Second Quarter | June 30, 2021 | Volume 24, Issue 2

CSS PENSION PLAN

Quarterly Update

CSS investment funds

Second quarter returns

Over the second quarter of 2021, the unit price of the Balanced Fund increased from 27.042244000 to 28.162027000 for a gain of 4.14%. Over the same period, the Money Market Fund gained 0.05%, the Equity Fund increased by 5.89% and the Bond Fund increased by 1.21%.

Investment performance

Balanced Fund

1 year returns (%)*		3 year returns (%)*		5 year returns (%)*		10 year returns (%)*	
CSS	**Index**	**CSS**	**Index**	**CSS**	**Index**	**CSS**	**Index**
18.16%	17.70%	6.14%	8.38%	7.10%	8.40%	7.30%	7.68%

Q2 2021

CSS = 4.14%

Index = 4.29%

Money Market Fund

1 year returns (%)*		3 year returns (%)*		5 year returns (%)*		10 year returns (%)*	
CSS	**Index**	**CSS**	**Index**	**CSS**	**Index**	**CSS**	**Index**
0.27%	0.15%	1.39%	1.11%	1.29%	0.95%	1.16%	0.90%

Q2 2021

CSS = 0.05%

Index = 0.03%

Equity Fund

1 year returns (%)*		3 year returns (%)*		5 year returns (%)*		10 year returns (%)*	
CSS	**Index**	**CSS**	**Index**	**CSS**	**Index**	**CSS**	**Index**
30.99%	30.98%	7.29%	10.77%	9.84%	12.15%	9.48%	10.04%

Q2 2021

CSS = 5.89%

Index = 6.12%

Bond Fund

1 year returns (%)*		3 year returns (%)*		5 year returns (%)*		10 year returns (%)*	
CSS	**Index**	**CSS**	**Index**	**CSS**	**Index**	**CSS**	**Index**
-0.48%	-0.96%	4.08%	4.17%	2.66%	2.65%	3.81%	3.90%

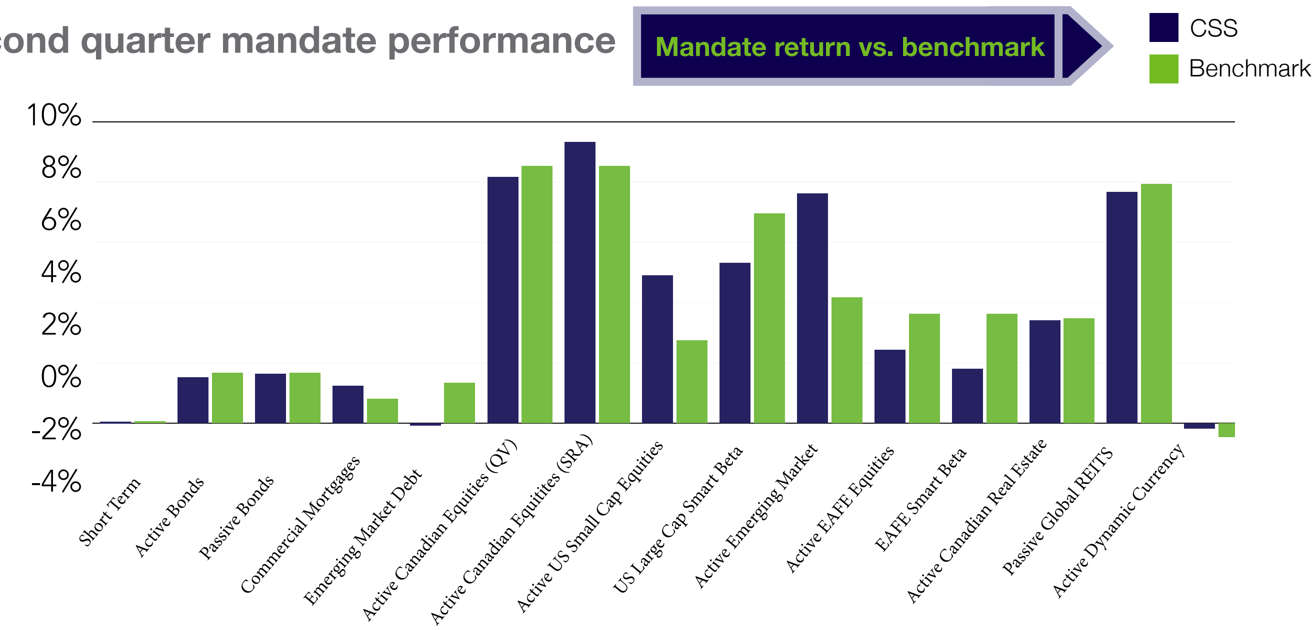
Q2 2021

CSS = -1.21%

Index = 1.41%

Returns in Canadian dollars net of fees

Second quarter mandate performance



Market commentary*

Market Overview

The global stock indices advanced over the quarter despite ongoing anxiety over inflation running hotter than expected, and equity valuations remaining near the high end of historical averages. These concerns were largely assuaged by increasing optimism over a surging global economy, combined with a strong corporate fundamental backdrop.

Equities

The longer-term global macro-outlook remains strong. Continued aggressive monetary and fiscal support from governments and global central banks should help sustain economic growth, and act as a tailwind for stocks. Broader market participation across sectors, industries and geographies is expected over the coming quarters compared to the narrow leadership of companies that propelled markets higher during the pandemic.

U.S. corporate profits have been robust as S&P 500 Index companies delivered earnings significantly ahead of consensus expectations. Positive earnings revisions and earnings growth momentum may continue into future quarters, but likely at more moderate levels, as a high bar has been set.

Overall trends remain positive, as economic data points to an economy that is healing and expanding. U.S. Federal Reserve (The Fed) officials, however, have indicated that the economy is still a long way from its target of full employment and has reiterated its commitment to its current dovish policies.

Improving fundamentals for the Canadian economy are expected despite the continued stay at home orders for many parts of the country during the past quarter. Business activity is set to broadly accelerate as restrictions are lifted and vaccinations progress, which should unleash a consumer spending surge.

The S&P/TSX Composite could deliver relative outperformance to the U.S. following an extended period of underperformance. A weaker U.S. dollar has also been positive for several Canadian sectors, including soft based metals, agriculture and both renewable and traditional fossil energy. Leadership within the Canadian equity market should broaden, with cyclically sensitive Financials and Energy potentially outpacing other sectors. Relative to the U.S., Canadian stocks continue to trade at a discount as measured by forward price-to-earnings multiples, creating attractive opportunities.

The global economic recovery, which started in Asia, and then moved to North America, is now taking hold in Europe. As a result, Europe could see an acceleration in economic growth. Additionally, the continent has ramped up vaccination efforts and cases have dropped significantly.

As restrictions are lifted, Europe's higher exposure to more cyclically oriented sectors should act as a catalyst for a strong recovery in economic activity. From a strategic perspective, economically sensitive stocks in sectors like Financials, Materials, Energy, Consumer Discretionary, and Industrials appear attractive over their peers in the U.S. Europe is also showing vast improvement in levels of industrial production and manufacturing.

In China, growth appears to be slowing as monetary policy conditions tighten. However, the Chinese economy remains strong and equity valuations are attractive relative to developed markets. Strong global demand for Chinese exports should continue to provide a supportive backdrop for Chinese equities and its economy longer term.

Fixed income

The yield curve has steepened over the year driven by pro-cyclical trends, optimism over COVID-19 vaccines, and on forecasts for accelerating growth. The short end remains anchored, driven by dovish central bank policy. Longer term, yields are expected to remain range bound near current levels or rise modestly; however, some volatility can be expected over the next 12-18 months.

From an absolute return perspective, the fixed income landscape has been challenging in 2021, but the rise in longer term yields should be viewed positively as it reflects expectations for stronger economic growth. Despite evidence of rising inflation, rates will likely remain historically low as the Fed and other global central banks continue to incorporate accommodative polices with respect to interest rates and their balance sheets. While the Fed has not clearly stated that it will curb its bond purchasing program anytime soon, expectations are for tapering to occur over the coming quarters. Quantitative easing, combined with

Commentary provided by TDAM, manager of the Plan's passive bond and short term mandates. Returns in local currency unless otherwise stated.

its other accommodative policies, have been credited for providing substantial liquidity and support for markets during the pandemic.

The tapering of bond purchases is viewed as a possible precursor to an initial interest rate hike down the road, as it indicates a shift to a more hawkish policy stance. However, most consensus forecasts do not anticipate a rate hike until 2023. The Fed has expressed a willingness to allow inflation to run hotter than normal, in order for the economy to fully recover, before increasing rates.

Despite the significant recovery in corporate bond spreads from the dramatic widening during the peak of the pandemic, corporate credit continues to provide positive real returns. Investment grade corporate bonds also provide a relative yield advantage, versus domestic government bonds, which remain uncompelling. In high yield, steadily improving fundamentals combined with constructive credit conditions suggest that high yield may offer attractive compensation for risk.

Lastly, inflation linked bonds may provide compelling opportunity as they can protect against inflation and offer portfolio diversification benefits due to their low correlation to traditional fixed income and equities.

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Online resources

Retirement Income Options (RIO)

In lieu of the in-person RIO workshops, we have created an online version of the workshop consisting of the five modules below (Note: The modules have been updated for 2021).

The online workshop is designed to provide members who are nearing retirement (ages 50 and older) with in-depth information about the retirement income options available to them, including pensions, annuities, Variable Benefit payments, LIFs and PRRIFs*. It will also provide you with an overview of CPP and OAS benefits, as well as personal savings vehicles available from financial institutions such as RRSPs and TFSAs.

The online workshop will provide you with the same information that you would expect to receive during the in-person workshop.

For more information visit *www.csspen.com/forms-and-resources/rio-workshops*

**PRRIFs available in SK and MB only.*

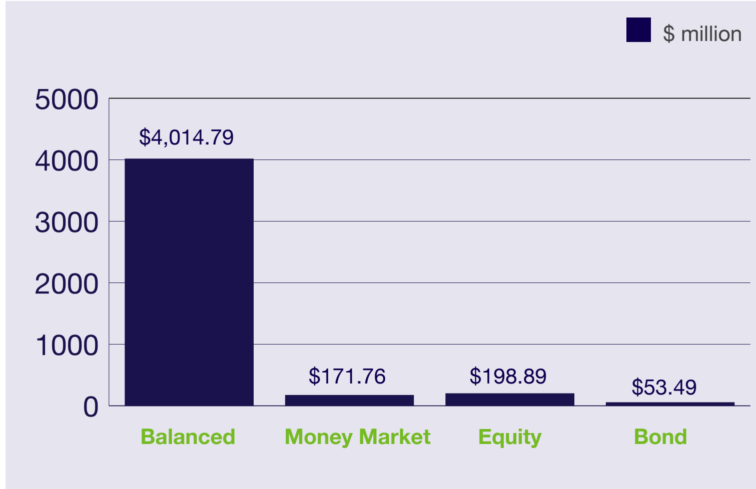
Plan updates

Investment funds

We offer four funds to CSS members for the investment of their pension savings: The 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 April 27, 2021 appear below.

Fund	Members*	Average age	$ Millions	MER (2020)
Balanced	41,643	47.51	$4,014.79	0.43%
Money Market	1,395	61.35	$171.76	0.14%
Equity	2,906	41.45	$198.89	0.46%
Bond	693	52.13	$53.49	0.31%

**Some members are invested in more than one fund*



Investors generally tend to reduce risk by decreasing the percentage of their retirement savings invested in equities 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.

Available modules

- *Module 1 - Federal Programs: CPP and OAS*
- *Module 2 - Personal Savings*
- *Module 3 (SK member version) - CSS Pension Plan*
- *Module 3 (AB member version) - CSS Pension Plan*
- *Module 3 (MB member version) - CSS Pension Plan*
- *Module 4 (SK member version) - Choosing*
- *Module 4 (AB member version) - Choosing*
- *Module 4 (MB member version) - Choosing*
- *Module 5 - Uncertainty of Returns Risk*

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