

# CSS Pension Plan

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

Third Quarter  
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Co-operative Superannuation  
Society Pension Plan  
PO Box 1850  
Saskatoon, SK S7K 3S2  
Phone: (306)244-1539  
Fax: (306)244-1088  
Internet: [www.csspen.com](http://www.csspen.com)  
e-mail: [css@csspen.com](mailto:css@csspen.com)



# Quarterly Update

Attention  
General Manager

## UNIT PRICES

Over the 3<sup>rd</sup> Quarter of 2006 the unit price of the Balanced Fund increased from \$11.3825 to \$11.9234 or 4.75%. Over the same period, the unit price of the Money Market Fund increased from \$10.3990 to \$10.5105 or 1.07%.

## BALANCED FUND

Investment Managers	3 <sup>rd</sup> Quarter Returns (%)		Year to Date Returns (%)	
	CSS	Index	CSS	Index
CICL: Canadian Bonds	5.24%	4.85%	3.79%	3.33%
TD Asset Mgmt: Canadian Bonds	4.84%	4.85%	3.29%	3.33%
CICL: Can. Equities	3.58%	1.92%	7.52%	6.19%
TD Asset Mgmt: Can. Equities	1.93%	1.92%	6.23%	6.19%
Northwater: U.S. Mid Cap Equities	-1.40%	-1.42%	2.17%	2.24%
Northwater: U.S. Lg Cap Equities	5.39%	5.36%	7.66%	7.66%
Brandes: Global Equities	8.83%	4.80%	13.05%	5.81%
Sprucegrove: Non-NA Equities	6.27%	4.26%	11.37%	9.34%
Northwater: Non-NA Equities	5.53%	5.45%	9.90%	10.37%
<b>Total Return</b>	<b>4.78%</b>	<b>3.94%</b>	<b>6.38%</b>	<b>5.13%</b>

## Asset Mix (Weightings)

	Sept 30, 2006	Sept 30, 2005
<b>Equities:</b>		
Canadian equities	20.0%	
Foreign equities	34.6%	
<b>Total Equities:</b>	<b>54.6%</b>	55.5%
<b>Fixed Income:</b>		
Bonds	44.1%	
Short term	1.3%	
<b>Total Fixed Income:</b>	<b>45.4%</b>	44.5%
	<b>100%</b>	100%

## MONEY MARKET FUND

Investment Manager	3 <sup>rd</sup> Quarter Return (%)		Year to Date Return (%)	
	CSS	Index	CSS	Index
TD Asst Mgmt: Short Term Inv.	1.13%	1.10%	2.94%	2.91%

## Asset Mix (Weightings)

	Sept 30, 2006	Sept 30, 2005
<b>Fixed Income</b>		
Short Term:	100%	Not Available

See page 2 over . . .

## **COMMENTARY**

Canadian equities produced modest gains in the 3<sup>rd</sup> Quarter of 2006, advancing by 1.92% from June 30 to September 30. The Energy sector declined as a mild hurricane season and growing fuel inventories pressured prices. The Canadian bond market, however, produced a more robust gain, rising 4.85% over the quarter as the Bank of Canada and the U.S. Fed both kept rates on hold through the third quarter.

The U.S. economy, and the U.S. housing market in particular, began to slow in the third quarter. U.S. equity returns were mixed. The S&P 500 Index (U.S. Large Cap Equities), hedged to Canadian dollars, rose 5.36%, while the S&P 400 Index (U.S. Mid Cap Equities), hedged to Canadian dollars, lost 1.42%. Returns on Non-North American equities were also positive, with the MSCI EAFE Index (Non-North American Equities) rising 4.26%, and the MSCI World Index (Global Equities) rising 4.80%.

The Canadian dollar was little changed against the U.S. dollar but rose against most EAFE currencies during the quarter. For Canadian investors, the stronger Canadian dollar reduced returns on foreign equities.

**Equities:** Canadian equity markets produced positive returns, lead by telecommunications, information technology and financials. Canadian equities under performed both Non-North American and U.S. Large Cap Equities over the quarter.

The Plan's active Canadian equity manager outperformed its benchmark, producing a return of 3.58%. The active Non-North American equity manager was able to add value, earning 6.27%. The active Global equity manager also added value earning 8.83%.

The Plan's passive equity managers closely tracked their benchmarks. Passive Canadian equities earned 1.93%, passive Non-North American equities gained 5.53%, passive U.S. Large Cap equities gained 5.39%, while passive U.S. Mid Cap equities lost 1.40%.

**Fixed Income:** The Bank of Canada held rates steady through the quarter. Long-term bonds returned over 8% for the quarter, with provincials outperforming Government of Canada and corporate bonds.

The Plan's active bond manager, CICL, outperformed the index, producing a return of 5.24%. The passive bond manager, TD Asset Management successfully tracked its benchmark, with a return of 4.84%.

## **BALANCED FUND BENCHMARK CHANGE**

Since 1995, the Balanced Fund (BF) benchmark has been 50% equities and 50% fixed income. In fact, however, due to strong equity performance over the past three years, the actual proportion of the Balanced Fund invested in equities has recently been about 55%.

Most pension funds hold at least 60% equities in the hope of improving long-term average returns. However, holding more equities will also produce more volatility in the short run. One of the reasons that the Plan selected a lower equity target in 1995 was to protect members nearing retirement against downside risk. However, the Plan now offers a Money Market Fund for this purpose. It is therefore possible to consider increasing the equity weighting in the BF.

The Plan has modeled the impact of holding more equities in the Balanced Fund, using both historical returns and conservative future return assumptions. This analysis suggests that holding 60% equities will create an opportunity to increase the Balanced Fund's long-term average return by about ¼ of 1%. While this may not sound like much, when compounded over a working lifetime, ¼ of 1% has the potential to add as much as 9% to a member's final balance. However, holding more equities will result in slightly more variable short-term returns and a slight increase in the risk that a member might suffer a loss shortly before retirement.

Although each member's circumstances may be different, the Plan continues to encourage consideration of the Money Market Fund as a way to reduce risk as retirement nears. The Plan also encourages members to seek retirement planning advice from a qualified financial advisor.

## **VARIABLE BENEFIT PAYMENTS**

Members who wish to remain in the Plan after retirement, but do not favour a traditional annuity-style pension, now have a second retirement income option. On September 1<sup>st</sup>, 2006, the Plan began to offer Variable Benefit (VB) Payments to retired members in Saskatchewan, Alberta and British Columbia. VB payments are simply periodic withdrawals of your own funds from your account. For more information about VB payments, please see the "What's New" area of the Plan's website, located at <http://www.csspen.com>, as well as the upcoming issue of *TimeWise*, or contact the Plan's office at 306-244-1539.

## **SEMINARS & WORKSHOPS**

The 2006 RIO Workshop schedule will conclude in Winnipeg on October 28. There is one remaining Retirement Planning Seminar for 2006, tentatively scheduled for Regina on November 15. The RPS is designed for employees aged 50 and over and their spouses. Through group discussion, exercises, and presentations by resource authorities participants examine various retirement-related topics, including health, wills and estates, housing, the psychology of aging, sources of income and financial planning.

**The CSS Pension Plan would greatly appreciate you sharing the information contained in this Quarterly Update with your employees and associates.**