web site.

## 2008 DEVELOPMENTS

### CSS Website

The CSS website was substantially redesigned in 2008. The appearance of the site was simplified and updated, while security was enhanced. The employers' and employees' secure areas of the site were the focus of the improvements carried out. New features on the employees' secure site included both pension and variable benefit (VB) payment estimators that are directly linked to individual member's account information. In addition, daily unit prices were added to the Plan's homepage.

### New Active Canadian Equities Manager

This year, the Plan continued to implement the recommendations of its investment consultant resulting from a portfolio study of the Balanced Fund completed in 2005. These recommendations are centered on attempting to strengthen the Balanced Fund's long-term average return in what is expected to become an increasingly difficult investment environment.

One of the areas in which change was recommended, was with respect to the Balanced Fund's passive Canadian equity mandate. This mandate was originally added to the portfolio in 2000 to reduce manager specific risk and to increase diversification. The 2005 portfolio study indicated, however, that switching the mandate to an active manager could have the potential to add value net of fees. A manager search was therefore completed in 2008 and a new Active Canadian Equity manager, Scheer Rowlett & Associates was hired in March of 2008.

### Phased Retirement

At the CSS Annual Meeting in 2008, the Plan's rules were amended to permit CSS employee and employer members to negotiate "phased retirement" arrangements. Under such an arrangement, the employee can continue to work and contribute to his/her CSS Account while receiving retirement income from CSS.

To qualify, certain conditions must be met:

- The employee must be age 55 or older;
- The employee must obtain the agreement of his/her employer;
- During phased retirement an employee may not access more than 60% of his/her accumulated benefits;
- The usual annual maximums spending limits for each province will still apply to Variable Benefit (VB) payments. (Currently, only Saskatchewan has no annual maximum limit.)

# DIRECTORS' REPORT

Phased retirement is expected to be of interest to CSS members who have already saved enough for full retirement, but might be willing to work past their planned retirement date and "phase" into retirement instead. During the agreed period of phased retirement, the employee could continue to work on a reduced basis while maintaining their income level by starting a partial CSS Pension or VB payment.

Phased retirement will be of interest to members who would like to "cut back" but are not ready for full retirement. Members interested in phased retirement are encouraged to contact the Plan for an estimate of the potential long-term impact on their pension before making a final decision.

## Income Splitting

Members may recall that since January 1, 2007, retired taxpayers receiving pension income have been permitted to reduce their income tax payable by splitting their pension income with a spouse. To do so, both spouses must file a joint election with their tax returns. Finance Canada, however, has advised that similar tax treatment will not be available to members receiving variable benefits until the member reaches age 65. In 2008, the Plan began a lobbying campaign to change this situation. These efforts were delayed by the 2008 federal election, but will continue when parliament resumes sitting in the New Year.

## Controls Audit

In 2008, the Plan retained an international accounting firm to perform a controls audit at CSS. Management and the Board have received and reviewed the consultant's report. Although the Plan's controls were generally reported to be performing adequately, certain improvements were recommended. For the most part, these recommendations involve the Plan's investment reports and IT system. Management will proceed to implement the recommended improvements in 2009 and 2010.

## Asset Backed Commercial Paper (ABCP)

Members will recall that the Plan's passive synthetic U.S. equities manager held approximately $62 million in third-party issued ABCP within two pooled funds that track the returns of the S&P 400 (U.S. Mid Cap equities) and S&P 500 (U.S. Large Cap equities). In 2007, this ABCP ceased to roll over and went into default. As a result a committee of investors, bankers, accountants and lawyers known as the "Pan Canadian Committee" held a series of meetings in an effort to restructure these non-performing short-term investments. A tentative agreement to restructure this ABCP as medium term flexible rate notes was finally announced on December 23, 2007. At the end of December, our manager wrote down the value of this ABCP to approximately $55 million to reflect its illiquidity and the uncertainty surrounding completion of the settlement.

The new notes were originally expected to issue in the spring of 2008. However, final settlement did not take place until January 16, 2009. Although the new notes were issued at par, and continue to carry an investment grade credit rating, the final outcome is still uncertain. Further write downs on this investment are possible and will be reflected in the unit price of the CSS Balanced Fund if and when determined by our external manager.

## Policy and Planning

The Directors continually monitor the external environment and the changing needs of Plan members to determine the Plan's future direction. The ultimate objective is to improve the Plan's ability to fulfill its mission – to enable employees of member Co-operatives and Credit Unions to prepare for and fund their retirements.[6]

At its planning session in 2008, the Board approved the following strategic issues for further consideration or implementation:

- Changes to the structure of the CSS Balanced Fund;
- Changes to the Plan's default investment option;
- Enhancements to the Plan's website;
- The development and delivery of electronic Annual Statements.

The Board's annual planning process will continue in January of 2009.

# CONCLUSION

## Future Return Expectations

The Balanced Fund is structured to produce moderate growth over the long term. Because of its diversified asset mix, its unit price moves up and down with the markets.

6 In 2003, the Board adopted a revised mission/vision statement for the Co-operative Superannuation Society that is reproduced in full on page 1 of this Annual Report

The fund's unit price is expected to rise in the long run, but occasionally fall in the short run in response to economic cycles and unanticipated events. For members wishing to reduce the likelihood of suffering a short-term loss as they near retirement, the Money Market Fund provides a lower risk/lower return option.

In 2008, losses that began in the U.S. real estate and banking sectors spread throughout the world economy. U.S. and European banking regulators repeatedly injected billions of dollars into the financial system in an attempt to avoid total collapse. Commodity and energy prices soared to record levels, and then fell dramatically over just a few months. Investors began to realize that tighter credit and slowing growth would hurt corporate profits. Equity markets tumbled.

The Balanced Fund's broad diversification and fixed income investments helped to reduce the impact of falling equity prices. Nevertheless, the Balanced Fund suffered a significant loss at year-end. At some unpredictable future date, investor sentiment will shift and the markets will resume their normal, long-term upward trend. Given the current economic environment, however this seems unlikely to occur in the near future.

Although short-term losses are always difficult to bear, they are not unexpected given the 60% equity / 40% fixed income asset mix held in the Balanced Fund. It is important to remember that this same asset mix produced an annualized return of slightly more than 10% over the five years beginning in 2003 and ending in 2007.

Long-term returns for the various asset classes included in the Balanced Fund are expected to produce an adequate pension for long-serving members of the Plan. The Plan's average return over the past sixty years is 8.0%.[7] History shows that markets can out-perform these long-term averages for extended periods, as they did from the early 1980's until 2000, and can also under-perform these long-term averages over long periods, as they did from 1961 to 1980.[8]

Members nearing retirement are reminded that since 2005, they have had the option of moving some or all of their account into the Money Market Fund to reduce short-term risk. Basing such a decision on short-term market conditions is not recommended. Rather, members are encouraged to allocate their pension account based on how and when they intend to start converting their pension funds into retirement income. Members who are not near retirement are encouraged to take a long-term view.

## 2009 Outlook

In 2008, we were reminded that markets can move by large amounts in a short time. As 2009 begins, economic forecasters are expecting the global economy to continue to weaken. Equities are expected to be pressured by declining manufacturing, collapsing commodity prices, falling U.S. home prices, rising unemployment and lower corporate profits. Tighter credit is reducing consumer spending and corporate investment.

Although governments and central banks in North America and Europe are doing everything possible to stimulate the economy and avoid a prolonged recession, success is far from certain. Past experience suggests that recessions following a banking and real estate collapse tend to last longer than average. It is possible, therefore, that 2009 will be another difficult year for stock and bond investors.

Over the long term, we expect the Balanced Fund to produce an average return that is generally in line with the Plan's historical average. By posting competitive returns, the Plan will continue to give long-service CSS members confidence that their accumulated benefits will be adequate to provide reasonable comfort in retirement. Although real rates of return have been declining from the unusually high levels recorded over the past few years, the Board anticipates that the Plan will continue to exceed its real return objective of 4% over rolling four-year periods.

## Thanks . . .

As we do every year, the Board, on behalf of Plan members, would like to thank our staff, external portfolio managers, custodian, auditors, actuaries, and consultants for their efforts on our behalf. We appreciate their dedication and commitment to our Plan, our members and their retirement goals.

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7 This average includes the return of the CSS Pension Plan from 1949 to 2004 and of the CSS Balanced Fund from 2005 to 2008.

8 Over the past 40 years, the S&P 500 Index (U.S. large cap stocks) has taken as long as 19 years (i.e. 1961 to 1980) and as little as 3 years (i.e. 1995 to 1998) to double in value. The recent experience of investors must be put in perspective with longer-term market results to develop a suitable long-term investment strategy.

# MANAGEMENT REPORT

**TO BE PRESENTED BY**

**Bill Turnbull, General Manager, to the 2009 Annual Meeting, Friday, March 20, 2009**

*For 2008 the Balanced Fund lost 18.57% while the Money Market Fund returned 3.56%.*

## NON-RETIRED MEMBERS

**Net Assets:** After taking into account Investment Income, changes in the Market Value of Investments, Employee and Employer Contributions, Administrative Expenses, Equity Transferred/Paid Out and Variable Benefit payments, and Equity Transferred to the Pensions Fund (formerly the Annuity Fund), the Net Assets held in the Balanced Fund and Money Market Fund combined, decreased by $485,516,000 in 2008 *(please refer to Graph 1)*. The market value of these Net Assets was $2,015,424,000 as of December 31, 2008. This includes $1,944,500,000 in the Balanced Fund and $70,924,000 in the Money Market Fund.

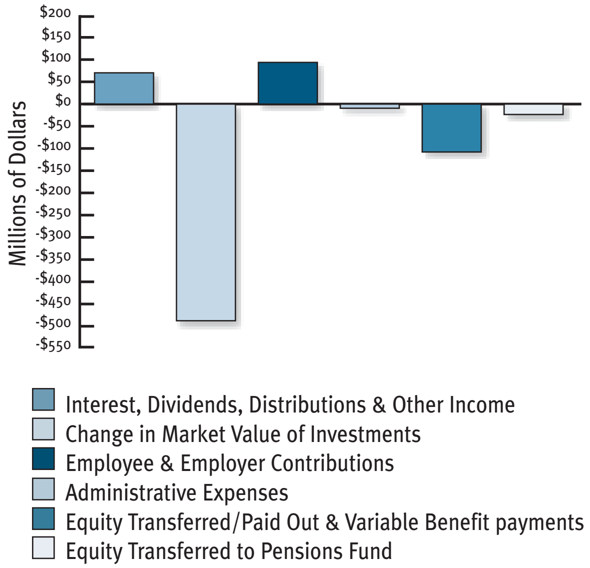
**Expenses:** In 2008, total expenses for the Balanced Fund equated to approximately 20 basis points of the average market value of assets held in the Fund. This compares very favourably with the Management Expense Ratios (MER) of balanced mutual funds, which are about 2% (i.e., 200 basis points) or more.

The 2008 total expenses for the Money Market Fund equated to approximately 26 basis points of the average market value of assets held in the Fund. This compares very favourably with the Management Expense Ratios (MER) of money market mutual funds, which are about 1% (i.e., 100 basis points) or more.

**Returns:** 2008 was the fourth year of operation for the Money Market Fund. Members are able to transfer their pension funds from the Balanced Fund into the Money Market Fund, and vice-versa. Both the Money Market Fund and the Balanced Fund are unitized. This means that the current value of a member's pension

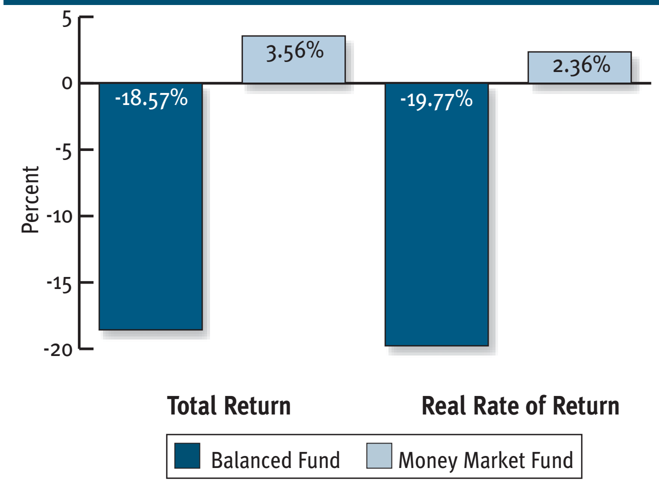
### INCREASE/DECREASES IN NET ASSETS

In 2008 Net Assets decreased from $2,500,940,000 at the beginning of the year to $2,015,424,000 at year-end




**GRAPH 1**

### 2008 RATES OF RETURN




**GRAPH 2**

funds equals the number of units held in each Fund multiplied by its current unit price. The unit price of each Fund varies directly with the market value of its Net Assets.

The Money Market Fund invests entirely in short-term money market instruments. It is a low risk - low return option designed to preserve capital for those members who are nearing retirement and/or have reached their retirement savings objective. The Money Market Fund's unit price of $11.0788 at January 1 increased to $11.4734 at yearend, which translates into a return of 3.56%. After taking into account the 2008 national inflation rate of 1.2%, its real rate of return was 2.36% (i.e., 3.56% - 1.2% = 2.36%).

The Balanced Fund is the Plan's default investment option. Accordingly, members' pension funds are entirely invested in the Balanced Fund unless they instruct the Plan otherwise. The Balanced Fund is a broadly diversified portfolio of stocks and bonds. It is designed to provide moderate growth over the long-term. However, it can produce negative returns in the short-term. The Balanced Fund's January 1 unit price of $12.8990 decreased to $10.5034 at yearend, which translates into a return of –18.57%. Its real rate of return for 2008 was –19.77% (i.e., –18.57% - 1.2% = –19.77%). The Balanced Fund's average real rates of return for the past 4, 10 and 20 year periods are 0.23%, 3.23% and 6.49% respectively.

## Employee Members:

The number of non-retired employee members of the CSS Pension Plan continues to increase. Total membership at the end of 2008 was 33,662 (up from 32,813 at the end of 2007). The number of active members (i.e., those members employed by an employer member and contributing to the Plan) at the end of 2008 was 17,769 (up from 17,023 at the end of 2007). The number of inactive members (i.e., those members who have funds in the Plan but are no longer employed by an employer member) was 15,983 at the end of 2008 (up from 15,790 at the end of 2007). The average age of the non-retired members of the Plan continued to gradually increase. The average age at the end of 2008 was 45.55, which is up from 45.27 at the end of 2007 *(please refer to Table 1 and Graph 3)*.

## Member Service Activities:

*Individual Consultations:* One hundred and nineteen individual counselling sessions with members seeking information about the Plan and their retirement income options were held in the Pension Plan's office during 2008. In addition, another twenty-five sessions were held in conjunction with member service activities outside the office.

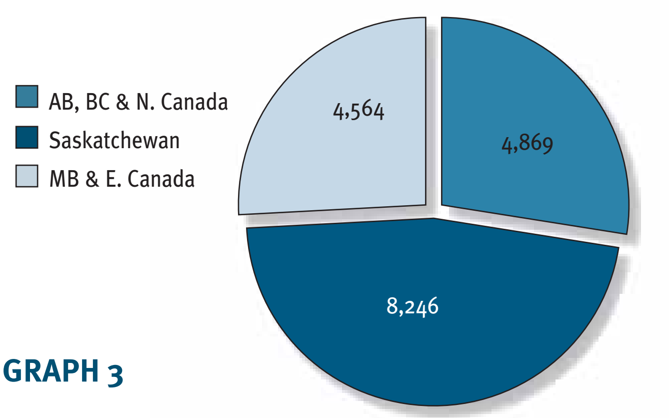
*Retirement Income Options (RIO) workshops:* The half-day RIO workshop provides participating employees and spouses with an overview of all the retirement income options available for the funds in their pension accounts. Six RIO workshops were held in Yorkton, Russell, Grande Prairie, Calgary, Winnipeg, and Saskatoon. Total attendance for the six workshops in 2008 was 447 participants (262 members and 185 spouses), while overall attendance to the 79 workshops held since 1995 is approximately 7,051.

**TABLE 1**

**AGE DISTRIBUTION**

| AGE | FEMALE | MALE | TOTAL | TOTAL % |
|---|---|---|---|---|
| Under 25 | 799 | 587 | 1,386 | 4.12 |
| 25 - 29 | 1,501 | 1,085 | 2,586 | 7.68 |
| 30 - 34 | 1,943 | 1,412 | 3,355 | 9.97 |
| 35 - 39 | 2,238 | 1,669 | 3,907 | 11.61 |
| 40 - 44 | 2,750 | 1,853 | 4,603 | 13.67 |
| 45 - 49 | 3,789 | 2,265 | 6,054 | 17.98 |
| 50 - 54 | 3,484 | 2,150 | 5,634 | 16.74 |
| 55 - 59 | 2,147 | 1,687 | 3,834 | 13.39 |
| 60 - 64 | 948 | 895 | 1,843 | 5.47 |
| 65 & over | 198 | 262 | 460 | 1.37 |
| TOTAL | 19,797 | 13,609 | 33,662 | 100.00 |

**REGIONAL DISTRIBUTION: ACTIVE MEMBERS**




**GRAPH 3**

# MANAGEMENT REPORT

*Retirement Planning Seminars (RPS):* The RPS is designed for employees aged 50 and over. Through group discussion, various exercises, presentations, and with the help of the seminar facilitator and visiting resource authorities, participants examine various retirement-related topics. Topics include health, wills and estates, housing, the psychology of aging, sources of income and financial planning. Four seminars were held in 2008 in Saskatoon (2), Brandon and Swift Current. Total attendance to the four seminars was 131 (93 members and 38 spouses). A fifth seminar scheduled for Salmon Arm was cancelled due to insufficient registration.

*Pension Projections:* During 2008 over 2,700 personalized sets of pension projections were prepared for members of the Plan.

*TimeWise:* The semi-annual TimeWise magazine, which contains articles and information about the Pension Plan and related topics, such as changes to pension legislation and general information about pensions and retirement was published and distributed to all actively contributing members and pensioners in April and October.

*Annual Report:* The 2007 Annual Report, which contains a full review of the Plan's activities, including a complete investment review and the audited financial statements of the Plan, was published and distributed in April to all members of the Plan.

*Quarterly Updates:* The Quarterly Update was sent to all employer members in January, April, July and October. The Update contains information about year-to-date Fund performance, the asset mix of each Fund at the end of the quarter, and various topical news items for members. Employers are asked to share the information contained in the Quarterly Update with their employees. Similar information is also posted in the "What's New" section of the web site approximately three weeks after the end of each quarter.

*Annual Statements:* The 2007 Annual Statements, which provide a comprehensive and detailed report of each member's account, were printed and distributed in February 2008.

*Future Financial Freedom (FFF):* FFF is a financial planning workbook, which provides an introduction and overview of basic financial planning principles. Approximately 2,600 FFF workbooks were distributed to new members who joined the Pension Plan in 2008.

*Web Site:* 2008 was the eleventh full-year of operation for the Pension Plan's web site (www.csspen.com). The web site received in excess of 212,400 visits (this compares with 110,700 visits for 2007). As of December 31, 2008 some 3,159 members had an active Personal Access Number allowing them to access their account balances, do pension projections and Variable Benefit illustrations, etc., via the web site (this compares with 2,342 as of December 31, 2007).

The Member's Area of the web site was re-designed in 2008. In addition to a new look, some new features were added, the most notable being the online Variable Benefits (VB) illustrator. Member's who have applied for on-line access to their accounts can now do VB illustrations (if applicable for their pension funds) as well as pension projections, and view their account balance, contributions, etc. To gain on-line access, Members apply for a Personal Access Number (PAN), which then allows them to set their own User Name and Password.

*Trade Shows:* The Plan participated in the annual Credit Union Manager's Association conference trade shows for Saskatchewan and Manitoba, which were held in Saskatoon and Winnipeg respectively.

*Payouts and Transfers:* In 2008, the Plan processed 698 cash payouts, which amounted to $5,416,999 (an average of $7,760). This compares with 665 cash payouts totaling $5,111,365 in 2007 (an average of $7,686).

In addition to the retiring members that transferred funds into various retirement income products (see Retired Members – Distribution of Funds at Retirement: 2008 chart below), there were a total of 1,171 transfers into Locked-In Retirement Accounts (LIRAs) and RRSPs with various financial institutions in 2008. There were 678 transfers to LIRAs that totaled $58,564,966 for an average of $86,379 (this compares with 561 transfers to LIRAs in 2007 that totaled $54,470,773 for an average of $97,096 449). The remaining 493 transfers to RRSPs totaled $10,281,424 for an average $20,854 (this compares with 396 transfers to RRSPs in 2007 that totaled $10,224,006 for an average $25,818).

Included in the above transfers were 29 transfers of members' funds as a result of marriage breakdown.

# RETIRED MEMBERS

Long-term interest rates increased somewhat in 2008, thus making monthly pensions slightly less costly compared with 2007. In 2008, there were 188 retiring that members started a monthly pension directly from the Plan at an average age of 60.72 years. This compares with the 199 pensions that were started in 2007 at an average age of 60.72 years

There were more than 5,800 retired members receiving a monthly pension directly from the Plan at the end of 2008. We extend our sincere condolences to the families and friends of the 165 pensioners who passed away in 2008.

In addition to offering monthly pensions, the Plan also offers Variable Benefit (VB)[1] payments to retiring members. This option has been available since September 2006 and is simply periodic withdrawals from the member's account in the Plan. The investment options available to VB payment recipients are the same as those available to the non-retired members. Variable Benefit payments offer retiring members the same flexibility as LIFs, LRIFs, and PRRIFs from financial institutions, but without having to transfer their funds out of the CSS Pension Plan. During 2008, 79 retiring members opted for VB payments as their retirement income option at an average age of 59.45 *(please refer to Table 2)*. This compares with 128 retiring members who opted for VB payments in 2007 at an average age of 60.05. At the end of 2008 there were 239 retired members receiving VB payments from the Plan.

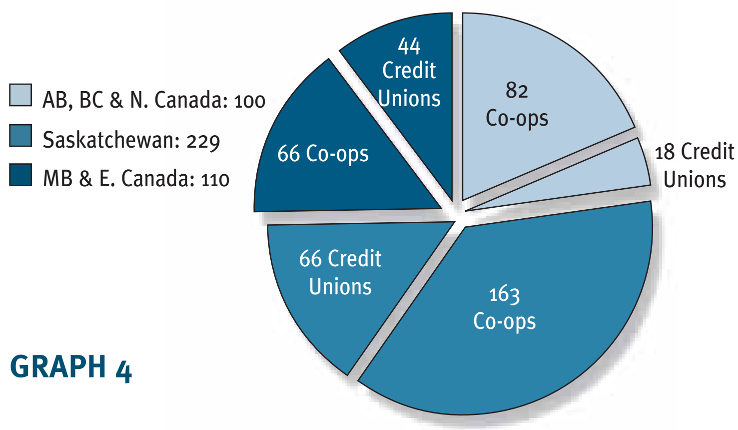
**TABLE 2**

**DISTRIBUTION OF FUNDS AT RETIREMENT: 2008**

| | # | TOTAL | AVERAGE |
|---|---|---|---|
| Monthly pension from CSS Pension Plan | 188 | $24,213,487 | $128,795 |
| Variable Benefit Payments | 79 | $30,137,464 | $381,486 |
| Life Income Funds (LIFs) | 72 | $12,464,329 | $173,115 |
| Locked-in Retirement Income Funds (LRIFs) | 2 | $97,553 | $48,776 |
| Prescribed RRIFs (PRRIFs) | 101 | $14,708,489 | $145,628 |
| Registered Retirement Income Funds (RRIFs) | 39 | $1,713,814 | $43,943 |
| Other Registered Pension Plans | 10 | $618,848 | $61,884 |
| Total | 491 | $137,304,892 | |

Retiring members of the Plan continue to be attracted to the flexibility offered by retirement income vehicles available through financial institutions (i.e., Life Income Funds, Locked-in Retirement Income Funds, Prescribed RRIFs, Registered Retirement Income Funds,). As a result, in addition to the 188 pensions and 79 VB payments commenced in 2008, there were 224 transfers into lifetime retirement income vehicles with other institutions *(please refer to Table 2)*.

**REGIONAL DISTRIBUTION: EMPLOYER MEMBERS**




**GRAPH 4**

# EMPLOYER MEMBERS

After taking into account 16 employer amalgamations, 3 employer withdrawals/dissolutions, and the 1 new employer that joined the Pension Plan in 2008, the number of employers participating in the Plan at year-end was 439 (down from 457 at the end of 2007). We extend a warm welcome to the following employer and its employees that joined the CSS Pension Plan in 2008:

Alberta Seed Cleaning Association, Lacombe AB

1 Variable Benefit payments are available to members whose pension funds are governed by Saskatchewan, Alberta, Manitoba and British Columbia pension legislation.

# INVESTMENT REPORT

TO BE PRESENTED BY

**Brent Godson, Investment Manager, to the 2009 Annual Meeting, Friday, March 20, 2009.**

2008 began and ended with concerns over the U.S. housing market and the credit crisis. Rising defaults and foreclosures in the US subprime mortgage market and corresponding write-downs in the financial sector infected markets. Investment dealer Bear Sterns ceased to exist and mortgage giants Fannie Mae and Freddie Mac were placed under government conservatorship. And despite unprecedented actions by the US and other governments to stabilize markets in the first half of the year, Lehman Brothers filed for bankruptcy in September further seizing up credit. Subsequently, regulators closed Washington Mutual in the largest bank failure in U.S. history, and the US government was forced to grant a bail out loan to American International Group, one of the world's largest insurers.

**TABLE 1**

| 2008 MARKET RETURNS | |
|---|---|
| S&P/TSX Composite Index | -33.00% |
| S&P 500 Index in terms of Canadian dollars | -21.15% |
| S&P 400 Index in terms of Canadian dollars | -23.98% |
| MSCI EAFE Index in terms of Canadian dollars | -29.18% |
| MSCI World Index in terms of Canadian dollars | -25.84% |
| DEX Universe Bond Index | 6.41% |

Global financial markets responded to the credit crisis with extreme volatility. The S&P/TSX Composite Index posted a loss of –33.00% for the year. The S&P 500 Index in US currency was down 37.00%, while the MSCI EAFE Index, representing developed non-North American Markets was down 40.27%. Emerging Markets were no exception in 2008, falling 45.92%.

For investors based in Canada, the performance of the Canadian dollar was a dominant theme again in 2008. On the year, the Loonie was down 18.5% against the U.S. dollar. The Canadian dollar started the year at par and fell to 82 cents per US dollar at year-end. The Canadian dollar's most dramatic declines occurred in the 4th quarter as commodity prices, and oil in particular, fell in response to recession concerns. The performance of the Canadian dollar partially insulated Canadian investors from declines in foreign returns. In Canadian dollars, the S&P 500 Index fell 21.15%, the MSCI EAFE Index lost 29.18% and the MSCI EM Index fell 41.63%.

Canada's bond market generated strong returns in 2008. The DEX Universe Bond Index posted a total return of 6.41%. Bond returns and particularly Federal government bond returns benefited as investors fled equity markets in search of the safety and security of Federal issues.

## CSS BALANCED FUND

The total market value of the CSS BALANCED FUND declined year over year falling from $2.47 billion at the end of 2007 to $1.95 billion at the end of 2008.

The Balanced Fund is structured to provide long term capital growth and as a result, the Fund holds a mix of equities and fixed income investments. The current strategic asset mix of the fund is 60% equities and 40% fixed income. Broad asset mix guidelines, which define a minimum and maximum for each asset class, allow for some deviation from the strategic asset mix to take a more

**TABLE 2**

| | MINIMUM | STRATEGIC ASSET MIX | MAXIMUM | CSS BALANCED FUND 31-DEC-07 | CSS BALANCED FUND 31-DEC-08 |
|---|---|---|---|---|---|
| **Equities** | | | | | |
| **Canadian Equities** | | | | | |
| Active #1 | | 14% | | 13.6% | 10.8% |
| Passive/Active #2 | | 6 | | 7.6 | 6.4 |
| **Total Canadian** | **14%** | **20%** | **26%** | **21.2%** | **17.2%** |
| **Foreign Equities** | | | | | |
| U.S. | | | | | |
| Mid cap - Passive | | 7% | | 7.1% | 5.5% |
| Large cap - Passive | | 8 | | 8.1 | 6.3 |
| Global | | 10 | | 8.9 | 7.9 |
| Non-North American | | | | | |
| EAFE | | 8 | | 7.6% | 6.9% |
| All Countries ex U.S. | | 7 | | 7.3 | 6.3 |
| **Total Foreign** | **26%** | **40%** | **54%** | **39.1%** | **32.9%** |
| **Total Equities** | **40%** | **60%** | **65%** | **60.3%** | **50.1%** |
| Real Estate | 0 | | 5 | | |
| **Fixed Income** | | | | | |
| Bonds | | | | | |
| Active | | 24% | | 23.6% | 28.1% |
| Passive | | 14 | | 14.4 | 19.3 |
| **Total Bonds** | **32%** | **38%** | **44%** | **38.0%** | **47.4%** |
| Mortgages | 0 | | 5 | | |
| Short Term | 1 | 2 | 10 | 1.8 | 2.5 |
| **Total Fixed Income** | **35%** | **40%** | **60%** | **39.7%** | **49.9%** |

defensive position when economic conditions are adverse and a more aggressive position when markets are strong. U.S. and non-North American equities represent two-thirds of the equity investments in the strategic asset mix.

To increase the pool of skills available and reduce manager-specific risk, a team of outside investment management firms is employed. Five managers use an "active" management style - they try to add value to the market index against which their performance is judged. Two managers use a "passive" management style - they try to match the return of an index by holding securities that replicate the index. The passively managed assets form a core that, by tracking market performance, will reduce the risk of having the Balanced Fund under-perform the market.

In 2008, the Plan's Board of Directors approved changes to the investment managers employed in the Canadian Equity mandates. The existing passive Canadian equity mandate was transitioned to an active Canadian equity mandate. The change is designed to capture value-added returns that active managers in this market have historically been able to achieve.

The Balanced Fund's investment performance is measured in three ways:

1. The performance of each asset class is measured against a benchmark that serves as a proxy for the market in which the Fund is invested. For example, the return on the Balanced Fund's actively managed Canadian equities is expected to exceed the total return on an index that is identical to the S&P/TSX Composite Index but limits the size of any constituent stock to 10% of the total capitalization of the index. The return

on the Fund's actively managed bonds is expected to exceed the return on the DEX Universe Bond Index. To the extent that the Fund's returns exceed those of the benchmark, the value of active management can be assessed. In the case of passively managed assets, the Fund's returns are expected to closely track the returns of the benchmark.

2. The Balanced Fund's total return is measured against a composite benchmark. The benchmark portfolio is a hypothetical portfolio that incorporates the weights defined in the Fund's strategic asset mix policy.

   - 20% invested in Canadian equities;
   - 15% in U.S. equities;
   - 10% in global equities;
   - 8% in non-North American (EAFE) equities;
   - 7% in all Countries - ex U.S. equities
   - 38% in bonds; and
   - 2% in short term investments.

   Based on the weights in the benchmark portfolio, the total return objective is calculated, in terms of Canadian dollars, as an aggregate of the returns on the:

   - S&P/TSX Capped Composite Index,
   - Standard and Poor's 500 Index,
   - Standard and Poor's 400 Index,
   - MSCI's World Index,
   - MSCI's Europe, Australia, and Far East Index,
   - MSCI's All Country World - ex U.S. Index
   - DEX Universe Bond Index, and
   - DEX 91-day Canadian Treasury Bill Index.

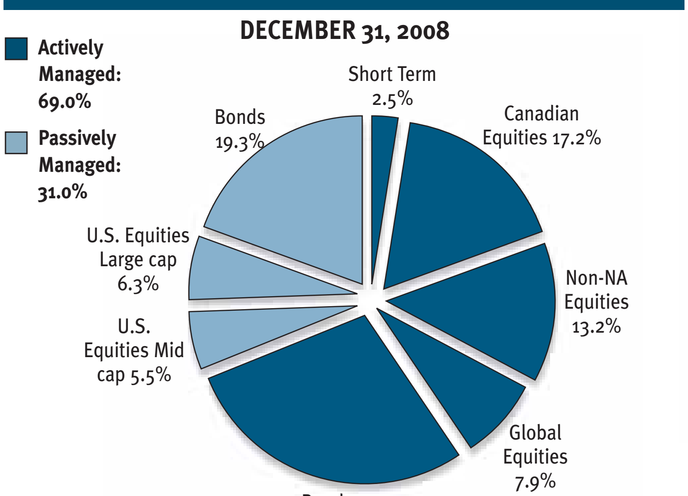
   The Balanced Fund's primary objective is to earn a rate of return that exceeds the return on the benchmark portfolio over rolling four-year periods. Since a longer-term measure is considered to have greater relevance, reliability, and lower volatility than a one-year measure of performance, performance is calculated over a four-year period.

3. Finally, the Balanced Fund's total return is compared with inflation. The long-term investment goal of the Fund is to achieve an annualized return of at least 4% in excess of CPI. This goal, which will be assessed over longer periods of time, i.e. over ten years or more, is consistent with the overall level of investment risk that the Balanced Fund might assume to meet the long-term goals of its members.

For 2008, the total return on the CSS BALANCED FUND was **–18.57%** net of all fees and expenses while the benchmark portfolio's return was –18.52%.

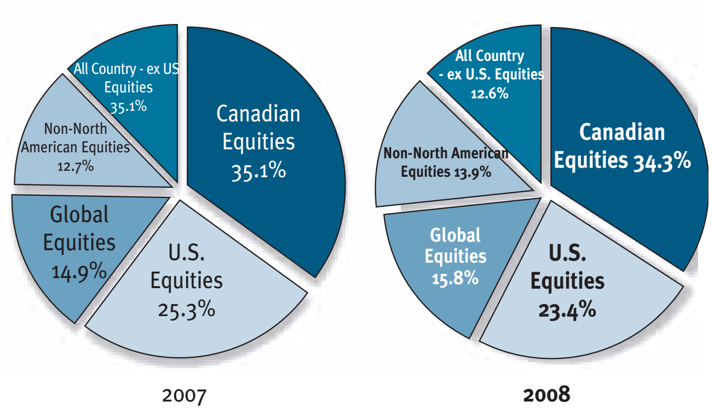
**For the four-year period ended December 31, 2008, the portfolio's annualized total return of 1.24% met the primary objective by exceeding the benchmark portfolio's return of 0.98% for the same period.**

## ACTIVELY MANAGED versus PASSIVELY MANAGED:




**GRAPH 1**

## CSS BALANCED FUND EQUITY INVESTMENTS




**GRAPH 2**

**TABLE 3**

| SECTOR | PORTFOLIO WEIGHT 31-DEC-07 | PORTFOLIO WEIGHT 31-DEC-08 | S&P/TSX COMPOSITE INDEX WEIGHT 31-DEC-08 | S&P/TSX COMPOSITE INDEX 2008 TOTAL RETURN |
|---|---|---|---|---|
| Consumer Staples | 2.19% | 3.07% | 3.39% | -6.08% |
| Utilities | 0.00 | 2.78 | 1.90 | -20.46 |
| Telecommunications Services | 6.72 | 7.94 | 6.04 | -24.85 |
| Industrials | 6.28 | 6.08 | 6.10 | -25.06 |
| Materials | 16.52 | 16.50 | 17.56 | -26.48 |
| Health Care | 0.00 | 0.00 | 0.40 | -30.15 |
| **S&P/TSX Composite** | | | | **-33.00** |
| Energy | 25.84 | 26.04 | 27.44 | -33.88 |
| Consumer Discretionary | 8.31 | 6.26 | 4.67 | -35.41 |
| Financials | 30.45 | 28.49 | 29.19 | -36.45 |
| Information Technology | 3.69 | 2.75 | 3.31 | -54.18 |
| Total: | 100.00% | 100.00% | 100.00% | |

# EQUITY INVESTMENTS

*(please refer to Graph 2)*

## CANADIAN EQUITIES

The S&P/TSX Composite Index posted a total return of –33.00% for 2008. Performance for the year was volatile. Returns in the first half of the year were mixed with rising oil prices and continued demand for resources offsetting concerns over the credit crisis and driving the market to a 5.99% return. However credit losses, bank failures, and economic concerns arising from the U.S. sub-prime mortgage crisis overwhelmed the market in the third and fourth quarters. The commodity based TSX declined 18.22% in the third quarter and a further 22.71% in the fourth quarter.

The Information Technology sector led the S&P/TSX declines in 2008 with a total return of –54.18%. The Financial Sector, directly affected by the credit crisis, was the second-worst performing sector with a total return of –36.45%.

In the first quarter of 2008 the Board of Directors approved the appointment of Scheer Rowlett and Associates Investment Management LTD. as the new active Canadian equity manager. The passive Canadian Equity mandate managed by TD Asset Management was transitioned to our new manager on April 1, 2008. In addition to a new active manager, our existing active Canadian equities and bond manager, Co-operators Investment Counselling Limited, amalgamated with Addenda Capital Inc. under the name Addenda Capital Inc.

### Canadian Equities - Addenda Capital Inc.

Addenda Capital's active equity management uses a blended approach. Top-down sector emphasis recommended by the North American research team and a bottom up stock selection is combined to create the Canadian portfolio. Addenda Capital's portfolio of Canadian equities provided a total return of **–34.21%** for 2008 while the S&P/TSX Capped Composite Index recorded a total return of **–33.00%.**

**TABLE 4**

**TEN LARGEST HOLDINGS IN ADDENDA CAPITAL INC. EQUITIES PORTFOLIO**

| | Market Value (thousands) | % of actively managed Canadian Equities Portfolio |
|---|---|---|
| Encana | $13,098 | 6.19% |
| Barrick Gold Corp | 10,908 | 5.15 |
| Royal Bank | 10,779 | 5.09 |
| Toronto-Dominion Bank | 10,319 | 4.88 |
| Manulife Financial | 9,439 | 4.46 |
| Canadian Natural Resources | 8,804 | 4.16 |
| Rogers Communications "B" | 8,456 | 4.00 |
| Bank of Nova Scotia | 7,685 | 3.63 |
| Transcanada Corp | 7,248 | 3.42 |
| Potash Corporation | 7,149 | 3.38 |

Holdings in the Telecom, Consumer Staples, Discretionary and Financials Sectors detracted from performance while the Information Technology, Energy, Industrials and Utilities sectors helped offset the underperformance.

**For the four-year period ended December 31, actively managed Canadian equities provided the Balanced Fund with an annualized return of 2.39%; the benchmark reported an annualized return of 1.72% for the same period.**

The structure of the Balanced Fund's actively managed portfolio of Canadian equities is shown in Table 3 on the previous page.

### Canadian Equities – Scheer Rowlett & Associates Investment Management LTD.

The Balanced Fund's second active Canadian equity manager, Scheer Rowlett & Associates Investment Management LTD. (Scheer Rowlett) uses a bottom-up value-oriented investment style. The firm believes that a company's earning ability, driven by its fundamentals provides transparency to the company's worth. Based on this philosophy Scheer Rowlett seeks to invest in undervalued companies with strong or improving fundamentals, healthy financial positions and proven management.

Scheer Rowlett provided a total return of **–32.00%** in the final three quarters of 2008; the S&P/TSX Composite Index reported a total return of **–31.50%** over the same period.

Scheer Rowlett's underperformance resulted from an underweight position in the gold sector in favour of base metals and fertilizer companies. Gold's traditional role as a safe haven during uncertain times worked against the portfolio as the Canadian Market and the balance of the materials sector fell during the 4th quarter *(please refer to Table 5 below and Table 6 on the following page)*.

## U.S. EQUITIES

The U.S. economy remained at the epicenter of the credit crisis in 2008. Job losses rose and home prices fell throughout the year resulting in a dramatic drop in consumer spending and the confirmation that the U.S economy was in a recession. In terms of U.S. dollars, the S&P 500 Index posted a loss of 37.00% on the year.

### U.S. Equities - Large Cap passive

The Balanced Fund holds units in a pooled fund managed by Northwater Capital Management Inc that combines S&P 500 Index futures contracts with Canadian "R-1 middle" or higher rated commercial paper to create a synthetic U.S. equity investment hedged into Canadian dollars.

Futures contracts are not stocks, but represent a right and obligation to buy the basket of stocks listed in the index on a future date at an agreed price. The value of these contracts changes daily as the value of the index changes. By purchasing and holding these two financial instruments - index futures contracts and high-grade money market instruments - the pooled fund is expected to earn a return that is very nearly equal that of the index.

### TABLE 5

| SECTOR | PORTFOLIO WEIGHT 31-DEC-08 | S&P/TSX COMPOSITE INDEX WEIGHT 31-DEC-08 | S&P/TSX COMPOSITE INDEX 2008 TOTAL RETURN |
|---|---|---|---|
| Consumer Staples | 3.13% | 3.39% | -6.08% |
| Utilities | 0.00 | 1.90 | -20.46 |
| Telecommunications Services | 8.78 | 6.04 | -24.85 |
| Industrials | 6.35 | 6.10 | -25.06 |
| Materials | 18.06 | 17.56 | -26.48 |
| Health Care | 0.00 | 0.40 | -30.15 |
| **S&P/TSX Composite** | | | **-33.00** |
| Energy | 27.25 | 27.44 | -33.88 |
| Consumer Discretionary | 4.94 | 4.67 | -35.41 |
| Financials | 31.49 | 29.19 | -36.45 |
| Information Technology | 0.00 | 3.31 | -54.18 |
| Total: | 100.00% | 100.00% | |

Northwater Capital Management Inc has developed controls to limit the risks that might be associated with purchasing equity index futures contracts. Since the use of leverage is prohibited, the Balanced Fund's exposure cannot exceed the sum invested. Secondly, the strategy is a "buy and hold" strategy. The equity index futures contracts are bought and held to near maturity and then rolled over into new futures contracts. Speculative trading is not permitted. Lastly, changes in the value of the futures contracts are settled in cash every day and added to or subtracted from the value of the cash and Canadian money market securities that make up the bulk of the investment. This limits the Balanced Fund's exposure to the daily changes in the value of the index. The risk profile of this investment is very similar to a cash investment in the stocks represented by the index.

The pooled fund wrote down the value of illiquid third party ABCP held in the fund in December of 2007. In 2008, no final resolution to the restructuring of the ABCP was reached, however, on January 27, 2009 flexible rate notes replaced the affected paper.

The total return of this core portfolio is expected to closely track the performance of the S&P 500 Index. For 2008, this investment showed a total return of **–39.26%**; the S&P 500 Index when hedged to Canadian dollars reported a total return of **-38.96%** for the same period.

The natural hedge to Canadian dollars inherent in this strategy - the change in the value of the S&P 500 futures is settled in Canadian dollars - was not beneficial in 2008 as the Canadian dollar weakened against the U.S. dollar. As indicated earlier, the S&P 500 index showed a return of **-21.15%** in terms of Canadian dollars.

### TABLE 6

**TEN LARGEST HOLDINGS IN SCHEER ROWLETT EQUITIES PORTFOLIO**

| | Market Value (thousands) | % of actively managed Canadian Equities Portfolio |
|---|---|---|
| Royal Bank | 9,830 | 8.17% |
| Toronto-Dominion Bank | 8,703 | 7.24 |
| Bank of Nova Scotia | 8,391 | 6.98 |
| Barrick Gold Corp | 8,285 | 6.89 |
| Encana Corp | 8,111 | 6.74 |
| Canadian Imperial Bank of Comm | 6,345 | 5.28 |
| Canadian Natural Resources | 5,718 | 4.75 |
| Agrium Inc | 4,905 | 4.08 |
| Suncor Energy Inc | 4,888 | 4.06 |
| Rogers Communications Inc | 4,325 | 3.60 |

**For the four years ended December 31, passively managed U.S. large cap equities provided the Balanced Fund with an annualized return of –6.43%; the S&P 500 Index hedged to Canadian dollars reported an annualized return of –6.79% for the same period.**

### U.S. Equities - Mid Cap passive

The S&P 400 Mid-cap Index is the benchmark for some of the U.S. equities held in the Balanced Fund. Mid-cap U.S. equities are seen as being complimentary to the U.S. equities component of the global equities portfolio, which has a large-cap bias, and the Balanced Fund's passively managed U.S. equities which track the S&P 500 Index - large-cap U.S. stocks. Since the S&P 400 is not fully correlated with large-cap U.S. stocks, a mid-cap U.S. equities mandate should reduce volatility in the Balanced Fund by improving the diversity of our U.S. equity exposure.

The Balanced Fund holds units in a pooled fund managed by Northwater Capital Management Inc that combines S&P 400 Index futures contracts with Canadian "R-1 middle" or higher rated commercial paper to create a synthetic U.S. equity investment hedged into Canadian dollars. Similar to the U.S. Large cap equities above, the pooled fund for Mid-cap equities held illiquid third-party ABCP.

The total return on this core portfolio is expected to closely track the performance of the S&P 400 Index. For 2008, this investment showed a total return of **–39.04%**; the S&P 400 Index when hedged to Canadian dollars reported a total return of **–39.05%** for the same period.

The natural hedge to Canadian dollars inherent in this strategy reduced returns in 2008. The S&P 400 Index showed a return of **–23.98%** in terms of Canadian dollars.

**For the four years ended December 31, passively managed U.S. mid cap equities provided the Balanced Fund with an annualized return of –6.16%; the S&P 400 Index hedged to Canadian dollars reported an annualized return of –5.82% for the same period.**

## NON-NORTH AMERICAN EQUITIES

Non-North American Stock markets also had unprecedented levels of volatility in 2008. Both the European Union and Japan entered technical recessions

# INVESTMENT REPORT

## TABLE 7

| COUNTRY RETURNS AND WEIGHTINGS - MSCI INDICES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| SECTOR | 2008 RETURN IN LOCAL CURRENCY | 2008 RETURN IN CANADIAN DOLLARS | MSCI EAFE WEIGHTING 31-DEC-08 | SPRUCEGROVE WEIGHTING 31-DEC-08 | MSCI WORLD WEIGHTING 31-DEC-08 | BRANDES WEIGHTING 31-DEC-08 | MSCI ACWI EX US WEIGHTING 31-DEC-08 | THORNBURG WEIGHTING 31-DEC-08 |
| **DEVELOPED MARKETS** | | | | | | | | |
| **EUROPE** | | | | | | | | |
| Austria € | -66.77% | -60.49% | 0.32% | | 0.15% | | 0.24% | |
| Belgium € | -64.75 | -58.08 | 0.75 | | 0.35 | | 0.57 | |
| Denmark | -44.94 | -34.41 | 0.84 | 0.30 | 0.39 | | 0.64 | 7.00 |
| Finland € | -52.84 | -43.92 | 1.39 | 0.30 | 0.65 | 1.39 | 1.06 | 3.55 |
| France € | -40.33 | -29.04 | 10.90 | 3.50 | 5.06 | 8.35 | 8.33 | 12.90 |
| Germany € | -43.07 | -32.29 | 8.74 | 3.70 | 4.06 | 3.52 | 6.68 | 4.77 |
| Greece € | -64.25 | -57.48 | 0.48 | 0.60 | 0.22 | | 0.37 | 1.95 |
| Ireland € | -70.47 | -64.88 | 0.30 | 5.70 | 0.14 | | 0.23 | 0.01 |
| Italy € | -47.39 | -37.43 | 3.67 | 3.70 | 1.70 | 3.77 | 2.80 | |
| Netherlands € | -45.54 | -35.23 | 2.43 | 2.70 | 1.13 | 5.55 | 1.86 | |
| Norway | -53.88 | -55.27 | 0.61 | | 0.28 | | 0.47 | |
| Portugal € | -49.68 | -40.15 | 0.33 | | 0.15 | 1.16 | 0.25 | |
| Spain € | -37.52 | -25.70 | 4.54 | 1.80 | 2.11 | 0.57 | 3.47 | 2.56 |
| Sweden | -38.65 | -37.28 | 2.01 | | 0.93 | 1.74 | 1.54 | 2.35 |
| Switzerland | -34.65 | -13.05 | 8.41 | 11.60 | 3.90 | | 6.42 | 14.71 |
| United Kingdom | -28.48 | -35.38 | 19.88 | 19.90 | 9.22 | 9.79 | 15.19 | 12.99 |
| **Total:** | | | **65.60%** | **53.80%** | **30.44%** | **35.84%** | **50.12%** | **62.79%** |
| **PACIFIC RIM** | | | | | | | | |
| Australia | -37.88% | -38.30% | 5.96% | 1.40% | 2.76% | | 4.55% | |
| Hong Kong | -51.51 | -38.97 | 2.01 | 5.40 | 0.93 | | 1.54 | 3.44 |
| Japan | -42.56 | -11.45 | 25.25 | 14.90 | 11.71 | 18.51 | 19.30 | 8.34 |
| New Zealand | -39.15 | -42.20 | 0.09 | | 0.04 | | 0.07 | |
| Singapore | -47.30 | -34.14 | 1.08 | 5.00 | 0.50 | | 0.82 | |
| **Total:** | | | **34.39%** | **26.70%** | **15.94%** | **18.51%** | **26.28%** | **11.78%** |
| Canada | -31.85% | -31.85% | | | 3.87% | 0.01% | 6.38% | 10.07% |
| United States | -37.57 | -21.91 | | | 49.74 | 41.05 | | |
| **EMERGING MARKETS** | | | | | | | | |
| **ASIA** | | | | | | | | |
| China | -51.12% | -38.49% | | | | | 3.13% | 4.30% |
| India | -56.28 | -55.76 | | 1.90 | | | 1.12 | |
| Indonesia | -49.49 | -45.56 | | | | | 0.26 | |
| Korea | -39.84 | -44.08 | | 3.10 | | 0.81 | 2.34 | |
| Malaysia | -39.49 | -26.47 | | 0.80 | | | 0.52 | |
| Pakistan | -66.85 | -67.71 | | | | | 0.02 | |
| Philippines | -45.34 | -40.65 | | | | | 0.09 | |
| Taiwan | -45.82 | -33.02 | | | | | 1.87 | |
| Thailand | -46.81 | -35.56 | | | | | 0.24 | |
| **LATIN AMERICA** | | | | | | | | |
| Argentina | -50.06% | -43.02% | | | | | 0.02% | |
| Brazil | -42.63 | -45.23 | | 1.40 | | 2.32 | 2.22 | 1.73 |
| Chile | -17.83 | -19.68 | | | | | 0.24 | |
| Colombia | -16.51 | -6.31 | | | | | 0.11 | |
| Mexico | -27.60 | -28.63 | | 4.80 | | 1.46 | 0.90 | 2.98 |
| Peru | -39.03 | -25.21 | | | | | 0.12 | |
| **EUROPE AND MIDDLE EAST** | | | | | | | | |
| Czech Republic | -39.57% | -28.82% | | | | | 0.15% | |
| Hungary | -57.44 | -51.88 | | 1.20 | | | 0.11 | |
| Israel | -30.43 | -11.51 | | | | | 0.58 | 4.35 |
| Poland | -45.57 | -43.49 | | | | | 0.28 | |
| Russia | -72.27 | -67.32 | | | | | 0.98 | 0.56 |
| Turkey | -50.35 | -52.84 | | | | | 0.26 | 1.44 |
| **AFRICA** | | | | | | | | |
| Egypt | -52.39% | -40.40% | | | | | 0.12% | |
| Morocco | -7.40 | 11.23 | | | | | 0.09 | |
| South Africa | -15.99 | -22.32 | | 1.00 | | | 1.44 | |
| **Total:** | | | | **14.20%** | | **4.59%** | **17.21%** | **15.36%** |
| Cash | | | | 5.30 | | | | |
| **Total:** | | | **99.99%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

during the year. Like the US, unemployment was rising, housing markets weakened, and consumer confidence fell. The EAFE index (MSCI's Europe, Australasia, and Far East Index) returned –40.27% in terms of local currencies. Returns to Canadian investors were positively impacted as the Canadian dollar weakened against most currencies in 2008. The EAFE index return in Canadian dollars was –29.18%.

Contrary to the recent past, emerging markets did not outperform the EAFE Index over the year. For 2008, MSCI's EM Index posted a total return of –45.92% in terms of local currencies and –41.63% in terms of Canadian dollars.

### Non-North American Equities

The Balanced Fund's investment in actively managed non-North American equities consists of units in a pooled fund holding a diverse portfolio of companies located in Europe, and the Pacific Basin. The manager of the pool, Sprucegrove Investment Management Ltd, takes a long-term view and focuses on the selection of individual companies using a bottom-up, research-driven approach. Country and sector exposures are residuals of the stock selection process.

The pool invests in high quality companies at attractive valuation levels - a "value" orientation. This approach provides a double margin of safety - both in the fundamental strength of the business and in the price paid for it. As a result of this approach, returns may lag in periods of exceptionally strong market performance and tend to outperform in periods of very weak market performance.

For 2008, the pooled fund provided a total return of **–28.14%** while MSCI's EAFE Index reported a total return of **–29.18%** in terms of Canadian dollars. Holdings in Japan, Switzerland and Hong Kong were the primary source of outperformance, whereas holdings in the United Kingdom and Ireland detracted from performance. From a sector perspective, investments in Health Care and Utilities added value while investments in financials and consumer discretionary subtracted value *(please refer to Table 7 and Table 8)*.

**For the four years ended December 31, actively managed non-North American equities provided an annualized total return of –1.46%; the EAFE Index reported an annualized return of -1.79% for the same period.**

**TABLE 8**

**TEN LARGEST HOLDINGS IN NON-NORTH AMERICAN EQUITIES POOL**

| | Country | % of actively managed pool |
|---|---|---|
| Novarits | Switzerland | 4.20% |
| Nestle | Switzerland | 4.00 |
| Total | France | 2.70 |
| CLP Holdings | Hong Kong | 2.50 |
| CRH | Ireland | 2.50 |
| Ono Pharmaceutical | Japan | 2.00 |
| Singapore Telecom | Singapore | 2.00 |
| Royal Dutch Schell | U.K. | 2.00 |
| HSBC | U.K. | 2.00 |
| ENI | Italy | 1.90 |

### All Country World - ex U.S. Equities

Thornburg Investment Management manages our portfolio of equities from all countries excluding the U.S.

Thornburg's philosophy is to invest in promising companies with sound business fundamentals at a discount to their intrinsic value. The manager looks for companies, which fall into one of three categories: basic value stocks, consistent earners, or emerging franchises. Basic value stocks are sound companies with well-established businesses that are selling at low

**TABLE 9**

**TEN LARGEST HOLDINGS IN ACWI EX US PORTFOLIO**

| | Country | % of Global Equities Portfolio |
|---|---|---|
| Teva Pharmaceuticals | Israel | 4.37% |
| Nestle SA | Switzerland | 4.03 |
| Novo - Nordisk | Denmark | 3.83 |
| Roche Hldg AG | Switzerland | 3.61 |
| Group Danone | France | 3.30 |
| Vestas Wind Systems | Denmark | 3.20 |
| Rogers Communications | Canada | 3.04 |
| SAP AG | Germany | 3.02 |
| Nintendo Co | Japan | 2.87 |
| China Life Insurance | China | 2.83 |

valuations relative to the company's net assets or potential earning power. Consistent earners are companies with steady earnings and dividend growth that are selling at attractive values and priced below historical norms. The third and final category are emerging franchises which are value-priced companies in the process of establishing a leading position in a product, service or market that is expected to grow at an above average rate.

This portfolio of non-North American and Emerging Market equities produced a return of **–30.91%** in 2008; the portfolio's benchmark – MSCI's All Country - ex U.S. Index – reported a **–31.86%** return for the same period *(please refer to Table 9 on previous page)*.

### Global Equities

The Balanced Fund's portfolio of global equities is managed by Brandes Investment Partners, LP. This portfolio holds a mix of U.S. and non-North American equities. A bottom-up "value" style of management is employed. Sound businesses trading at attractive valuations and offering long-term appreciation potential with a reasonable margin of safety are sought out and held. While the manager monitors short-term market developments, their investment philosophy focuses on a company-by-company analysis with a long-term perspective.

**TABLE 10**

**TEN LARGEST HOLDINGS IN GLOBAL EQUITIES PORTFOLIO**

| | Country | % of Global Equities Portfolio |
|---|---|---|
| Deutsche Telecom | Germany | 3.60% |
| Nippon Tel & Tel Corp | Japan | 3.59 |
| Phizer Inc. | US | 3.55 |
| Sannofi-Aventis | France | 3.52 |
| AstraZeneca PLC | UK | 3.01 |
| Telecom Italia | Italy | 2.96 |
| Glaxosmithkline | UK | 2.75 |
| The Home Depot | US | 2.73 |
| Safeway Inc | US | 2.38 |
| Mitsubishi UFJ Financial | Japan | 2.36 |

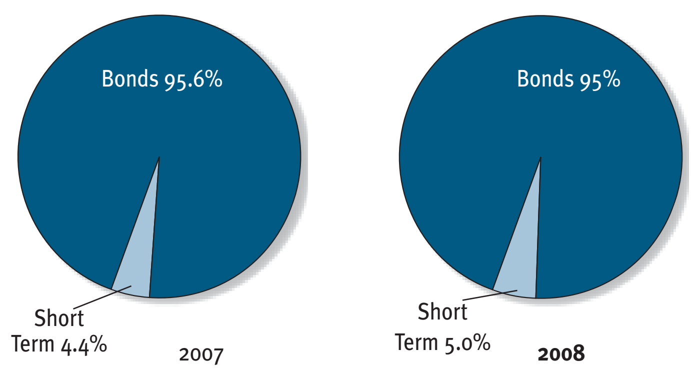
The Balanced Fund's portfolio of global equities provided a total return of **–30.09%** for 2008 while the benchmark index reported **–25.84%** in terms of Canadian dollars. Losses in U.S. based financials were the primary cause of this portfolio under-performing the benchmark.

**For the four-year period ended December 31, actively managed global equities provided the Balanced Fund with an annualized return of –5.36%; the benchmark index reported an annualized return of –3.27% for the same period** *(please refer to Table 10)*.

## FIXED INCOME INVESTMENTS

At the end of 2008, 49.9% of the CSS BALANCED FUND was in fixed income investments (39.7% at the end of 2007).

**CSS BALANCED FUND FIXED INCOME INVESTMENTS**




**GRAPH 4**

## BONDS

Over the year, the DEX Bond Universe Index reported a total return of 6.41% (total return is an aggregate of interest income and gains or losses in price).

A strong rally in Government bonds beginning in late November propelled the DEX index to its best return since 2005. Federal bond issues were up 11.51% on the year, benefiting from the flight to safety caused by the credit crisis. Conversely, Corporate issues returned only 0.23% for the year as investors concerns over default risk and liquidity risk hampered performance. The Provincial sector reported intermediate returns of 5.31%

Shorter terms to maturity as measured by the Short Term Index had the strongest performance on the year at 8.55%. The Mid Term Index was next with a 7.01% return and the Long Term Index lagged with a return of 2.66%.

### Bonds – Active

This active bond portfolio, which is managed by Addenda Capital, provided a total return of **4.76%** for the year, while the DEX Universe Bond Index reported a total return of **6.41%**. The manager under-performed as a result of an overweight position in corporate and provincial bonds versus the index.

**For the four-year period ending December 31, this portfolio of bonds provided an annualized total return of 4.83%; the DEX Universe Bond Index reported an annualized return of 5.14% for the same period.**

**TABLE 11**

| | DEX Universe Bond Index | CSS Actively Managed Bonds |
|---|---|---|
| **Weights:** | | |
| Federal | 45.56% | 27.89% |
| Provincial | 25.69 | 28.69 |
| Municipal | 1.35 | 2.34 |
| Corporate | 27.40 | 41.08 |
| **Portfolio Characteristics:** | | |
| Yield | 3.69% | 4.54% |
| Duration | 6.18 years | 6.32 years |
| Term | 9.28 years | 9.97 years |

This is a portfolio of high quality bonds. 93.13% of the bonds and debentures in this portfolio are rated “A” or better by recognized bond-rating agencies.

### Bonds – passive

The Balanced Fund holds units in a pooled fund managed by TD Asset Management that replicates the DEX Universe Bond Index - all characteristics of the index are matched as closely as practicable in the pooled fund.

The total return on this core portfolio is expected to closely track the performance of the index. For 2008, this pooled fund reported a total return of **6.27%** while the DEX Universe Bond Index showed a return of **6.41%**.

**For the four years ended December 31, passively managed bonds provided the Balanced Fund with an annualized total return of 5.09%; the benchmark index reported an annualized return of 5.14% for the same period.**

**TABLE 12**

| | Universe Bond Index | Pooled Fund |
|---|---|---|
| **Weights:** | | |
| Federal | 45.56% | 43.02% |
| Provincial | 25.69 | 25.77 |
| Municipal | 1.35 | 1.77 |
| Corporate | 27.40 | 29.44 |
| **Portfolio Characteristics:** | | |
| Yield | 3.69% | 3.95% |
| Duration | 6.18 years | 6.18 years |
| Term | 9.28 years | 9.18 years |

## SHORT-TERM

The Balanced Fund’s short-term portfolio contains high quality commercial paper, rated “R1” by a recognized rating service, and government treasury bills. For 2008, the Balanced Fund’s short-term investments provided a return of **4.27%**; the DEX 91-day Canadian Treasury Bill Index reported a return of **3.33%**.

**For the four year period ended December 31, short term investments provided the Balanced Fund with an annualized total return of 4.02%; the benchmark reported an annualized return of 3.58% for the same period.**

# CSS MONEY MARKET FUND

In 2005, the Plan began to offer a second fund to members, the CSS MONEY MARKET FUND. The goal of that fund is to earn a competitive level of interest while protecting against short-term volatility as members approach retirement. To achieve that objective, the Plan holds units in a pooled fund managed by TD Asset Management that is invested in high-quality short-term Canadian fixed income securities including commercial paper, bankers’ acceptances, and treasury bills.

For 2008, the CSS MONEY MARKET FUND provided a return of **3.56% net of fees**; the DEX 91-day Canadian Treasury Bill Index reported a return of **3.33%** for the same period.

## CSS PENSIONS FUND

The total market value of the CSS PENSIONS FUND decreased from $517 million at the end of 2007 to $495 million at the end of 2008.

A horizon-matching strategy is employed in managing this portfolio. Based on the age of pensioners, the types of pensions in pay, and a mortality table, a schedule of pension payments is developed. The portfolio's structure is then optimised to provide adequate cash in the form of income and principal receipts to meet pension payments in the early years and to immunize the portfolio beyond. Immunization is a portfolio management technique that attempts to render a portfolio immune to changes in interest rates by matching the present value and duration of assets with the present value and duration of liabilities.

The primary objective for this portfolio as set out in the Plan's investment policy is to ensure that the value of the assets meets or exceeds the present value of the liabilities discounted at the internal rate of return of those assets. As stated in **NOTES TO THE FINANCIAL STATEMENTS**, an actuarial valuation at December 31, 2006 found that the value of the assets exceeded that of the pension liabilities. An internal analysis indicates that, at the end of 2008, the Pensions Fund remained adequately funded.

Bonds and debentures made up 99.3% of the Pensions Fund; 0.7% of the portfolio consisted of high quality short-term investments.

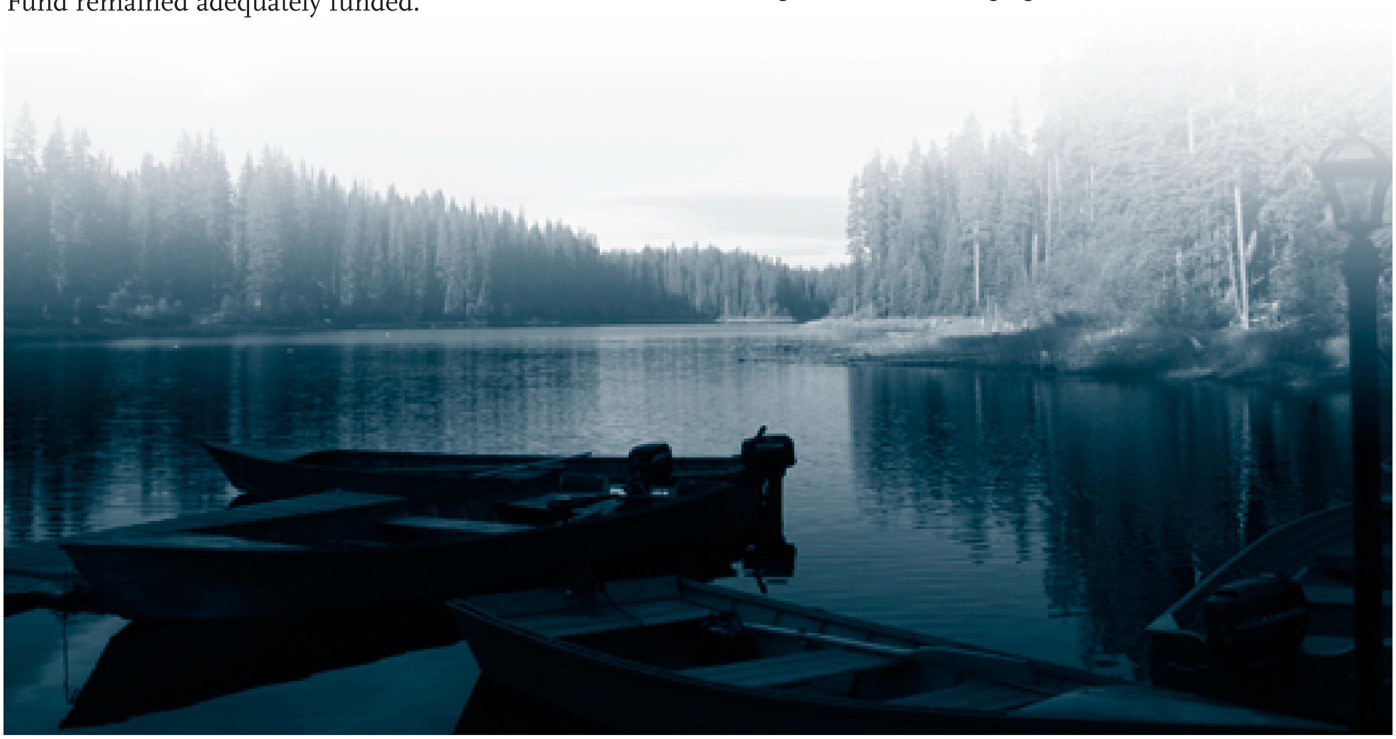
### BONDS

This bond portfolio provided a total return of –1.11% for the year, while the DEX Universe Bond Index reported a total return of 6.41%.

**TABLE 13**

| | Universe Bond Index | Pensions Fund Bonds |
|---|---|---|
| **Weights:** | | |
| Federal | 45.56% | 10.70% |
| Provincial | 25.69 | 53.57 |
| Municipal | 1.35 | 1.13 |
| Corporate | 27.40 | 34.60 |
| **Portfolio Characteristics:** | | |
| Yield | 3.69% | 4.93% |
| Duration | 6.18 years | 8.64 years |
| Term | 9.28 years | 13.65 years |

This portfolio, managed by Addenda Capital Inc., is a portfolio of high quality bonds. 95.63% of the bonds and debentures held are rated "A" or better by recognized bond rating agencies.



# BOARD OF DIRECTORS

**PRESIDENT:**
**Peter Zakreski**
Senior Vice President - Human Resources
Federated Co-operatives Limited
Saskatoon SK

**VICE PRESIDENT:**
**Wayne King**
Employer Delegate
Concentra Financial
Saskatoon SK

**Richard Noonan**
Vice President, Human Resources
Calgary Co-operative Association
Calgary AB

**Earl Hanson**
AVP, Relationship Banking
Innovation Credit Union
Swift Current SK

**Doug Wiebe**
Regional Manager
Federated Co-operatives Limited
Regina SK

**Audri Wilkinson**
Associate Vice President Strategic Relationship Management, Manitoba
Concentra Financial

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

To the Members of the Co-operative Superannuation Society Pension Plan:

The financial statements of the Co-operative Superannuation Society ("the Society") and the CSS Pension Plan ("the Plan') have been prepared by Plan Management and approved but the Society's Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained within the annual report.

Plan management is responsible for the integrity, objectivity and consistency of the financial information presented. The Plan maintains records and develops and maintains systems of internal controls and supporting procedures to provide reasonable assurance that the assets under administration by the Society are safeguarded and controlled and that transactions comply with the Society's Act of Incorporation and Bylaws, and the Plan's Rules and Statement of Investment Policies and Goals.

The Board of Directors of the Society has oversight responsibility for the Plan's systems of internal controls. The Board oversees Management's responsibility for the financial statements by reviewing them with Management and the Society's external auditors before approving them for issuance to the members.

The Society's external auditors, Meyers Norris Penny LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to Managment and the Board to discuss any findings related to the integrity of the Society's financial reporting and the adequacy of the Plan's internal control systems.

WG Turnbull
General Manager
CSS Pension Plan
And Secretary-Treasurer
Co-operative Superannuation Society

Brent Godson
Investment Manager
CSS Pension Plan

January 27, 2009

# AUDITORS' REPORT

To the Members of Co-operative Superannuation Society Pension Plan:

We have audited the statement of net assets available for benefits of Co-operative Superannuation Society Pension Plan as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibliity of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2008 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

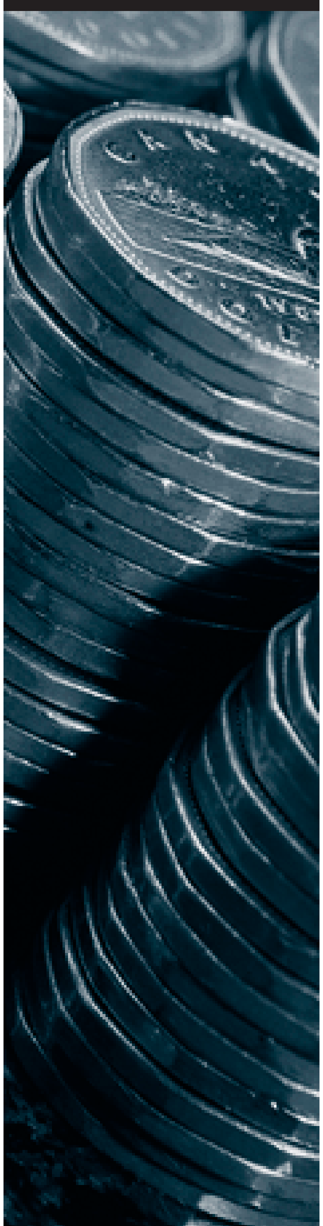
Saskatoon, Saskatchewan
January 27, 2009

Chartered Accountants

CO-OPERATIVE SUPERANNUATION SOCIETY PENSION PLAN

# STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2008
(Thousands of dollars)



## INVESTMENT FUNDS

| | Balanced Fund | Money-Market Fund | 2008 Total | 2007 Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments *(Note 3)* | $ 1,951,830 | $ 71,046 | $ 2,022,876 | $ 2,492,574 |
| Accrued investment income | 6,226 | — | 6,226 | 6,497 |
| Cash | 4,174 | — | 4,174 | 4,082 |
| Accounts receivable | | | | |
| Employee contributions | 454 | — | 454 | 260 |
| Employer contributions | 410 | — | 410 | 214 |
| Captial assets | 29 | — | 29 | 42 |
| Interfund balance *(Note 8)* | 200 | — | 200 | 121 |
| | 1,963,323 | 71,046 | 2,034,369 | 2,503,790 |
| **Liabilities** | | | | |
| Accounts payable | 1,424 | 38 | 1,462 | 2,096 |
| Due to brokers | 17,399 | — | 17,399 | 738 |
| Interfund balance *(Note 8)* | — | 84 | 84 | 16 |
| | 18,823 | 122 | 18,945 | 2,850 |
| **Net assets available for benefits** | 1,944,500 | 70,924 | 2,015,424 | 2,500,940 |
| **Represented by:** | | | | |
| Member contribution accounts *(Note 7)* | | | 2,015,424 | 2,500,940 |

## PENSIONS FUND

| | 2008 Total | 2007 Total |
|---|---|---|
| **Assets** | | |
| Investments *(Note 3)* | 489,307 | 511,911 |
| Accrued investment income | 5,545 | 5,815 |
| | 494,852 | 517,726 |
| **Liabilities** | | |
| Accounts payable | 326 | 310 |
| Interfund balance *(Note 8)* | 116 | 105 |
| | 442 | 415 |
| **Net assets available for benefits** | 494,410 | 517,311 |
| **Represented by:** | | |
| Pension reserve | 494,410 | 517,311 |

Approved on behalf of the Board

.................. Director .................. Director

CO-OPERATIVE SUPERANNUATION SOCIETY PENSION PLAN

# STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31, 2008
(Thousands of dollars)

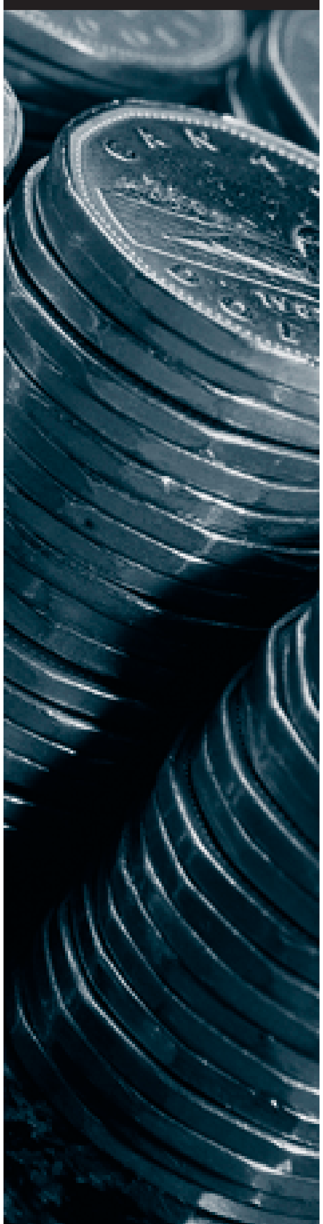
## INVESTMENT FUNDS

| | Balanced Fund | Money-Market Fund | 2008 Total | 2007 Total |
|---|---|---|---|---|
| **Increase in assets** | | | | |
| Investment income | | | | |
| Interest | $ 47,127 | $ 1,766 | $ 48,893 | $ 47,763 |
| Dividends | | | | |
| Canadian dividends | 10,970 | – | 10,970 | 11,290 |
| Foreign dividends | 11,547 | – | 11,547 | 9,116 |
| Pooled fund distributions | 7,587 | – | 7,587 | 28,140 |
| Increase (decrease) in market value of investments | (520,853) | (47) | (520,900) | (34,778) |
| Other | 633 | – | 633 | 301 |
| | (422,989) | 1,719 | (441,270) | 61,832 |
| Contributions | | | | |
| Employee | 50,333 | 303 | 50,636 | 45,584 |
| Employer | 46,171 | 384 | 46,555 | 43,156 |
| Interfund transfers | (64,051) | 64,051 | – | – |
| | 32,453 | 64,738 | 97,191 | 88,740 |
| Total increase (decrease) in assets | (410,536) | 66,457 | (344,079) | 150,572 |
| **Decrease in assets** | | | | |
| Administrative expenses | | | | |
| Investment services | 4,334 | – | 4,334 | 4,034 |
| Investment transaction costs | 923 | – | 923 | 873 |
| Salaries and employment costs | 904 | – | 904 | 883 |
| Operations | 407 | – | 407 | 440 |
| Membership control | 155 | – | 155 | 167 |
| Administrative expenses recovery | (1,360) | 116 | (1,244) | (1,244) |
| | 5,363 | 116 | 5,479 | 5,153 |
| Equity repayments | 95,179 | 9,913 | 105,092 | 112,918 |
| Variable benefit payments | 4,387 | 2,064 | 6,451 | 3,826 |
| Non-vested funds to be returned to contributing employer | 202 | – | 202 | 214 |
| Equity transferred to Pensions Fund | 21,854 | 2,359 | 24,213 | 28,423 |
| | 121,622 | 14,336 | 135,958 | 145,381 |
| Total decrease in assets | 126,985 | 14,452 | 141,437 | 150,534 |
| **Increase (Decrease) in net assets** | (537,521) | 52,005 | (485,516) | 38 |
| **Net assets available for benefits, beginning of year** | 2,482,021 | 18,919 | 2,500,940 | 2,500,902 |
| **Net assets available for benefits, end of year** | 1,944,500 | 70,924 | 2,015,424 | 2,500,940 |

CO-OPERATIVE SUPERANNUATION SOCIETY PENSION PLAN

# STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31, 2008
(Thousands of dollars)



## PENSIONS FUND

| | 2008 | 2007 |
|---|---|---|
| **Increase in assets** | | |
| Investment income | | |
| Interest | **26,232** | 26,375 |
| Decrease in market value of investments | **(30,590)** | (15,171) |
| Other | **22** | 34 |
| Equity transferred from Investment Funds | **24,213** | 28,423 |
| Total increase in assets | **19,877** | 39,661 |
| **Decrease in assets** | | |
| Pension paid | **41,532** | 40,719 |
| Interest on interfund balance | **2** | 2 |
| Administrative expenses | **1,244** | 1,244 |
| Total decrease in assets | **42,778** | 41,965 |
| **Decrease in net assets** | **(22,901)** | (2,304) |
| **Net assets available for benefits, beginning of year** | **517,311** | 519,615 |
| **Net assets available for benefits, end of year** | **494,410** | 517,311 |

For the year ended Dec. 31, 2008

## 1. DESCRIPTION OF PLAN

A summary description of the Co-operative Superannuation Society Pension Plan (the "Plan") appears below. For complete information, refer to the Co-operative Superannuation Society's Act of Incorporation, its Bylaws, and the Rules and Regulations of the Co-operative Superannuation Society Pension Plan.

### (a) General

The Co-operative Superannuation Society (the "Society") is a non-profit pension society incorporated on a membership basis by a private Act of the Saskatchewan Legislature. The Society serves as administrator of the Co-operative Superannuation Society (CSS) Pension Plan and as trustee of three unitized investment funds – the CSS Balanced Fund, the CSS Money Market Fund and the CSS Pensions Fund.

The Co-operative Superannuation Society Pension Plan (the "Plan") is a multi-employer defined contribution pension plan. The Plan's purpose is to enable employees of member Co-operatives and Credit Unions to prepare for and fund their retirements by providing tax-deferred saving and income products and services through a member owned and controlled non-profit organization.

Member employees bear the risk of investment losses and are the sole beneficiaries of investment gains.

The Plan includes 439 independent co-operatives and credit unions and more than 33,000 of their current and past employees. The Plan also pays pensions to more than 6,000 of their retired employees. Each of these employers, employees and retirees is a member of the Plan. Actively contributing employers and employees, and retirees receiving pensions or variable benefit payments from the Plan, are members of the Society.

The Plan is registered under the Income Tax Act and the Saskatchewan Pension Benefits Act (Registration Number 0345868) and is not subject to income taxes.

### (b) Funding Policy

Each participating employer must establish a required contribution rate for its employees between 0% and 9% of salary or compensation. Employers must deduct each employee's required contributions from his/her salary and match that contribution with an employer contribution of an equal amount. If the employee required contribution rate is set at 0%, the employer must contribute a minimum of 1% of each employee member's salary or compensation. The Plan permits both employees and employers to make additional voluntary contributions to the Plan. The total of all contributions to the Plan may not exceed the limit prescribed by the *Income Tax Act*.

### (c) Vesting

Employer contributions vest in employees when they complete two years of continuous service or when their age plus years of completed continuous service equals or exceeds a factor of 45.

### (d) Investment Funds

The Plan offers its members two funds for the investment of their contributions and accumulated benefits – the CSS Balanced Fund and the CSS Money Market Fund. The number and type of investment funds offered to Plan members is determined by the Society's Board of Directors.

Members are permitted, but not required to choose how they wish to distribute their contributions and accumulated benefits among the investment funds offered by the Plan. Members who do not make a choice are invested in the Plan's default investment option, which is the CSS Balanced Fund.

### (e) Retirement

Employees who no longer work for an employer member of the Plan may apply for retirement benefits upon reaching age 50 or once the employee's age plus years of completed continuous service reaches a factor of 75. Phased retirement, as permitted under the *Income Tax Act* and provincial pension legislation, is also available to employees who have reached age 55.

The Plan offers retirees two internal retirement income options – a fixed monthly pension and a variable benefit payment option. Members' accumulated benefits may also be transferred to an insurer or financial institution licensed to provide retirement income products. Retirees must start a retirement income from the Plan or transfer their benefits into a self-directed lifetime retirement income product no later than the maximum age of deferral under the *Income Tax Act*.

### (f) Pensions

The accumulated benefits of retirees who choose to start a fixed monthly pension are transferred into the CSS Pensions Fund – a segregated portfolio that secures the Plan's pension liability. Monthly pension payments are paid from this Fund. The Plan offers single life and joint life pensions. Pensions provided by the Plan may receive periodic, ad hoc increases, subject to the solvency of the CSS Pensions Fund and the policies adopted by the Plan's Board of Directors.

### (g) Variable Benefit Payments

The accumulated benefits of members who choose to start a variable benefit payment remain in their account and under their control, invested in the Plan's Investment Funds as directed by the member. Variable benefit payments are periodic withdrawals taken directly from the member's accumulated benefits. Members may select a periodic monthly or annual payment. Members receiving variable benefit payments have control over the amounts withdrawn, subject to the limits in the *Income Tax Act* and applicable pension legislation. Depending on the member's investment returns and payment choices, a variable benefit payment may not provide a lifetime retirement income.

### (h) Disability Pensions

In the event of termination due to health, injury or disability, a pension or variable benefit payment may commence at any age, subject to the Plan receiving appropriate medical confirmation.

### (i) Death Benefits

In the event of a member's death prior to starting a pension or variable benefit payment, the member's accumulated benefits are paid to the member's spouse, beneficiary or estate in accordance with the member's designation, but subject to the provisions of the *Income Tax Act* and applicable pension legislation. The Plan provides immediate vesting of employer contributions on the death of a member.

### (j) Termination Options

Upon final termination of employment with any employer participating in the Plan, an employee member has the following options:

<u>Accumulated benefits locked-in for pension</u>

The member may:

i) leave locked-in benefits in the Plan to commence a pension or variable benefit payment when eligible to do so, or

ii) provided that the member has not started a pension, he/she may transfer locked-in benefits to a registered plan with an insurer or financial institution licensed to provide retirement income products that meets the conditions prescribed by the *Income Tax Act* and applicable pension legislation.

<u>Accumulated benefits not locked-in for pension</u>

The member may:

i) leave non-locked-in benefits in the Plan to be combined with other benefits to purchase a pension or start a variable benefit payment, or

ii) provided that the member has not started a pension, he/she may withdraw non-locked-in benefits in the form of a cash payment or a qualified transfer to a registered plan with an insurer or financial institution.

### (k) Administrative and Investment Expense

All Plan expenses are paid directly from the CSS Balanced Fund. Expenses associated with the administration of and the investment of the assets held in the CSS Pensions Fund and the CSS Money Market Fund are reimbursed in the form of an administrative charge paid from the CSS Pensions Fund or the CSS Money Market Fund to the CSS Balanced Fund on a monthly basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The statements present the combined operations of the Co-operative Superannuation Society and the Co-operative Superannuation Society Pension Plan, independent of participating employers and plan members.

### Investment Transactions and Income

Investment transactions are recognized on the trade date (the date upon which substantial risks and rewards have been transferred).

Investment income consists of earned income (interest and dividends), realized gains and losses on disposal of investments, and unrealized gains and losses resulting from changes in the market value of investments including pooled fund distributions.

Average cost reflects the purchase cost of the investment and includes direct acquisition costs *(please refer to Table A)*.

### Investment Valuation

Bonds and equities are stated at market values as determined by reference to quoted year-end prices provided by independent investment services organizations. Pooled funds are stated at the year-end unit values, which reflect the market value of their underlying securities.

Short-term investments are recorded at cost, which together with accrued interest or discount earned, approximates market value.

### Foreign Currency Translation

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the end of the year are translated at exchange rates in effect at year-end. The resulting realized and unrealized gains and losses are included in investment income.

### Financial Instruments

The carrying amounts of the Plan's receivables, payables, and accruals approximate fair value due to their short-term nature.

### Derivative Financial Instruments

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices as measured at the closing date of the period being reported. Derivative transactions are conducted in the over-the-counter market directly between two counter parties or on regulated exchange markets. All derivative financial instruments are recorded at market value using market prices. Where quoted market values are not readily available, appropriate valuation techniques are used to determine market value.

### Change in Accounting Policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments - Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addressed disclosure requirements, there is no change in Net Assets.

Section 3862 and 3863 replaced Handbook Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Plan's risks arising from financial instruments. The presentation standards carry forward unchanged from the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Plan's operating results.

### Future Accounting Policy Changes

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has issued an exposure draft proposing to adopt International Financial Reporting Standards (IFRS) effective January 1, 2011. Currently, Pension Plans are not required to convert to IFRS, but are to continue to comply with current standards. The Plan is monitoring the transition to IFRS and is assessing the impact that the adoption of IFRS will have on its financial statements when conversion is required.

**TABLE A**

| CATEGORY | BASIS OF VALUATION |
|---|---|
| Interest Income | Accrual basis |
| Dividend Income | Accrual basis on the ex-dividend date |
| Realized gains and losses for investments sold | Difference between proceeds on disposal and the average cost |
| Unrealized gains and losses for investments held | Difference between market value and the average cost |

## 3. INVESTMENTS

The Society serves as trustee of three unitized investment funds. These are the CSS Money Market Fund, the CSS Pensions Fund and the CSS Balanced Fund. The structures of these three funds are determined by the Society's Board of Directors, which sets the Plan's Investment Policy. The Plan's Investment Policy conforms to the legal requirements and best practice guidelines applicable to pension trusts.

The CSS Money Market Fund contains Canadian short-term investments *(please refer to Table B)*.

The CSS Pensions Fund contains Canadian bonds and short-term investments. A horizon-matching strategy is employed to structure the CSS

Pensions Fund to provide adequate income and principal receipts to meet pension payments in the early years and to render the portfolio immune to changes in interest rates beyond *(please refer to Table C)*.

The CSS Balanced Fund contains Canadian and foreign equities, Canadian bonds, short-term investments and units in pooled funds *(please refer to Table D)*.

### Securities Lending

The Plan has entered into a securities lending agreement with its custodian, CIBC Mellon Global Securities Services Company, to enhance portfolio returns. The securities lending program operates by lending the Plan's available securities to approved borrowers. Credit risk associated with the securities lending program is mitigated by requiring borrowers to provide daily collateral with a market value that exceeds the market value of the loaned securities. At December 31, 2008, securities on loan had a market value of $151.3 million (2007 - $220.4 million); collateral held to secure those loans had a market value of $162.5 million (2007 - $231.5 million).

### Asset Backed Commercial Paper

On December 31, 2008, the CSS Pension Plan held units in two institutional pooled fund truest containing non-trading and illiquid third-party issued asset-backed commercial paper. The total value of the paper held within these pools, at cost, was $61,915,449. On December 31, 2007, the manager of these pools reduced the value of affected paper by $7,657,480, to reflect its potential impairment and lack of liquidity. No further write down was taken at December 31, 2008.

Subsequent to the date of this statement, on January 27, 2009, the affected paper was replaced by medium-term flexible-rate notes pursuant to a Court approved settlement under the Companies Creditors Agreements Act. The final recovery on these new notes is unknown.

## 4. RISK MANAGEMENT

The net assets available for benefits in the Plan's Investment Funds and Pensions Fund consist almost entirely of financial instruments. The risks of holding financial instruments include interest rate risk, credit risk, foreign exchange risk, market risk and liquidity risk.

Significant financial risks are related to the investments held on behalf of Plan members. These financial risks are managed by having an investment policy, which is approved annually by the Board of Directors. The investment policy provides guidelines to the Plan's investments managers for the asset mix of the portfolio regarding quality and quantity of fixed term investments and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Board reviews regular compliance reports from its investment managers and custodian as to their compliance with the investment policy.

### Interest Rate Risk

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

The Plan manages interest rate risk in the CSS Balanced Fund by establishing a target asset mix that provides for a mix of interest-sensitive investments and investments subject to other risks. A portion of the interest-sensitive investments is actively managed to allow for anticipation of interest rate movements to mitigate or take advantage of changes in interest rates. *(please refer to Tables E, F and G on Page 36)*.

**TABLE B**

**CSS MONEY MARKET FUND (THOUSANDS OF DOLLARS)**

| Investment Type | 2008 Market Value | 2008 Investment Percentage | 2007 Market Value | 2007 Investment Percentage |
|---|---|---|---|---|
| Canadian Short-term investments | $ 71,046 | 100.0% | 18,961 | 100.0% |

## TABLE C

| CSS PENSIONS FUND (THOUSANDS OF DOLLARS) | | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| Investment Type | Market Value | Investment Percentage | Market Value | Investment Percentage |
| Custodial Cash Accounts | $ 22 | | $ 5 | |
| Short-term | 3,298 | | 6,286 | |
| | 3,320 | 0.7% | 6,291 | 1.2% |
| Bonds and Debentures | | | | |
| Federal | 52,060 | | 42,900 | |
| Provincial | 260,259 | | 240,154 | |
| Municipal | 5,462 | | 9,558 | |
| Corporate | 168,206 | | 213,008 | |
| | 485,987 | 99.3% | 505,620 | 98.8% |
| Total | $ 489,307 | 100.0% | $ 511,911 | 100.0% |

## TABLE D

| CSS BALANCED FUND (THOUSANDS OF DOLLARS) | | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| Investment Type | Market Value | Investment Percentage | Market Value | Investment Percentage |
| Custodial Cash Accounts | $ 6,650 | | $ 6,685 | |
| Short-term | 49,837 | | 41,497 | |
| | 56,487 | 2.9% | 48,182 | 1.9% |
| Bonds and Debentures | | | | |
| Federal | 152,502 | | 185,536 | |
| Provincial | 156,863 | | 172,856 | |
| Municipal | 12,774 | | 9,086 | |
| Corporate | 192,338 | | 172,602 | |
| Corporate – foreign | 32,146 | | 42,792 | |
| Pooled Fund | 378,739 | | 356,340 | |
| | 925,362 | 47.4% | 939,212 | 38% |
| Equities | | | | |
| Canadian shares | 339,896 | | 354,043 | |
| Pooled Fund Canadian | – | | 188,183 | |
| Pooled Fund U.S. Indexed | 229,696 | | 377,538 | |
| | 569,592 | 29.2% | 919,764 | 37.2% |
| Translated to Canadian dollars | | | | |
| U.S. | 63,266 | | 107,626 | |
| Non-North American | 201,153 | | 269,621 | |
| Pooled Fund Non-North American | 135,970 | | 189,211 | |
| | 400,389 | 20.5% | 566,458 | 22.9% |
| Total | 1,951,830 | 100.0% | 2,473,613 | 100.0% |

**TABLE E** The CSS Money Market Fund has exposure to interest rate risk as follows:

| | 2008 | | | | | 2007 | |
|---|---|---|---|---|---|---|---|
| | TERM TO MATURITY | | | | | | |
| | Within 1 Year | 1 To 5 Years | Over 5 Years | Total | Average Yield | Total | Average Yield |
| (thousands of dollars) | | | | | | | |
| Short-term investments | $ 71,046 | $ — | $ — | $ 71,046 | 1.99% | $ 18,961 | 4.82% |

As at December 31, 2008 had the prevailing interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, net assets would have decreased or increased respectively by approximately, $149,000 (approximately 0.21% of assets). The fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio. In practice the actual trading results may differ and could be material.

**TABLE F** The CSS Pensions Fund has exposure to interest rate risk as follows:

| | 2008 | | | | | 2007 | |
|---|---|---|---|---|---|---|---|
| | TERM TO MATURITY | | | | | | |
| | Within 1 Year | 1 To 5 Years | Over 5 Years | Total | Average Yield | Total | Average Yield |
| (thousands of dollars) | | | | | | | |
| Short-term investments | $ 3,298 | $ — | $ — | $ 3,298 | 1.76% | $ 6,286 | 4.85% |
| Bonds | 16,849 | 70,860 | 398,279 | 485,988 | 4.97% | 505,620 | 4.91% |
| | $ 20,147 | $ 70,860 | $ 398,279 | $ 489,286 | | $ 511,906 | |

As at December 31, 2008 had the prevailing interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, net assets would have decreased or increased respectively by approximately, $42,198,000 (approximately 8.54% of assets). The fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio. In practice the actual trading results may differ and could be material.

**TABLE G** The CSS Balanced Fund has exposure to interest rate risk as follows:

| | 2008 | | | | | 2007 | |
|---|---|---|---|---|---|---|---|
| | TERM TO MATURITY | | | | | | |
| | Within 1 Year | 1 To 5 Years | Over 5 Years | Total | Average Yield | Total | Average Yield |
| (thousands of dollars) | | | | | | | |
| Short-term investments | $ 33,087 | $ — | $ — | $ 33,087 | 2.26% | 41,497 | 4.33% |
| Short-term pooled fund | 16,750 | — | — | 16,750 | 1.99% | — | — |
| Bonds | 35,940 | 228,062 | 282,621 | 546,623 | 4.54% | 582,872 | 4.70% |
| Bonds -pooled fund | 378,739 | — | — | 378,739 | 3.95% | 356,340 | 4.54% |
| | $ 464,516 | $ 228,062 | $ 282,621 | $ 975,199 | | $ 980,709 | |

As at December 31, 2008 had the prevailing interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, net assets would have decreased or increased respectively by approximately, $57,951,000 (approximately 2.97% of assets). The fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio. In practice the actual trading results may differ and could be material.

## Credit Risk

Credit risk refers to the potential loss arising from a security issuer being unable to meet its financial obligation. Investment restrictions within the Plan's Statement of Investment Policies and Goals have been set to limit the credit exposure to security issuers. At time of purchase, bonds and debentures must have a minimum rating of "BBB" or better for the CSS Balanced Fund and "A" or better for the CSS Pensions Fund, and short-term investments must be rated as "R-1 low" or better (ratings as provided by a recognized bond rating agency). As at December 31, 2008, 100% (2007 – 100%) of the Plan's short-term investments were rated "R-1 low" or better and 93.13% (2007 – 95.03%) of the bonds and debentures held in the CSS Balanced Fund and 95.63% (2007 – 100%) of the bonds and debentures held in the CSS Pensions Fund were rated "A" or better.

## Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

## Foreign Currency Risk ($CAD)

The Plan is exposed to currency risk through holdings of foreign equities where investment values may fluctuate due to changes in foreign exchange rates. The Plan manages foreign currency risk by investing in securities that are strategically distributed over several geographic areas to limit exposure to any one foreign currency *(please refer to Table H)*.

As at December 31,2008 if the Fund's functional currency, the Canadian dollar, had strengthened or weakened by 5% in relation to all other currencies with all other variables held constant, the net assets would have decreased or increased respectively, by approximately $19,722,000 (approximately 1% of net assets). In practice, the actual trading results may differ from this approximate sensitivity analysis and the differences could be material.

The Plan has entered into foreign exchange contracts to hedge some of its foreign currency exposure in equities. Foreign exchange forward contracts are obligations in which two counter parties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future. *(please refer to Table I)*

The Plan's foreign currency exposures were as follows:

### TABLE H

| CURRENCY | 2008 ($CAD) | 2007 ($CAD) |
|---|---|---|
| (thousands of dollars) | | |
| United States dollar | $ 86,653 | $134,205 |
| British pound sterling | 35,159 | 80,288 |
| Euro | 109,973 | 141,494 |
| Other European currencies | 48,982 | 53,550 |
| Japanese yen | 66,814 | 72,348 |
| Other Pacific currencies | 15,093 | 38,640 |
| Emerging Market currencies | 31,774 | 44,424 |
| | 394,448 | 564,949 |

### TABLE I

The Plan's foreign exchange contracts at December 31, 2008 we as follows:

| CURRENCY | 2008 MARKET VALUE | 2008 NOTIONAL VALUE | 2008 GAIN (LOSS) | 2007 MARKET VALUE | 2007 NOTIONAL VALUE | 2007 GAIN (LOSS) |
|---|---|---|---|---|---|---|
| (thousands of dollars) | | | | | | |
| Canadian Dollar | $ (259) | (259) | – | (1,052) | (1,052) | – |
| Swiss Franc | 13 | 13 | – | (3,054) | (3,028) | (26) |
| British Pound Sterling | 43 | 43 | – | – | – | – |
| Hong Kong Dollar | 241 | 240 | 1 | – | – | – |
| European Euro | (38) | (37) | (1) | (9,632) | (9,556) | (66) |
| United States Dollar | – | – | – | 18,338 | 18,630 | (292) |
| Mexican Peso | – | – | – | (5,737) | (5,859) | 122 |
| Japanese Yen | – | – | – | 892 | 875 | 17 |
| | – | – | – | (245) | – | (245) |

As at December 31, 2008 had market prices, as measured by the benchmark indices, increased or decreased by 10%, with all other variables held constant the net assets available for benefits would have increased or decreased by approximately *(please refer to Table J)*:

**TABLE J**

| MARKET | BENCHMARK | IMPACT ($000) |
|---|---|---|
| Canadian Equities | S&P TSX Composite Total Return Index | $ 33,191 |
| U.S. Large Cap Equities | S&P 500 Total Return Index Hedged (C$ BA's) | 12,210 |
| U.S. Mid Cap Equities | S&P 400 Total Return Index Hedged (C$ BA's) | 10,760 |
| Non North American Equities | MSCI EAFE Total Return Index | 13,597 |
| World Equities | MSCI World Total Return Index | 15,389 |
| All Country ex US Equities | ASCI All Country ex US Total Return Index | 11,851 |

### Equity Price Risk

The Plan is exposed to changes in equity prices in global markets. At December 31, 2008, equities comprised 49.7% of the carrying value of the Balanced Fund's total investments. No one investee or related group of investees represents greater than 10% of the total book value of the assets of the plan. As well, no one holding represents more than 10% of the voting rights of any corporation.

## 5. ACTUARIAL VALUATION OF PENSION ASSETS AND LIABILITIES

The payments to retired members who chose to receive a fixed monthly pension from the Plan are paid from the CSS Pensions Fund. An actuarial valuation of the assets held in the CSS Pensions Fund and of the Plan's pension liability is required every three years by law. The most recently completed valuation was conducted as at December 31, 2006. At that date, the Plan's actuary reported that the market value of the assets held in the CSS Pensions Fund exceeded the Plan's pension liability as indicated below *(please refer to Table K)*.

**TABLE K**

| ACTUARIAL POSITION | 2006 | 2003 |
|---|---|---|
| (thousands of dollars) | | |
| Market Value of Assets | $ 519,615 | $450,872 |
| Less actuarial value of Pension Liability | (453,238) | (402,979) |
| Surplus at December 31 | 66,377 | 47,893 |
| Reserve for adverse deviation from assumptions | 66,377 | 47,893 |

## 6. UNIT PRICING

Investment income, gains and losses on the assets held in the CSS Balanced Fund and CSS Money Market Fund are credited to the members invested in each fund through daily changes in fund unit prices. Investment and administration expenses relating to each fund are accrued to or paid from each fund prior to establishing its daily unit price. Depending on whether a fund experiences a net gain or loss after expenses, the fund's unit price increases or decreases accordingly. Fund transactions may be suspended temporarily at management's discretion where an accurate unit price for a fund cannot be determined due to the unavailability of reliable market pricing or other asset valuations.

Fund transactions are processed using "forward pricing". This means that they are processed at the next unit price set after receiving funds or instructions. Contributions to, and fund transfers between, the CSS Balanced Fund and the CSS Money Market Fund are processed on a daily basis in the normal course. Lump sum withdrawals are generally processed on a weekly basis. Periodic withdrawals of retirement income are processed in accordance with the terms of each member's application for benefits.

At the close of markets in 2008, the CSS Balanced Fund's unit price was $10.50 (2007 - $12.89). At the close of markets in 2008, the CSS Money Market Fund's unit price was $11.47 (2007 - $11.08).

## 7. RECONCILIATION OF MEMBERS' ACCOUNTS

In accordance with Canadian generally accepted accounting principles, the Statement of Net Assets Available for Benefits includes fixed assets, as well as various adjustments and accruals. However, only actual cash transactions and market value changes occurring from January 1, 2008, to the last business day of the year,

### TABLE L

| RECONCILIATION | 2008 | 2007 |
|---|---|---|
| (thousands of dollars) | | |
| Net Assets available for Benefits | $ 2,015,424 | $2,500,940 |
| Add Back: | | |
| Accrued Expenses | 104 | 119 |
| Withdrawals Payable | 379 | 667 |
| Deduct: | | |
| Fixed Assets | (29) | (42) |
| Contributions Receivable | (1,026) | (992) |
| Market Value Adjustments | (1,987) | (1,370) |
| Total Value of Members' Accounts | 2,012,865 | 2,499,322 |

inclusive, are included in the unit prices and unit counts that determine the total value of members' accounts at year end.

According to the audited financial statements, the value of net assets available for benefits as of December 31, 2008 was $2,015,423,553 while the total value of members' accounts as per the Plan's unitized record keeping system on this same date was $2,012,865,006.

The difference between these two amounts is reconciled above *(please refer to Table L)*.

## 8. INTERFUND BALANCES

Interfund balances represent an accrual of the outstanding administration charges owed by the CSS Pensions Fund and the CSS Money Market Fund to the CSS Balanced Fund at the end of the reporting period, plus an interest charge on this and other amounts owed during the year. Interest is calculated on the amount outstanding on a per diem basis at the rate earned on Canadian T-bills for the immediately preceding month.

The amounts owed are reimbursed to the CSS Balanced Fund on a monthly basis.

## 9. FUND RETURNS AND EXPENSES

The rates of return and management expense ratios of the investment funds offered to Plan members in 2008 were as follows *(please refer to Table M)*.

The returns stated are net of all administrative and investment expenses.

## 10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation. There is no impact of this reclassification on the reported net assets available for benefits.

### TABLE M

| Fund | Rate of Return | Management Expense Ratio |
|---|---|---|
| CSS Balanced Fund | -18.57% | 0.20% |
| CSSMoney Market Fund | 3.56% | 0.26% |

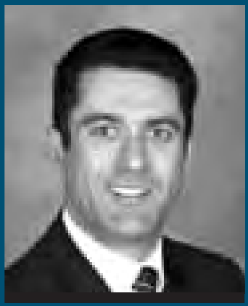
# NOTES

# STAFF

**Bill Turnbull**
*General Manager*

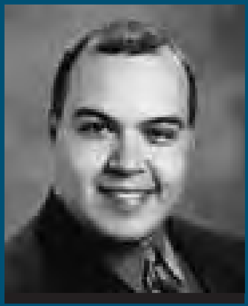
**Brent Godson**
*Investment Manager*

**Joel Sawatsky**
*Accounting/ Investment Officer*



**David Kapeluck**
*Member Services Manager*

**Muriel Baribeau**
*Information Officer*

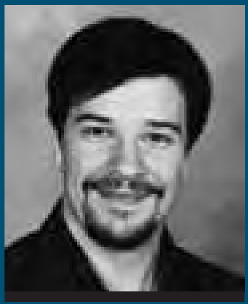


**Vaunley John**
*Systems Administrator*

**Fiona May**
*Office Administrator II*

**Rhonda Ens**
*Office Administrator I*

**Joanne Anderson**
*Office Administrator I*



**Rob Peddle**
*Visual/Web Programmer Analyst*

**Co-operative Superannuation Society Pension Plan**

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