

# Q2

## Quarterly Investment Report

Quarter ending  
June 30, 2024



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

**\$5.1 billion**

APPROX. ASSETS  
UNDER MANAGEMENT

**0.66%**

BALANCED FUND MANAGEMENT  
EXPENSE RATIO (MER)

**55,400**

APPROX. EMPLOYEE MEMBERS

**299**

APPROX. EMPLOYER MEMBERS

The pace of consumer spending in the U.S. appears to be slowing as overall household borrowing has slowed dramatically since the U.S. Federal Reserve ("the Fed") started raising rates two years ago, and consumer credit growth, running at around 2%, is at its slowest pace outside of a recession.

With pandemic-savings cushions largely exhausted, consumers may be tightening their belts. Spending on durable goods, which are big ticket items like vehicles and furniture, has also cooled. However, the job market remains strong. Hiring accelerated so far in 2024, enabled by much faster population growth than the official statistics captured, thanks to increased migration. That said, hiring looks set to slow with recent data showing employer demand has normalized to pre-pandemic levels. That should help turn down the heat on inflation trends in the service sector. However, core inflation on a year-on-year basis is expected to remain a bit on the high side of the Fed's comfort level through 2024 due to unfavourable base effects. We suspect the Fed will look through that to form a decision to cut rates at the end of this year.

## Equities

Equity market returns remain positive year-to-date. While the U.S. market, and in particular technology-related names, are among the leaders, all S&P 500 Index sectors and many major equity markets are up this year. We believe that the equity market has a balanced return outlook. While earnings are growing (as represented by the MSCI All Country World Index), this has been partially captured by the market in valuations.

Canadian gross domestic product (GDP) growth has slowed and inflation has subsided. As a result, the BoC recently announced a 25 basis points reduction of its policy rate. The indication that rates have peaked and potential for further reductions is supportive for the economy. The TSX Composite Index offers some attractive opportunities with strong free cash flows within the Energy sector, relatively inexpensive Financials stocks, and reasonable overall valuation.

The U.S. labour market and GDP growth have remained robust. S&P 500 Index returns this year have been driven by both multiple expansion and earnings growth.

Global economic momentum gained a step relative to expectations but, even so, the Bank of Canada ("BoC") and European Central Bank ("ECB") began rate-cut cycles; the first G7 central banks to do so. The BoC cutting the policy rate for the first time this cycle was good

# Quarterly Market Commentary continued

news for an economy coping with the highest policy rate in over twenty years. The Canadian economy should benefit from interest rate relief, but overall economic momentum is forecast to remain subdued as indebted consumers continue to adjust. Consumer spending is expected to cool even though the BoC has started to cut interest rates, as borrowing costs remain higher than the COVID-19 pandemic lows. Additionally, a softening labour market is expected to weigh on the pace of consumer spending.

The unemployment rate has already climbed a full percentage point in 12 months, and it may rise further by the end of this year. The result is a more balanced job market to take steam out of wage growth and assist in anchoring inflation towards the 2% target on a sustainable basis.

The ECB joined the Bank of Canada in reducing interest rates alongside cooling inflation. Eurozone growth has surprised to the upside in early 2024, albeit from low expectations. Nonetheless, forecast revisions are now leaning toward upgrades, as the prospect of lower interest rates creates some optimism that a floor can be maintained under economic momentum. However, the risk of an uptick in inflation from geopolitical tensions or solid domestic labour markets remains ever-present.

China exceeded forecasters' economic expectations in the quarter, leading to an upgrade to 2024 gross domestic product (GDP). With a 5% growth target almost assured,

there is doubt that the government will provide more stimulus to the economy. Ultimately, China's aging demographics and restructuring of the economic drivers will maintain a slowing growth trajectory as the years progress.

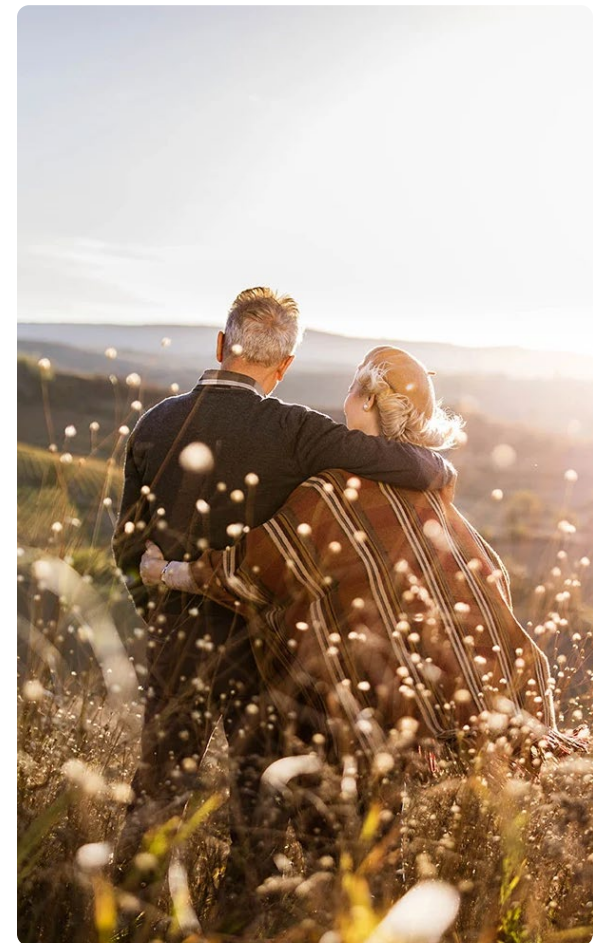
In the U.S., economic growth this year is expected to nearly match 2023's pace, at 2.4%. However, this is partly due to a very strong 4% hand-off in the second half of 2023, which has boosted the 2024 average. By the end of this year, U.S. growth is expected to slow to 1.7% on a Q4 over Q4 basis, as the longevity of higher interest rates create more weight under the normalization of savings and job markets.

While mega-cap technology firms are a significant contributor to returns, partly driven by AI opportunities, all S&P 500 Index sectors are in positive territory and the index may command a premium valuation due to its higher technology exposure.

While macroeconomic conditions are sluggish, particularly in Europe, we feel that international equity valuations are overly discounted and that future returns will be more inline with global markets. Japanese equities look attractive on a relative basis, with momentum building behind a corporate reform agenda aimed at boosting profitability and valuation multiples.

The Chinese equity market has rebounded recently. We believe that further upside might be more limited as the country continues to work through the challenges in its property sector.

Some emerging market central banks appear to have paused their rate hiking cycle, with Brazil and Chile cutting rates. While this is supportive of better domestic growth in these countries, it might be partially offset by the impact weaker global growth could have on exports.



# Quarterly Market Commentary continued

## Fixed Income

If the Canadian economy continues to evolve as it has in the first half of 2024, we anticipate that the BoC will deliver more rate cuts into the end of the year. Although bond yields have fallen as expected ahead of the turn in the monetary policy cycle, there is room for them to fall further if the BoC can continue to predictably reduce its restrictive monetary policy stance. Over the longer term, we believe government bonds remain appealing due to their potential to generate positive nominal returns.

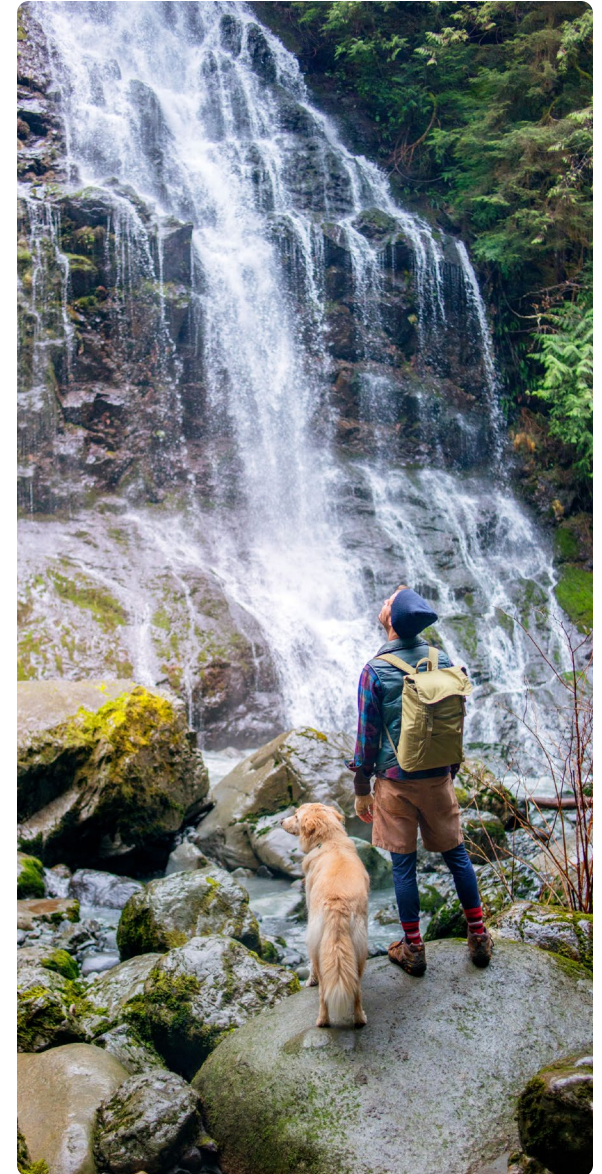
Investment grade spreads remain tight overall and reflect a modest softening of the global economic backdrop. We see Canadian investment grade corporate bonds as more attractive than U.S. investment grade corporates as spreads in Canada continue to be meaningfully wider.

As more leading central banks begin cutting rates to ease the restrictiveness of monetary policy, investor attention is turning to the uncertainty emanating from global elections. As election-induced, idiosyncratic policy risks weigh on markets, the evolution of each central bank's easing cycle and bond returns are not foregone conclusions.

For example, we anticipate the U.S. Fed will be in a position to cut its policy rate as early as September, which should have positive implications for U.S. bond market returns. However, the upcoming U.S. election may

impact investors' economic forecasts for 2025 and beyond, and in turn, capital market valuations across all asset classes. Therefore, we expect opportunities across developed market bonds to vary over the next 12 to 18 months.

The dispersion of returns within emerging markets continues to present opportunities on a tactical basis. While yields remain attractive in some regions, local-currency government bonds in many emerging market countries have already priced-in significant rate cutting cycles and therefore there is reduced potential for emerging market bonds to outperform developed market bonds. A strengthening U.S. dollar and persistent volatility in U.S. government bond yields may also be a headwind for emerging market countries with high levels of U.S. dollar liabilities.

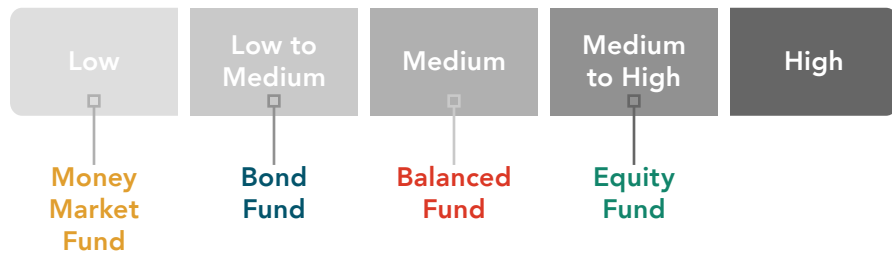


# Performance and Risk Metrics

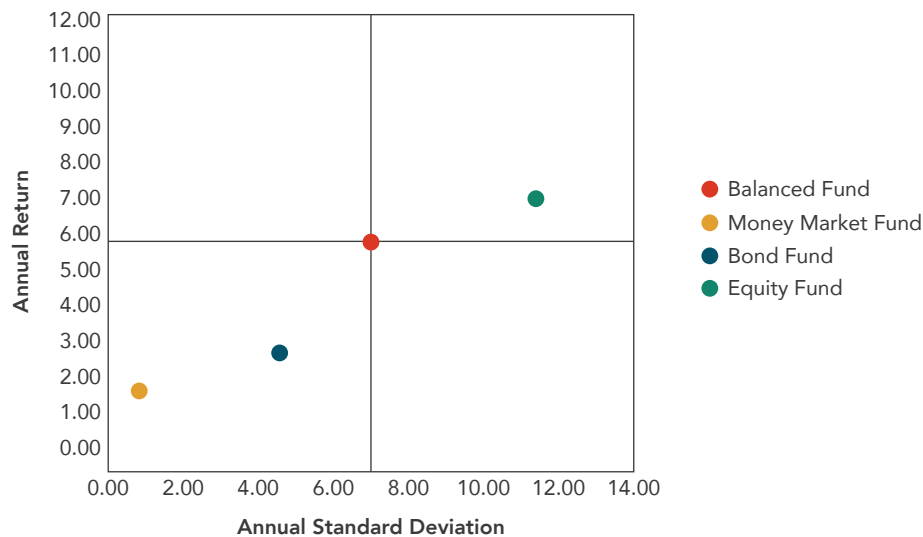
## CSS FUNDS

### Comparative Risk

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

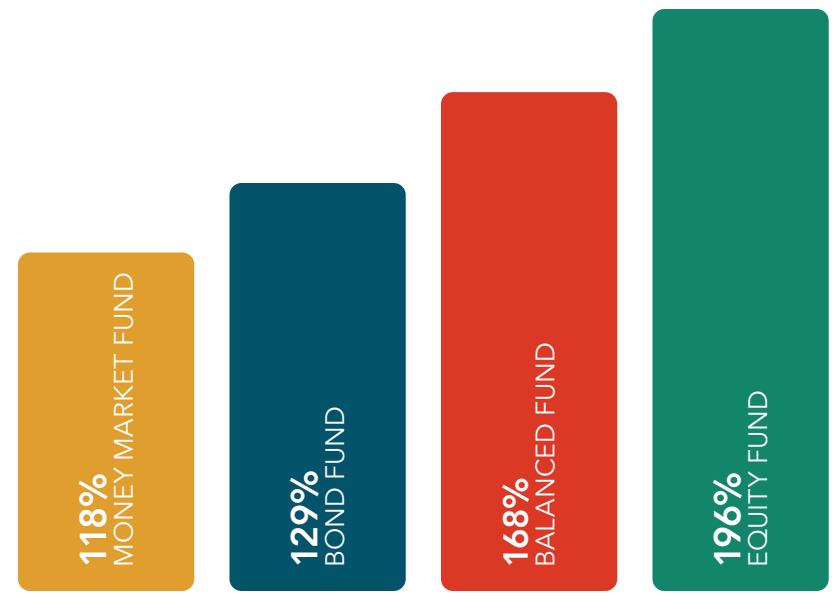
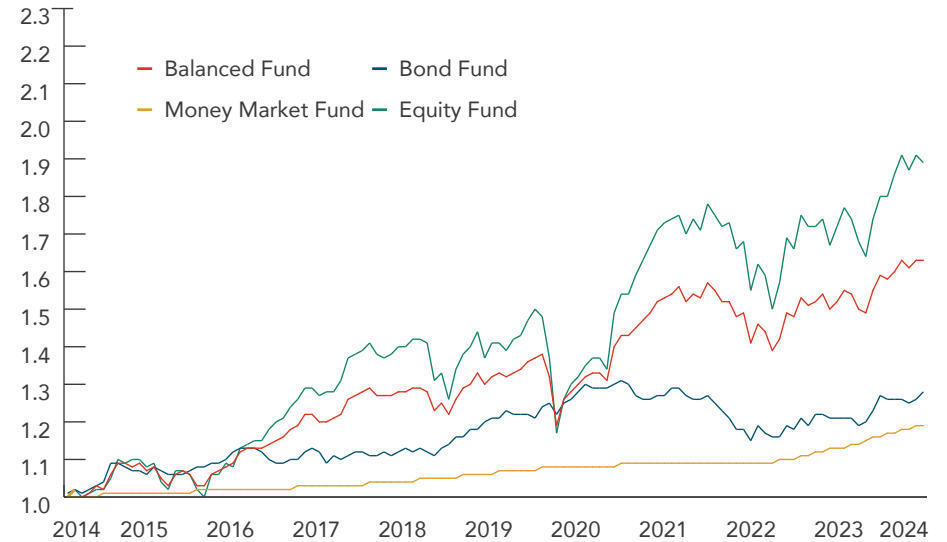


### Realized Risk and Return of CSS



## 10-Year Cumulative Performance

10 years ending June 30, 2024 | Growth of a unit value



# Balanced Fund

**MER 0.66%**

## DEFAULT STRATEGY

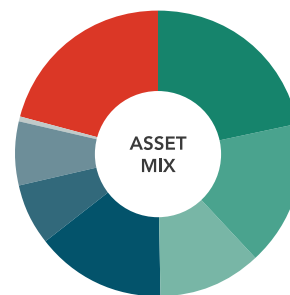
### Who Should Invest?

- ▶ 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

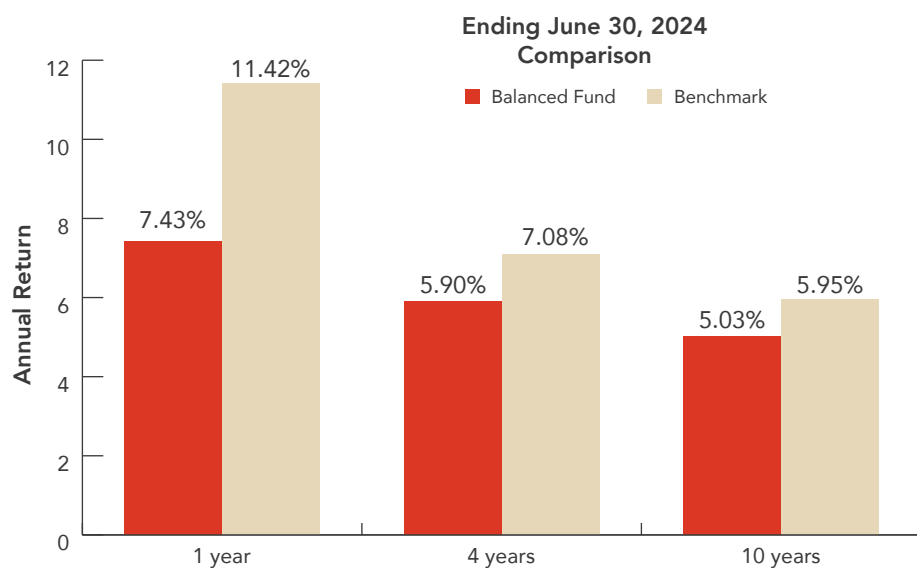


- International & EM Equities
- U.S. Equities
- Canadian Equities
- Global Bonds
- Canadian Bonds
- Commercial Mortgages
- Short Term Liquidity
- Real Assets

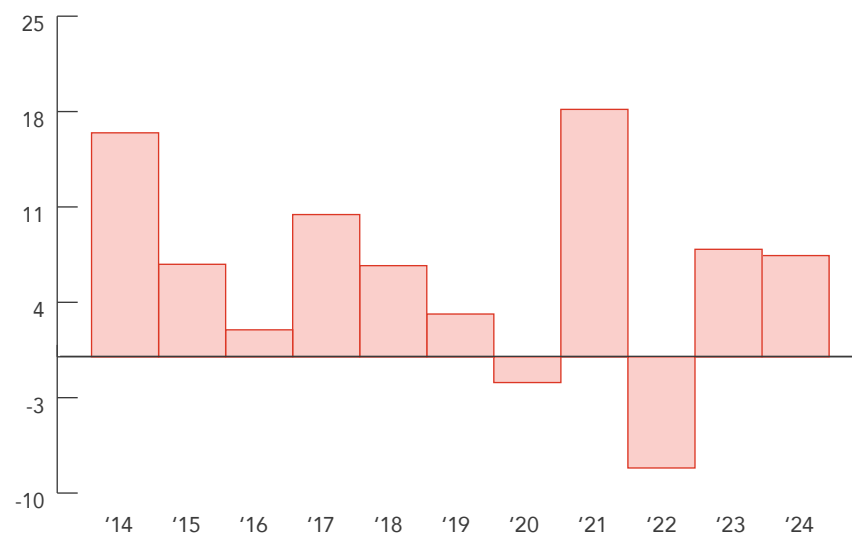
## Asset Class Subgroups

International Large/Mid Cap Equity	15.98%
Canadian Large Cap Equity	11.68%
U.S. Large Cap Equity	13.28%
Global Bonds	8.37%
Private Canadian Commercial Mortgages	7.19%
Canada Universe Bonds	7.12%
Private Canadian Real Estate	6.66%
Emerging Markets All Cap Equity	5.94%
Emerging Market Debt	6.15%
U.S. Small Cap Equity	3.06%
Private Global Real Estate	4.94%
Private Global Infrastructure	9.19%
Short Term Liquidity	0.43%
<b>TOTAL</b>	<b>100.00%</b>

## Annualized Investment Performance to Benchmark



## Annual Returns History (ending June 30, 2024)



# Equity Fund

**MER 0.46%**

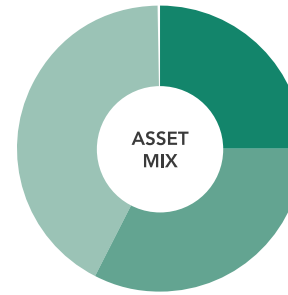
## Who Should Invest?

- ▶ 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

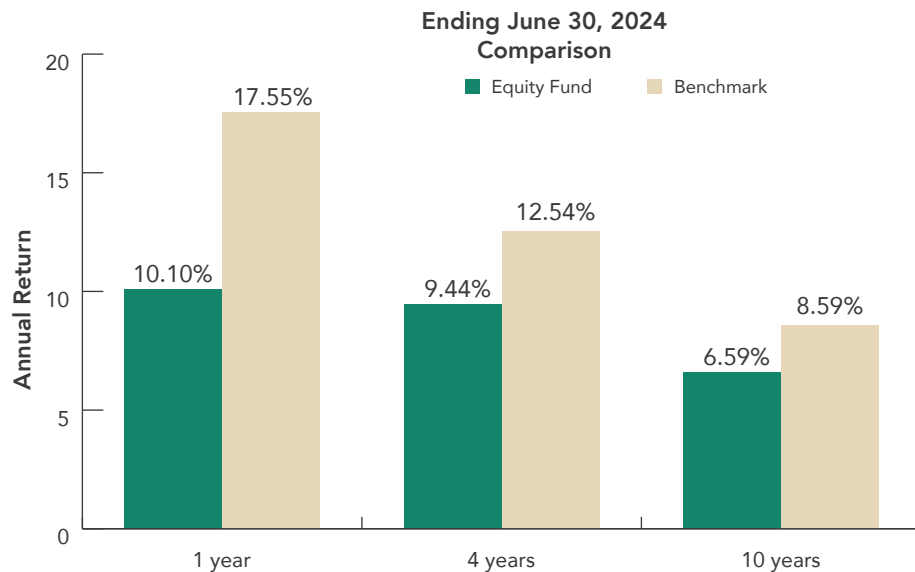


- Canadian Equities
- US Equities
- International & EM Equities
- Short Term Liquidity

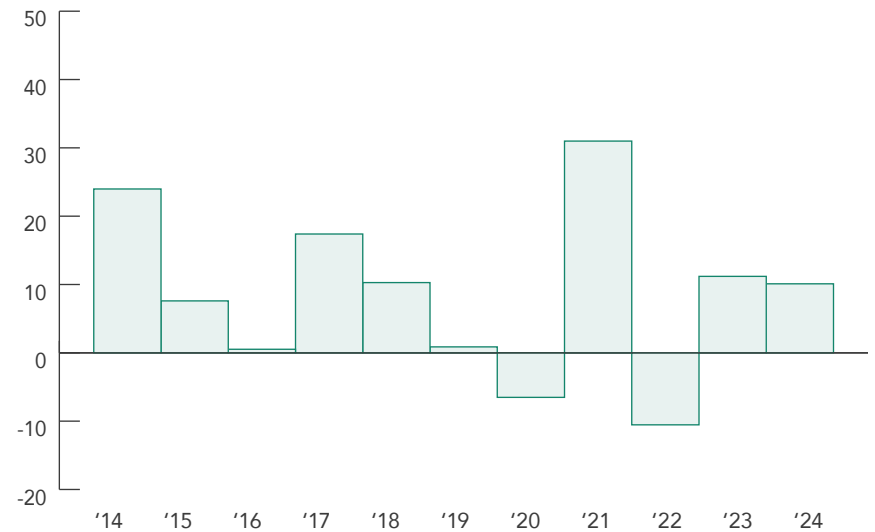
## Asset Class Subgroups

International Large/Mid Cap Equity	31.79%
Canadian Large Cap Equity	24.94%
US Large Cap Equity	28.27%
Emerging Markets All Cap Equity	10.06%
US Small Cap Equity	6.04%
Short Term Liquidity	-1.10%
<b>TOTAL</b>	<b>100.00%</b>

## Annualized Investment Performance to Benchmark



## Annual Returns History (ending June 30, 2024)



# Bond Fund

MER 0.57%

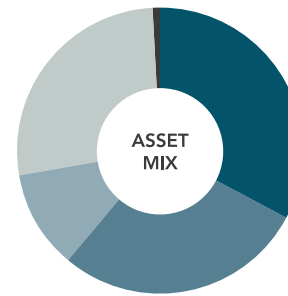
## Who Should Invest?

- ▶ 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

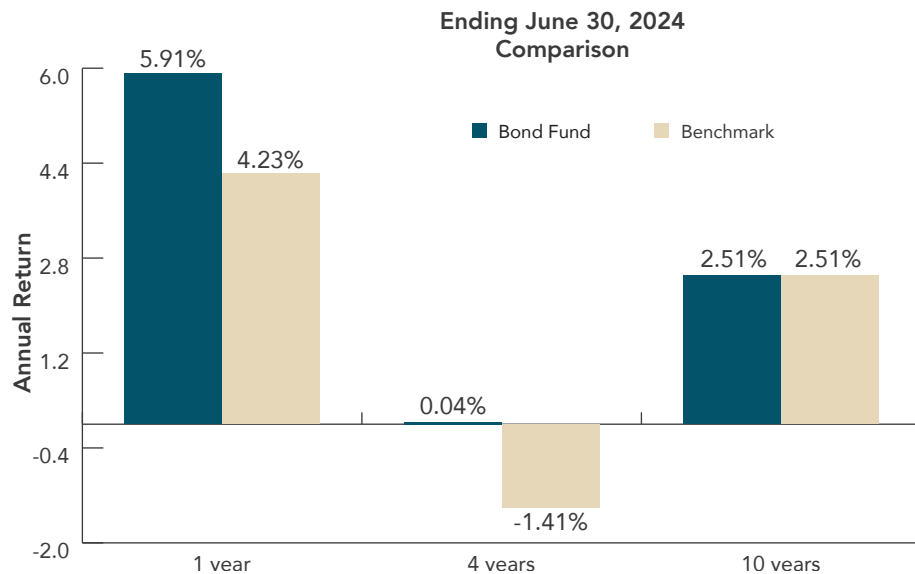


- Canada Bonds
- Global Bonds
- Emerging Market Debt
- Private Commercial Mortgages
- Short Term Liquidity

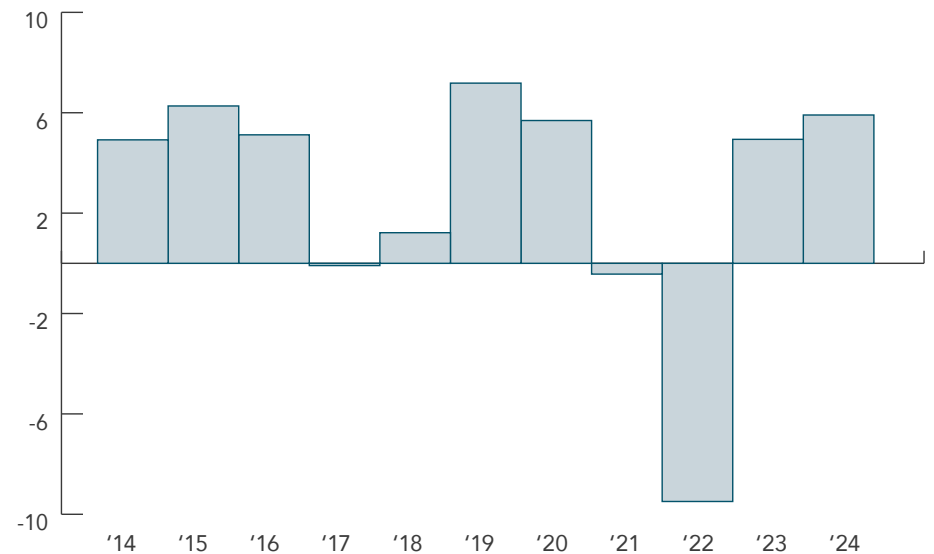
## Asset Class Subgroups

Core Plus Canada Bonds	33.05%
Global Bonds	28.18%
Emerging Market Debt	11.20%
Private Commercial Mtges	26.75%
Short Term Liquidity	0.82%
<b>TOTAL</b>	<b>100.00%</b>

## Annualized Investment Performance to Benchmark



## Annual Returns History (ending June 30, 2024)





# Money Market Fund MER 0.21%

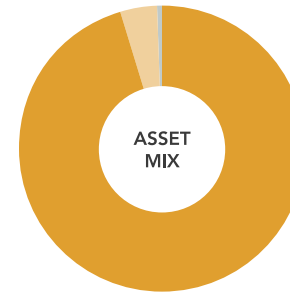
## Who Should Invest?

- ▶ 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

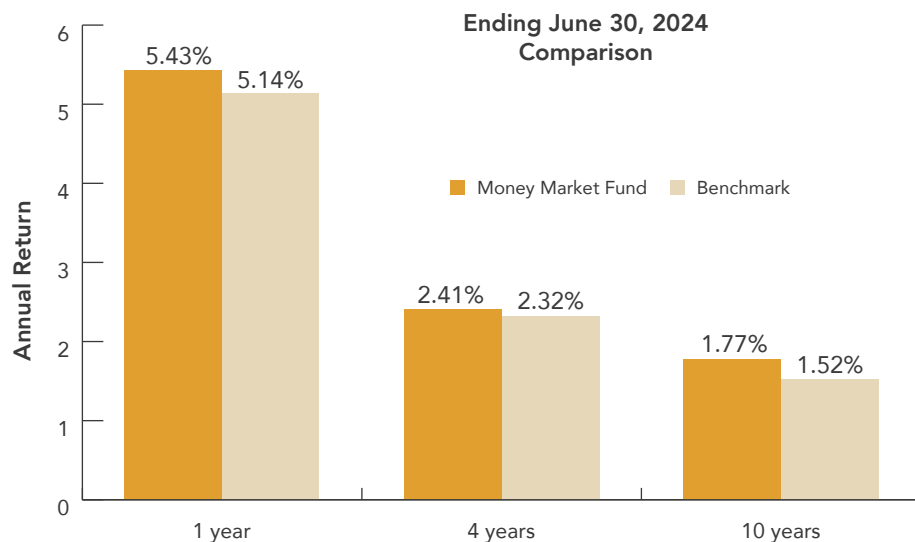


- Corporate
- Cash & Equivalents
- Federal

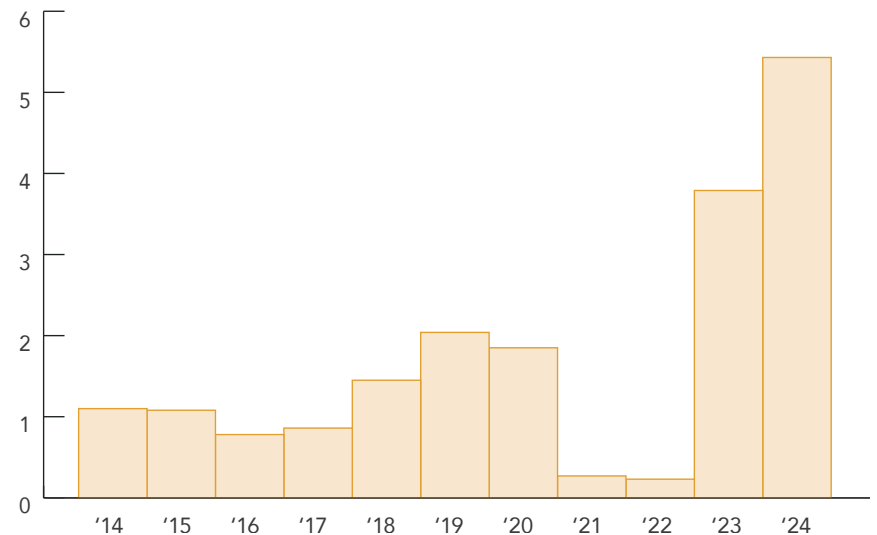
## Asset Class Subgroups

Cash and Cash Equivalents	4.1%
Corporate	95.5%
Federal	0.4%
<b>TOTAL</b>	<b>100%</b>

## Annualized Investment Performance to Benchmark



## Annual Returns History (ending June 30, 2024)



# 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	7.52%	15.90%	
Canadian Equities	Active	Scheer Rowlett & Associates	S&P TSX Composite index	4.16%	9.04%	
U.S. Large Cap Equities	Systematic	Scientific Beta Multifactor	S&P 500 Total Return index	12.18%	26.08%	
U.S. Large Cap Equities	Passive	TDAM US Equity	S&P 500 Total Return index	1.10%	2.18%	
U.S. Small Cap Equities	Active	Hilldsale Investment Management	Russell 2000 Total Return index	3.06%	6.04%	
International Equities	Active	Sprucegrove Investment Management	MSCI EAFE Net index	7.92%	15.83%	
International Equities	Systematic	JP Morgan Diversified Multifactor	MSCI EAFE Net index	8.06%	15.96%	
Emerging Equities	Active	Wellington Emerging Market Opportunities	MSCI EM IMI index	5.94%	10.06%	
Canada Core Plus Bonds	Active	Wellington Canada Universe Bonds Plus	FTSE Canada Universe Bond Index	7.12%		33.05%
Global Bonds	Active	Wellington Opportunistic Fixed Income	Bloomberg Barclay's Global Aggregate Index	8.37%		28.18%
Private Commercial Mortgages	Active	TD Greystone	60% Short bond + 40% mid bond + 50 bps	7.19%		26.75%
Emerging Market Debt	Active	Blackrock Flexi Dynamic Bond Fund	JP Morgan JEMBI Sovereign Only	6.15%		11.20%
Short Term	Active	TDAM Short Term Investments	FTSE Canada 91 day T-bill index	0.43%	-1.10%	0.82%
Canada Private Real Estate	Active	TD Greystone	CPI + 4%	6.66%		
Global Private Real Estate	Active	TD Greystone	CPI + 4%	1.14%		
Global Private Real Estate	Active	UBS Asset Management	CPI + 4%	3.79%		
Global Private Infrastructure	Active	JP Morgan IIF	CPI + 4%	5.34%		
Global Private Infrastructure	Active	IFM	CPI + 4%	3.85%		
Dynamic Currency Overlay	Active	Mackenzie Financial	Custom			
				<b>100%</b>	<b>100%</b>	<b>100%</b>

# 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](mailto:css@csspension.com)

[www.csspension.com](http://www.csspension.com)

