# Q1

# Quarterly Investment Report

Quarter ending
March 31, 2024

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

**$5.1 billion**
APPROX. ASSETS UNDER MANAGEMENT

**0.66%**
BALANCED FUND MANAGEMENT EXPENSE RATIO (MER)

**55,400**
APPROX. EMPLOYEE MEMBERS

**299**
APPROX. EMPLOYER MEMBERS

## The global economic outlook has evolved broadly in line with our expectations from last quarter.

One exception is the U.S., which continues to show remarkable strength. Advanced economy central banks are holding steady as she goes for now, placing the burden of proof on the data to provide reassurance that a reduction in interest rates won't accelerate inflation after a hard-fought battle.

We would expect that the European Central Bank (ECB) and the Bank of Canada (BoC) would be among the first to lower rates, likely mid-year. The economy has materially downshifted in both regions, but earlier in Europe due to the fallout of Russia/Ukraine War. Europe has also experienced a more decisive cooling in inflation than Canada. Once interest rates head lower, economic momentum would gain a step as the year comes to an end, but still trail the impressive pace of the United States.

China's economy is still on track to slow from 2023, reflecting the ripple effects from the overhang in the housing market. The government has set a 5% target for real gross domestic product growth in 2024. Previously announced stimulus measures should help growth this year, but absent structural reforms, this will only be a band aid fix. China's economy will continue to struggle with its long-term growth prospects. In the meantime, excess capacity in China's good-producing sectors is lending a hand to cooling global inflation, offering a timely offset to the rise in shipping costs from conflict in the Red Sea.

The U.S. economy continues to defy expectations in the face of high interest rates. We still expect growth to gear down this year, but to a lesser extent than before. Consumer spending is tracking a solid 2.6% pace in the first quarter, but households will really have to dig into savings and wealth to maintain this pace going forward, and we're betting against that dynamic. A resilient domestic demand and labor market have stymied a previously favorable downtrend trend in inflation. This is starting to dash hopes that the U.S. can achieve its 2% target without some degree of growth-sacrifice in the economy. It also shows that the U.S. Federal Reserve was wise to be cautious in signaling that interest rate cuts were imminent. We have maintained an out-of-consensus view on the timing of U.S. Federal Reserve interest rate cuts since last year, with an expectation that July is likely the better timing rather than market pricing that went from a March expectation all the way to being repriced for June. This is the right directional shift, but we could still see possible further delay if inflation fails to make material progress in the next two-to-three months.

For its part, Canada's economy is muddling along. Economic growth in the fourth quarter of last year was better than expected, but looking under the hood, every component of demand in the domestic economy has shown signs of weakness. Consumer spending growth is looking a little better in the first quarter, boosted by auto sales. But considering that the population is expected to grow at a +3% pace in 2024 Q1, consumer spending is still projected to underperform on a per capita basis. This will extend the downtrend, which has been ongoing since the BoC started raising interest rates in 2022. Inflation has made progress in cooling across most categories, except shelter. Financial markets have been anticipating interest rate cuts, and bond yields have been trending down since the fall, taking mortgage rates lower. This has reignited Canada's housing

# Quarterly Market Commentary continued

market, and we expect residential investment will post a decent performance this year, as it rebounds off last year's lows. Business investment is also looking a little brighter in 2024, as Statistics Canada's capital expenditure survey showed stronger-than-expected investment planned for the year ahead, led by significant new investments in support of the clean energy transition. This should help Canada's growth pick back up to its trend pace by the end of 2025.

## Equities

We believe that the equity market has a balanced return outlook. While earnings growth is in positive territory globally (as represented by the MSCI All Country World Index), this has been partially captured by the market in expanding valuations and elevated investor sentiment. Canadian gross domestic product growth has slowed, but with the full effect of higher rates on the consumer and real estate market yet to be seen, the Canadian economy could remain weak. That said, strong free cash flows within the Energy sector, and relatively inexpensive Financials stocks, may present attractive opportunities.

The U.S. labour market and gross domestic product growth have remained robust. The S&P 500 Index has resumed year-over-year earnings growth, which has contributed to rising valuations and positive investor sentiment. The S&P 500 Index commands a premium valuation due to its higher technology exposure.

International stocks remain challenged by weaker corporate returns and slowing macroeconomic conditions, particularly in Europe. Overall, we feel that this may limit further gains, however 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 economy is showing signs of stabilization, and the government remains focused on supporting growth, but challenges remain in the 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.

## Fixed Income

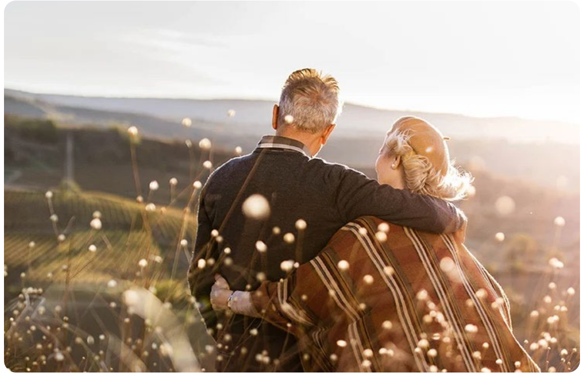
The BoC remains patient in its monetary policy stance, waiting on continued evidence of decelerating inflation. Similar to the bond market, we expect the first rate cut to emerge at the BoC's June meeting. Based on yield patterns observed in historical easing cycles, we anticipate bond yields to decline over the next three months, or sooner if weakness in the labour market emerges.

Over the longer term, we believe government bonds continue to remain appealing due to their potential to generate positive nominal returns.

Investment grade spreads have tightened in recent months and continue to reflect a very modest softening of the global economic backdrop. We continue to see the best opportunities in lower duration corporate bonds given their appealing all-in yields and are more cautious on longer duration corporate bonds due to the uncertain global economic outlook.

While the Bank of Japan has finally ended yield curve control and negative policy rates, it has not dropped its accommodative monetary policy stance. Other central banks have decisively shifted to policy easing, with the Swiss National Bank being the first among developed markets to lower its policy rate. Leading central banks, including the U.S. Federal Reserve, are expected to follow suit in the summer. However, each market faces large idiosyncratic risk factors, so the future evolution of each central bank's easing cycle is not a foregone conclusion. 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 some opportunities. We continue to maintain a neutral outlook as yields are attractive in some regions where central banks had proactively hiked interest rates before the U.S. Federal Reserve. Bond returns will likely underperform in other regions where central banks are still early in normalizing monetary policy. All-in yields remain elevated, but have declined in recent months, indicating strong potential returns. However, we continue to expect financial conditions to tighten and drive a deterioration of corporate credit fundamentals. This may create a particularly challenging backdrop for corporations with elevated debt loads, increasing overall volatility and downside risk.

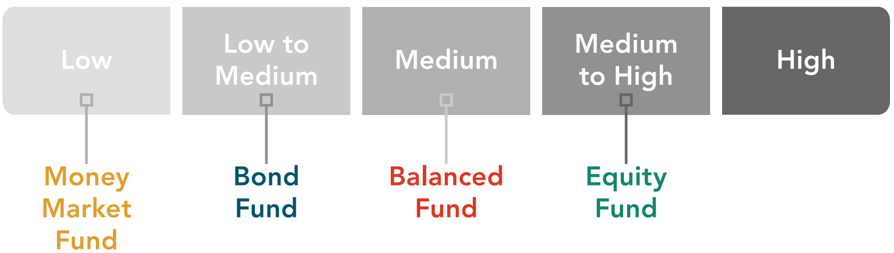


# Performance and Risk Metrics

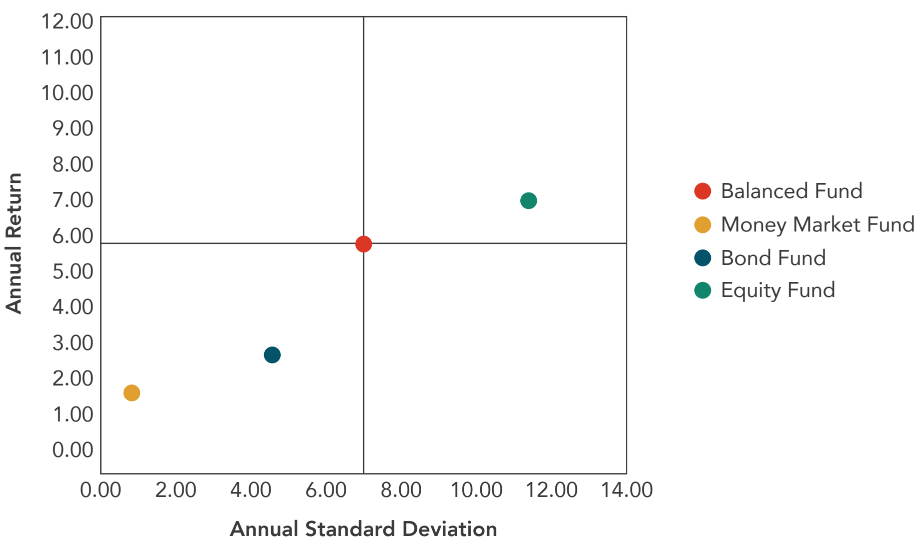
## CSS FUNDS

### Comparative Risk

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

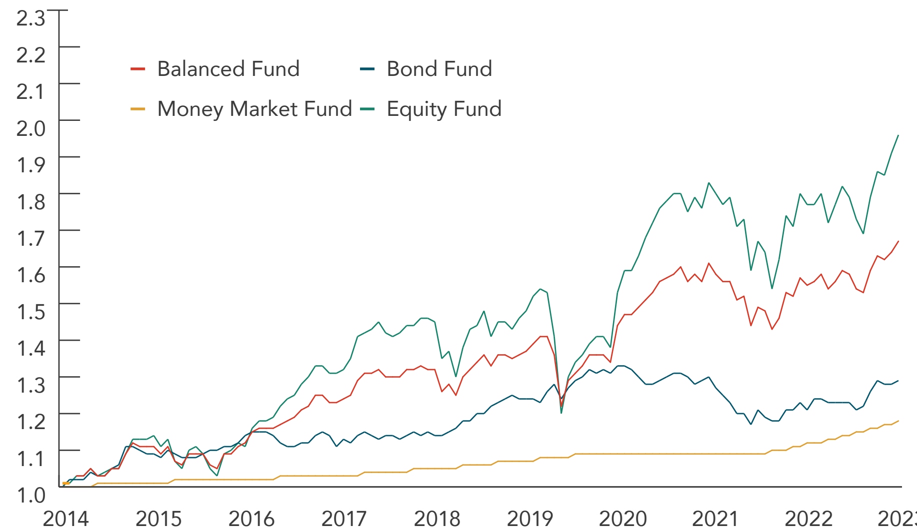


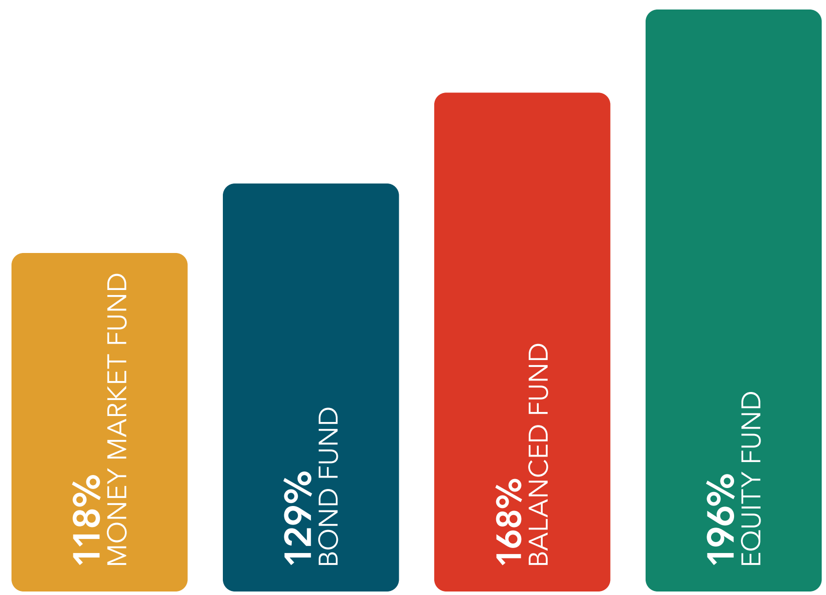

### Realized Risk and Return of CSS




### 10-Year Cumulative Performance

10 years ending March 31, 2024 | Growth of a unit value



# Balanced Fund **MER 0.66%**

## DEFAULT STRATEGY

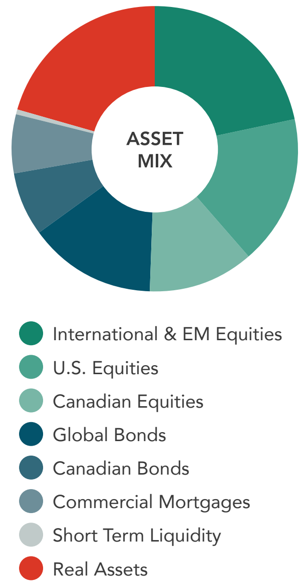
### Who Should Invest?

- 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

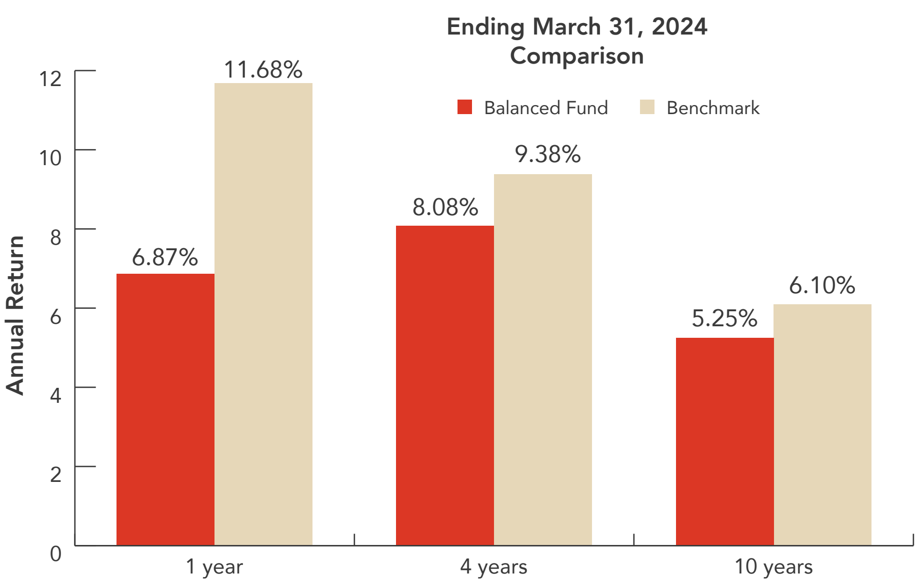
### Asset Mix



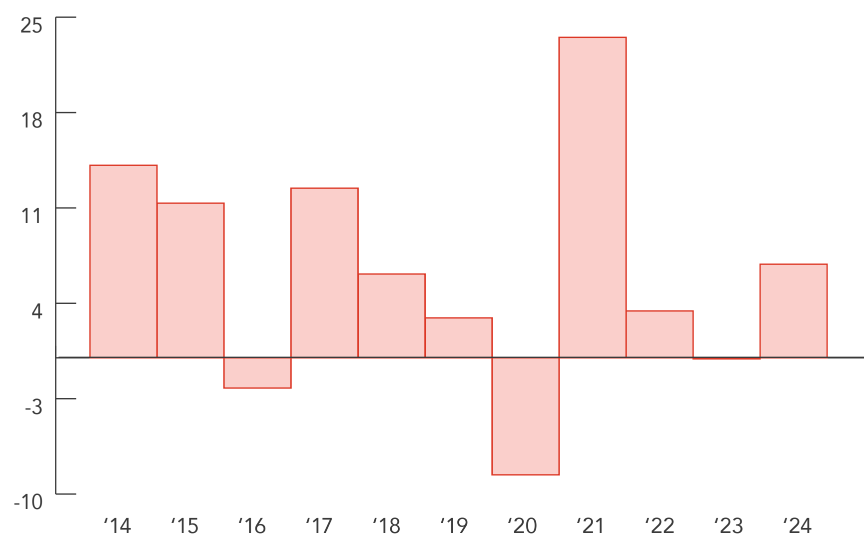

### Asset Class Subgroups

| | |
|---|---|
| International Large/Mid Cap Equity | 16.15% |
| Canadian Large Cap Equity | 11.83% |
| U.S. Large Cap Equity | 13.69% |
| Global Bonds | 8.27% |
| Private Canadian Commercial Mortgages | 6.85% |
| Canada Universe Bonds | 7.26% |
| Private Canadian Real Estate | 6.64% |
| Emerging Markets All Cap Equity | 5.72% |
| Emerging Market Debt | 6.11% |
| U.S. Small Cap Equity | 3.28% |
| Private Global Real Estate | 4.95% |
| Private Global Infrastructure | 8.82% |
| Short Term Liquidity | 0.44% |
| **TOTAL** | **100.00%** |

### Annualized Investment Performance to Benchmark




### Annual returns history (ending March 31, 2024)



# Equity Fund

**MER 0.46%**

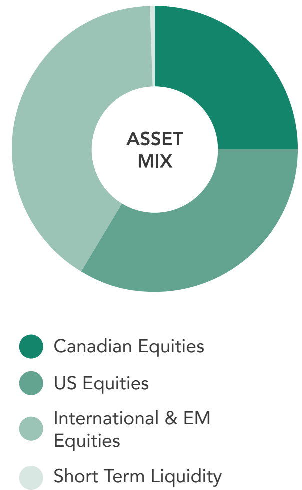
## Who Should Invest?

- 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

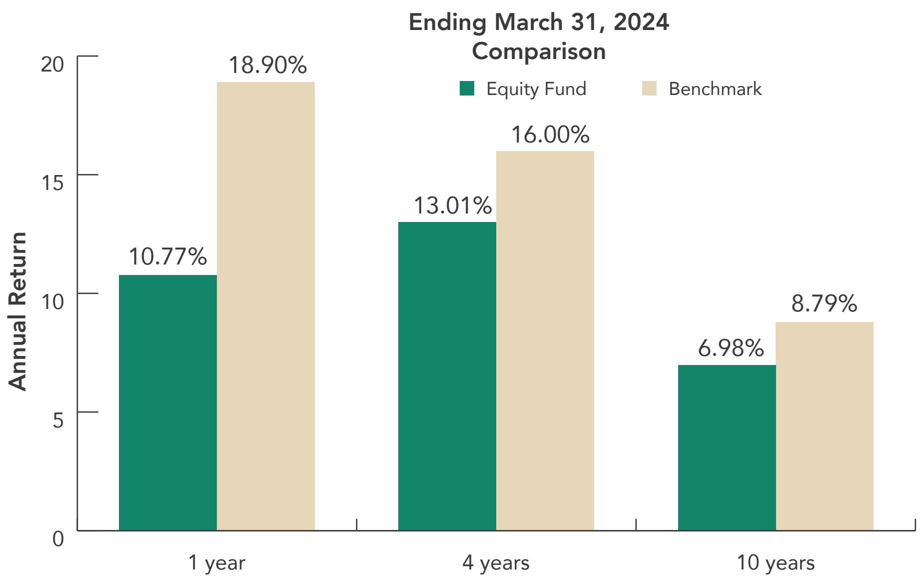
## Asset Mix



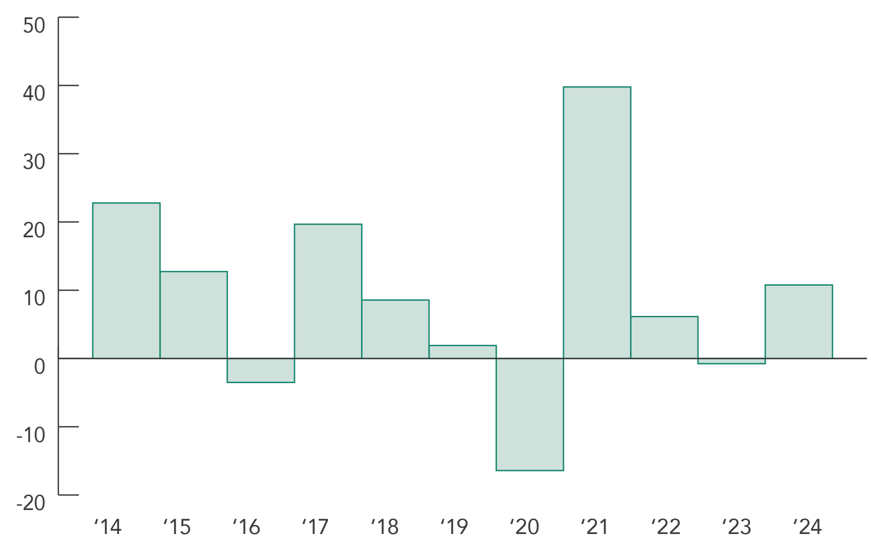

## Asset Class Subgroups

| | |
|---|---|
| International Large/Mid Cap Equity | 31.55% |
| Canadian Large Cap Equity | 25.21% |
| US Large Cap Equity | 28.07% |
| Emerging Markets All Cap Equity | 9.56% |
| US Small Cap Equity | 5.95% |
| Short Term Liquidty | -0.34% |
| **TOTAL** | **100.00%** |

## Annualized Investment Performance to Benchmark




## Annual returns history (ending March 31, 2024)



# Bond Fund

**MER 0.57%**

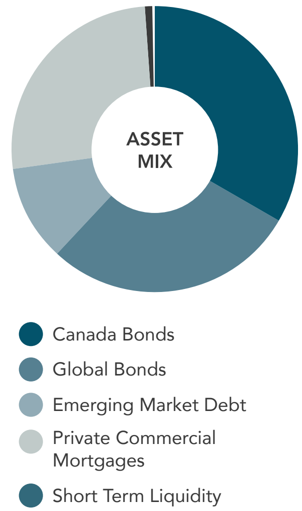
## Who Should Invest?

- 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

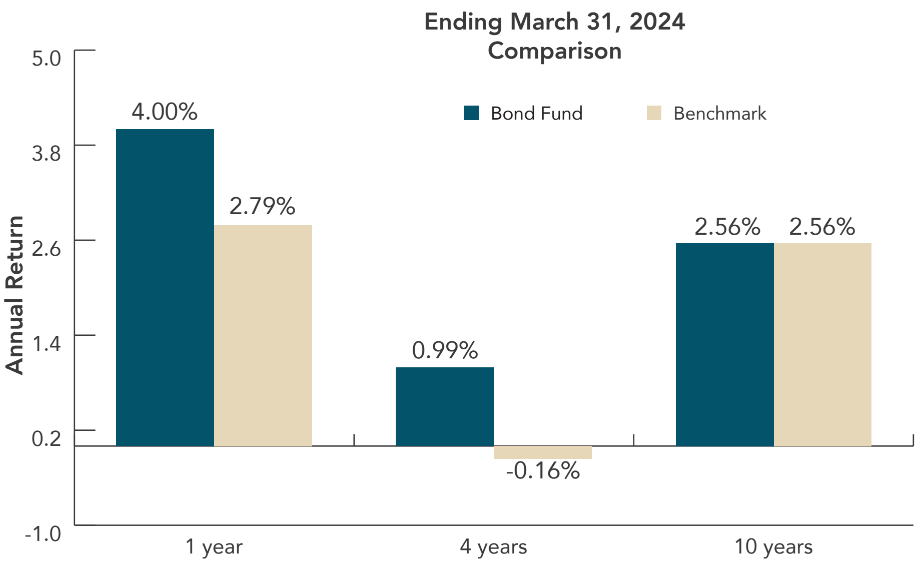
## Asset Mix



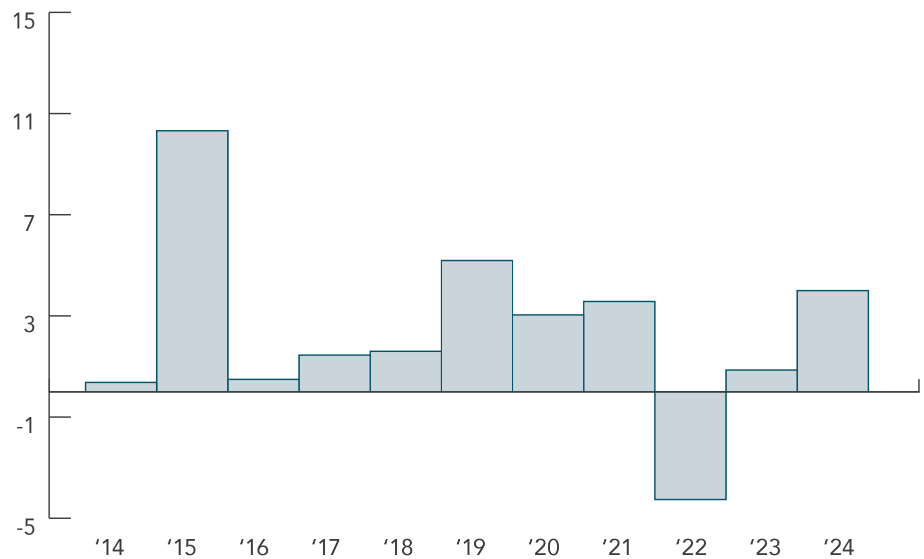

## Asset Class Subgroups

| | |
|---|---|
| Core Plus Canada Bonds | 33.43% |
| Global Bonds | 28.63% |
| Emerging Market Debt | 10.97% |
| Private Commercial Mtges | 25.97% |
| Short Term Liquidity | 1.01% |
| **TOTAL** | **100%** |

## Annualized Investment Performance to Benchmark




## Annual returns history (ending March 31, 2024)



# Money Market Fund

**MER 0.21%**

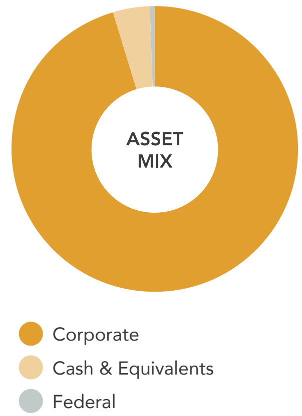
## Who Should Invest?

- 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

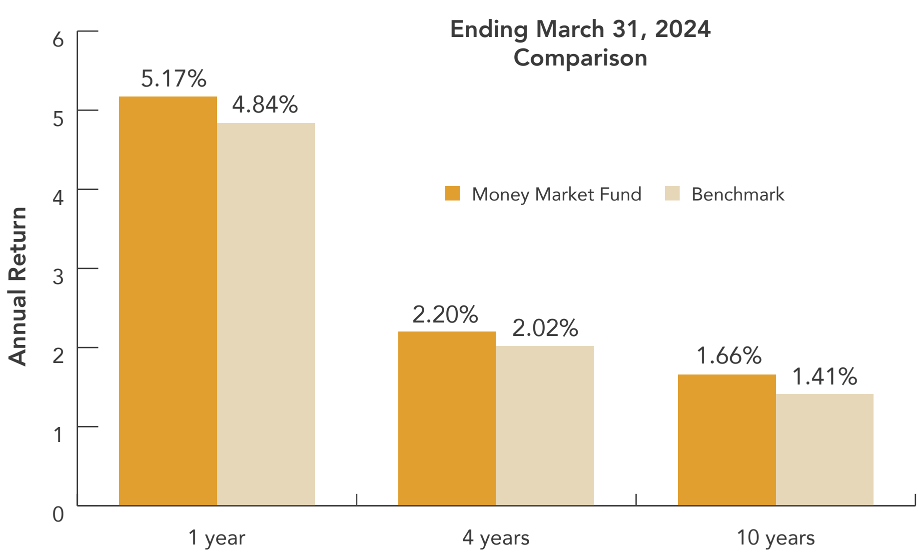
## Asset Mix



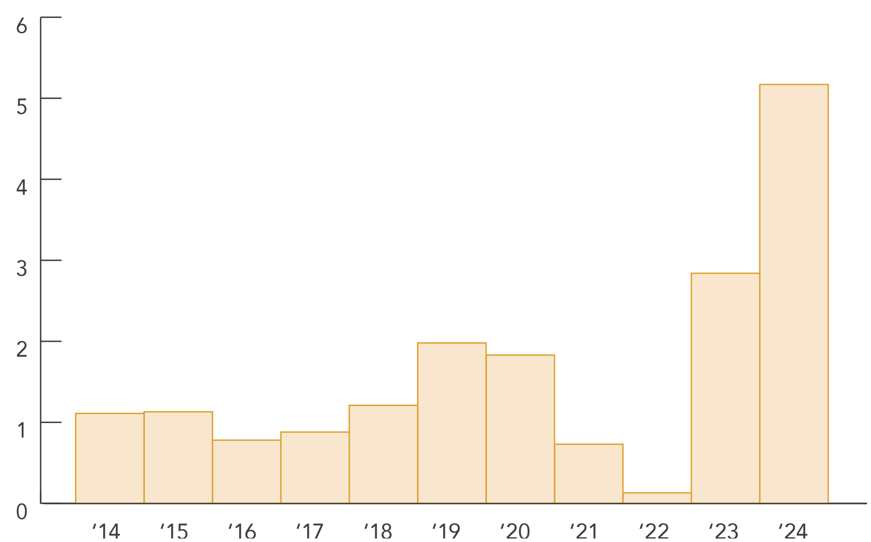

## Asset Class Subgroups

| | |
|---|---|
| Cash and Cash Equivalents | 4.1% |
| Corporate | 95.5% |
| Federal | 0.4% |
| **TOTAL** | **100%** |

## Annualized Investment Performance to Benchmark




## Annual returns history (ending March 31, 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 | 7.60% | 16.19% | |
| Canadian Equities | Active | Scheer Rowlett & Associates | S&P TSX Composite index | 4.23% | 9.02% | |
| U.S. Large Cap Equities | Systematic | Scientific Beta Multifactor | S&P 500 Total Return index | 13.69% | 28.07% | |
| U.S. Small Cap Equities | Active | Hilldsale Investment Management | Russell 2000 Total Return index | 3.28% | 5.95% | |
| International Equities | Active | Sprucegrove Investment Management | MSCI EAFE Net index | 7.92% | 15.76% | |
| International Equities | Systematic | JP Morgan Diversified Multifactor | MSCI EAFE Net index | 8.23% | 15.79% | |
| Emerging Equities | Active | Wellington Emerging Market Opportunities | MSCI EM IMI index | 5.72% | 9.56% | |
| Canada Core Plus Bonds | Active | Wellington Canada Universe Bonds Plus | FTSE Canada Universe Bond Index | 7.26% | | 33.43% |
| Global Bonds | Active | Wellington Opportunistic Fixed Income | Bloomberg Barclay's Global Aggregate Index | 8.27% | | 28.63% |
| Private Commercial Mortgages | Active | TD Greystone | 60% Short bond + 40% mid bond + 50 bps | 6.85% | | 25.97% |
| Emerging Market Debt | Active | Blackrock Flexi Dynamic Bond Fund | JP Morgan JEMBI Sovereign Only | 6.11% | | 10.97% |
| Short Term | Active | TDAM Short Term Investments | FTSE Canada 91 day T-bill index | 0.44% | -0.34% | 1.01% |
| Canada Private Real Estate | Active | TD Greystone | CPI + 4% | 6.64% | | |
| Global Private Real Estate | Active | TD Greystone | CPI + 4% | 1.14% | | |
| Global Private Real Estate | Active | UBS Asset Management | CPI + 4% | 3.81% | | |
| Global Private Infrastructure | Active | JP Morgan IIF | CPI + 4% | 5.11% | | |
| Global Private Infrastructure | Active | IFM | CPI + 4% | 3.71% | | |
| Dynamic Currency Overlay | Active | Mackenzie Financial | Custom | | | 99.9% |
| | | | | **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.

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