

CSS Pension Plan

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

**Third Quarter
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Quarterly Update

UNIT PRICES

Over the 3rd Quarter of 2007 the unit price of the Balanced Fund increased from \$13.0419 to \$13.0498 or 0.06%. Over the same period, the unit price of the Money Market Fund increased from \$10.8247 to \$10.9408 or 0.1%.

BALANCED FUND

Investment Managers	3 rd Quarter Returns (%)		Year to Date Returns (%)	
	CSS	Index	CSS	Index
CICL: Canadian Bonds	1.8%	1.7%	0.81%	0.91%
TD Asset Mgmt: Canadian Bonds	1.69%	1.7%	0.89%	0.91%
CICL: Can. Equities	2.32%	1.99%	10.63%	11.22%
TD Asset Mgmt: Can. Equities	2.02%	1.99%	11.27%	11.22%
Northwater: U.S. Mid Cap Equities	-1.25%	-1.32%	9.85%	9.64%
Northwater: U.S. Lg Cap Equities	1.48%	1.50%	7.75%	7.80%
Brandes: Global Equities	-7.79%	-4.38%	-6.31%	-4.58%
Sprucegrove: Non-NA Equities	-6.23%	-4.55%	-7.14%	-4.55%
Thornburg: World Equities	3.59%	-2.27%		
Total Return	0.06%	0.14%	3.41%	3.67%

Asset Mix (Weightings)

	Sept 30, 2007	Sept 30, 2006
Equities:		
Canadian equities	21.9%	
Foreign equities	40.2%	
Total Equities:	62.1%	54.6%
Fixed Income:		
Bonds	36.4%	
Short term	1.5%	
Total Fixed Income:	37.9%	45.4%
	100%	100%

MONEY MARKET FUND

Investment Manager	3 rd Quarter Return (%)		Year to Date Return (%)	
	CSS	Index	CSS	Index
TD Asst Mgmt: Short Term Inv.	1.15%	1.22%	3.27%	3.32%

Asset Mix (Weightings)

	Sept 30, 2007	Sept 30, 2006
Fixed Income		
Short Term:	100%	Not Available

See page 2 over . . .

COMMENTARY

Canadian equities produced modest gains in the 3rd Quarter of 2007, advancing by 1.99% from June 30 to September 30. The Canadian bond market, produced a similar gain, rising 1.7% over the quarter as the Bank of Canada raised its target rate by 0.25% in July, while the U.S. Fed dropped its overnight rate by 0.5% near the end of the quarter.

U.S. equity returns were mixed. The S&P 500 Index (U.S. Large Cap Equities), hedged to Canadian dollars, rose 1.5%, while the S&P 400 Index (U.S. Mid Cap Equities), hedged to Canadian dollars, lost 1.32%. Returns on Foreign equities were generally negative when measured in Canadian dollars, with the MSCI EAFE Index (Non-North American Equities) falling 4.55%, the MSCI World Index (Global Equities / Developed Markets) declining by 4.38% and the All Countries World Index (ex US) (Developed Markets plus Emerging Markets) losing 2.27%.

The Canadian dollar rose by 7.1% against the U.S. dollar, and to a lesser extent, against EAFE currencies during the quarter, which contributed to these negative returns.

Equities: Over the third quarter, the Plan's active Canadian equity manager outperformed its benchmark, producing a return of 2.32%. The active Non-North American equity manager was unable to add value, losing 6.23%, while the active Global equity manager also posted a loss of 7.79%. The Plan's new All Countries equity manager, Thornburg Investments, had a successful quarter, earning 3.59%. The Plan's passive equity managers closely tracked their benchmarks. Passive Canadian equities earned 2.02%, while passive U.S. Large Cap equities, hedged to Canadian dollars gained 1.48% and passive U.S. Mid Cap equities hedged to Canadian dollars lost 1.25%.

Fixed Income: The Bank of Canada increased its target rate in July, but deferred a second increase, expected in September, after a disruption occurred in the market for asset-backed commercial paper in August (see below). The Plan's active bond manager outperformed the PC Bond Index, producing a return of 1.8%. The passive bond manager closely tracked its benchmark, with a return of 1.69%.

ASSET BACKED COMMERCIAL PAPER

Over the summer of 2007, normal liquidity all but vanished in what is usually one of lowest risk sectors of the investment markets – short-term investments. Short-term investments typically include T-bills and other government paper, corporate paper, banker's acceptances and asset-backed commercial paper (ABCP). Over the recent past, as Governments have eliminated deficits and reduced their need to borrow, the issuance of government paper has declined and the issuance of ABCP has grown.

ABCP is typically issued through a trust, backed by a securitized portfolio of loans, receivables, mortgages, and in some cases, derivatives based on debt instruments. In Canada, there are two different kinds of ABCP. "Bank-issued" ABCP, as the name suggests, is created, issued and backed by Canada's chartered banks. "Third-party" ABCP is created and sold by a private issuer, backed by a line of credit arranged with a "third-party" lender.

In August of 2007, investors suddenly became concerned that the securitized loans that back ABCP might contain low quality or "sub-prime" U.S. mortgages. However, the structure of these investment vehicles did not allow investors to see the actual backing assets. There was no way to estimate the risk of loss and therefore, no way to price the commercial paper. As a result, within a few days, the market for ABCP collapsed and trading ceased.

In Canada, the "big five" chartered banks quickly confirmed that they would ensure the liquidity of "bank-issued" ABCP, and normal trading in this type of ABCP therefore resumed. "Third-party" ABCP, however, was a different story. When trading ceased and issuers contacted their third-party lenders to obtain funds to redeem maturing issues, their lenders refused, arguing that the cessation of trading was not a triggering event under the line of credit. As a result, "third-party" ABCP is still not trading, while issuers, their bankers and affected investors are meeting to negotiate a new arrangement under which trading can resume. These negotiations are expected to take several more weeks.

The Balanced Fund contains a short-term investment mandate used to provide liquidity. This mandate does not contain any ABCP. It has therefore not been affected. The Money Market Fund does not hold any "third-party" ABCP. It does hold "bank-issued" ABCP that continues to trade normally with the backing of the Canadian banking sector. No disruption in the pricing of the CSS Money Market Fund has therefore occurred. However, the Balanced Fund does hold units in two passive synthetic U.S. equity pooled funds that track the S&P 500 (Large Cap U.S. Equities) and the S&P 400 (Mid Cap U.S. Equities). These pooled funds do contain "third-party" ABCP, representing about 2.4% of the value of the Balanced Fund. The manager of these pooled funds is directly involved in the current negotiations.

SEMINARS & WORKSHOPS

The remaining Retirement Income Options Workshop for 2007 is scheduled for Saturday, November 3rd, in Saskatoon.

The remaining Retirement Planning Seminar for this year is scheduled for Tuesday, October 30th, in Red Deer.

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