



Quarterly Update



Unit prices

Over the second quarter of 2016, the unit price of the Balanced Fund increased from \$19.494476 to \$19.989627 for a gain of 2.54%. Over the same period, the Bond Fund added 2.66%, the Equity Fund earned 2.42% and the Money Market Fund rose 0.21%.

Balanced Fund

Investment Managers	2nd quarter returns (%)*		One-year returns (%)*	
	CSS	Index	CSS	Index
Wellington: Canadian bonds	2.79%	2.62%	5.36%	5.22%
TD Asset Mgmt: Canadian bonds	2.59%	2.62%	5.16%	5.22%
Greystone: Mortgages	1.73%	1.31%	N/A	N/A
QV Investors: Can. equities	1.90%	5.07%	3.78%	-0.20%
Scheer Rowlett: Can. equities	3.29%	5.07%	2.70%	-0.20%
SSgA: U.S. mid-cap equities	4.40%	4.42%	5.39%	5.41%
SSgA: U.S. large-cap equities	2.87%	2.87%	8.24%	8.18%
Wellington: Emerg. mkt. equities	2.12%	1.03%	-6.54%	-8.63%
Sprucegrove: Non-NA equities	-0.08%	-1.06%	-7.53%	-6.55%
SSgA: EAFE smart beta	-0.50%	-1.06%	N/A	N/A
Greystone: Real estate	1.59%	2.30%	N/A	N/A
SSgA: REITS	3.62%	3.51%	N/A	N/A
SSgA: Dynamic currency	0.44%	-0.08%	-0.51%	-2.18%
Total Return	2.54%	2.32%	1.98%	0.35%

Bond Fund

Investment Managers	2nd quarter returns (%)*		One-year returns (%)*	
	CSS	Index	CSS	Index
Same as bond managers to left	2.66%	2.62%	5.12%	5.18%

Equity Fund

Investment Managers	2nd quarter returns (%)*		One-year returns (%)*	
	CSS	Index	CSS	Index
Same as equity managers to left	2.42%	2.20%	0.52%	-3.16%

Money Market Fund

Investment Managers	2nd quarter returns (%)*		One-year returns (%)*	
	CSS	Index	CSS	Index
TD Asset Management	0.21%	0.12%	0.78%	0.49%

*Returns in Canadian dollars net of fees

Market commentary

Stock and bond markets rise

North American stock and bond markets both gained ground in the second quarter, although sudden volatility was encountered near the end of June when U.K. voters opted to leave the European Union (Brexit).

International stocks generally posted slight losses, with emerging markets producing small gains.

Canadian equities rose strongly over the quarter, driven by a rebound in commodity prices. Five of 10 sectors rose, led by Materials, Energy and Utilities. Canadian bonds also posted positive returns, as yields fell in response to economic weakness and Brexit, both of which softened the stance of the U.S. Federal Reserve on possible rate hikes later this year, while the Bank of Canada held its overnight rate steady on May 25.

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The Canadian bond market, as represented by the TMX Canada Universe Bond Index rose 2.62% for the second quarter, while the S&P/TSX (Canadian equities) gained 5.07%. U.S. equity markets also advanced when measured in Canadian dollars, while international equities in developed markets posted modest losses. In the U.S., the S&P 500 Index (U.S. large-cap equities) added 2.87%, while the S&P 400 Index (U.S. mid-cap equities) was up by 4.42%. In international markets, the MSCI EAFE Index (non-North American equities) fell 1.06%, while the MSCI EM IMI Index (emerging market equities) gained 1.03%. In the alternatives space, Canadian real estate earned 2.30% and Canadian commercial mortgages were up 1.31%.

The Canadian dollar lost about 0.23 cents against the U.S. dollar over the second quarter, finishing at 76.87 cents U.S. For Canadian investors, a weaker Canadian dollar increases the returns on unhedged foreign investments. To lighten the impact of currency fluctuations on Balanced and Equity Fund returns, the CSS Pension Plan uses a dynamic currency hedging strategy, which reduces gains when the Canadian dollar falls but reduces losses when it rises. The Plan's Bond Fund has limited currency exposure, while the Money Market Fund does not hold foreign investments and is therefore not exposed to currency risk.

Equities (stocks)

Equities produced generally positive returns over the second quarter, with the exception of Europe and Japan.

The Plan's active Canadian equity managers were unable to add value over the quarter with QV Investors earning 1.90% while Scheer Rowlett and Associates did somewhat better at 3.29%. The active non-North American equity manager, Sprucegrove, was able to add value over the quarter, cutting the loss on the index to 0.08%. The active emerging markets manager, Wellington Management, also outperformed at 2.12% while the EAFE smart beta mandate managed by SSgA slightly outperformed, posting a loss of 0.50%.

The passive U.S. large-cap and mid-cap equity mandates closely tracked their benchmarks, while Greystone, our active alternatives manager, underperformed on Canadian real estate at 1.59% but outperformed on commercial mortgages at 1.73% for the quarter.

Fixed income (bonds)

Bond prices rose during the quarter as yields fell in response to soft economic data and safe-haven buying related to the Brexit vote.

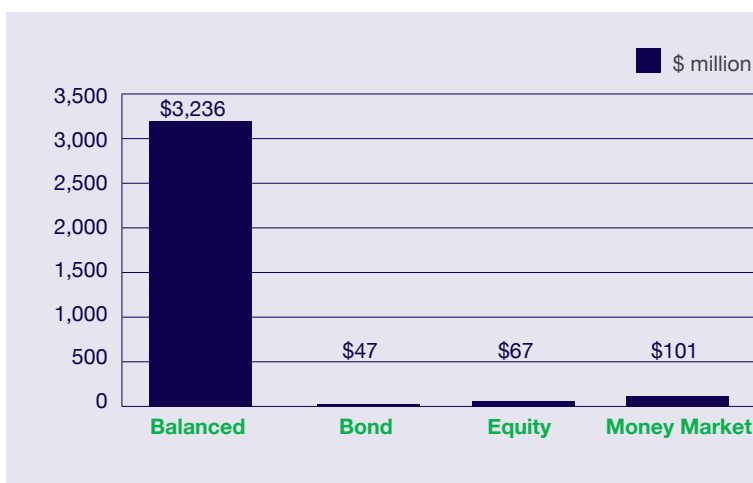
Long-term provincials performed best, with short-term Government of Canada bonds being the weakest sector. Wellington Management, the Plan's active fixed income manager, outperformed its benchmark, gaining 2.79%. The passive bond manager, TD Asset Management, posted a return of 2.59%, slightly underperforming its benchmark.

Investment funds

The Plan offers four funds to CSS members for the investment of their pension savings. These include a Balanced Fund, Money Market Fund, Bond Fund and Equity Fund. Details on the number of members using, and total dollars invested in each fund as of July 14, 2016, appear below.

Fund	Members*	\$ Millions
Balanced	37,716	\$3,236
Bond	383	\$47
Equity	725	\$67
Money Market	641	\$101

*Some members are invested in more than one fund



Investors generally tend to reduce risk as they age and approach retirement for two reasons:

- older investors have less time to make up market losses;
- retirees need steadier returns to provide regular retirement income.



Upcoming workshops

Retirement Income Options (RIO) workshop schedule

Location	RIO workshop date
Edmonton, AB	October 4, 2016
Red Deer, AB	October 5, 2016
Grande Prairie, AB	October 12, 2016
Brandon, MB	October 25, 2016
Winnipeg, MB	October 26, 2016
Lloydminster, SK	November 8, 2016
Saskatoon, SK	November 15, 2016

The CSS Pension Plan's Retirement Income Options (RIO) workshop has evolved and changed over the years since it was launched in 1995. And it is changing once again.

In the past, the RIO workshop was held Saturday mornings. It will now be held during the week – usually in the evening – with some workshops possibly being held during the day. The workshops will be a little shorter at just over two hours long. The workshop's content will continue to be designed for members nearing retirement who wish to explore their options.

Since we are doubling the number of RIO workshops going forward, we will no longer be conducting the full-day Retirement Planning Seminar (RPS). More information about the new RIO workshop format can be found in [TimeWise](#).

To request registration information for one of the upcoming workshops, visit www.csspen.com/Seminars.



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We're working on a new website

The new website is expected to launch later this year. Please note that if you already registered for online account access on the existing website, your existing username and password will not work on the new website. **You will need your CSS Member ID number to re-register or sign-up for online account access on the new site.**

You can find your Member ID number on your CSS Pension Plan annual statement.



Are you using the latest forms?

We're in the process of updating CSS Pension Plan forms in order to make transactions more efficient for members and employers. Please ensure you're using the current versions of our forms, which can be found at the following links.

Member forms

www.csspen.com/Forms

Employer forms

www.csspen.com/Employer