

The Civil Service Superannuation Fund

Statement of Investment Policies and Procedures

The purpose of the following information is to provide a general overview of The Civil Service Superannuation Board's Statement of Investment Policies and Procedures.

The fiduciary responsibility of The Civil Service Superannuation Board (the Board) lies in its responsibility for the administration of the Plan and the management of investment funds in the best interest of all present and future Plan members, pensioners and beneficiaries. In discharging this responsibility, the Board is proactive in establishing and monitoring boundaries within which day-to-day investment decisions are made.

The *Statement of Investment Policies and Procedures (SIP&P)* applies to the assets held in The Civil Service Superannuation Fund (the Fund) in respect of the pension liabilities under The Civil Service Superannuation Act (the Act). It is a formal document that establishes investment principles and guidelines, with its primary goal to ensure the long-term financial soundness of the Fund through prudent and effective investment management. Research underlying the document is performed independently at the Board's direction.

On July 1, 2007, a new SIP&P was introduced and implemented. It contains such information as:

- Plan Overview
- Permitted Categories of Investments
- Asset Allocation and Expected Risk & Return
- Diversification
- Valuation of Investments
- Investment Manager Structure
- Monitoring

Although this list may not encompass the entire scope of the SIP&P, its intent is to provide members with a feeling of comfort in knowing that their retirement needs, either today or tomorrow, are at the forefront of the Board's mind.

PLAN OVERVIEW

A. What checks and balances does the Board have to ensure that its direction is carried out and adhered to?

The nine member Board has established an eight member *Investment Committee* that meets regularly to monitor the compliance of established policies and procedures. While these individuals complement the Board by providing individual investment expertise, their participation on the Committee, in some cases, meets legislative requirements as their membership on the Committee is in accordance with Subsection 10(2) of the Act.

The Board also employs a group of accounting and investment professionals who monitor trading activity independent from its Investment Division. These professionals monitor the activity against Board approved governance policies on a daily, weekly or monthly basis. Contravention of any policy is independently noted to the Board. These policies include:

- Professional Conduct Policy
- Statement of Investment Policies and Procedures
- Conflict of Interest Guidelines - Investment Committee
- Proxy Voting Guidelines
- Soft Dollar Standards
- Manager Mandates

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B. Doesn't an investment policy apply universally to all pension plans?

SIP&P's are distinct to each pension plan and cannot be applied universally. This policy establishes specific principles and guidelines, in accordance with the Pension Benefits Act (PBA) (Manitoba) and the Regulations thereunder, for this pension plan. Careful and lengthy consideration is given to member demographics, mortality rates and other member characteristics. Particular consideration is also given to the nature of this defined benefit pension plan and its financial obligations. Monitoring procedures and management structures are then developed to suit its unique requirements.

PERMITTED CATEGORIES OF INVESTMENTS

C. What types of investments can the Fund hold?

Investments can be made only as permitted by the PBA (Manitoba). These categories may include, but are not limited to:

- Common stocks or preferred securities
- Bonds, debentures or mortgages
- GIC's, term deposits or other short-term instruments
- Private placements
- Real estate properties
- Oil and gas properties

The Fund shall not, directly or indirectly, be invested in securities of a listed person as defined by the United Nations Suppression of Terrorism Regulations, or loaned to or used for the benefit of such a person.

ASSET ALLOCATION AND EXPECTED RISK & RETURN

D. How are the Fund's assets allocated?

After detailed analysis of member and Plan characteristics, policies and ranges are established to best achieve the Fund objectives of secure pension benefits and reasonable long-term returns on investment. Fund assets are allocated based upon this Policy Mix. The Board's investment professionals are given the range, or boundary, in which to invest. *Normal* allocations are based on long-term return expectations for the particular asset class but the investment team may set more specific asset mix targets within these ranges, as market conditions dictate, from time to time. The Investment Committee regularly monitors these.

Asset Class	Allocation		
	Normal	Minimum	Maximum
Cash and Cash Equivalents	1%	0%	10%
Bonds	39%	30%	50%
Canadian Equities	24%	18%	35%
U.S. Equities	15%	10%	20%
International Equities	15%	10%	20%
Real Estate	6%	0%	12%

E. How is asset allocation determined?

The asset allocation is adopted after evaluating alternatives in relation to the primary Fund objective. Furthermore, financial criteria and the practicality of implementing the mix, given prevailing market conditions, are also considered. The Board then reviews this Policy Mix at least annually in order to determine if it continues to meet the Fund's objectives during the economic times of the day.

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F. Why does the Policy Mix affect the security of the pension benefits?

Policy Mix is the key determinant in investment performance, a long-term focus ensuring that future pension liabilities can be met is what the Policy Mix is geared towards. Through prudent diversification, investment policy objectives can be realized:

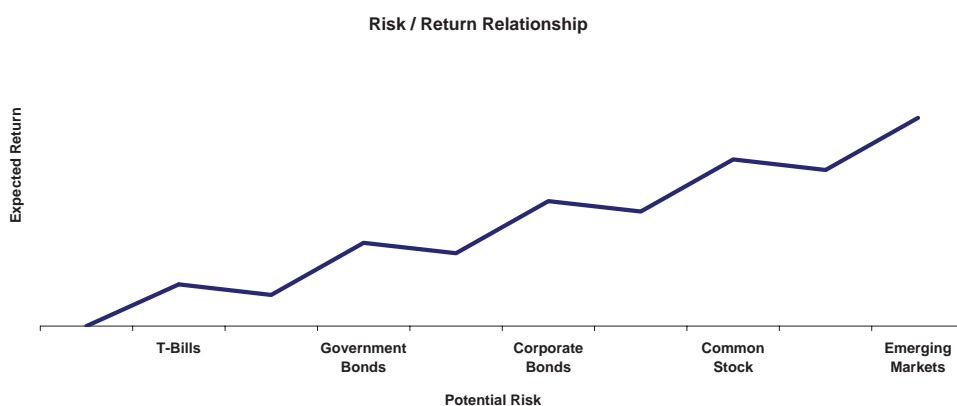
- To ensure the Plan has sufficient assets to meet future pension obligations
- To optimize the risk/return relationship among Plan investments
- To generate sufficient cash flow to meet pension payments

Pension benefits are not only funded by employee and employer contributions, but are largely secured by prudent investment returns. As a result, a Policy Mix is adopted taking into account expected ranges of future capital market returns and the risk tolerance of the Board.

G. Does the Fund have *risky* investments?

In order to optimize returns and reduce investment volatility, Fund investments are diversified among different types of assets, including those with more of an uncertain outcome.

Different risk elements relating to market volatility and investment returns are factored into an investment decision. Risk is present when there is a claim against future benefits. For example, a bondholder has a claim against future coupon interest payments while a stockholder has a claim, not only against the assets of the company, but also against uncertain future dividend payments as well. As the uncertainty of recovering their initial investment and some form of income increases, investors will demand a higher return. To illustrate this, you can see from the following graph that investments which produce lower returns generally are a result of lower risk or volatility:



DIVERSIFICATION

H. Why is diversification into different asset classes important?

Global investment markets are influenced by a variety of factors each day. While one type of investment may benefit from certain market conditions, those same influences may hurt another. For example, as interest rates rise there is a negative impact on the value of fixed income investments, such as bonds. Bonds have what's called a *coupon* and the bondholder's interest payments are based upon this interest rate coupon. If it is for a fixed amount, holding that bond becomes less attractive as interest rates rise. Therefore, the value of that bond goes down and investors will look elsewhere to put their money in order to obtain better returns. Common stocks, conversely, become more attractive during these periods of rising interest rates. Investors perceive the potential for higher returns in this type of investment as the value of bonds decline. Prudent diversification, therefore, becomes very important in order to counteract this type of environment and to ensure more reasonable and stable Fund returns.

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I. Other than by investing in different classes of assets, how else is the Fund diversified?

The Chief Investment Officer oversees the investment team who work diligently to ensure the diversification of Fund investments as explicitly outlined in the SIP&P. For example, the Fund is subject to the following:

- Not holding more than 10% of the portfolio in any single bond issuer
- Having a minimum of 20% of the portfolio invested in stocks outside of Canada
- Quality standards for holding short-term and bond investments
- Not holding more than 10% of the outstanding shares of any one company
- Diversification among regions, countries and industries around the world

VALUATION OF INVESTMENTS

J. How is the value of each investment determined and how often?

Investments are usually valued by independent sources. Publicly traded stocks, for example, are valued daily based upon the market price obtained from the stock exchange on which they are traded. Real estate properties on the other hand, are valued according to independent expert appraisals at least every three years.

INVESTMENT MANAGER STRUCTURE

K. How does the Board determine who they should hire to manage the money?

On the recommendation of the Investment Committee, the Board appoints investment professionals to manage the Fund. Internal and external managers must meet strict criteria as established in the SIP&P. These include:

- Suitable investment approach
- Demonstrated financial stability
- Low personnel turnover
- Past performance
- Relevant experience and expertise

Managers are expected to adhere to the Conflict of Interest Policy described in the SIP&P. Furthermore, managers hold a professional designation allowing them to make investment decisions. These individuals are bound by that body's Code of Ethics as well as an internal Professional Conduct Policy.

The Investment Committee reviews the investment manager structure on an ongoing basis in order to determine if each manager continues to advance the Fund towards meeting or exceeding its objectives.

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MONITORING

L. What kind of information is monitored and by whom?

In exercising its duties as directed by the Board, the members of the Investment Committee meet approximately 10 times per annum to review such items as:

- The current asset mix of the Fund, in order to ensure compliance with the SIP&P
- Manager performance
- Investment transactions
- Current economic outlooks and investment plans

M. How is a manager's performance monitored?

The Investment Committee regularly evaluates the performance of each manager relative to the standards, or benchmarks, appropriate to the manager's mandate.

FINAL THOUGHTS

The SIP&P covers a broad range of investment activity. Its scope, policies and guidelines demonstrate the Board's commitment to securing the pension promise earned by its membership. Prudent investment management of pension assets is essential to surpassing this pledge.

The above information was intended to provide the reader with an overview of the SIP&P. To obtain more detailed information, members should contact the Board office.