Quarterly Investment Report.

Quarter ending March 31, 2023

CSS PENSION PLAN

Strength in Numbers.

QUARTERLY MARKET COMMENTARY

*Commentary provided by TDAM, manager of the Plan's short-term, commercial mortage, and real estate mandates. Returns in local currency unless otherwise stated.

Coming off the heels of the 2022 bear market, equities and fixed income assets delivered strong returns in early 2023. Optimism around the potential for an end to the global monetary tightening cycle was a primary catalyst for the shift to a brighter investor outlook, especially as inflation pressures showed signs of ebbing. Strong January performance is usually seen as a good predictor of quality stock returns for the rest of the year, however this year labour markets remained historically tight and despite the dramatic interest rate hiking cycle by policy makers, inflation stayed elevated year-over-year across multiple categories, including the services side of the economy. Cost of services has remained a stubbornly sticky and large component of overall high inflation. Market sentiment then soured in February driving negative returns for riskier assets. Robust economic data out of the U.S. reminded investors to take heed of the U.S. Federal Reserve's hawkishness and the need to potentially revise their expectations for a terminal rate higher than what the market was pricing in.

March then saw markets whipsaw, fueled by turmoil in the Financials sector, as U.S. regional banks Silicon Valley Bank and Signature Bank collapsed due to mismanagement amid the higher interest environment and deposit flights. As markets feared possible contagion across the banking industry, the increasing instability and the eventual downfall of major European bank Credit Suisse triggered a selloff that spread across global financial sectors. Helping to sooth investor nerves, U.S. federal regulators stepped in to guarantee deposits at the failed regional banks, while UBS Group AG agreed to buy rival Credit Suisse. However, the undercurrent of market anxiety persisted, as the combination of these events with concerns of tightening economic conditions, interest rate policy uncertainty, slowing global growth, and declining corporate profits, continue to cloud the investment landscape and drive elevated volatility.

Equities

Earnings estimates are expected to trend downward amid high rates and the resulting slowing economy. Rate hikes are also expected to stall in 2023 if inflation continues to decline. The full effect of higher rates on the consumer and real estate market remains to be seen. As such, the Canadian economy could slow in 2023. That said, the economy has proven resilient, with employment remaining strong and financial system solid. The recent oil price decline is a headwind for the S&P/TSX Composite Index, but the oil and gas producers are well positioned to withstand this with strong balance sheets and a focus on free cash flow.

Continue

CSS FUND FACTS

$4.9 billion
Approx. assets under management

0.52%
Balanced Fund management expense ratio (MER)

54,225
Approx. employee members

305
Approx. employer members

QUARTERLY MARKET COMMENTARY CONT'D

S&P 500 Index companies have reported modest topline growth in the most recent quarter. However, fourth quarter 2022 earnings-per-share have shown low-single digit declines, as margin pressure was partially offset by stock buybacks. Additionally, the U.S. economic outlook remains weak and could weigh on corporate profits. There is also some uncertainty around the U.S. Federal Reserve's policy actions as it balances the need to lower inflation with the pressure higher rates are starting to put on the economy.

While the market appears more comfortable now that inflation is trending lower, investors remain concerned with slowing corporate profit growth, and more recently, the health of the European financial system. Uncertainty also remains with the magnitude and duration of a potential recession in 2023, if policy mistakes by developed central banks make financial conditions too restrictive for too long.

As China resumes its reopening plan, we expect to see an increase in demand for travel and leisure, luxury goods, energy and commodities, and expect global supply chains to return to some sense of normalcy. Chinese equities could see relative outperformance over the next 12-18 months. However, the reopening is unlikely to proceed in a straight line, so investors should expect some choppiness along the way.

Emerging Markets Equities continue to be challenged by persistently high inflation, concerns over global central bank monetary tightening, and the prospect of recession in many western economies. The outlook for emerging markets remains cautious while recognizing that low relative valuations may provide a good entry point in the coming months

Fixed Income

Investment Grade Corporate Bonds: Canadian investment grade spreads appear more attractive than U.S. and global markets but have rallied materially year-to-date. Compelling investment opportunities may be found in lower duration (five years and shorter) corporate bonds given all-in yields remain elevated versus historical levels. However, U.S., European, and Canadian corporate bond spreads with higher durations may now be less attractive, leading to the potential for modestly more downside risk than upside opportunities. Inflation Linked Notes: With the expectation that high inflation levels may be starting to peak and beginning to normalize, inflation insurance through inflation linked notes is moderately attractive for investors. High Yield Bonds: Higher interest rates and a deteriorating economic backdrop will likely cause default rates for high yield bonds to rise from currently low levels. Corporate earnings will likely continue to be under pressure in the near term, eroding credit fundamentals. This could result in further volatility and downside risk for credit spreads, despite the high potential return in the sector. We expect strong credit quality to prevent high yield bonds from experiencing the extreme dislocations seen in some prior recessionary periods.

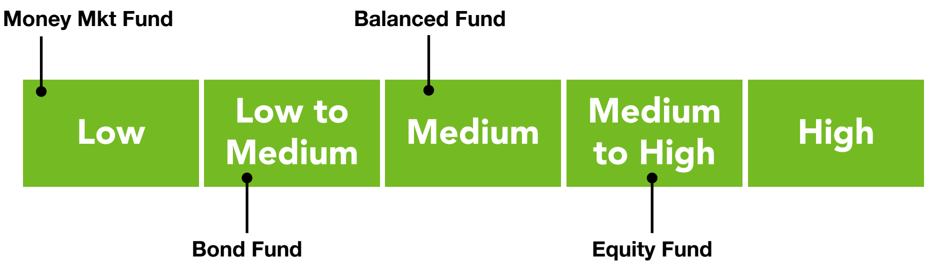
Developed Markets Bonds: Recent banking stresses add a new layer of uncertainty with respect to the future path of inflation. Although central banks continue to maintain a tightening bias, investors are indicating that the global rate hike cycle is drawing to a close and that they expect monetary policy to pivot noticeably towards rate cuts in the second half of the year. As Canadian bonds have outperformed their developed market peers since last fall, some markets continue to offer attractive incremental yields, net of currency hedges. Emerging Market Bonds: The dispersion of returns within emerging markets has presented some opportunities. Yields are attractive in some regions where central banks have proactively hiked interest rates, while bond returns will likely decline in other regions where central banks are still early in normalizing monetary policy.

View historical unit prices for all CSS investment funds

PERFORMANCE AND RISK METRICS | CSS funds

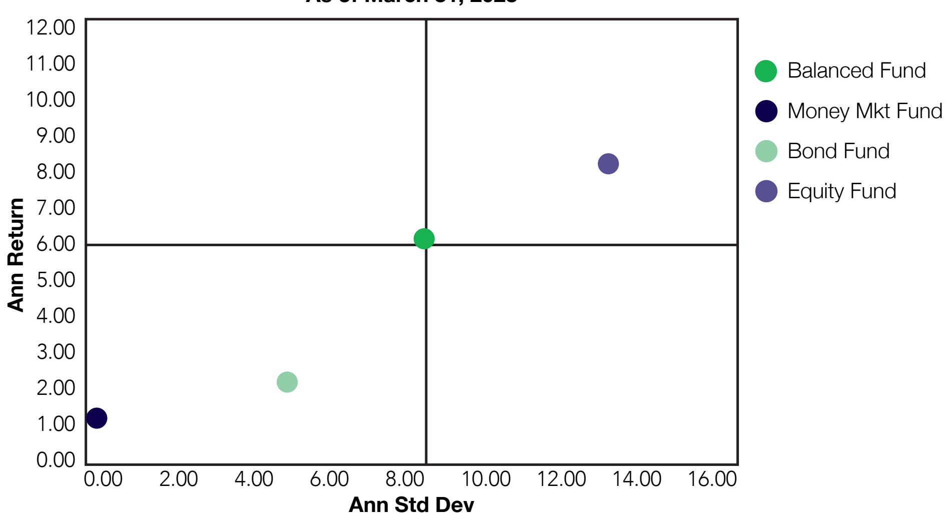
COMPARATIVE RISK

This chart indicates how we expect the annualized volatility of CSS' funds to compare over the long term.



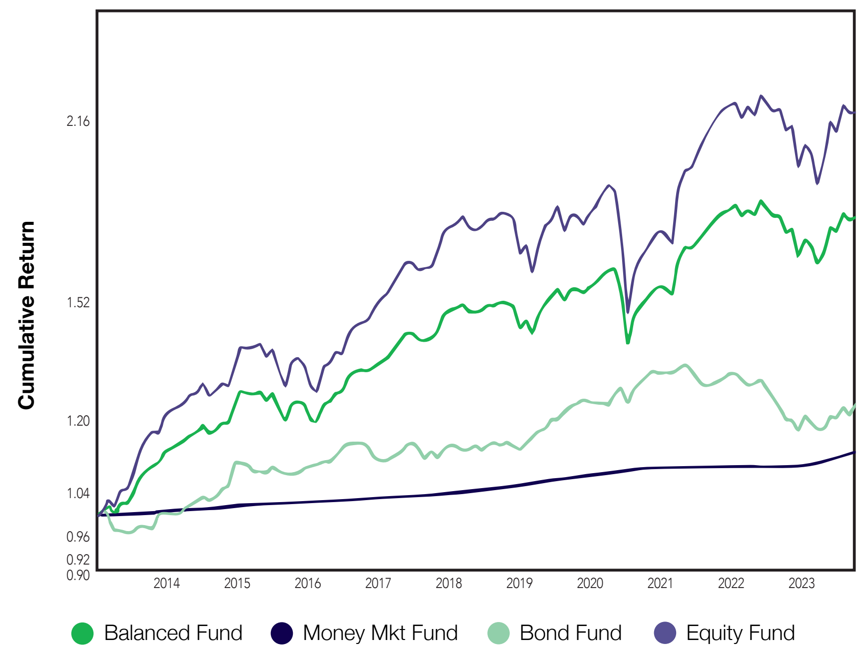
Realized risk and return of CSS funds

As of March 31, 2023



10-YEAR CUMULATIVE PERFORMANCE

10 years ending March 31, 2023 | Growth of a unit value



10-year cumulative performance figures

Balanced Fund	Money Mkt Fund	Bond Fund	Equity Fund
178%	113%	124%	218%

BALANCED FUND | default strategy

MER ▶ 0.52%

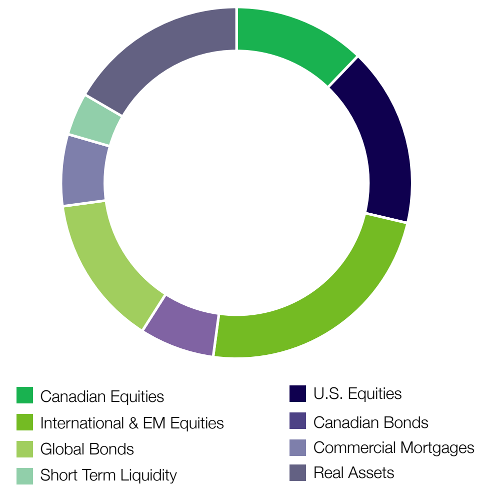
WHO SHOULD INVEST?

- Suitable for members who are seeking growth with moderate volatility/risk
- Those seeking diversified exposure to global equities, fixed income and alternatives
- Medium to long-term investors

FUND OBJECTIVES

- Targeted investment returns of inflation plus four percent
- Moderate long-term volatility
- Periodic annual losses are expected

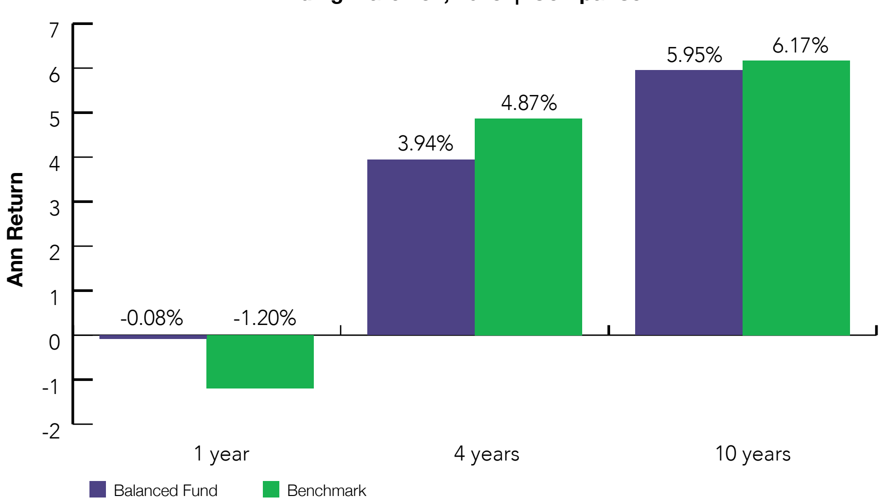
ASSET MIX



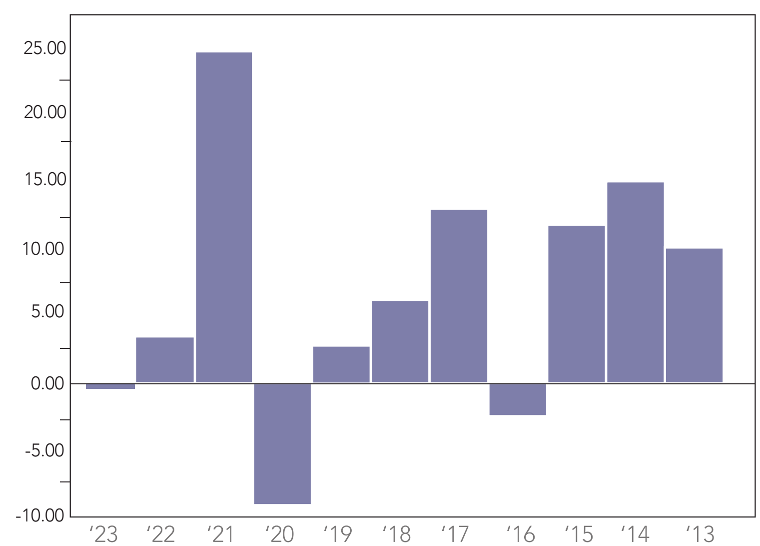
Asset class subgroups	
International Large/Mid Cap Equity	17.44%
Canadian Large Cap Equity	12.16%
U.S. Large Cap Equity	13.44%
Global Bonds	8.30%
Private Canadian Commercial Mortgages	6.60%
Canada Universe Bonds	6.90%
Private Canadian Real Estate	7.45%
Emerging Markets All Cap Equity	6.02%
Emerging Market Debt	5.53%
U.S. Small Cap Equity	3.08%
Private Global Real Estate	0.71%
Private Global Infrastructure	8.46%
Short Term Liquidity	3.91%
TOTAL	100.00%

Annualized Investment Performance to Benchmark

Ending March 31, 2023 | Comparison



Annual returns history (ending March 31, 2023)



EQUITY FUND

MER 0.43%

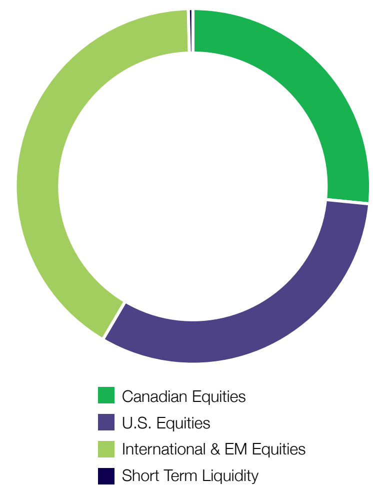
WHO SHOULD INVEST?

- Suitable for members who are looking to improve long-term returns by taking on more investment risk
- Individuals with longer term investment horizons, such as younger members, may find this fund suitable provided they can tolerate the additional volatility
- Medium to high level of investment risk

FUND OBJECTIVES

- Long-term returns consistent with global equity markets
- Annualized volatility expected to average 18 – 20%
- Periodic losses are expected

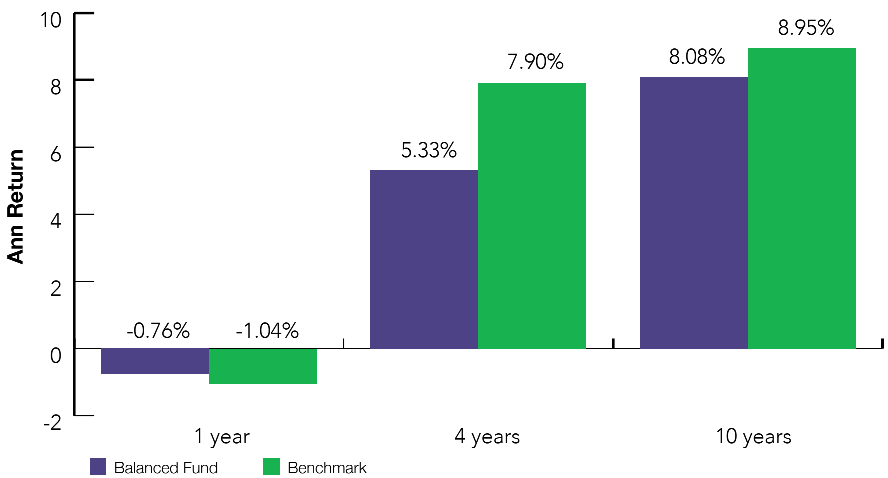
ASSET MIX



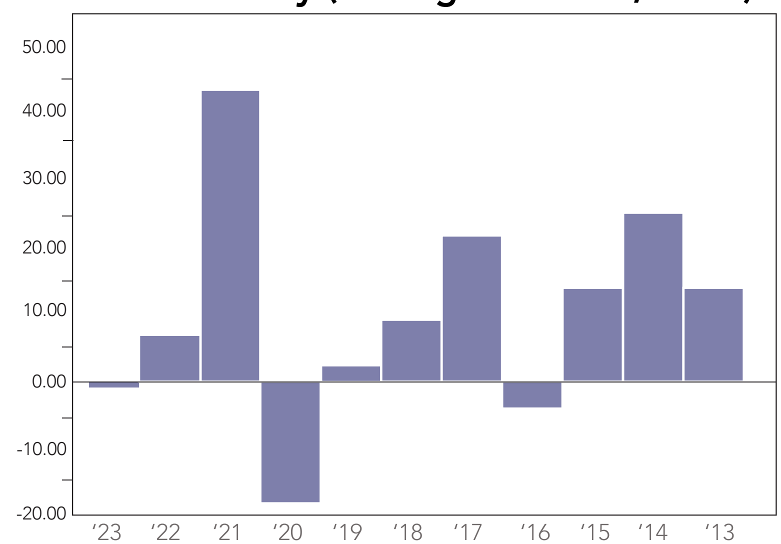
Asset class subgroups	
International Large/Mid-Cap Equity	31.03%
Canadian Large Cap Equity	26.79%
U.S. Large Cap Equity	26.25%
Emerging Markets All Cap Equity	10.42%
U.S. Small Cap Equity	5.92%
Short Term Liquidity	-0.41%
TOTAL	100.00%

Annualized Investment Performance to Benchmark

Ending March 31, 2023 | Comparison



Annual returns history (ending March 31, 2023)



BOND FUND

MER ▶ 0.48%

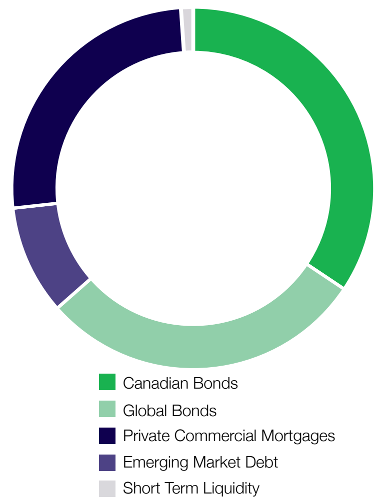
WHO SHOULD INVEST?

- Suitable for members who wish to adjust the amount of their pension funds allocated to fixed income in order to reduce risk
- Members in or approaching retirement can use the Bond Fund to reduce the overall risk of their retirement portfolio where appropriate
- Medium to long-term investors

FUND OBJECTIVES

- The objective of the Bond Fund is to provide a modest long-term return with a risk of occasional short-term losses

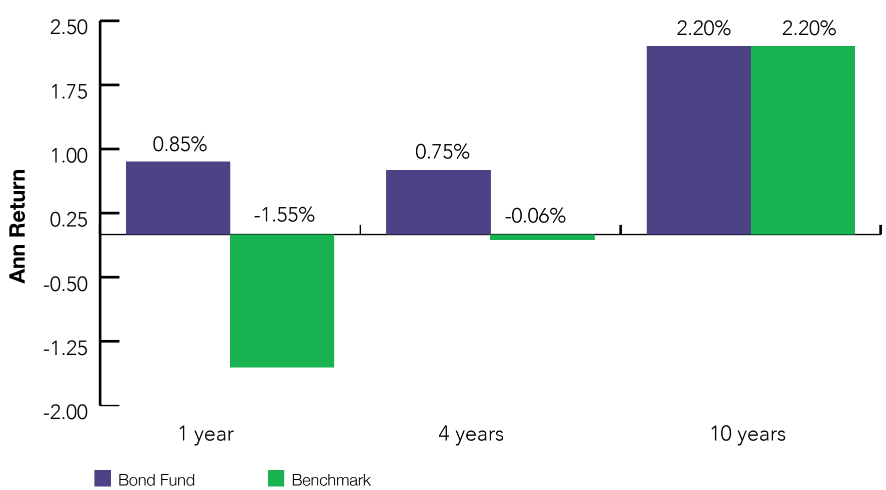
ASSET MIX



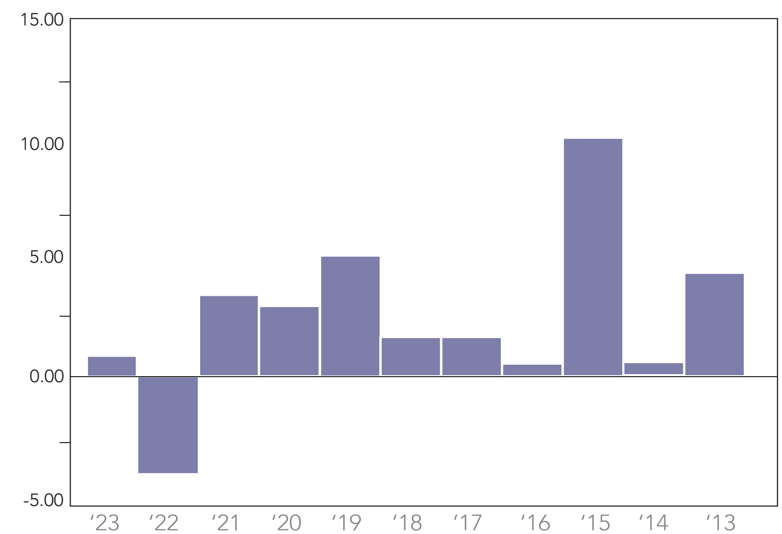
Asset class subgroups	
Core Plus Canada Bonds	34.37%
Global Bonds	29.13%
Private Commercial Mortgages	25.66%
Emerging Market Debt	9.76%
Short Term Liquidity	1.09%
TOTAL	100.00%

Annualized Investment Performance to Benchmark

Ending March 31, 2023 | Comparison



Annual returns history (ending March 31, 2023)



MONEY MARKET FUND

MER ▶ 0.17%

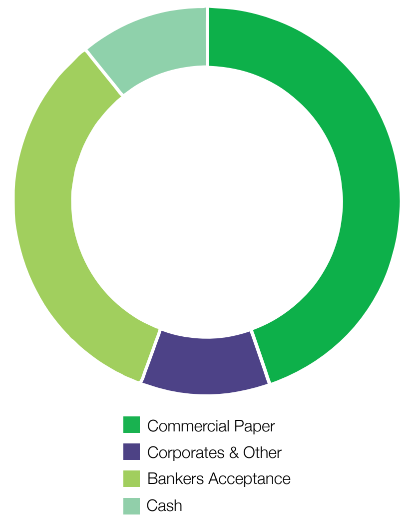
WHO SHOULD INVEST?

- Suitable for members in need of liquidity and preservation of capital
- Retirees can use the fund as a liquidity reserve or spending reserve during retirement
- Members can use the fund to reduce risk
- Short-term investors (not recommended as a long-term investment)

FUND OBJECTIVES

- Provide preservation of capital and liquidity while providing a modest rate of return with limited volatility
- The likelihood of losses are limited but not zero
- Returns are expected to be similar to 91-Day Treasury Bills

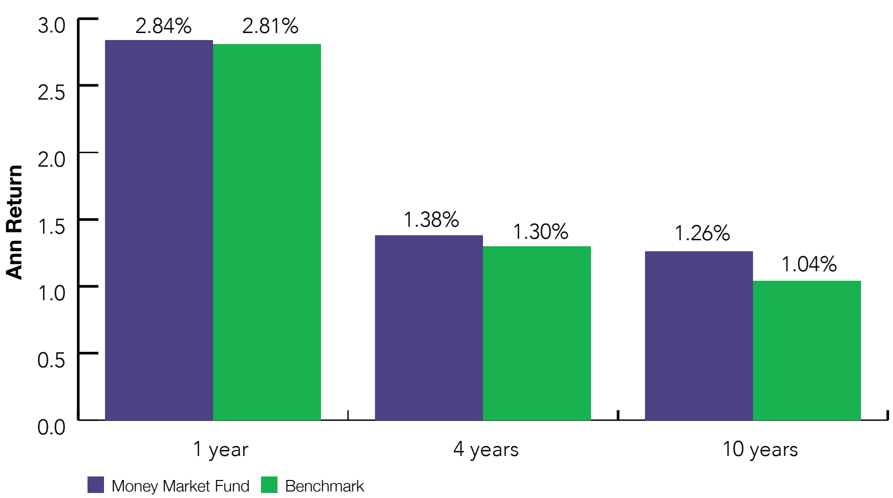
ASSET MIX



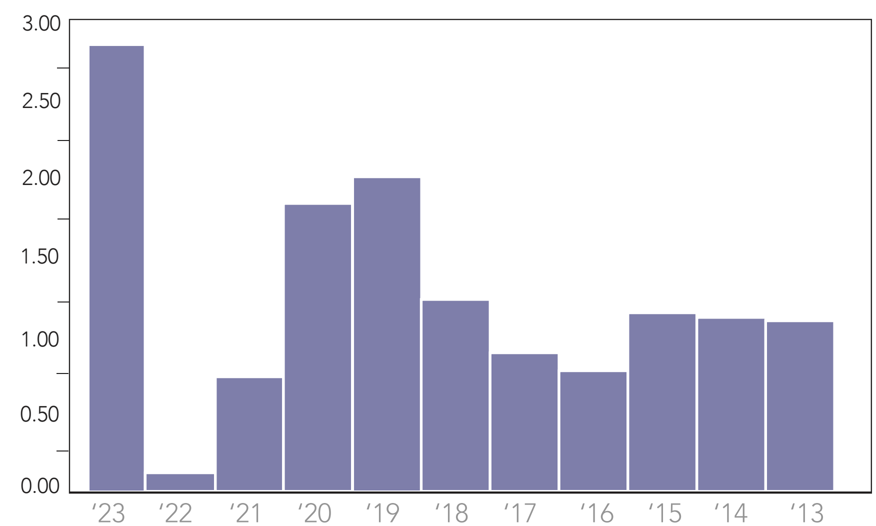
Asset class subgroups	
Commercial Paper	42.97%
Corporates & Other	10.44%
Bankers Acceptance	32.26%
Cash	10.33%
TOTAL	100.00%

Annualized Investment Performance to Benchmark

Ending March 31, 2023 | Comparison



Annual returns history (ending March 31, 2023)



EXPOSURE TO UNDERLYING MANAGERS/FUNDS

ASSET CLASS	INVESTMENT APPROACH	MANAGER/FUND NAME	BENCHMARK	EXPOSURE BALANCED FUND	EXPOSURE EQUITY FUND	EXPOSURE BOND FUND
Canadian Equities	Active	QV Investors	S&P TSX Composite Index	8.05%	16.84%	
Canadian Equities	Active	Scheer Rowlett & Associates	S&P TSX Composite Index	4.11%	9.95%	
U.S. Large Cap Equities	Systematic	Scientific Beta Multifactor	S&P 500 Total Return Index	13.44%	26.25%	
U.S. Small Cap Equities	Active	Hilldsale Investment Management	Russell 2000 Index Total Return Index	3.08%	5.92%	
International Equities	Active	Sprucegrove Investment Management	MSCI EAFE Net Index	8.60%	15.79%	
International Equities	Systematic	JP Morgan Diversified Multifactor	MSCI EAFE Net Index	8.83%	15.24%	
Emerging Equities	Active	Wellington Emerging Market Opportunities	MSCI EM IMI Index	6.02%	10.42%	
Canada Core Plus Bonds	Active	Wellington Canada Universe Bonds Plus	FTSE Canada Universe Bond Index	6.90%		34.37%
Global Bonds	Active	Wellington Opportunistic Fixed Income	Bloomberg Barclay's Global Aggregate Index	8.30%		29.13%
Private Commercial Mortgages	Active	TD Greystone	60% Short Bond + 40% Mid-Bond + 50 bps	6.60%		25.66%
Emerging Market Debt	Active	Blackrock Flexi Dynamic Bond Fund	CDOR + 5%	5.53%		9.76%
Short Term	Active	TDAM Short Term Investments	FTSE Canada 91-Day T-bill Index	3.91%	-0.41%	1.09%
Canada Private Real Estate	Active	TD Greystone	CPI + 4%	7.45%		
Global Private Real Estate	Active	TD Greystone	CPI + 4%	0.71%		
Global Private Real Estate	Active	UBS Asset Management	CPI + 4%	0.00%		
Global Private Infrastructure	Active	JP Morgan IF	CPI + 4%	4.84%		
Global Private Infrastructure	Active	IFM	CPI + 4%	3.62%		
Dynamic Currency Overlay	Active	Mackenzie Financial	Custom			

INVESTING RESOURCES

The following online resources can help you make informed investment decisions tailored to your personal retirement goals.

Risk Tolerance Estimator

Determine the investment mix that is right for you based on your willingness vs. ability to take on risk.

Investor stories

These stories profile typical members should give you "food for thought" as you think about your own situation.

Historical unit prices

View historical unit values for the CSS Pension Plan's investment funds.

PENSION PLAN

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Strength in Numbers.