Q2

Quarterly Investment Report

Quarter ending
June 30, 2026

CSS PENSION PLAN

Quarterly Market Commentary

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

CSS FUND FACTS

$5.7 billion
APPROX. ASSETS UNDER MANAGEMENT

0.63%
BALANCED FUND MANAGEMENT EXPENSE RATIO (MER)

58,000
APPROX. EMPLOYEE MEMBERS

300
APPROX. EMPLOYER MEMBERS

Global financial markets remained resilient through the second quarter of 2026, supported by steady economic growth, improving earnings expectations, and strong momentum in technology-related sectors. Equity markets rebounded sharply from the mid-March lows, with gains led by U.S. equities, and strength extending across global markets, driven by continued enthusiasm around artificial intelligence (AI) and the semiconductor supply chain.

While the broader macroeconomic backdrop remains constructive, underlying conditions are increasingly complex. Economic activity continues to expand modestly, with some pockets of weakness across regions. In the U.S., economic data has generally exceeded expectations, supported by a healthy, though uneven, labour market, steady consumption, and moderating wage growth. Inflation remains sticky, particularly in services and energy-related areas of the economy, suggesting a slower path toward central bank targets.

In fixed-income markets, government bond yields have moved modestly higher relative to earlier in the year, reflecting inflation pressures and evolving expectations for central bank policy. Credit spreads have continued to tighten across both the investment grade and high yield segments, supported by strong corporate fundamentals and low default expectations.

Geopolitical developments, particularly with tensions affecting energy supply chains, have contributed to volatility in oil prices, though commodity markets broadly appear supported over a longer horizon, led by gold and industrial metals. At the same time, currency markets have seen a strengthening U.S. Dollar, reflecting growth differentials and global capital flows.

Despite the resilience of global markets and their strong performance, risks remain. While the near-term outlook remains positive, investors should closely monitor inflation trends, policy developments, and the sustainability of earnings growth, particularly within AI-driven sectors.

Equities

Global equity markets are in positive territory year-to-date on optimism of an eventual Iran resolution and strong earnings growth, particularly in areas driven by AI and data center spending. While there could be volatility depending on the actual Middle East oil flows and AI-related developments, investor

Quarterly Market Commentary continued

sentiment remains constructive on equities due to positive globaleconomic and earnings growth, as well as more pro-business government policies.

Canadian economic growth is expected to remain low, but positive, as a more pro-investment federal government helps offset uncertainty around U.S. trade negotiations. The S&P TSX Composite Index (TSX) sector mix can act as a diversifier for U.S., and Emerging Markets that are heavily influenced by the Information Technology sector. TSX returns are supported by strong earnings growth combined with shareholder friendly dividend and buyback policies.

U.S. equity returns are driven by earnings growth, particularly in Information Technology and sectors that benefit from AI spending. Tax policies under the "One Big Beautiful Bill Act," lagging impact of past U.S. Federal Reserve cuts, and the potential for further deregulation offer additional tailwinds. Key headwinds include concerns around AI driven disintermediation in the Information Technology Software & Services sector and ongoing geopolitical uncertainty.

International equities may lag as earnings growth, while positive, remains lower than in other markets. European earnings could face additional headwinds if energy costs remain above pre-conflict levels. The Japanese market has rallied on the back of corporate reform, a more pro-growth government, and benefits from AI spending, but there may be volatility as the Bank of Japan has raised rates.

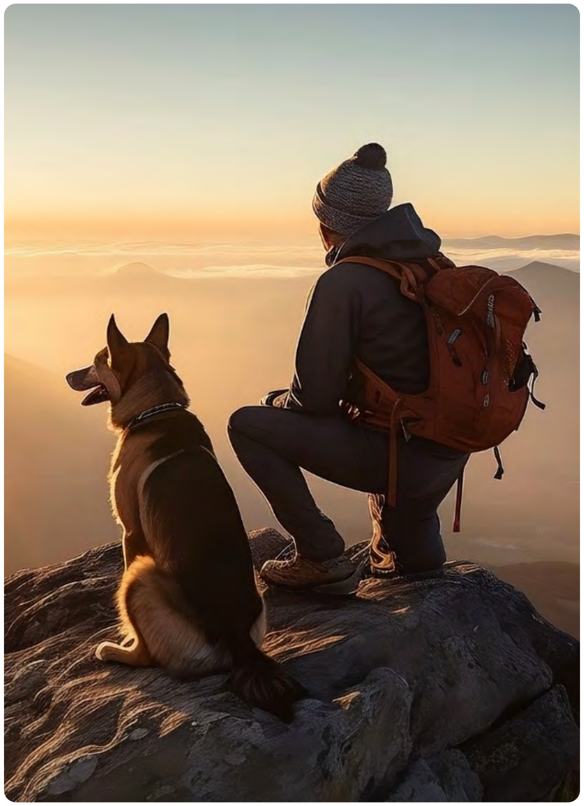
Emerging Markets provide exposure to attractively valued technology companies with strong earnings growth potential. China continues to face challenges with weak domestic consumption and its property market.

Fixed Income

Despite softer domestic data, the Bank of Canada (BoC) remains positioned to be patient given two-sided risks from growth and inflation, with policy expected to stay on hold in the near-term. Although rate volatility and policy uncertainty are expected to persist, global "higher-for-longer" dynamics are anchoring bond yields, keeping income opportunities attractive.

Canadian rates have outperformed recently on weaker data but continue to be driven by global "higher-for-longer bond yields" dynamics. That said, with the front-end of the yield curve anchored by a patient BoC, the long-end of the yield curve could rise as global policy uncertainty persists.

Investment grade corporate spreads remain near cycle tights amid solid fundamentals, but elevated issuance driven by AI-related capital expenditures (CapEx) and mergers and acquisitions (M&A) is creating a supply overhang.



Strong U.S. data point to a "higher growth and higher inflation" economic backdrop, keeping global yields elevated. Monetary policy uncertainty around rate hikes from major central banks like the ECB and BoJ, coupled with an unknown reaction function from the U.S. Federal Reserve, as investors await task force recommendations, are expected to keep global bond markets volatile over the next 6 to 12 months.

Quarterly Market Commentary continued

In high yield credit, fundamentals remain supportive and defaults low, but spreads near cycle tights provide limited compensation for downside risks tied to geopolitics, private credit dynamics, and broader market volatility.

Alternative investments

Alternative assets can benefit diversified portfolios, particularly over the long term. Alternatives can offer inflation protection and attractive absolute returns, while enhancing portfolio stability through diversification and less-correlated income streams. Recent geopolitical developments have reinforced the role of alternatives as sources of resilience. Given the nature of private assets and the current phase of value adjustment across several markets, this may be an opportunity for investors to consider an allocation to alternative assets.

In Canadian Commercial Real Estate office occupancy (especially in Toronto) has begun to improve as large users mandate returns to office. Despite U.S. tariff policy volatility, Canada's industrial market remains healthy. Poor condominium markets and lower immigration have temporarily pressured residential rental rates in Toronto and Vancouver. Long-term multi-unit residentials will likely see strong rental growth due to structural supply-demand imbalance.

In Global Real Estate, returns are starting to improve globally. U.S. and Asian Pacific markets have seen the capitalization rate stabilizing, while Europe continues to outperform. New capital raising and significant redemption rescissions are also early indicators of the improved sentiment for continued recovery.

Infrastructure continues to offer stable returns and lower volatility due to its essential long-term nature. The persistent global infrastructure spending gap remains a key investment driver, reinforcing the need for increased investment. Additionally, accelerating trends such as the electrification of industry and the expansion of digital infrastructure are significantly increasing demand for power generation assets, creating compelling investment opportunities.

Global Private Credit provides premium income through diversified global origination across corporate, real estate, infrastructure, and specialty finance, including middle-market corporate relationships.

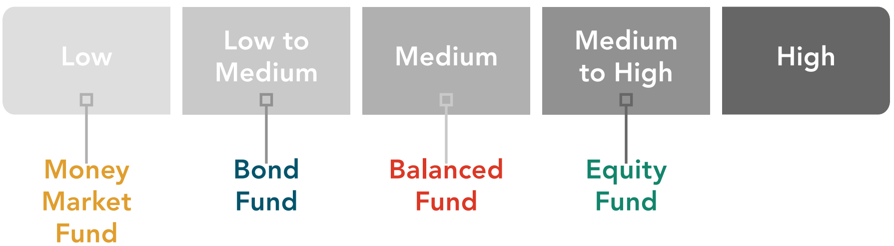
Commodities have strengthened amid supply disruptions, particularly in energy, natural gas, and select industrial inputs. Recent gains appear driven more by curtailed supply than excess demand, reinforcing commodities' role as a portfolio diversifier during periods of geopolitical stress.

Performance and Risk Metrics

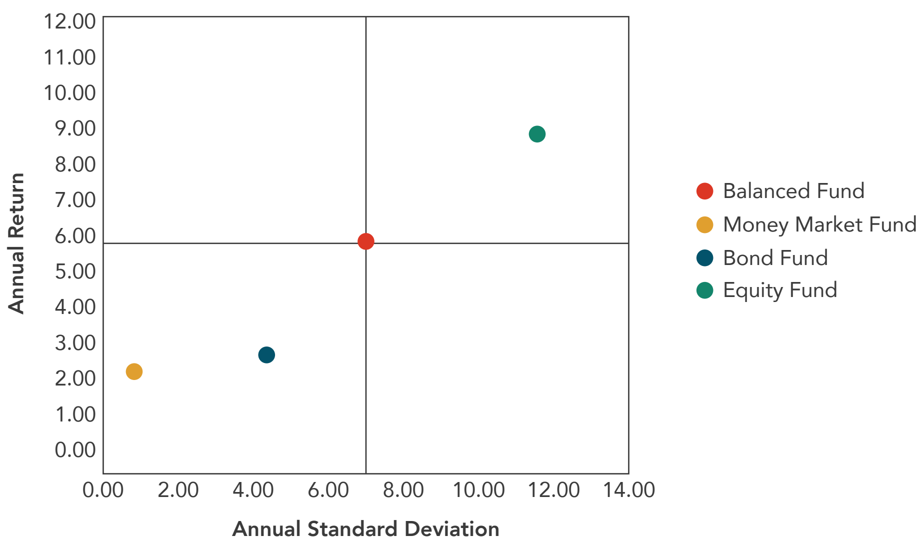
CSS FUNDS

Comparative Risk

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

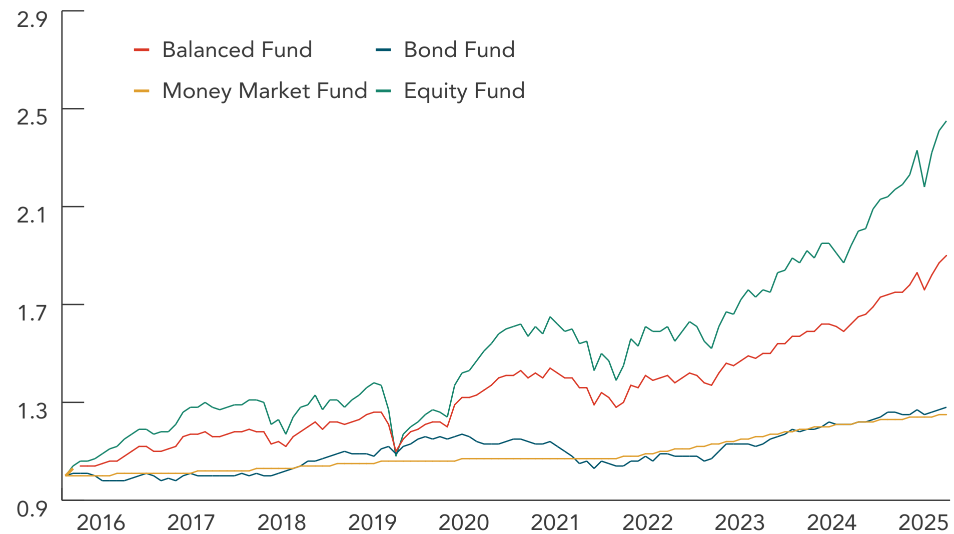


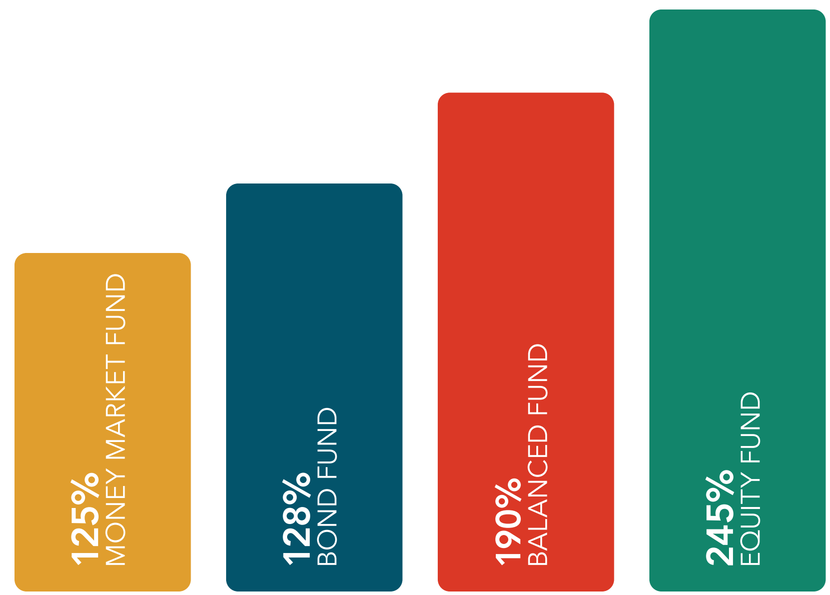
Realized Risk and Return of CSS



10-Year Cumulative Performance

10 years ending June 30, 2026 | Growth of a unit value





Balanced Fund

MER 0.63%

DEFAULT STRATEGY

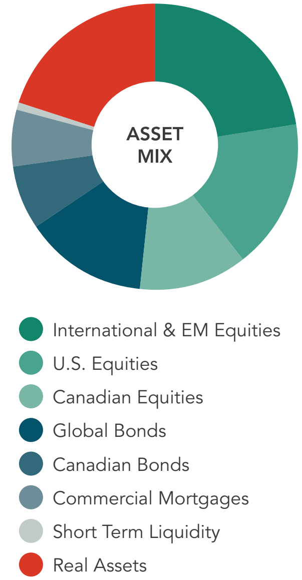
Who Should Invest?

- 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

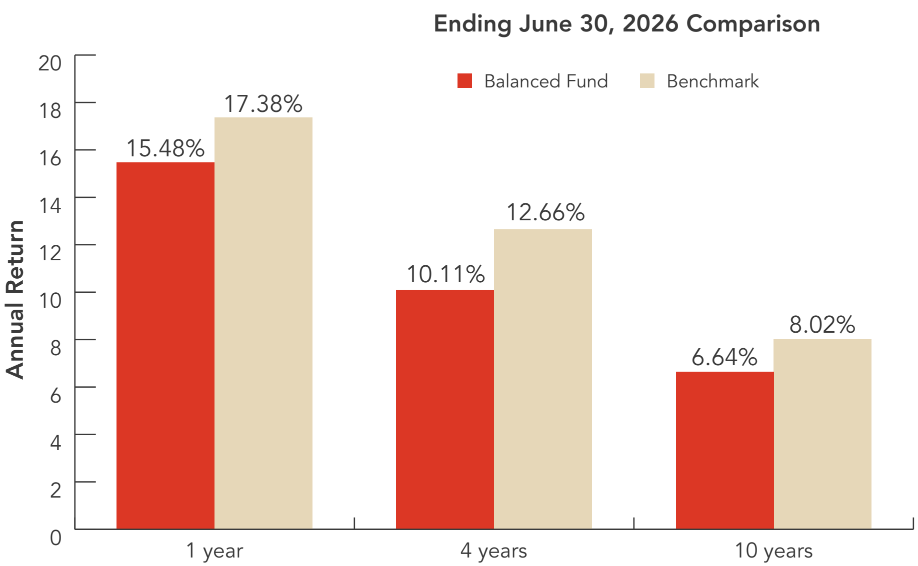
Asset Mix



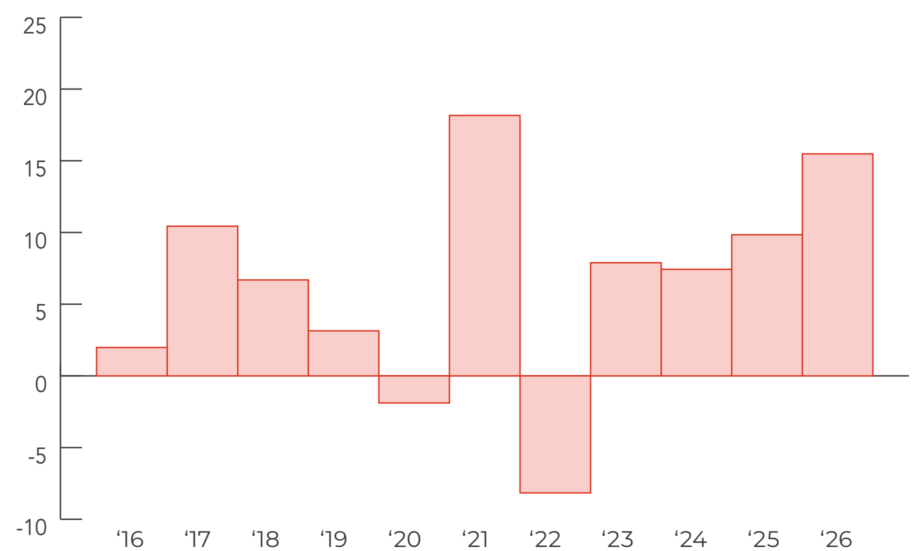
Asset Class Subgroups

International Large/Mid Cap Equity	16.12%
Canadian Large Cap Equity	12.26%
U.S. Large Cap Equity	13.33%
Global Bonds	7.79%
Private Canadian Commercial Mortgages	6.41%
Canada Universe Bonds	7.22%
Private Canadian Real Estate	4.63%
Emerging Markets All Cap Equity	6.60%
Emerging Market Debt	6.20%
U.S. Small Cap Equity	3.43%
Private Global Real Estate	5.18%
Private Global Infrastructure	10.06%
Short Term Liquidity	0.76%
TOTAL	**100.00%**

Annualized Investment Performance to Benchmark



Annual Returns History (ending June 30, 2026)



Equity Fund

MER 0.42%

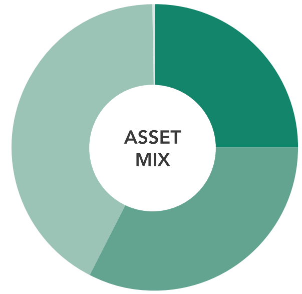
Who Should Invest?

- 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

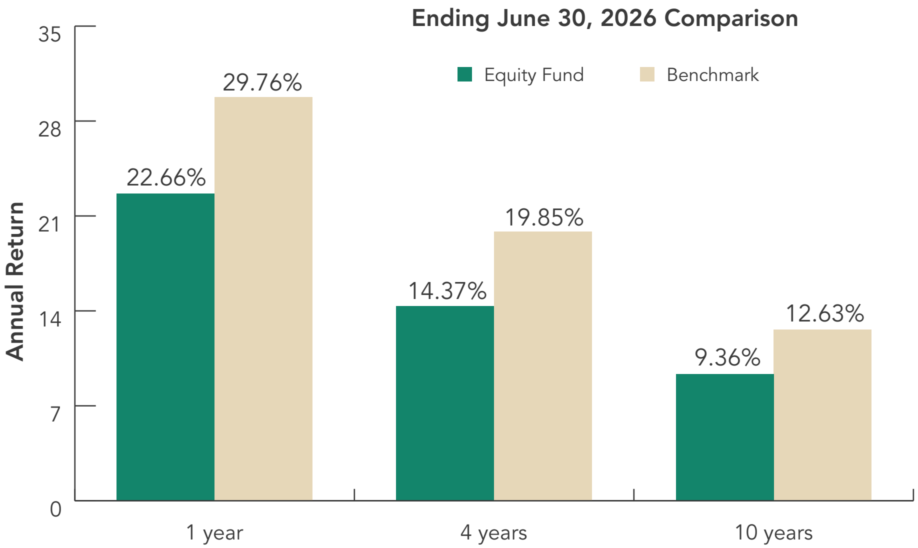
Asset Mix



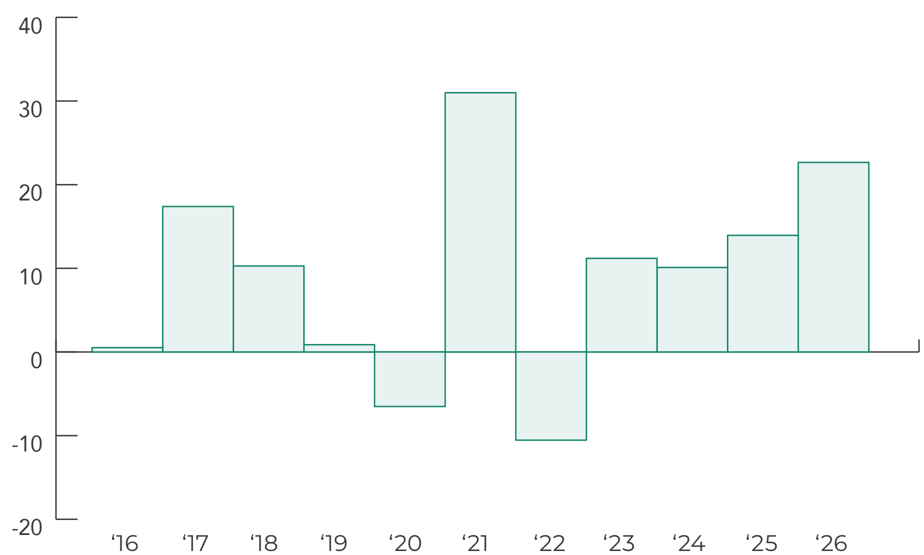
Asset Class Subgroups

International Large/Mid Cap Equity	31.21%
Canadian Large Cap Equity	25.36%
US Large Cap Equity	26.27%
Emerging Markets All Cap Equity	11.44%
US Small Cap Equity	6.44%
Short Term Liquidty	-0.73%
TOTAL	**100.00%**

Annualized Investment Performance to Benchmark



Annual Returns History (ending June 30, 2026)



Bond Fund

MER 0.41%

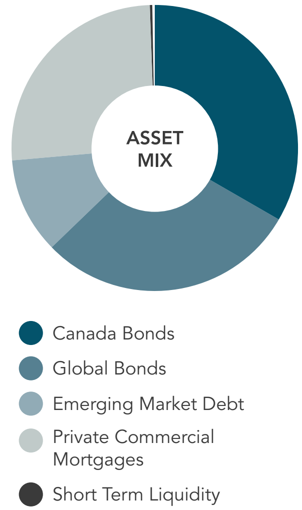
Who Should Invest?

- 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

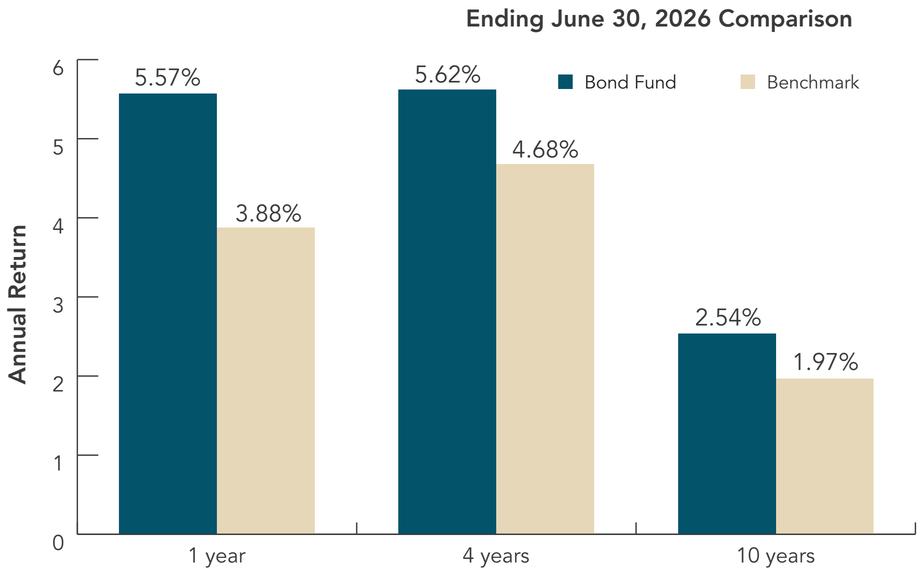
Asset Mix



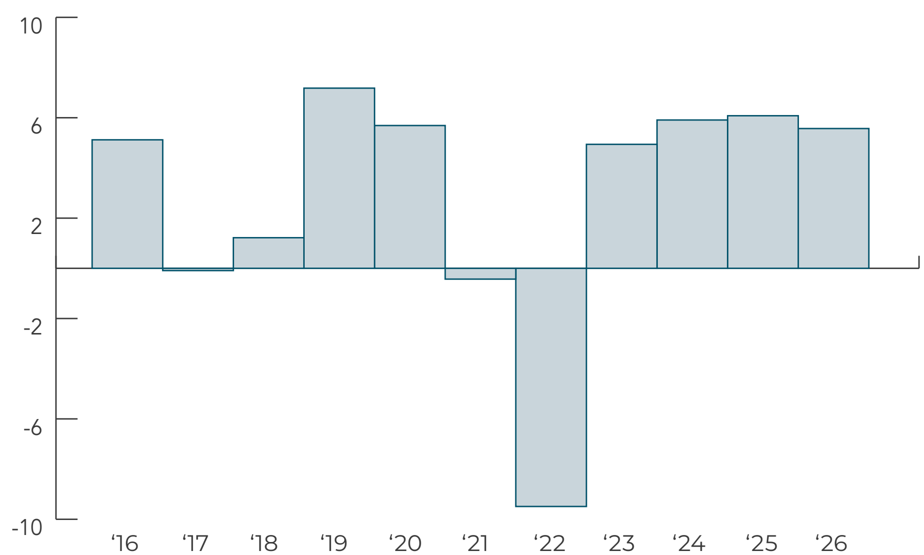
Asset Class Subgroups

Core Plus Canada Bonds	33.59%
Global Bonds	29.36%
Emerging Market Debt	10.89%
Private Commercial Mtges	25.63%
Short Term Liquidity	0.54%
TOTAL	**100.00%**

Annualized Investment Performance to Benchmark



Annual Returns History (ending June 30, 2026)



Money Market Fund

MER 0.16%

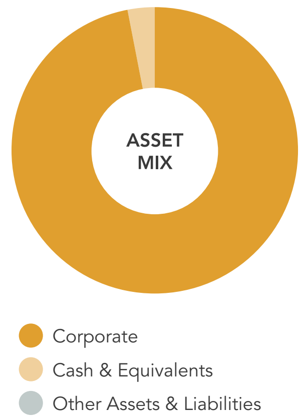
Who Should Invest?

- 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

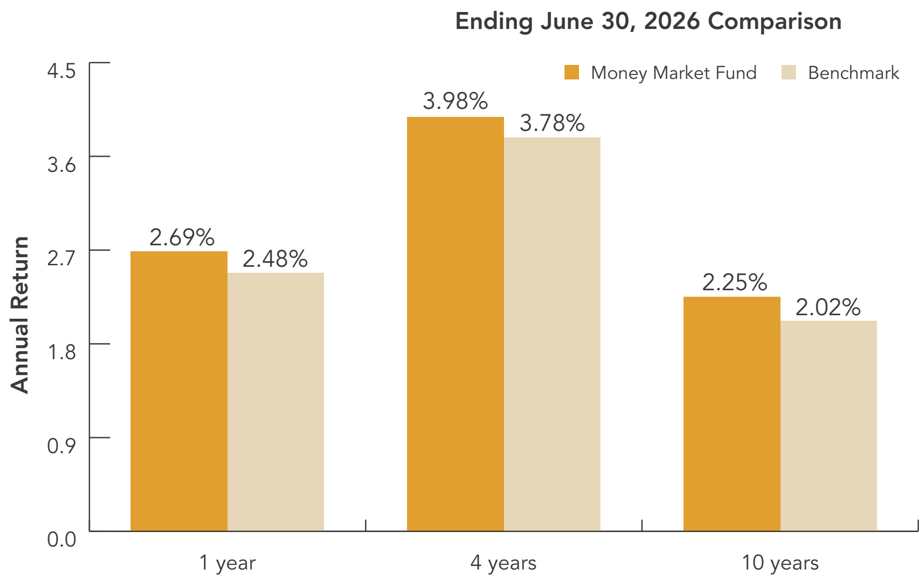
Asset Mix



Asset Class Subgroups

Cash and Cash Equivalents	3.00%
Corporate	97.09%
Other Assets and Liabilities	-0.09%
TOTAL	**100%**

Annualized Investment Performance to Benchmark



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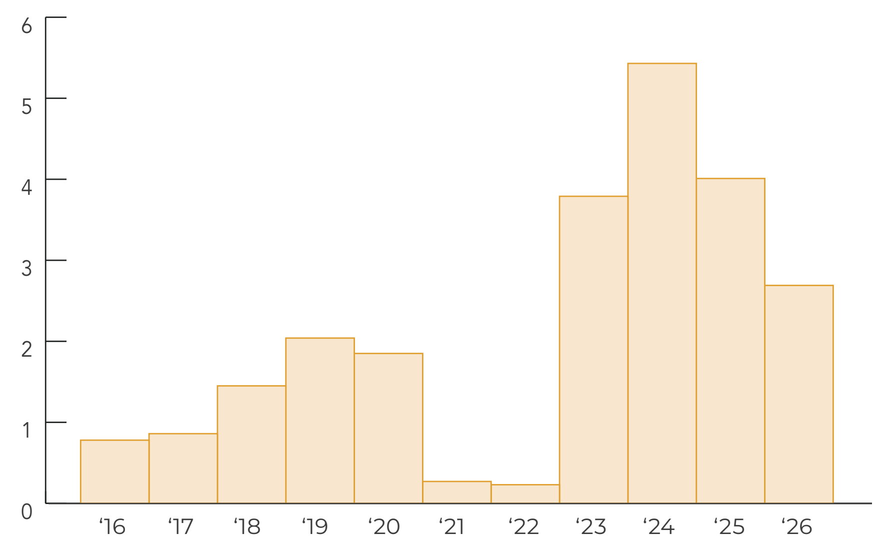

Exposure to Underlying Managers/Funds

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	8.11%	15.86%	
Canadian Equities	Active	Scheer Rowlett & Associates	S&P TSX Composite index	4.15%	9.50%	
U.S. Large Cap Equities	Systematic	Scientific Beta Multifactor	S&P 500 Total Return index	6.30%	12.96%	
U.S. Large Cap Equities	Active	GMO	S&P 500 Total Return index	7.03%	13.30%	
U.S. Small Cap Equities	Active	Hilldsale Investment Management	Russell 2000 Total Return index	3.43%	6.44%	
International Equities	Active	Sprucegrove Investment Management	MSCI EAFE Net index	8.08%	15.35%	
International Equities	Systematic	JP Morgan Diversified Multifactor	MSCI EAFE Net index	8.04%	15.85%	
Emerging Equities	Active	Wellington Emerging Market Opportunities	MSCI EM IMI index	6.60%	11.44%	
Canada Core Plus Bonds	Active	Wellington Canada Universe Bonds Plus	FTSE Canada Universe Bond Index	7.22%		33.59%
Global Bonds	Active	Wellington Opportunistic Fixed Income	Bloomberg Barclay's Global Aggregate Index	7.79%		29.36%
Private Commercial Mortgages	Active	TD Greystone	60% Short bond + 40% mid bond + 50 bps	6.41%		25.63%
Emerging Market Debt	Active	Blackrock Flexi Dynamic Bond Fund	JP Morgan JEMBI Sovereign Only	6.20%		10.89%
Short Term	Active	TDAM Short Term Investments	FTSE Canada 91 day T-bill index	0.76%	-0.73%	0.54%
Canada Private Real Estate	Active	TD Greystone	CPI + 4%	4.63%		
Global Private Real Estate	Active	TD Greystone	CPI + 4%	1.94%		
Global Private Real Estate	Active	UBS Asset Management	CPI + 4%	3.24%		
Global Private Infrastructure	Active	JP Morgan IIF	CPI + 4%	6.05%		
Global Private Infrastructure	Active	IFM	CPI + 4%	4.01%		
Dynamic Currency Overlay	Active	Mackenzie Financial	Custom			
				100%	100%	100%

Additional 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.

CSS 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.

CSS PENSION PLAN
PO Box 1850
333 3rd Avenue N, 5th Floor
Saskatoon, SK S7K 3S2

Phone: (306) 477-8500
Toll-free: 1-844-427-7736
Fax: (306) 244-1088
Email: css@csspension.com

www.csspension.com

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