2006 Year-end Edition

Attention General Manager

CSS Quarterly Update

CSS Pension Plan

A balanced and planned approach to successful retirement for co-operative and credit union employees

Fourth Quarter
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UNIT PRICES

Over the 4th Quarter of 2006 the unit price of the Balanced Fund increased from $11.9234 to $12.6209 or 5.8%. Over the same period, the unit price of the Money Market Fund increased from $10.5105 to $10.6157 or 1.0%. Component returns for the Balanced Fund and Money Market Fund appear below.

BALANCED FUND

Investment Managers	4th Quarter Returns (%)		2006 Returns (%)	
	CSS	Index	CSS	Index
CICL: Canadian Bonds	0.91%	0.70%	4.73%	4.06%
TD Asset Mgmt: Canadian Bonds	0.73%	0.70%	4.04%	4.06%
CICL: Canadian Equities	8.89%	10.42%	17.07%	17.26%
TD Asset Mgmt: Canadian Equities	10.44%	10.42%	17.32%	17.26%
Northwater: U.S. Mid Cap Equities	6.78%	6.76%	9.10%	9.16%
Northwater: U.S. Lg Cap Equities	6.49%	6.49%	14.65%	14.65%
Brandes: Global Equities	12.80%	13.04%	27.52%	19.61%
Sprucegrove: Non-NA Equities	17.37%	15.11%	30.72%	25.86%
Northwater: Non-NA Equities	6.82%	7.50%	17.40%	18.65%
Total Return	5.89%	5.69%	12.64%	11.11%

Asset Mix (Weightings)

			Dec 31, 2006	Dec 31, 2005
Equities:				
Canadian equities		20.6%		
Foreign equities	39.8%			
Total Equities:			60.4%	55.1%
Fixed Income:				
Bonds		37.5%		
Short term		2.1%		
Total Fixed Income:			39.6%	44.9%
			100%	100%

MONEY MARKET FUND

Investment Manager	4th Quarter Return (%)		2006 Return (%)	
	CSS	Index	CSS	Index
TD Asst Mgmt: Short Term Inv.	1.06%*	1.04%	4.03%*	3.97%

* Return gross of administrative expenses.

Asset Mix (Weightings)

	Dec 31, 2006	Dec 31, 2005
Fixed Income:		
Short Term:	100%	100%

2006 FUND RETURNS

The Plan offers members two unitized funds for the investment of their contributions and accumulated benefits – a Balanced Fund and a Money Market Fund. Realized and unrealized gains, losses, dividends, interest and expenses relating to the investment and administration of these funds are allocated to members through daily changes in each fund's unit price. A fund unit price allocates true market returns in real time. A fund unit price also serves as an index, so that the percentage change in the unit price over time is the fund's rate of return. For example, if a fund unit price at the start of the year is $10 and at the end of the year is $11.00, the fund has earned a 10% return (e.g. ($11.00 - $10.00) / $10.00). Using the actual 2006 opening and closing unit prices for the Balanced Fund and Money Market Fund produces the following **fund rates of return**:

Balanced Fund: 12.51%
Money Market Fund: 3.79%

The Balanced Fund's 10-year annualized return, as shown in members' 2006 Annual Statements, is 8.75%. This compares favorably with the fund's benchmark, which earned an annualized return of 7.92% over the same period. For more information on the Plan's Balanced Fund or the Money Market Fund, please visit the Plan's website or contact our office.

EQUITY RETURNS

Most of the developed world's equity markets posted solid gains again in 2006. Equity market strength defied rising inflation, high-energy prices and a slowing U.S. economy. The S&P TSX Composite Index posted a 2006 return of 17.26%, but was outpaced by Non-North American equity markets. Materials and Information Technology led the market with Energy and Commodities moderating toward the end of the year. Co-operators Investment Counselling Limited, the Plan's active Canadian equity manager, slightly under performed its benchmark, earning a return of 17.07%.

A weaker Canadian dollar increased foreign equity returns for Canadian investors. Our active EAFE Non-North American equity manager, Sprucegrove Investment Management Ltd., added substantial value to its benchmark (the MSCI EAFE Index) in 2006, posting a return of 30.72%. A better year for U.S. markets contributed to the performance of the Plan's Global equity manager, Brandes Investment Partners. Brandes added significant value to its benchmark (the MSCI World Index) in 2006, earning a return of 27.52%. The Plan's passive equity managers generally tracked their benchmarks within acceptable limits.

BOND RETURNS

The Canadian bond market generated lower returns in 2006 with the Scotia Capital Universe Bond Index showing a total return of 4.06%. Although the Bank of Canada and the U.S. Federal Reserve put short-term rates on hold midway through 2006, bonds produced modest price losses that detracted from coupon interest payments. Over the year, provincial issues and longer maturities continued to out perform. Our active bond manager, Co-operators Investment Counselling Limited, produced a return of 4.73%, out performing the index at 4.06%. The passive bond manager, TD Asset Management, under performed the index by a narrow margin in 2006, earning a total return of 4.04%.

BALANCED FUND BENCHMARK CHANGE

As we discussed in the last issue of the Quarterly Update, the equity weighting of the Balanced Fund's benchmark was 50%, while the actual equity weighing of the fund was about 55%. In December, the equity weighing of the benchmark was increased to 60% and the fund was rebalanced to this new target. (See the Asset Mix table on page 1). This change is expected to produce a slight increase in the fund's average return over the long term. It is also expected to produce a slight increase in the volatility of the fund's annual returns.

ANNUAL STATEMENTS

2006 Annual Statements for active contributors will be delivered to employers for distribution in early February 2007. When the statements are received they should be distributed **immediately** to member employees. Employers receiving statements for employees who have recently terminated employment, should: (i) forward those statements to their former employees **AND** (ii) immediately notify the Pension Plan of the termination date and home address for each former employee. Occasionally, members may notice a difference in the pension contribution amount shown on their Annual Statement and the pension contribution amount on their T4 slip from their employer. If this occurs, it is because the member's final 2006 contributions arrived at the Pension Plan's office after December 31. Due to unit pricing, contributions must now be recorded in the same year that they are received at the Plan's office. Any 2006 contributions received after December 31 will therefore be included on the member's 2007 Annual Statement, although they may be recorded on the member's T4 slip for 2006.

Member's Annual Statements include information on the Money Market Fund for members who have elected to hold part of their accumulated benefits in this fund. The 2006 Annual Statements also include personal rates of return for most members. Members should note that depending on the length and particulars of their account transaction history, their personal rate of return might be different from the returns earned by the Plan's investment funds. **Personal rates of return are not estimated for members with less than two years in the Plan.** We encourage these members to use fund returns when projecting future balances for purposes of their financial or retirement plans.

Because the Plan offers more than one investment fund, not all members will earn the same investment return. The 2006 Annual Statements therefore include pension projections at four different potential rates of return. **Remember that these projections are only estimates!** Members' pension projections are re-calculated every year, based on the *actual* contributions received and the *actual* returns for the year. However, the calculations are also based upon economic assumptions that change from year to year with current economic conditions. Therefore, your projected pension may vary from that shown on past Annual Statements.

You should keep your 2006 Annual Statement in a safe place. If you have any questions about your pension account and wish to contact the Plan by telephone, please have your 2006 Annual Statement ready for reference purposes.

CSS asks all employers to make a special effort to bring the information contained in this newsletter to the attention of their employees <u>prior to the receipt of their 2006 Annual Statements.</u> Your co-operation in this regard is appreciated.