# PENSION PLAN ANNUAL REPORT

# 2013

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Canada

CMHC SCHL
HOME TO CANADIANS

# OUR MISSION

### Defined Benefit Component (DB Plan)

The mission of the defined benefit component of the CMHC Pension Plan is to provide its members and beneficiaries with pension benefits in accordance with the provisions of the CMHC Pension Plan Rules. This is accomplished through efficient administration of the Plan and prudent investment of the Pension Fund to maximize returns while safeguarding assets.

### Defined Contribution Component (DC Plan)

The mission of the defined contribution component of the CMHC Pension Plan is to provide Plan members with the opportunity to save for retirement with regard to their individual circumstances, through the provision of investment options and plan services in a reasonably cost-efficient manner.

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# REPORT TO EMPLOYEES AND PENSIONERS

On behalf of CMHC and the Pension Fund Trustees, it is my pleasure to present to you the 2013 Pension Plan Annual Report.

Since joining CMHC in January 2014, I have been listening and learning in order to better understand all aspects of our business. I was especially pleased to learn how CMHC's total compensation package, which includes benefits under the CMHC Pension Plan, is well positioned in the marketplace and contributes to making CMHC an employer of choice in Canada.

In times of economic uncertainty and fluctuating financial markets, many Canadians are concerned about the health of their pension plans. CMHC employees and pensioners are no different, and I am pleased to report that the financial position of CMHC's Pension Fund continued to improve in 2013.

In 2013, the assets of the defined benefit (DB) component of the Pension Plan experienced positive returns overall, resulting in a total investment return of 15.97 per cent last year. This return outperformed the Pension Fund's benchmark portfolio by 1.80 percentage points. The good performance of the assets, combined with an increase in the long-term interest rate and significant contributions from CMHC to the DB Plan to fund the deficit, have served to improve the financial position of the DB Plan.

This improvement is reflected in the annual actuarial valuation undertaken as at year-end 2013. The valuation has reported that the Pension Plan has a deficit on a going concern basis of $24.1 million and a going concern funded ratio that improved by 1.9 percentage points to 98.3 per cent. Likewise, the funded ratio on a solvency basis improved by 13.8 percentage points to 80.7 per cent. The solvency valuation is less representative of the Plan's long-term financial health because it uses today's low levels of interest rates to value the Plan based on a hypothetical assumption that the Plan is terminated and most assets are invested in fixed income-related investments. Progress is being made to address the deficit situations, and you can rest assured that CMHC will continue to meet its Pension Plan obligations. This includes continuing to make full normal contributions as well as special going concern and solvency payments.

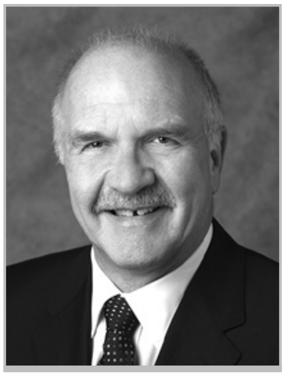
As part of this ongoing work, a number of changes were announced to ensure that the DB component of the Plan remains sustainable and is further aligned with the federal public service plan. These changes included an increase in employee contribution rates on April 1, 2013, and July 1, 2014, consistent with Government direction that Crown corporations should achieve a 50-50 cost-sharing of pension plan contributions between the employer and employees over the coming years. Other modifications, which are described in detail elsewhere in this Annual Report, came into effect on January 1, 2014.

One of the biggest changes for CMHC's Pension Plan last year was the introduction of the defined contribution (DC) component, which applies to new hires after April 4, 2013, as well as eligible contract employees. This new component is still in its infancy, with only 44 members as of December 31, 2013, and its performance will be reported on more fully in future years.

As CMHC's new President and CEO, I have noted the strong governance framework in place for the CMHC Pension Plan, and the results of the external review of the governance structure and the processes undertaken in 2012, which formally recognized those strengths. I look forward to working with the Board of Directors, the DB Pension Fund Trustees, and the DC Pension Committee in the upcoming year as we all work with the support of the Pension Fund Investment Committee and the Investments and Pension Fund Division to ensure the financial strength of the CMHC Pension Fund.

Evan Siddall
Chair, Pension Fund Trustees
President and Chief Executive Officer

# TRUSTEES OF THE DEFINED BENEFIT PLAN
## *(as at 31 December 2013)*



**Doug Stewart**
Chair,
Pension Fund Trustees
Interim President and Chief Executive Officer

**André Plourde**
Member of the
Board of Directors

**Steven Mennill**
Vice-President, Insurance Operations
(From October 2013)

**Christina Haddad**
General Manager,
Atlantic Business Centre

**Julie Murphy**
Corporate representative
Pension Council Member

**Terry Wotton**
Corporate Representative
Pension Council Member

**Guy Riopel**
Retiree
Pension Council Member

## Highlights of 2013

### Defined Benefit Component of the Pension Plan

#### Membership

As at 31 December 2013, there was a total of 4,428 members (2012 – 4,475), including 1,790 employees (2012 – 1,906), 2,292 pensioners and beneficiaries (2012 – 2,249), and 346 members with deferred benefits (2012 – 320).

#### Contributions

During 2013, employees and CMHC contributed a total of $111.6 million to the Pension Fund (2012 – $55.5 million). In addition to full normal contributions, CMHC made special payments of $82.2 million (2012 – $25.9 million), which included $1.3 million (2012 – $1.9 million) to fund transfer deficiencies.

#### Pension benefits paid to members

In 2013, a total of $65.9 million (2012 – $63.4 million) was paid out to retirees and other beneficiaries.

#### Return on investments

For the year as a whole, the Pension Fund's total rate of return with respect to assets of the defined benefit component of the Plan was 15.97 per cent (2012 – 11.76 per cent). The 10-year annualized real rate of return (that is, the rate of return after adjusting for inflation) was 6.23 per cent (2012 – 6.27 per cent).

#### Net assets available for benefits

As at 31 December 2013, the market value of net assets available for benefits was $1,541.2 million (2012 – $1,296.5 million).

#### Going concern actuarial valuation

The most recent actuarial valuation of the Pension Plan, as at 31 December 2013, reported a deficit on a going concern basis of $24.1million and a going concern funded ratio of 98.3 per cent. This is a valuation that assumes the Plan continues indefinitely. CMHC will continue to make annual special payments to fund the deficit in accordance with legislation.

### Defined Contribution Component of the Pension Plan

As at 31 December 2013, there were 44 members with investments totalling $107,834.

## Your Benefits Promise

# CMHC PENSION PLAN

### Part 1: Defined Benefit Component of the CMHC Pension Plan (the "DB Plan")

**Plan Design**

The DB Plan is a contributory plan. Retirement benefits are determined by a formula based on 2 per cent of a member's best consecutive five-year average salary, multiplied by the number of years of benefit service up to a maximum of 35 years.

The DB Plan provides members with a pension, based on earned benefits, when they retire. Its provisions include survivor benefits for a member's eligible spouse or common-law partner and eligible dependent children. Pensions are indexed annually.

Both benefits under and contributions to the DB Plan are integrated with the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP).

The DB Plan applies to employees hired prior to April 4, 2013, or otherwise eligible to participate in the DB Plan as specifically provided therein.

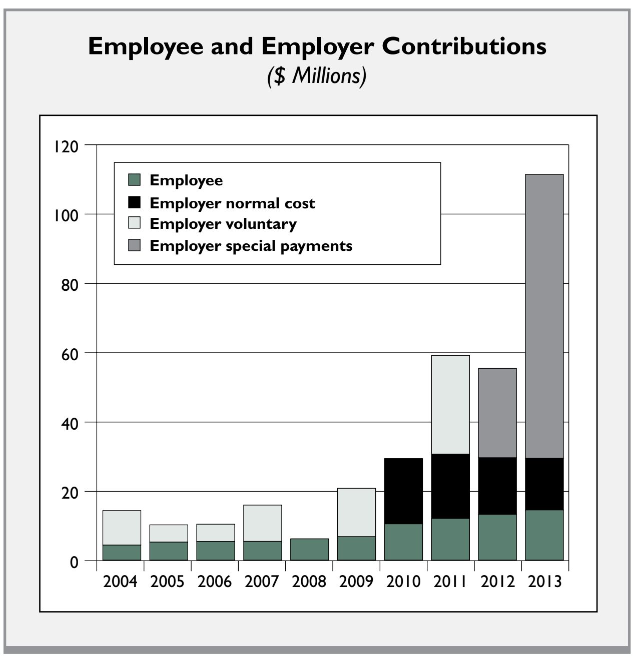
**Contribution Rates**

Up to 31 March 2013, the employee contribution rate remained at 6.20 per cent of earnings subject to CPP/QPP, which for 2013 were earnings between $3,500 and $51,100, and at 8.6 per cent for earnings outside this range. Effective 1 April 2013, the contribution rate changed to 6.85 per cent of earnings up to $51,100, and 9.2 per cent for earnings outside this range. In 2013 employees contributed a total of $14.5 million to the Pension Fund.

CMHC's total contributions to the Pension Fund in 2013 with respect to the DB Plan were $97.1 million. This included full normal contributions as well as special payments, in accordance with legislation, of $82.28 million in relation to the going concern and solvency deficits reported by the actuarial valuation as at 31 December 2012.

CMHC reviews on an annual basis the level of employer and employee contributions to the DB Plan with regard to the financial status of the Pension Fund, as well as benchmarks the competitive positioning of the DB Plan against other plans. CMHC maintained full contributions in 2013.

In May 2014, the Board reviewed the results of the actuarial valuation as at 31 December 2013 and recommendations for contributions in 2014. The actuarial valuation reports that the DB Plan has a deficit on a going concern basis and a deficit on a solvency basis. As a result of the valuation, CMHC will continue to make full normal contributions in 2014. CMHC will also make going concern special payments of $2.5 million annually to amortize the going concern deficit over not more than 15 years in accordance with the *Pension Benefits Standards Act, 1985* and its regulations. In regard to the solvency deficit, CMHC is seeking approval to reduce the amount of the solvency special payment in 2014 to $51.1 million as is permitted by provisions in the *Pension Benefits Standards Act, 1985* and its regulations. These provisions exist to make funding requirements less sensitive to financial market volatility. The total special payments by CMHC in 2014 would therefore be $53.6 million excluding any special payments CMHC would make to fund transfer deficiencies for members electing to transfer out of the Pension Plan.

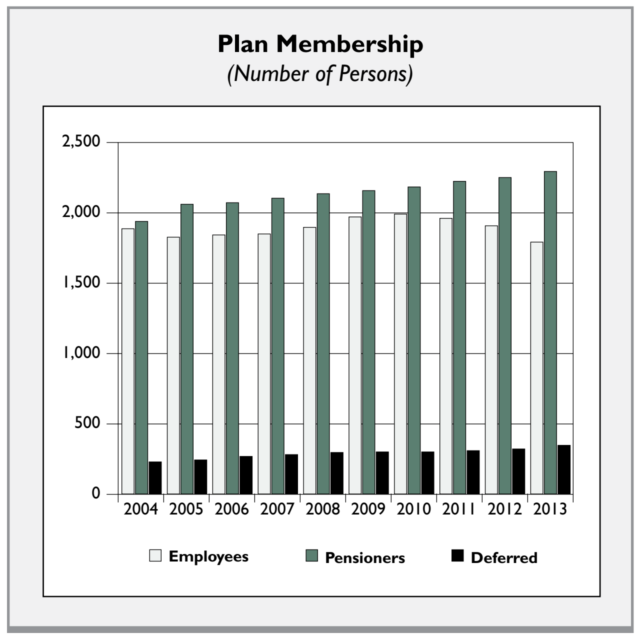



As part of the 2013 federal budget, the Government of Canada reiterated its intention to achieve a 50-50 defined benefit (DB) pension cost-sharing between federal public service pension plan members and the Government over the course of the next few years.

To continue to align CMHC's DB contribution rates with those of the federal public service, CMHC's employee DB pension contribution rates will increase effective July 1, 2014. The rates will increase from 6.85 per cent on earnings below $52,500 to 7.5 per cent and from 9.2 per cent on earnings at or above $52,500 to 9.8 per cent.

## Membership

During 2013, 96 employees retired from CMHC. At year-end, the DB Plan had 4,428 members including 1,790 employees, 2,292 pensioners and beneficiaries, and 346 members with deferred vested benefits. In addition, there were 414 transfer restriction annuities (see Portability section).




## Retirement Benefits

Any employee who contributes to the DB Plan is entitled to receive benefits upon termination of employment at CMHC. At age 60, members are entitled to an immediate pension without reduction. Under the DB Plan Rules, earlier retirement with a reduced or unreduced pension is possible, subject to necessary approvals.

## Death Benefits

When a DB Plan member dies, before or after retirement, death benefits are available for the eligible spouse or common-law partner and for children, where eligible, to receive a death benefit under the DB Plan. If the member dies before retiring, the surviving spouse or common-law partner may choose to transfer the commuted value of the survivor benefit to a locked-in vehicle, such as a locked-in Registered Retirement Savings Plan (RRSP). If a member dies without an eligible surviving spouse or common-law partner or eligible child/children, a minimum death benefit is paid in a lump sum to the designated beneficiary, where applicable, or to the estate.

### Indexation of Benefits

In accordance with the indexation provisions in the DB Plan Rules, all pensions are indexed annually. On 1 January 2014, pensions were increased by 0.9 per cent. This adjustment is based on the average change in the Consumer Price Index over the 12-month period ending 30 September 2013.

### Total Benefits Paid in 2013

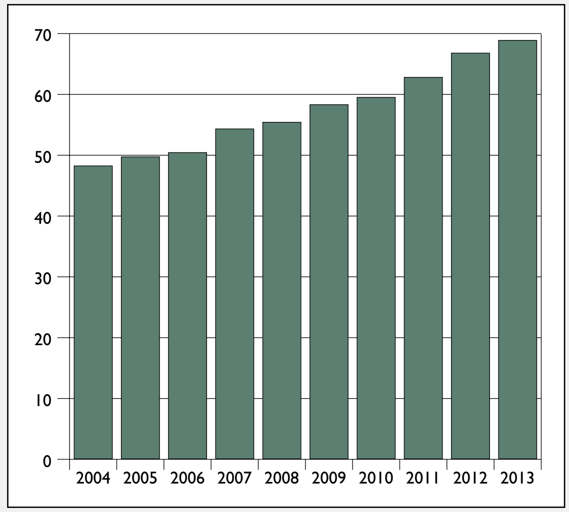
A total of $65.9 million in pension benefits was paid to DB Plan members in 2013.

### Portability

On termination of employment at CMHC, contributors with two or more years of continuous service who are not entitled to receive an immediate unreduced pension may elect to transfer the commuted value of their earned pension benefits to a locked-in vehicle such as a locked-in RRSP, Life Income Fund (LIF), or Restricted Life Income Fund. Alternatively, they may purchase a prescribed life annuity. Contributors with less than two years of continuous service may elect to transfer their entitlement to unlocked vehicles. Under *Income Tax Act* (ITA) rules, there is a maximum on the amount of commuted value that can be transferred on a tax-sheltered basis from a pension plan.

Where a member has at least two years of credited service, the amount in excess of the ITA maximum is retained in the DB Plan and paid out under the DB Plan Rules by way of a Transfer Restriction Annuity to the individual starting at age 60, for a five-year period.

**Benefits and Net Contributions Transferred or Refunded**
*($ Millions)*




Contributors who leave CMHC to work for another employer might also have the option of transferring their DB Plan pension credits to that employer's registered pension plan under the terms of a pension transfer agreement, or through general portability if allowed under the other employer's pension plan.

Employees with questions about pension transfer agreements or pension portability in general should direct them to CMHC's Pension and Benefits Group, Human Resources (see last page for full contact information).

## Part 2: Defined Contribution Component of the CMHC Pension Plan (the "DC Plan")

### Plan Design

The DC Plan is a contributory plan. DC Plan members are required to contribute a minimum of 3 per cent of their earnings and may contribute up to 6 per cent of their earnings. CMHC provides a matching contribution of 100 per cent to 180 per cent based on a three-tier point schedule according to a member's age and years of service with CMHC for which contributions to the DC Plan were made. Contributions are deposited into a personal DC Plan account for each member.

The money is invested by the DC Plan members among a range of investment options available through Standard Life Financial—the Plan administrator. The amount of money accumulated in each member's account under the DC Plan at retirement, termination of employment or death will depend on total contributions, investment returns, as well as fees and expenses related to the administration of the DC Plan. Withdrawal of funds from a DC account while the member is employed with CMHC is not permitted.

The DC Plan applies to new employees hired on or after April 4, 2013 who are not eligible to join the DB Plan.

### Membership

As at 31 December 2013, the DC Plan had 44 members.

### Portability

On termination of employment at CMHC, contributors with two or more years of continuous service may elect to transfer the account balance to a locked-in vehicle, such as a locked-in RRSP, Life Income Fund (LIF), or Restricted Life Income Fund. If no decision is made within 90 days of leaving CMHC, the account balance is transferred to a temporary account established under the DC Plan until other arrangements are made.

## General information on the CMHC Pension Plan

### Regulatory Authorities

As a federally registered pension plan, CMHC's Pension Plan is subject to the federal *Pension Benefits Standards Act, 1985* (PBSA) and its regulations, and to the *Income Tax Act* (ITA). The Plan is registered with the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Revenue Agency (CRA). The Plan Rules, as well as the Plan's funding and operations, must comply with the standards prescribed by the PBSA and ITA.

### Communications

CMHC is strongly committed to maintaining good, open, two-way communications with Plan members regarding the Pension Plan and related matters. One of CMHC's key objectives is to promote increased awareness and understanding of its Pension Plan and the benefits it provides, while providing opportunities for member feedback. To advance its Plan member communication and education objectives, CMHC pursues a broad range of initiatives tailored to the varying information needs and interests of Plan members.

In 2013, CMHC continued to offer a Retirement Planning Seminars Program to employees. The program consists of two-day seminars for employees within 10 years of retirement and one-day seminars for those farther away from retirement. A total of eight seminars were delivered to employees in Montréal, Toronto, Halifax and at National Office. The number of participants in these seminars, including employees' spouses, was approximately 140. The feedback from participants has been highly positive.

CMHC's other ongoing communication activities include sending an Annual Statement of Pension Benefits to each DB Plan member and issuing an annual summary of the highlights of the DB Pension Council meetings. DC Plan members receive quarterly statements from the service provider including a reconciliation between contributions made and investments. Information sessions on each component of the CMHC Plan were made available to respective members, as is the CMHC Annual Report. Information related to the Pension Plan is also available on CMHC's website, including a description of the governance of the Pension Plan and Fund, key roles and responsibilities, and the Pension Plan Annual Reports of recent years. CMHC also facilitates and encourages feedback from Plan members via a dedicated telephone number (hotline), e-mail address and fax number, or via their respective representative on CMHC's DB Pension Council, which includes 10 elected employee and pensioner members from the DB Plan.

## Effective Governance

# PLAN GOVERNANCE

The concept of pension plan governance is commonly defined by pension authorities as the structures and processes for overseeing, managing and administering a pension plan to ensure all obligations of the plan are met.

At CMHC, the pension governance structure and related processes evolve over time as opportunities are taken to enhance the governance of CMHC's Registered Pension Plan and its Fund. The Pension Plan Governance Guidelines, issued in 2004 by the Canadian Association of Pension Supervisory Authorities (CAPSA), of which OSFI is a member, serve as a key reference for pension governance at CMHC. A formal review of CMHC's governance processes is conducted on a regular basis and was most recently undertaken in 2012 with the assistance of an external consultant. The review concluded that, overall, CMHC's pension governance structure and processes fully meet and in many instances exceed standards and expectations for pension governance. With the introduction of the DC Plan in 2013, a Plan Governance specific for the DC Plan was established.

The following describes CMHC's governance objectives and practices, the governance structure, and the roles of the participants in the governance structure, as they relate to CMHC's Registered Pension Plan and its Fund.

### Governance Objectives and Practices

Good corporate governance is at the heart of all of CMHC's activities and successes and is echoed in the governance framework for the Pension Plan and its Fund. A sound framework ensures that the ongoing obligations of the Pension Plan to its stakeholders can be met, with effective decision-making processes, prudent and efficient management of resources, and regular communication. CMHC's practices in support of these objectives are discussed in the following four broad sections on roles and responsibilities, performance measurement, communications and information, and code of conduct and risk management for both the defined benefit component and the defined contribution component of the CMHC Pension Plan.

# Part I: Defined Benefit Component of the CMHC Pension Plan Governance

## Roles and Responsibilities

Clear roles and responsibilities are an important element of any governance framework. At CMHC, key roles and responsibilities for the governance, management, and operation of the DB Plan and the Pension Fund are approved by the Board of Directors and reviewed and refined over the years to reflect best practices. Terms of reference, which elaborate upon key roles and responsibilities, are also in place for Trustees and the Investment Committee. In 2013, the Board of Directors approved amendments to the terms of reference for the Pension Fund Trustees. An overview of key roles and responsibilities is provided further on in this section.

## Performance Measurement

Processes are in place to monitor and evaluate the investment performance of the Pension Fund (including performance measures for the overall Fund and individual asset classes) and the performance of decision-makers in the governance process. As well, management of Pension Fund liability risk is a consideration in CMHC's Enterprise Risk Management Policies. Mechanisms are also in place to oversee and ensure compliance with legislative requirements and policies.

## Communications and Information

CMHC has numerous practices in place to ensure that those involved in the governance of the DB Plan and Pension Fund have access to relevant, timely, and accurate information. Amongst other matters, the Board of Directors receives reports from the Chair of Trustees following Trustees' meetings (including a formal report each year on the Pension Fund's performance and Trustees' activities) and minutes of Trustees' meetings, and approves the Pension Plan Annual Report. Reports on DB Plan benefits and administration and compliance matters are submitted regularly to the governing bodies, as appropriate. CMHC communicates with Plan members and Pension Council as appropriate. As well, the Pension Plan Annual Report explains the governance process and provides contact information.

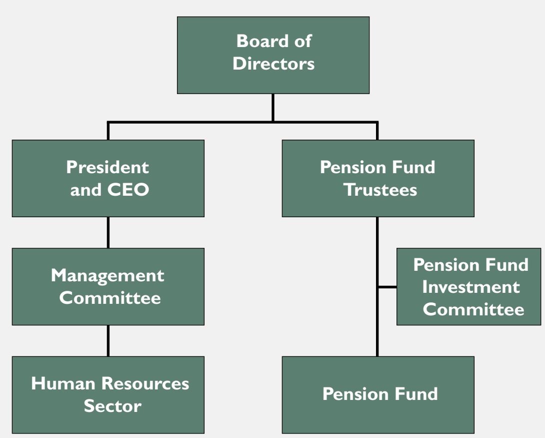
## Code of Conduct and Risk Management

CMHC has a well-documented and comprehensive Code of Conduct that is composed of a Code of Values and Ethical Conduct and a Conflict of Interest Policy. The Trustees, the Pension Fund Investment Committee, the Investments and Pension Fund staff, and any person involved in the administration of the Fund are required to adhere to CMHC's Code of Conduct and to complete a Conflict of Interest Declaration. In 2013, the Board of Directors approved amendments to the Enterprise Risk Management Policies specific to the Pension Fund and amendments to the Statement of Investment Policies and Goals to reflect the asset allocation policy approved in 2012. Internal control frameworks are in place for the DB Pension Plan and Pension Fund and they are frequently reviewed. Internal controls are further strengthened with additional monitoring and reporting on compliance matters by CMHC's Continuous Auditing Group.

## Governance Structure

CMHC's DB Plan governance structure is comprised of the Board of Directors, the Pension Fund Trustees, the Pension Fund Investment Committee, the Investments and Pension Fund Division, CMHC's President and Chief Executive Officer, the Management Committee, and the Human Resources Sector (Pension and Benefits Group). Their respective roles and responsibilities are summarized as follows.

**Defined Benefit Component of the CMHC Pension Plan Governance**



CMHC's **Board of Directors,** which established the Pension Fund, is responsible for approving the Pension Fund's mission, investment philosophy and Enterprise Risk Management Policies applicable to the Pension Fund, including the asset allocation policy. The Board reviews the Pension Fund's performance on an annual basis. It also reviews and approves actuarial valuation reports for filing with regulatory authorities, the level of employee and corporate contributions to the Pension Fund in accordance with the Pension Plan Rules, any amendments to the Pension Plan Rules, and the Pension Plan Annual Report. It is supported by the Human Resources Committee of the Board of Directors, which it created to oversee corporate human resources policies and strategies. The Board has delegated general management and administrative responsibilities for the assets of the DB Plan to the Trustees.

The **Pension Fund Trustees** set investment policies and objectives within the context of the Enterprise Risk Management Policies established by the Board, and periodically review the asset allocation policy. If changes in the asset allocation policy are considered to be required, the Trustees make the appropriate recommendation to the Board of Directors. In addition, the Trustees establish performance standards for measuring progress toward objectives and approve the appointment of external investment managers.

The **Pension Fund Investment Committee** assists the Trustees in the investment management of the assets of the DB Plan. The Committee meets at least six times per year to review aspects of the Pension Fund's performance, current economic scenarios, projections and their implications for the investment portfolio. It recommends investment policies and strategies to the Trustees and helps monitor the effectiveness of their implementation. The Committee's membership includes two external independent investment experts.

CMHC's **Investments and Pension Fund Division** develops and recommends specific investment policies and strategies to the Pension Fund Investment Committee, Trustees, or Board of Directors, as appropriate. Investment managers direct the ongoing operations of the Pension Fund's various asset classes. These operations include the purchase and sale of investments and assessment of external investment managers, all in accordance with approved policies.

The **Pension Fund Administration Group**, within the Investments and Pension Fund Division, carries out the cash management, accounting, financial reporting, and investment performance measurement and compliance functions, together with the coordination of auditing and actuarial activities needed to support the Fund's operations and meet legislative requirements.

The **President and Chief Executive Officer** of CMHC recommends for Board approval, with the advice of the **Management Committee**, as appropriate, changes to pension benefits or the design of the Pension Plan and related changes to the Pension Plan Rules, the results of actuarial valuations, and the levels of corporate and employee contributions to the Pension Fund. The President also recommends changes to the governance structure to the Board for approval, with the advice of the Management Committee, as appropriate.

**Trustees**
**3 December 2013**
***Standing (L to R): Terry Wotton, Christina Haddad, Guy Riopel, Julie Murphy, Steven Mennill***
***Sitting (L to R): Doug Stewart, André Plourde***

The **Human Resources Sector** of CMHC administers Pension Plan benefits in accordance with the Pension Plan Rules and recommends pension benefit changes and related rule changes to CMHC's Management Committee. It also disseminates information relating to the Pension Plan to plan members, and maintains member records.

### Other Pension-related Roles and Responsibilities

Two other bodies, the Pension Plan Coordination Committee and the Pension Council, play important supportive roles for CMHC's pension governance structure.

The **Pension Plan Coordination Committee** provides a forum for discussion and collaboration amongst Pension Fund, Human Resources and Legal Services staff on pension matters of common interest, such as the Pension Plan Annual Report, communications with Plan members, and pension governance.

**DB Pension Council**
**4 December 2013**

***Standing (L to R): Guy Riopel, Stephen Hall, Fleuri Perron, François Lévesque, Claude Gautreau, Peter Hood, Terry Wotton, Trevor Gloyn***
***Sitting (L to R): Jacques Beaupré, Julie Philippe, Julie Murphy, Kamal Gupta***

The **Pension Council** consists of elected employee and retired members of the Pension Plan. Its functions are to promote awareness and understanding of the Plan among members and to review financial, actuarial and administrative aspects of the Plan annually. Three of its members, two employees and one pensioner, are elected by the Council to serve as Trustees. Another member is appointed by the President to the Pension Fund Investment Committee.

## Part 2: Defined Contribution Component of the CMHC Pension Plan Governance

### Roles and Responsibilities

Clear roles and responsibilities are an important element of any governance framework. Similar to the existing DB Plan, at CMHC, key roles and responsibilities for the governance, management, and operation of the DC Plan are approved by the Board of Directors as part of its ongoing administration of the DC Plan and is subject to review and refinement to reflect best practices. Terms of reference, which elaborate upon key roles and responsibilities, have been established for the DC Pension Committee.

### Performance Measurement

Processes are in place to monitor and evaluate the DC Plan investment structure, including the investment options offered to Plan members and their performance, the Record Keeper and any third-party provider services.

### Communications and Information

CMHC has numerous practices in place to ensure that those involved in the governance of the DC Plan have access to relevant, timely, and accurate information. Among other matters, the Board of Directors receives reports from the Chair of the DC Pension Committee and minutes of the Committee meetings, and approves the Pension Plan Annual Report. Reports on Plan design and administration and compliance matters are submitted regularly to the governing bodies, as appropriate. CMHC or the service provider communicates with Plan members as appropriate.

As well, the Pension Plan Annual Report explains the governance process and provides contact information.

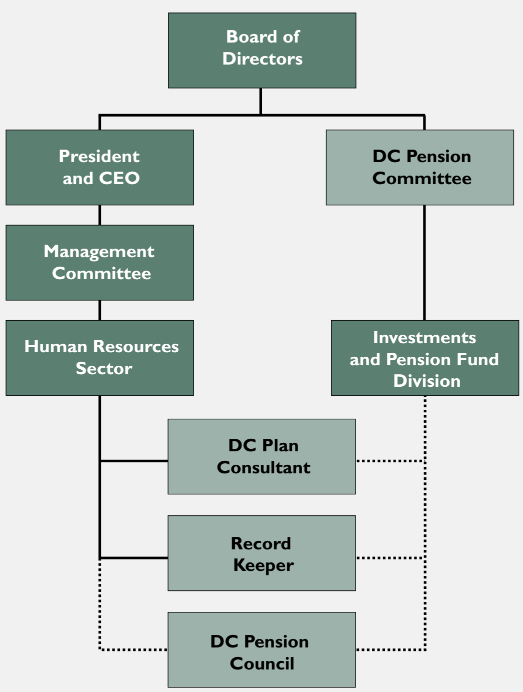
## Code of Conduct and Risk Management

CMHC has a well-documented and comprehensive Code of Conduct that is composed of a Code of Values and Ethical Conduct and a Conflict of Interest Policy. Accordingly, any person involved in the administration of the DC Pension Plan would continue to be required to sign and adhere to CMHC's Code of Conduct. Internal controls to ensure compliance with legislative and regulatory requirements are rigorous.

## Governance Structure

CMHC's pension governance structure with respect to the DC Pension Plan is comprised of eight bodies: the Board of Directors, CMHC's President and Chief Executive Officer, the Management Committee, the DC Pension Committee, the Investments and Pension Fund Division, Human Resources Sector (Total Compensation), the DC Pension Council and the Record Keeper. The figure below illustrates the structure:

**Defined Contribution Component of the CMHC Pension Plan Governance**




CMHC's **Board of Directors** is responsible for approving the DC Plan's mission, the overall design and structure of the DC Plan, the investment principles and the structure and range of investment options to be offered to DC members, the Enterprise Risk Management Policies applicable to the DC Plan. The Board reviews the operations of the overall DC Plan. It is supported by a Human Resources Committee of the Board, which it created to oversee corporate human resources policies and strategies. The Board has delegated investment and related administration responsibilities for the DC Plan to the DC Pension Committee.

The **DC Pension Committee** is responsible for approving the Statement of Investment Policies and Procedures, the investment options to be offered by the Record Keeper, the criteria to evaluate performance in accordance with the investment principles and structure and range of investment options approved by the Board and the selection of the DC Plan consultant. The DC Pension Committee reviews the reports on the investments and operations of the DC Pension Plan, including compliance with established policies and applicable legislation and regulation. The Committee will also monitor the investment options offered to DC Plan members, investment managers, administrative activities of the Record Keeper and compliance with applicable legislative and regulatory requirements.

The **President and Chief Executive Officer** of CMHC recommends for Board approval, with the advice of the **Management Committee**, as appropriate, changes to pension benefits or the design of the DC Plan and related changes to the DC Plan Rules. The President also recommends changes to the governance structure to the Board for approval, with the advice of the Management Committee, as appropriate. The President will approve the selection of the Record Keeper and the communication and member education strategies.

The **Human Resources Sector** of CMHC recommends changes to pension benefits or the design of the DC Plan and related rule changes to CMHC's Management Committee for approval by the Board of Directors. It also recommends any changes to the communication and member education strategies. It also disseminates information relating to the DC Plan to the Record Keeper, and maintains member records. It acts as a point of contact with the Record Keeper with respect to administrative matters. It monitors the investment options offered to DC Plan members and their performance and the administrative activities of the Record Keeper and reviews for compliance with applicable legislative and regulatory requirements.

CMHC's **Investments and Pension Fund Division** develops and recommends changes to the Statement of Investment Policies and Procedures and the investment options to be offered by the Record Keeper, the criteria to evaluate performance in accordance with the investment principles, and the structure and range of investment options to the DC Pension Committee. It reports to the DC Pension Committee on performance of the Record Keeper's investment managers. It also reviews the DC Plan for compliance with applicable legislative and regulatory requirements.

## Other Pension-related Roles and Responsibilities

The **DC Plan Consultant** provides third party guidance with respect to ensuring CMHC fulfills its fiduciary obligations, recommends to the Investments and Pension Fund Division changes to the simplified pension plan (SIPP), the investment options to be offered and the Enterprise Risk Management Policies, and reviews practices and operations of and provides reports on the Record Keeper.

The **Record Keeper** is responsible for the day to day operations of the Plan, including but not limited to managing the offering and selection of member investments, developing Plan communication material and decision-making tools, producing member investment statements and reporting on various performance criteria.

The **DC Pension Council**, once established in 2015, will consist of elected members of the DC Plan. It will be responsible for promoting awareness and understanding of the DC Plan among members and for reviewing financial and administrative aspects of the DC Plan annually. Two of its members are to be elected by the DC Pension Council to serve on the DC Pension Committee.

An Investment Strategy Based on Sound Principles

# PENSION FUND PERFORMANCE AND OPERATIONS RELATED TO THE ASSETS OF THE DB PLAN

## Investment Framework

The overall long-term investment objective for the Pension Fund is to achieve a total rate of return that will provide for the pension benefit obligations of the CMHC DB Pension Plan at an acceptable level and volatility of expected contribution requirements. In pursuing this long-term objective, the Pension Fund strives to maximize returns on investments within approved policies, which specify the limits and parameters within which risk may be taken.

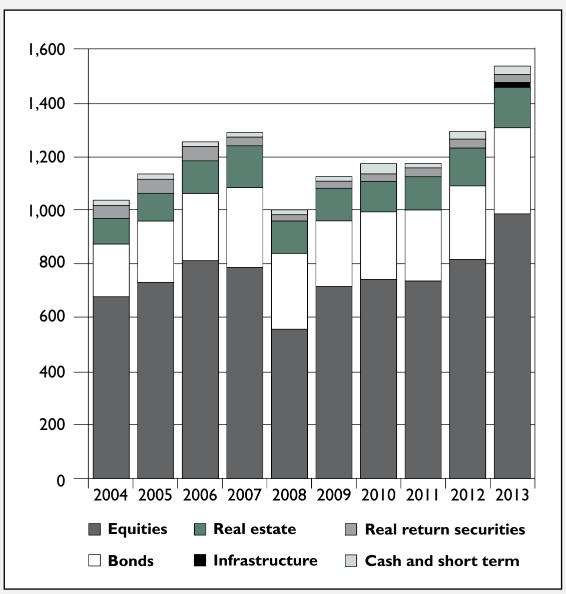
In 2013, amendments to the Enterprise Risk Management (ERM) Policies specific to the Pension Fund and amendments to the Statement of Investment Policies and Goals were approved by the Board of Directors to reflect the asset allocation policy approved in 2012. The ERM Policies include a high level risk appetite statement that describes the level at which risks should be avoided and where strategies must be implemented to manage risk. The Fund's asset allocation policy recommended by Trustees and approved by the Board, is a key driver of the Fund's returns and of contribution requirements.

The ERM Policies contain a formal statement of the investment principles and beliefs underpinning the Fund's policies and practices. They include the Pension Fund's approach to investment decision-making, which has a long-term orientation, values the quality of assets, and takes risk into account. This philosophy recognizes the long-term nature of the pension liabilities and the desire for investments to be diversified, fully understandable, transparent, and appropriate for the Pension Fund. In practice, the Fund seeks to acquire a diversified portfolio of fundamentally sound assets in order to generate sufficient long-term investment returns as well as immediate cash flows to pay pension benefits.

The Pension Fund's asset allocation policy is based upon the principle of diversification of investments among various asset classes relative to the liabilities of the Pension Plan. It is reviewed at least every five years. The asset allocation policy has been established at 57 per cent public equity investments, 28 per cent fixed income securities and 15 per cent inflation sensitive investments. The policy includes permissible ranges around these percentage weights. Equity investments include Canadian and foreign equities. Fixed income is comprised of Canadian bonds and money market investments. The inflation sensitive category encompasses real return securities, real estate and infrastructure investments. Until the Fund has invested a target amount of 5 per cent in infrastructure investments, the asset allocation policy is being adjusted to have a corresponding higher amount, for example, 61 per cent, in public equity investments and a lower amount, for example, 11 per cent, in inflation sensitive investments.

The Statement of Investment Policies and Goals established by the Trustees for the Pension Fund sets out additional policies necessary for the management and administration of the Fund. It includes further definition of permitted investments and the requirements for diversifying investments and managing financial risks. It also includes policies for measuring, monitoring, and reporting on the performance of the Pension Fund. The Statement of Investment Policies and Goals conforms to the requirements of the PBSA. In accordance with the requirements of the PBSA, it was updated and approved by Trustees in 2013.

**Net Assets of the Fund**
*($ Millions)*




## Risk Management

In addition to the risk appetite statement and asset allocation policy for the Pension Fund, the ERM Policies for the Pension Fund identify the strategic, operational, and financial risks faced by the Fund. The Board of Director's specific requirements for managing these risks are addressed by a range of established policies and practices. Many of these are discussed in this Annual Report in the section on Plan governance.

The financial risks relating to the Pension Fund are managed primarily through the diversification of assets, limits and parameters for credit risk, market risk, and liquidity risk, annual audits of financial statements, and annual actuarial valuations. An actuarial valuation was conducted as of year-end 2013 (refer to the Actuarial Valuation section of this Annual Report). More information relating to financial risks is provided in the notes to the financial statements.

Regular measurement and reporting of Pension Fund performance is also vital. An extensive set of risk and return indicators is used to measure the Fund's ongoing performance. These indicators and the Fund's performance, including compliance with investment and risk management policies, are reviewed by the Investment Committee and Trustees.

## Economic Environment

The global economy expanded modestly in 2013 supported by continued monetary stimulus in major advanced economies, as well as increasing consumer and business confidence in much of the developed world. Emerging markets continued to enjoy higher economic growth rates than the major advanced economies, but grew less than anticipated due in part to fears of potentially higher interest rates and moderating commodity prices. Global growth in 2014 is anticipated to come increasingly from the United States, where fiscal consolidation is expected to ease, monetary conditions are expected to remain supportive and increasing employment, household wealth, and borrowing should support the economy.

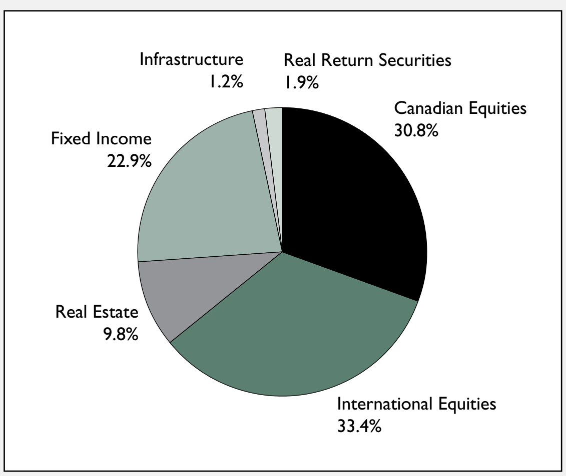
The Canadian economy continued to grow at a modest pace in 2013 with low inflation. Based on the Bank of Canada's outlook for 2014, exports are expected to increase as the United States economy expands, which should lead to increased business investment. Consumer spending is expected to increase moderately in 2014 together with increasing disposable income. According to its January 2014 *Monetary Policy Report*, the Bank of Canada expects economic growth of 2.5 per cent in 2014.

The Pension Fund's performance is impacted by the economic environment and capital market conditions. Accordingly, the strategic asset allocation policy is established factoring in an extensive range of scenarios for economic conditions and the relative rates of return of various investments.

## Pension Fund Performance

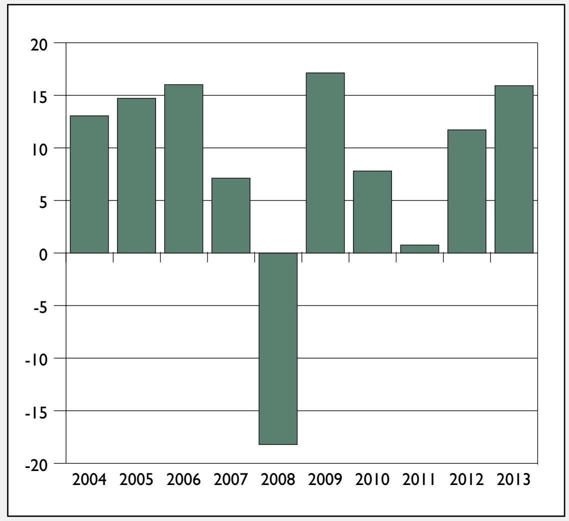
The majority of the Fund's investments are actively managed by internal investment managers. External investment managers are also appointed by Trustees with a range of active and passive investment mandates. Portfolio managers are responsible for individual security selections within their mandates.

**Total Fund**




The Fund's net assets available for benefits at 31 December 2013 were $1,541.2 million compared to $1,296.5 million at the end of 2012.

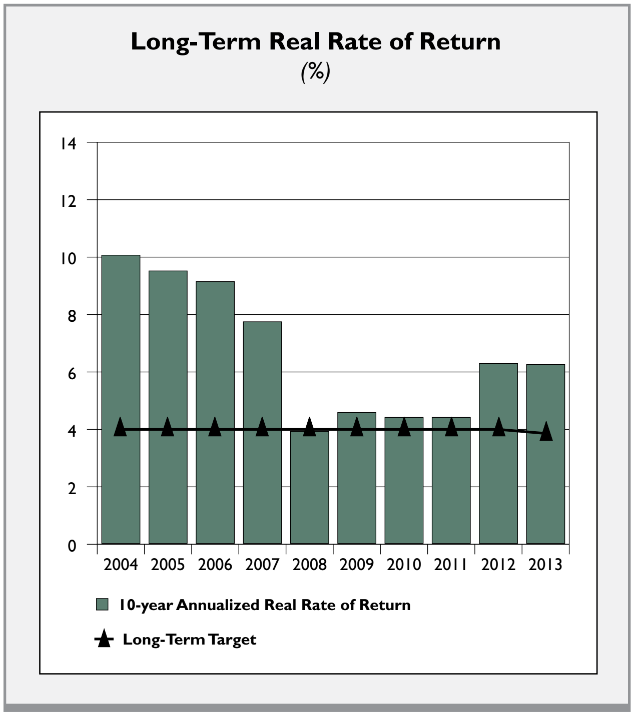
**Annual Nominal Rate of Return**
*(%)*




The Fund's performance is measured against a passive benchmark portfolio that is based on the strategic asset allocation policy. The total investment return for the Fund in 2013 was 15.97 per cent, which was 180 basis points more than the benchmark, which returned 14.17 per cent.

The Fund's total return in 2013 was driven by favourable returns in the equity markets. Over the past 10 years, the Fund's performance has on average exceeded its benchmark by about 1 per cent on an annualized basis. This is net of all operating expenses.

It is important to focus on the real rate of return achieved over the long-term given that pension benefits are fully indexed to inflation based on the Consumer Price Index (CPI) and will be paid on average for many years. The real rate of return is the nominal rate of return less inflation. The Fund's 10-year annualized real rate of return was 6.23 per cent, which is significantly higher than the long-term real rate of return objective and actuarial assumption of 3.9 per cent.




This actuarial assumption is reviewed when an actuarial valuation is performed. As a result of regulators' expectations that the discount rate should not exceed a certain level, for the year-end 2013 actuarial valuation it was determined that the long-term expectation be reduced to 3.9 per cent.

## Performance by Asset Class

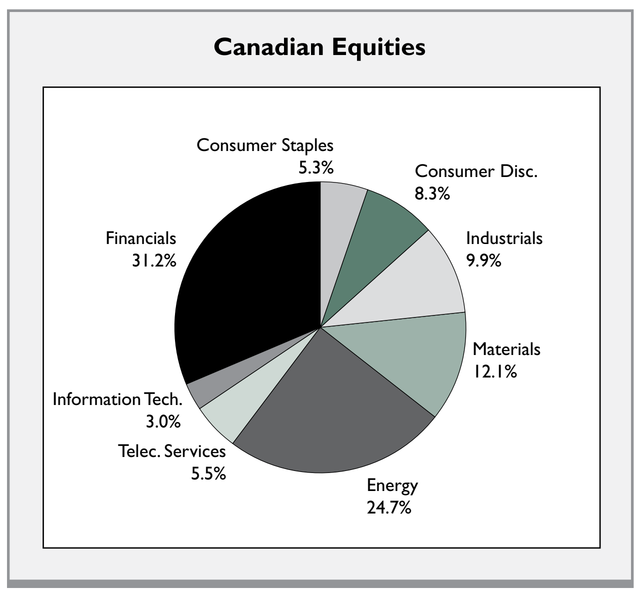
### Canadian Equities

European, U.S. and Japanese stock indices started the year briskly benefiting from momentum in the U.S. economy, subdued risks in the Eurozone and continued accommodative monetary policies around the globe. Momentum paused briefly in June when the U.S. Federal Reserve signalled a tapering of their quantitative easing program. Despite this uncertainty, most major global equity markets resumed their rally and generated very healthy returns in 2013.

Despite positive momentum in global markets, the Canadian equity market traded sideways until it gained some momentum in late summer. A slowdown in key Asian economies and falling gold prices put pressure on gold and base metal stocks, which form a significant part of the Canadian equity market. Banks, insurance companies and the energy sector remained strong and more than offset the negative impact of the material sector. Nonetheless, this was not enough to prevent the Canadian equity market from underperforming global equities despite generating double-digit returns.

In an environment of low interest rates, dividend-paying corporations remained in favour and continued to generate attractive total returns in 2013. The energy sector performed well, particularly infrastructure- and energy-related services such as transportation.

The Pension Fund's Canadian equity portfolio achieved a total return of 20.26 per cent in 2013, outperforming the 12.99 per cent return for the S&P/TSX Composite Index. The Fund's tilt toward quality stocks, including dividend-paying corporations, and overweighting in more stable consumer segments continued to reward the Canadian equity portfolio. Underweighting securities in the more volatile gold sector was also beneficial to performance.



## International Equities

Investments in international equities provide exposure to the stock markets of the U.S. and Europe, Australasia and the Far East (EAFE). Investments in U.S. equities are held in units of a U.S. equity pooled fund indexed to the Standard & Poor's 500 Index and managed by BlackRock Asset Management Canada Limited. The active portion of the U.S. mandate managed by Goldman Sachs Asset Management L.P. was terminated during the year to pursue better alternatives and the proceeds were added to the funds managed by BlackRock. The Fund's investments in EAFE equities are through units of funds actively managed by JP Morgan Asset Management (Canada) Inc. and Sprucegrove Investment Management Ltd.

A major benefit of foreign equity investments is portfolio diversification. Global equity markets tend to be more widespread among different industry sectors than the Canadian equity market, which is heavily concentrated in the materials, energy, and financial sectors. By investing abroad, the portfolio gains exposure to sectors not widely available in Canada, such as the consumer discretionary, consumer staples, and healthcare sectors, and to faster growing geographic regions such as the Far East.

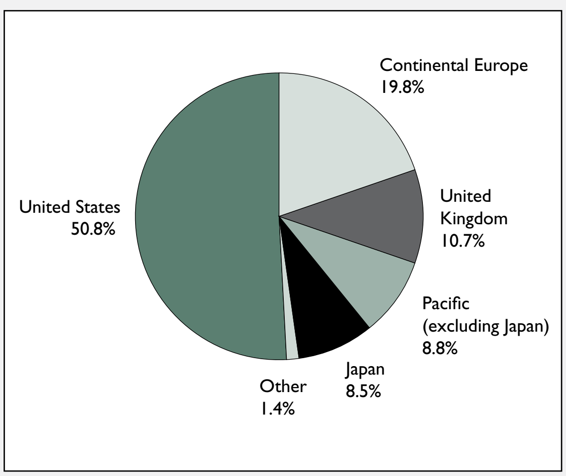
In accordance with the Pension Fund's investment policies, a portion of the foreign currency risk arising from foreign equity holdings was hedged during the year. This is aimed at reducing the volatility of returns over time when measured in Canadian dollars.

The 2013 return for the Pension Fund's U.S. investments was 37.18 per cent as measured in Canadian dollars, including a negative currency hedging impact of 4.33 per cent against the U.S. dollar. The return on U.S. investments was slightly less than the benchmark for this asset class, which was 37.32 per cent, due to fees and transaction costs associated with the management of these monies. The EAFE equity investments returned 23.51 per cent as measured in Canadian dollars, including a negative currency hedging impact of 2.36 per cent. The return on EAFE investments underperformed the benchmark for this asset class, which was 29.21 per cent. Three main issues led to the underperformance. First, emerging markets underperformed developed markets. Second, the managers struggled in Japan where equities soared and they were both underweight. Finally, the managers underperformed in the financial sector.

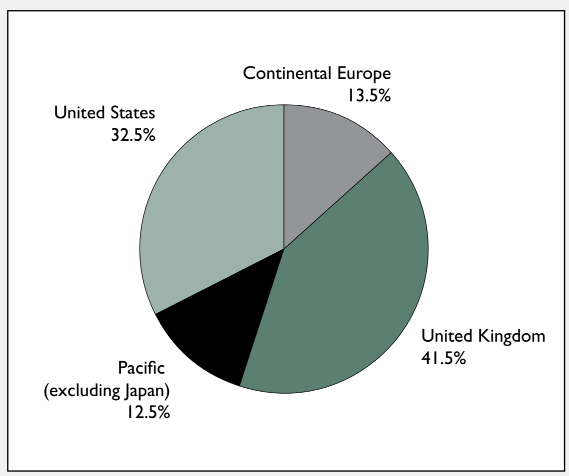
## Infrastructure

In 2013, the Pension Fund made its second investment commitment, for $18 million, to an infrastructure investment fund. This money will be invested over time as this infrastructure investment fund seeks to acquire assets to add to those it already owns in a number of countries.

**International Equities**




**Infrastructure**

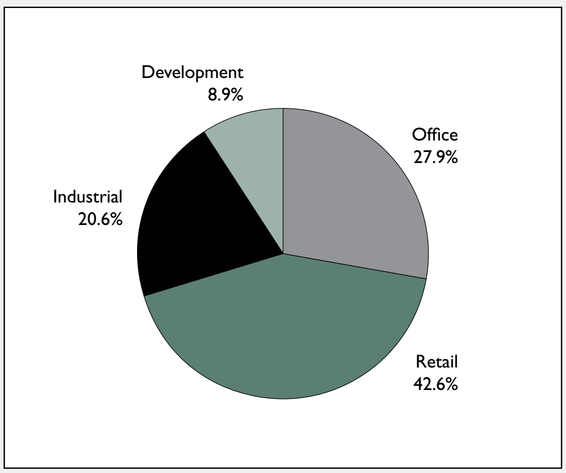


## Real Estate

The Fund's real estate holdings provide exposure to an important Canadian asset class. The holdings are diversified by commercial property type and by region.

Real estate investment opportunities are decided on only after thorough analysis of markets, property locations, legal and financial implications, environmental conditions affecting properties, and potential returns. Investments are financed in part through mortgages on properties. The Fund participates directly in the management of most of its real estate investments.

**Real Estate**




This portfolio continued to experience appreciation in the market values of various properties combined with more normal levels for income. The real estate portfolio returned 9.77 per cent in 2013, which was below the benchmark for this asset class of 12.16 per cent.

## Real Return Securities

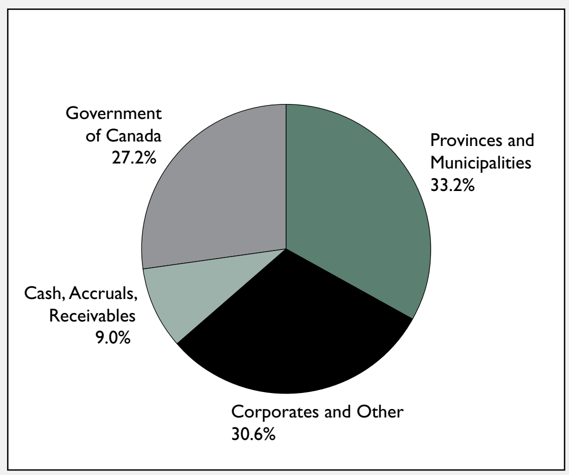
Investments in real return securities provide a hedge against inflation. Holdings consist primarily of real return bonds issued by the Government of Canada and the provinces. In 2013, the portfolio returned -13.10 per cent, comparable to the benchmark for this asset class of -13.07 per cent, as a result of a general increase in interest rates.

## Fixed Income

These investments include high-quality government and corporate bonds, money market investments, and cash or cash equivalent holdings that ensure short-term liquidity. Bonds are evaluated against stringent criteria to ensure that only investment-grade instruments with a "BBB" category credit rating or better are included in the portfolio.

With moderate expectations for growth and low inflation, the Bank of Canada held its overnight target interest rate at 1.00 per cent in 2013. However, the expectation that the Federal Reserve would begin to taper its asset purchase program sparked a protracted rise in global bond yields in May, which continued throughout the year. Canadian bond yields were also affected considerably—using the Canada 10-year as a proxy, yields increased 96 net basis points over the course of the year.

**Fixed Income**




The return of the bond portfolio was -0.92 per cent in 2013 which exceeded the benchmark for this asset class of -1.20 per cent. The primary driver of this outperformance was the higher yield of the Fund's portfolio from holding more investments in bonds issued by provinces and corporations compared to the benchmark. The return of the money market portfolio was 1.00 per cent in 2013, similar to its benchmark's return of 1.00 per cent.

## Operations Management

The net assets of the Pension Fund increased by $244.7 million in 2013.

Interest, dividends and net revenues from real estate and infrastructure were $4.1 million higher than in 2012 mainly due to higher dividends from the Canadian and American equity holdings.

Total contributions in 2013 were higher than in 2012 by $56.1 million. The increase in employee contributions was offset by a reduction in the employer normal cost contributions. As a result of the deficits reported in the December 31, 2012 actuarial valuation, CMHC made special payments in the amount of $82.2 million which exceeded the special payments made in 2012 by $56.3 million.

Benefits payments increased $2.5 million over 2012 primarily due to continued growth of pensioner membership.

Operating expenses were $7.9 million in 2013, which was $0.6 million higher than in 2012 mainly due to investment management fees related to the increased value of the investment portfolios.

The Fund annually assesses its overall operating expenses against average costs for funds of its size and asset mix in Canada. The Fund's operating costs are slightly lower than its peers.

## Commitment to Financial Health

# ACTUARIAL VALUATION

All federally registered pension plans are required to undertake an actuarial valuation annually for regulatory purposes unless the solvency ratio is greater than 120 per cent. The principal purposes of an actuarial valuation include determining the financial position of a plan and providing the basis for contributions from the employer.

The actuarial valuation, which is carried out by an independent external actuary, must meet stringent legislative standards. It addresses long-term demographic trends, retirement experience and a wide variety of other factors that are analyzed in depth to determine whether changes in the Pension Plan's basic assumptions are needed. The valuation report is reviewed by CMHC's Management Committee and then approved by the Board of Directors for filing with OSFI and CRA.

Any differences between actuarial assumptions and future experience will emerge as gains and losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

The actuarial valuation focuses on two fundamental aspects of the funded status of CMHC's registered defined benefit plan: going concern and solvency. These measure the sufficiency of the Pension Fund's assets to meet the Pension Plan's liabilities from two different perspectives.

**Going concern valuation:** The going concern valuation assumes that the Plan continues indefinitely. This valuation uses the expected long-term investment return associated with the Fund's diversified mix of assets at the valuation date to value the Plan.

**Solvency valuation:** The solvency valuation assumes a hypothetical immediate termination of the Plan and that no further contributions are made. This valuation uses the interest rates prevailing at the valuation date to value the Plan based on an assumption that all assets are invested only in high quality fixed income-related investments.

The 31 December 2013 valuation reported that the Plan has a deficit on a going concern basis with an actuarial deficit of $24.1 million and a going concern funded ratio of 98.3 per cent. As at 31 December 2013, the actuarial value of net assets was $1,421.8 million and the actuarial value of liabilities was $1,445.9 million. As permitted by the PBSA, the actuarial value of assets used for the determination of the going concern funded position is determined through a method that smoothes fluctuations in actual investment returns relative to expected investment returns over five years. The going concern funded ratio improved 1.9 percentage points since last year's valuation despite the impact of updated mortality assumptions, derived from a recent experience study of the Canadian Institute of Actuaries, which resulted in a significant increase in the value of the liabilities.

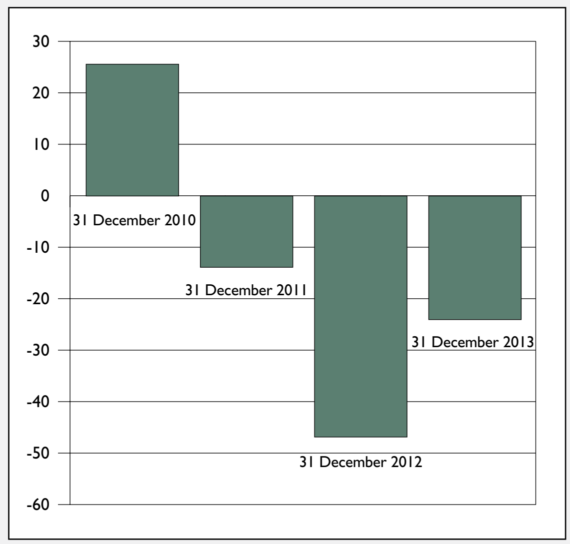
The funded position on a going concern basis, as determined by the actuarial valuations filed with regulators, is shown in the chart.

The 31 December 2013 valuation also reported that the Plan continues to have a deficit on a solvency basis with an actuarial deficit of $368.5 million and a solvency funded ratio of 80.7 per cent. The actuarial value of net assets in this valuation is based on the Fund's market value of net assets at 31 December 2013 and was $1,539.1 million. The actuarial value of liabilities on a solvency basis was $1,907.5 million.

The PBSA requires that any deficit on a going concern basis must be funded through annual going concern special payments that amortize the deficit over not more than 15 years. Consequently, CMHC is required to make going concern special payments to the Plan in 2014 in the amount of $2.5 million. In regard to the solvency deficit, CMHC is seeking approval to reduce the solvency special payments, as permitted by the *Pension Benefits Standards Act*. As a result, the anticipated solvency special payment in 2014 would be $51.1 million. The total special payments in 2014 would therefore be $53.6 million. These provisions exist in legislation to make solvency funding requirements less sensitive to financial market volatility and do not alter CMHC's responsibility for its obligations to Pension Plan members.

**Net Actuarial Position**

*($ Millions)*



# ACTUARIAL OPINION

Towers Watson Canada Inc. was retained by Canada Mortgage and Housing Corporation to perform an actuarial valuation of the Plan on an accounting basis as at 31 December 2013. The purpose of the valuation was to determine the pension obligations of the Plan, and changes therein, for the year ended 31 December 2013, for inclusion in the Plan's financial statements prepared in accordance with the *Canadian Institute of Chartered Accountants Handbook*. The objective of the Plan's financial statements is to fairly present the financial position of the Plan as at 31 December 2013 as a going concern. The results of our valuation might not be appropriate for and should not be relied upon or used for any other purposes.

We reviewed the membership data and information on net assets available for benefits, and changes therein, for the year ended 31 December 2013 received from Plan management and found the data to be sufficient and reliable for the purpose of the valuation.

To our knowledge, the actuarial valuation as at 31 December 2013 reflects all changes to the Plan's provisions in 2013. The actuarial method is prescribed by the *Canadian Institute of Chartered Accountants Handbook*. The actuarial assumptions are determined by Plan management as their best long-term estimates of future events, in consultation with Towers Watson Canada Inc. Nonetheless, the future experience of the Plan will inevitably differ, perhaps significantly, from the actuarial assumptions and will result in gains or losses which will be revealed in future valuations.

In our opinion, the data on which the valuation for accounting purposes is based are sufficient and reliable for the purpose of the valuation and the actuarial assumptions are in accordance with accepted actuarial practice in Canada.

Our valuation and related report were prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

Towers Watson Canada Inc.
Actuaries of the CMHC Pension Plan
Montréal, Quebec
June 4, 2014

Jacques Lafrance, FCIA-FICA

Allison Miles, ACIA-AICA

# INDEPENDENT AUDITORS' REPORT

## To the Trustees of Canada Mortgage and Housing Corporation Pension Fund

We have audited the accompanying financial statements of the **Canada Mortgage and Housing Corporation Pension Plan,** which comprise the statement of financial position as at 31 December 2013, and the statements of changes in net assets available for benefits and of changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canada Mortgage and Housing Corporation Pension Plan as at 31 December 2013, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Ottawa, Canada
Chartered Accountants
June 19, 2014
Licensed Public Accountants

# FINANCIAL STATEMENTS

**Canada Mortgage and Housing Corporation Pension Plan**

**STATEMENT OF FINANCIAL POSITION**

| As at 31 December<br>*(in thousands of dollars)* | **2013** | **2012** |
|---|---|---|
| **ASSETS** | | |
| Investments *(note 3)* | **1,663,586** | 1,414,214 |
| Contributions receivable from the employer | **-** | 553 |
| Contributions receivable from the employees | **-** | 43 |
| Accounts receivable | **2,522** | 956 |
| Accrued interest and dividends receivable | **3,382** | 3,101 |
| Cash | **1,521** | 1,376 |
| **Total assets** | **1,671,011** | 1,420,243 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities (*note 10*) | **7,395** | 4,147 |
| Mortgages payable (*note 4*) | **122,412** | 119,639 |
| **Total liabilities** | **129,807** | 123,786 |
| **NET ASSETS AVAILABLE FOR BENEFITS** | **1,541,204** | 1,296,457 |
| **Pension obligations** | **1,445,871** | 1,305,735 |
| **DEFICIT** | **95,333** | (9,278) |

See accompanying notes to the financial statements.

Evan Siddall

CHAIR, PENSION FUND TRUSTEES
PRESIDENT AND CHIEF EXECUTIVE OFFICER OF CMHC

DOUGLAS STEWART

TRUSTEE OF THE PENSION FUND
ADVISOR TO THE PRESIDENT

## Canada Mortgage and Housing Corporation Pension Plan

### STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| Year ended 31 December<br>*(in thousands of dollars)* | **2013** | **2012** |
|---|---|---|
| **INCREASE IN NET ASSETS** | | |
| Investment income | | |
| Interest | | |
| Short-term investments | **271** | 14 |
| Bonds and debentures | **10,009** | 9,332 |
| Real return securities | **498** | 568 |
| Infrastructure | **16** | - |
| | **10,794** | 9,914 |
| Dividends | | |
| Canadian | **13,630** | 11,538 |
| American | **6,690** | 4,928 |
| Other foreign | **6,319** | 6,275 |
| | **26,639** | 22,741 |
| Net revenue from real estate *(note 5)* | **4,559** | 5,221 |
| | **41,992** | 37,876 |
| Increase (decrease) in fair value of investments | **168,054** | 99,589 |
| Contributions *(note 6)* | | |
| Employer | **97,076** | 42,260 |
| Employees | **14,512** | 13,220 |
| | **111,588** | 55,480 |
| | **321,634** | 192,945 |
| **DECREASE IN NET ASSETS** | | |
| Benefits *(note 7)* | **65,928** | 63,404 |
| Net contributions transferred or refunded | **3,084** | 3,462 |
| Operating expenses *(notes 8 and 10)* | **7,875** | 7,314 |
| | **76,887** | 74,180 |
| **Total increase in net assets** | **244,747** | 118,765 |
| **NET ASSETS AVAILABLE FOR BENEFITS** | | |
| Beginning of year | **1,296,457** | 1,177,692 |
| **End of year** | **1,541,204** | 1,296,457 |

See accompanying notes to the financial statements.

## Canada Mortgage and Housing Corporation Pension Plan

### STATEMENT OF CHANGES IN PENSION OBLIGATIONS

The statement of changes in pension obligations is only for the defined benefit component of the CMHC Pension Plan.

| Year ended 31 December<br>*(in thousands of dollars)* | **2013** | **2012** |
|---|---|---|
| **Pension obligations, beginning of year** | **1,305,735** | 1,262,366 |
| Changes in actuarial assumptions | **109,690** | - |
| Interest accrued on benefits | **63,011** | 73,380 |
| Experience gains and losses | **7,029** | 7,266 |
| Benefits accrued | **29,418** | 29,589 |
| Benefits paid | **(69,012)** | (66,866) |
| **Net change in pension obligations** | **140,136** | 43,369 |
| **Pension obligations, end of year** (note 9) | **1,445,871** | 1,305,735 |

See accompanying notes to the financial statements.

**Canada Mortgage and Housing Corporation Pension Plan**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2013

## 1. DESCRIPTION OF PLAN

### a) General

The Canada Mortgage and Housing Corporation Pension Plan (the "CMHC" Plan) is a compulsory contributory pension plan for all employees who satisfy certain eligibility conditions. Under the CMHC Plan, contributions are made by the CMHC Plan members and Canada Mortgage and Housing Corporation ("CMHC"). The CMHC Plan is registered under the *Pension Benefits Standards Act, 1985* ("PBSA") registration #55086.

The CMHC Plan has a defined benefit ("DB") and a defined contribution ("DC") component. The DB component applies to employees hired prior to April 4, 2013, or otherwise eligible to participate in the DB component as specifically provided therein. The DC component applies to new employees hired on and after April 4, 2013 who are not eligible to join the DB component of the CMHC Plan.

For the purposes of the notes to the financial statements, "Plan" refers to the DB component only, unless the DC component is specified.

### b) Benefits

The following is a summary of the DB and DC components of the CMHC Plan. For more complete information, reference should be made to the Pension Plan Rules.

i) Defined benefit component
Under the Pension Plan Rules, pension benefits for the DB component are determined by a formula based on 2 per cent of the average salary of the member's best five consecutive years multiplied by the number of years of benefit service up to a maximum of 35 years. The pension is payable at age 60 or upon retirement allowing for certain early retirement provisions in accordance with the Pension Plan Rules. The DB component provides survivor benefits for a member's eligible spouse or common-law partner and eligible dependent children. The benefits are indexed to the Consumer Price Index ("CPI") and integrated with the Quebec/Canada Pension Plan from age 65.

ii) Defined contribution component
DC Plan members are required to contribute a minimum of 3 per cent of their earnings and may contribute up to 6 per cent of their earnings. CMHC provides a matching contribution of 100 per cent to 180 per cent based on a three-tier point schedule according to a member's age and years of service with CMHC for which contributions to the DC Plan were made. Contributions are deposited into a personal DC Plan account. Benefits for the DC component are the amounts accumulated in the member's account.

### c) Funding policy

i) Defined benefit component
The PBSA requires that CMHC, being the Plan sponsor, fund the DB benefits determined under the Plan. The determination of the value of these benefits is made on the basis of actuarial valuations. The PBSA and its regulations require that valuations be performed annually, unless the solvency ratio is greater than 120 per cent. These valuations are prepared in line with the *Standards of Practice - Pension Plans* as prescribed by the Canadian Institute of Actuaries (see note 9).

ii) Defined contribution component
The benefits of the DC component are funded by member and CMHC's contributions, investment income, transfers from other plans and any other acceptable distribution or contributions made on an ad hoc basis.

### d) Disclosures for the DC component

Investments are defined as the capital of the DC component. The individual members of the DC component bear the risks associated with the investments and manage these risks by managing the asset allocation of their account balances.

The pension obligation of $0.1 million (2012 – nil) equals the net assets available for benefits; that is, the aggregate of the amounts accumulated in the members' account.

Administrative and investment fees (the "fees") related to the DC component are paid by the employees. CMHC may decide to pay some or all of these fees at its discretion.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of presentation

These financial statements have been prepared in accordance with the Canadian accounting standards for pension plans as set out in Section 4600, Pension Plans, in Part IV of the *CPA Canada Handbook*. These financial statements present the information of the CMHC Plan as a separate reporting entity independent of the Plan sponsor and participants of the CMHC Plan.

In accordance with Section 4600, the CMHC Plan adopted accounting policies that comply on a consistent basis with International Financial Reporting Standards (IFRS) in Part 1 of the *CPA Canada Handbook*, to the extent that those standards do not conflict with the requirements of Section 4600.

In 2013, the CMHC Plan adopted IFRS 13 *Fair Value Measurement*. The application of IFRS 13 has not impacted the fair value measurements of the CMHC Plan investment assets and liabilities.

The objective of these financial statements is to assist Plan members and other users in reviewing the activities of the Plan or the benefit security of an individual Plan member's benefits. The financial statements do not purport to reflect the financial status of the Plan if terminated on the statement date, the funding requirements of the Plan or the pension expense that should be included in the financial statements of the Plan sponsor. Because the financial statements pertain to the Plan as a whole, they provide no information about the portion of assets attributable to any individual member or group of members.

### b) Accounting estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the reported amounts of changes in net assets available for benefits during the year and the reported amount of the actuarial present value of accrued pension benefits and net assets available for benefits at the date of the financial statements. These estimates are based on management's best knowledge of current events and actions that the Plan may undertake in the future. Actual results may differ from these estimates.

### c) Investments

The CMHC Pension Fund ("Fund") relates to the DB component of the CMHC Plan. Investment transactions are comprised of fixed income and equity securities as well as investment properties. They are recorded at fair value as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Transaction costs are expensed as incurred. Investments are stated at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The increase (decrease) in the fair value of investments includes realized gains and losses from the sale of investments and unrealized gains and losses from the change in the difference between the cost or fair value at the end of the previous period and fair value at the end of the current period including appraisal adjustments on real estate valuations.

The following describes how the fair value of investments is determined:

i) Short-term money market securities consist of Government of Canada Treasury bills and are valued at quoted market bid prices.

ii) Bonds, debentures and real return securities are valued at quoted market bid prices where available. For those instruments where quoted market prices are not available, estimated values are calculated based on trade prices for similar securities as appropriate.

iii) Canadian and American equities fair value is based on quoted market prices. For other foreign equities, the fair value is the net asset value per unit provided by the issuers. The net asset value is calculated based on the quoted market prices of the funds asset less the funds liability divided by the total number of outstanding units.

iv) Real estate is comprised of direct investments in real estate (rental income and capital appreciation properties) and investments in real estate companies established under Section 149 of the *Income Tax Act*. Real estate is valued at estimated fair values based on independent appraisals at least once every three years plus net working capital.

v) Infrastructure is comprised of investments in infrastructure funds. The fair value is the net asset value per unit provided by the issuers. The net asset value is based on independent appraisals of the valuation of the underlying infrastructure and infrastructure-related assets held by these funds, which are completed on an annual basis.

Interest income and revenue from real estate and infrastructure funds are recorded on an accrual basis. Since real estate is valued on a fair value basis, depreciation and amortization are not charged to income.

Dividend income is recognized on the ex-dividend date.

## d) Short-term assets and liabilities

Due to their short-term nature, cash, contributions receivable, accounts receivable, accrued interest and dividend receivable, and accounts payable and accrued liabilities are carried at cost, which approximates fair value. Payment of pensions, refunds and transfers, which are due as at year-end, are recorded as accounts payable.

## e) Mortgages payable

Mortgages are valued at amortized cost, which approximates fair value. Mortgages associated with real estate are made at commercial mortgage rates.

## f) Foreign currency translation and forward currency contracts

Foreign currency transactions are translated into Canadian dollars at the rate of exchange prevailing at the dates of the transactions. The fair value of the investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

The Fund enters into forward currency contracts to manage its exposure to foreign currencies. Forward currency contracts are reported at fair value as at the reporting date. The realized and unrealized gains and losses arising from these transactions are included in the increase (decrease) in the fair value of investments.

## g) Future changes in accounting policies

In December 2011, the International Accounting Standards Board issued amendments to International Accounting Standards 32 *Financial Instruments: Presentation* to clarify the application of the offsetting requirements. Earlier application is permitted. These amendments will have no material impact on the Plan's financial statements.

# 3. INVESTMENTS

## a) General

The following table outlines the Plan's investments in financial instruments as at 31 December. Other foreign equity includes the fair value of forward currency contracts of $-0.15 million (2012 – $-0.5 million) and infrastructure includes the fair value of forward currency contracts of $-0.05 million (2012 – nil):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| *(in thousands of dollars)* | **Amortized Cost (1)** | **Fair Value** | Amortized Cost (1) | Fair Value |
| Fixed income | | | | |
| Short-term investments | **31,799** | **31,820** | 26,402 | 26,446 |
| Bonds and debentures | | | | |
| Government of Canada | **96,838** | **96,022** | 78,340 | 78,996 |
| Provinces/municipalities | **115,610** | **117,361** | 89,991 | 99,379 |
| Corporate/other | **104,598** | **108,279** | 89,134 | 96,551 |
| Total bonds and debentures | **317,046** | **321,662** | 257,465 | 274,926 |
| Total fixed income | **348,845** | **353,482** | 283,867 | 301,372 |
| Equity | | | | |
| Canadian | **270,470** | **474,886** | 250,382 | 393,352 |
| American | **214,421** | **261,394** | 195,004 | 209,611 |
| Other foreign | **214,050** | **252,765** | 223,142 | 215,615 |
| Total equity | **698,941** | **989,045** | 668,528 | 818,578 |
| Inflation-sensitive | | | | |
| Real return securities | **24,647** | **28,966** | 23,965 | 33,331 |
| Infrastructure | **19,141** | **19,089** | - | - |
| Total inflation-sensitive | **43,788** | **48,055** | 23,965 | 33,331 |
| Total investment in financial instruments | **1,091,574** | **1,390,582** | 976,360 | 1,153,281 |

1 Cost for equilty

As at 31 December 2013, the Plan's investments in financial instruments include $153.6 million (2012 – $134.7 million) of fixed income securities at fair value issued by the Plan sponsor or its related parties, which include Government of Canada bonds.

The following table provides a reconciliation of the fair value of investments in real estate for the year ending December 31:

| *(in thousands of dollars)* | **2013** | **2012** |
|---|---|---|
| Fair value at beginning of year | **260,933** | 251,872 |
| Additions | **4,188** | 8,218 |
| Capital expenditures | **-** | 1,615 |
| Disposals | **-** | (11,875) |
| Unrealized fair value gains (losses) | **7,883** | 11,103 |
| Fair value at end of year | **273,004** | 260,933 |

The following table provides a reconciliation of the fair value of investments in infrastructure for the year ending December 31:

| *(in thousands of dollars)* | **2013** | **2012** |
|---|---|---|
| Fair value at beginning of year | **-** | - |
| Additions | **19,089** | - |
| Disposals | **-** | - |
| Unrealized fair value gains (losses) | **-** | - |
| Fair value at end of year | **19,089** | - |

The Fund asset mix is maintained within the following ranges:

| | % |
|---|---|
| **Equity** | |
| Canadian | 20% to 35% |
| American | 10% to 22% |
| Other foreign | 10% to 22% |
| Total equity | 45% to 65% |
| **Fixed income** | |
| Bonds and debentures | 20% to 40% |
| Cash equivalents (short-term investments and cash) | 0% to 5% |
| Total fixed income | 20% to 40% |
| **Inflation-sensitive** | |
| Real estate | 4% to 12% |
| Infrastructure | 0% to 8% |
| Real return securities | 0% to 5% |
| Total inflation-sensitive | 6% to 20% |

The Fund's long-term asset allocation policy is as follows:

| | |
|---|---|
| Equity | 57% |
| Fixed income | 28% |
| Inflation-sensitive | 15% |

### b) Fair-value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1
  Financial assets are measured based on quoted prices in active markets for an identical asset.
- Level 2
  Financial assets and liabilities not quoted in active markets are measured based on discounted cash flow or other valuation methodologies making maximum use of directly or indirectly observable market data.
- Level 3
  Financial assets and liabilities not quoted in active markets are measured based on discounted cash flow analysis techniques or other valuations methodologies where significant inputs are not based on observable market data.

The following tables represent the fair value hierarchy of financial assets:

As at 31 December, 2013

| *(in thousands of dollars)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Fixed Income | | | | |
| Short-term investments | 31,820 | | | 31,820 |
| Bonds and debentures | | | | |
| Government of Canada | 96,022 | | | 96,022 |
| Provinces/municipalities | 117,361 | | | 117,361 |
| Corporate/other | 107,875 | 404 | | 108,279 |
| Total bonds and debentures | 321,258 | 404 | | 321,662 |
| Total fixed income | 353,078 | 404 | | 353,482 |
| Equity | | | | |
| Canadian | 474,886 | | | 474,886 |
| American | 261,394 | | | 261,394 |
| Other foreign | 252,919 | (154) | | 252,765 |
| Total equity | 989,199 | (154) | | 989,045 |
| Inflation-sensitive | | | | |
| Real return securities | 28,966 | | | 28,966 |
| Infrastructure | | (52) | 19,141 | 19,089 |
| Total inflation-sensitive | 28,966 | (52) | 19,141 | 48,055 |
| | 1,371,243 | 198 | 19,141 | 1,390,582 |

The valuation for Level 3 investments in infrastructure includes unobservable inputs, which may significantly affect the measurement of fair value. The valuation was based on its assessment of the prevailing conditions at 31 December 2013, which may change materially in subsequent periods.

Significant increases (decreases) in estimated revenues, inflation rates and earnings before interest, taxes, depreciation and amortization (EBITDA) multiples would result in a significantly higher (lower) fair value of the infrastructure investments. Significant increases (decreases) in operational costs and discount rates would result in a significantly lower (higher) fair value.

As at 31 December 2012

| *(in thousands of dollars)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Fixed income | | | | |
| Short-term investments | 26,446 | | | 26,446 |
| Bonds and debentures | | | | |
| Government of Canada | 78,996 | | | 78,996 |
| Provinces/municipalities | 99,379 | | | 99,379 |
| Corporate/other | 95,115 | 1,436 | | 96,551 |
| Total bonds and debentures | 273,490 | 1,436 | | 274,926 |
| Total fixed income | 299,936 | 1,436 | | 301,372 |
| Equity | | | | |
| Canadian | 393,352 | | | 393,352 |
| American | 209,611 | | | 209,611 |
| Other foreign | 216,140 | (525) | | 215,615 |
| Total equity | 819,103 | (525) | | 818,578 |
| Inflation-sensitive | | | | |
| Real return securities | 33,331 | | | 33,331 |
| Total inflation-sensitive | 33,331 | | | 33,331 |
| | 1,152,370 | 911 | | 1,153,281 |

There were no significant transfers between levels 1 and 2 in 2013 and 2012.

## c) Risk management

The key financial risks related to the assets of the Plan are market risk, credit risk and liquidity risk. These are mitigated by policies that define the Fund's overall objective and circumscribe investments in terms of what is permitted, how investments may be made, and minimum standards for diversification, quality, and liquidity. Policies also describe the management structure and monitoring procedures adopted for the ongoing operation of the Fund.

i) Market risk

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign currency rates and equity prices. The Fund is able to mitigate this risk by incorporating diversification requirements in its investment policies and guidelines. Diversification reduces the risk of market value decreases and helps protect the Fund from potential negative impacts within one asset class or sector.

### Interest rate risk

Interest rate risk relates to the impact of interest rate changes on the Plan's cash flows. The risk arises from differences in the timing and amount of cash flows related to Plan assets and liabilities.

The Plan's interest rate risk is managed through the implementation of policies that limit risk for the Plan's investment activities. The asset allocation policy takes into account the liability profile of the Plan and diversifies the assets of the Fund. Other policies limit the price sensitivity of fixed income assets to interest rate changes relative to established benchmark indices.

The impact of a 1-per-cent increase/decrease in interest rate on the fair value of fixed income securities would be:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| *(in thousands of dollars)* | **Increase** | **Decrease** | Increase | Decrease |
| Short-term investments | **(80)** | **80** | (66) | 66 |
| Bonds and debentures | **(21,609)** | **21,609** | (19,110) | 19,110 |
| Real return securities | **(4,495)** | **4,495** | (5,510) | 5,510 |
| | **(26,184)** | **26,184** | (24,686) | 24,686 |

### Foreign currency risk

Foreign currency risk is the risk that the value of an investment will fluctuate as a result of changes in foreign exchange rates and is associated with the Plan's investments in American and other foreign equities. Exposure to U.S. currency arising from investments in American equities is hedged through investments in pooled funds that transact in U.S. currency hedging instruments. Other currency exposure arising from investments in foreign equities and infrastructure investments are hedged through forward currency contracts.

The current policy is to hedge 50 per cent of the currency exposure arising from American and other foreign equity holdings and 100 per cent of the currency exposure arising from infrastructure investments, with a tolerance band of ±10 percentage points of the approved total percentage of assets to be hedged.

Fluctuation in foreign exchange rates will have a negative or positive impact on the value of the unhedged portion of investments in foreign denominations. The following table demonstrates the impact a 1-per-cent increase/decrease in foreign currency will have on the fair value of the investments net of foreign currency contracts:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| *(in thousands of dollars)* | **Increase** | **Decrease** | Increase | Decrease |
| U.S. | **1,315** | **(1,315)** | 921 | (921) |
| Other foreign | **1,227** | **(1,227)** | 1,081 | (1,081) |
| | **2,542** | **(2,542)** | 2,002 | (2,002) |

### Equity price risk

Equity price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market. The Plan's exposure to equity price risk arises primarily from investments in equities and to a lesser extent investments in real estate and infrastructure. Policies set minimum standards for diversification of assets at the total Fund level and within individual portfolios.

When a significant portion of an equity portfolio is invested in similar sectors a concentration of equity price risk exists. The following table outlines the sectors the equity portfolios are invested in:

| (in thousands of dollars) | 2013 $ | 2013 % | 2012 $ | 2012 % |
|---|---|---|---|---|
| Financials | **233,788** | **23.6** | 181,899 | 22.2 |
| Energy | **169,359** | **17.1** | 144,621 | 17.7 |
| Industrials | **116,530** | **11.8** | 88,594 | 10.8 |
| Consumer discretionary | **108,023** | **10.9** | 84,609 | 10.3 |
| Materials | **95,439** | **9.7** | 97,080 | 11.9 |
| Information technology | **84,180** | **8.5** | 67,369 | 8.2 |
| Consumer staples | **70,283** | **7.1** | 54,543 | 6.7 |
| Health care | **57,757** | **5.8** | 43,769 | 5.3 |
| Telecommunication services | **38,602** | **3.9** | 33,186 | 4.1 |
| Utilities | **12,488** | **1.3** | 14,189 | 1.7 |
| Other | **2,596** | **0.3** | 8,719 | 1.1 |
| | **989,045** | **100.0** | 818,578 | 100.0 |

### ii) Credit risk

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. Credit risk includes the risk of default, and encompasses both the probability of loss and the probable size of the loss, net of recoveries and collateral, over time.

The Plan's credit risk associated with investments is managed through the implementation of policies, which include minimum credit rating requirements and limits by sector, counterparty, and credit rating. In the event that a credit change renders an approved investment holding ineligible, the Fund will take the necessary actions to restructure holdings while minimizing losses. The credit quality of issuers of debt securities is assessed by reference to published credit ratings and investment management analysis.

Concentration risk is the amount of the credit risk the Fund is exposed to in relation to sectors. This concentration is shown in section a) of note 3.

Credit risk exposure on fixed income and real return investments is divided into short-term (less than one year) and long-term (greater than one year). All short-term exposure is rated "R-1 high" or equivalent. The maximum exposure to credit risk for fixed income and real return investments is the carrying amount of these investments.

The following table represents the credit risk exposure on long-term investment securities:

| (in thousands of dollars) | 2013 | 2012 |
|---|---|---|
| AAA | **146,692** | 134,125 |
| A- to AA+ | **173,948** | 150,156 |
| BBB | **29,988** | 23,976 |
| | **350,628** | 308,257 |

Credit risk arising from forward currency contracts is managed by entering into contracts with creditworthy counterparties subject to minimum credit rating requirements and by setting limits on the allowable amount of exposure to each of these counterparties.

### iii) Liquidity risk

Liquidity risk is the risk that the Plan would have insufficient cash flows to meet its pension obligations, investment-related obligations, and operating expenses as they come due. Liquidity risk is managed through holdings of highly liquid short-term investments, forecasting of cash flow requirements, and daily monitoring. Cash sources include investment income, proceeds from the sale of investments, and employee and employer contributions. The largest single source of cash in the year was from the sale and maturity of investments which provided $579.9 million (2012 – $646.2 million) to the Fund.

The Plan's financial liabilities consist of accounts payable, accrued liabilities and mortgages. The term to maturity of accounts payable and accrued liabilities is within one year and the net amount payable is $7.4 million (2012 – $4.1 million). The maturity analysis for mortgages payable is provided under note 4.

## 4. MORTGAGES PAYABLE

Mortgages mature at various dates between January 2014 and April 2023. Mortgages are secured by land and specific rental properties, which bear interest at rates ranging from 2.074 per cent to 5.70 per cent. The mortgages have both fixed and variable interest rates. The estimated payments of principal and interest are as follows:

| | **2013** | | **2012** | |
|---|---|---|---|---|
| *(in thousands of dollars)* | **Principal** | **Interest** | Principal | Interest |
| 2013 | | | 23,035 | 5,200 |
| 2014 | **28,394** | **5,015** | 17,209 | 4,091 |
| 2015 | **22,584** | **4,129** | 22,691 | 3,497 |
| 2016 | **12,778** | **3,162** | 12,893 | 2,520 |
| 2017 | **27,040** | **1,815** | 25,011 | 1,238 |
| 2018-2023 | **31,616** | **4,028** | 18,800 | 1,369 |
| | **122,412** | **18,149** | 119,639 | 17,915 |

During 2013, interest paid on these mortgages amounted to $5.7 million (2012 – $6.3 million).

## 5. NET REVENUE FROM REAL ESTATE

Net revenue from real estate represents rental revenues less expenses including tenant improvements.

## 6. CONTRIBUTIONS

The contributions are composed of the following:

| *(in thousands of dollars)* | **2013** | **2012** |
|---|---|---|
| Employer: | | |
| Current service contributions | **14,905** | 16,369 |
| Special payments | **82,171** | 25,891 |
| Total employer | **97,076** | 42,260 |
| Employees: | | |
| Current service contributions | **12,424** | 11,723 |
| Past service contributions | **2,088** | 1,497 |
| Total employees: | **14,512** | 13,220 |
| Total contributions | **111,588** | 55,480 |

As a result of the deficits reported in the 31 December 2012 actuarial valuation report, special payments were required in 2013. The going concern and solvency special payments amounted to $4.8 million (2012 – $1.4 million) and $76.1 million (2012 – $22.6 million) respectively in 2013.

Special payments also included $1.3 million (2012 – $1.9 million) to fund transfer deficiencies for members electing to transfer out of the plan in 2013.

## 7. BENEFITS

| *(in thousands of dollars)* | **2013** | **2012** |
|---|---|---|
| Retirement | **64,095** | 61,685 |
| Disability | **143** | 153 |
| Termination | **1,690** | 1,566 |
| Death | **-** | - |
| Total benefits | **65,928** | 63,404 |

## 8. OPERATING EXPENSES

Operating expenses include the administrative costs related to the management of the Plan. The following table outlines the operating expenses for the year ended 31 December:

| *(in thousands of dollars)* | **2013** | **2012** |
|---|---|---|
| Operating expenses: | | |
| Pension benefits administration | **2,110** | 2,060 |
| Investment management fees | **1,922** | 1,872 |
| Investment personnel and related costs | **1,842** | 1,454 |
| Support services | **657** | 629 |
| Actuarial fees | **277** | 241 |
| Quote and data services | **248** | 239 |
| Computers and software | **197** | 183 |
| Other | **180** | 160 |
| Occupancy costs | **161** | 158 |
| Consulting fees | **89** | 133 |
| Audit fees | **87** | 84 |
| Custodial fees | **55** | 46 |
| Trustees and Investment Committee | **50** | 55 |
| Total operating expenses | **7,875** | 7,314 |

## 9. PENSION OBLIGATIONS

At 31 December 2013, an actuarial valuation of the Plan was conducted by Towers Watson. A copy of this valuation will be filed with the Office of the Superintendent of Financial Institutions and Canada Revenue Agency.

The valuation was prepared using the projected unit credit method with the following significant assumptions:

| | 2013 | 2012 |
|---|---|---|
| Real discount rate | **3.90%** | 4.00% |
| Inflation/indexation | **2.00%** | 2.00% |
| Rate of compensation increase | **3.00%** | 3.00% |

Variances between such estimates and actual experience, which may be material, will emerge as gains and losses in future valuations. Based on the 31 December 2013 valuation, the actuarial present value of accrued pension benefits is $1,445.9 million (2012 – $1,305.7 million).

As is standard for actuarial valuations, it is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. It is not possible to determine the magnitude of any such changes as they relate to general economic conditions.

CMHC bears the risk of experience loss against the long-term assumptions and credit risk associated with the Plan asset portfolio and is responsible for the liability associated with the ongoing operations of the Plan.

In accordance with the PBSA, the next required actuarial valuation will be 31 December 2014.

## 10. RELATED PARTY TRANSACTIONS

The Fund enters into transactions with CMHC, the Plan sponsor, and its related parties. CMHC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The following table summarizes the amount invested in instruments issued by CMHC or its related parties as at 31 December.

| *(in thousands of dollars)* | 2013 | 2012 |
|---|---|---|
| Short-term investments [1] | **31,820** | 26,446 |
| Bonds and debentures [2] | **95,752** | 78,703 |
| Real return securities [3] | **26,019** | 29,598 |
| Total | **153,591** | 134,747 |

[1] in its related parties
[2] $33.0 million (2012 – $24.4 million) in CMHC and $62.7 million (2012 – $54.3 million) in its related parties
[3] in its related parties

Transactions with CMHC, the Plan sponsor, were concluded in the normal course of activities and measured at the amount of consideration established and agreed to by both parties. Included in operating expenses is $4.7 million (2012 – $4.6 million) for administrative services provided by the Sponsor to the Plan. Accounts payable and accrued liabilities as at 31 December 2013 and 2012 include less than $1 million due to CMHC for administrative services provided to the Plan.

## 11. COMMITMENTS AND CONTINGENT LIABILITIES

i) Various claims have been instituted against the Trustees of the Fund and/or CMHC pertaining to the Plan. In view of the inherent difficulty of predicting the outcome of such claims, the Plan cannot state what the eventual outcome of such matters will be; however, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the financial position of the Plan.

ii) In connection with the sale of a property in 2008, the existing mortgage was assumed by the purchaser and the Fund remained on the mortgage covenant. The remaining principal balance payable as at 31 December 2013 is approximately $7.9 million (2012 – $8.2 million). Based on the value of the property relative to the mortgage balance, management believes that the likelihood of exposure under the covenant is low. The mortgage balance was paid in full in January 2014.

iii) In 2013 the Plan committed to fund infrastructure investments. The funding is expected to occur over the next several years in accordance with the agreed upon terms and conditions. As at 31 December 2013, the commitments amounted to $18 million.

iv) As at 31 December 2013, the Plan has a $0.9 million (2012 – $0.9 million) letter of credit outstanding related to the potential development of one of its real estate properties.

## 12. CAPITAL MANAGEMENT

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are considered the capital of the Plan. The Plan's primary objective with respect to capital management is to ensure that it is adequate to provide for the pension benefits in accordance with the provisions of the CMHC Pension Plan Rules.

The Plan Rules, as well as the Plan's funding and operations are subject to the PBSA and its regulations, and to the *Income Tax Act* (ITA).

CMHC has managed the Plan's capital in accordance with the legal and regulatory requirements. There have been no changes in what is considered to be capital or the objectives of managing capital during the year.

## 13. COMPARATIVE FIGURES

Certain comparative figures presented in the notes to the financial statements have been reclassified to conform to the 2013 financial statement presentation.

# COMMITTEE MEMBERSHIP AND PLAN ADMINISTRATION
*(as at 31 December 2013)*

## DB Pension Fund Investment Committee

| **Members** | |
|---|---|
| Wojo Zielonka | Chair<br>Vice-President, Capital Markets |
| Brian Naish (from May 2013) | Chief Financial Officer |
| Peter Friedmann | General Manager, Ontario Region and National Director, Leadership Development |
| Benoit Sanscartier | Project Manager, Insurance Servicing Operations Review |
| Claude Gautreau | Pension Council Member, Senior Market Analyst, Atlantic Region |
| Bruce Curwood | Russell Investments Canada Limited Toronto, Ontario |
| René Delsanne | Expertise Financière J.C. Dorval 1999 Inc. Montréal, Quebec |
| **Advisors** | |
| Pierre Serré | Chief Risk Officer |
| Sharon Rosentzveig | Assistant General Counsel |
| **Observer** | |
| Luc Demers | Chief Compliance Officer |

## DB Pension Council

| **Chair** | |
|---|---|
| Julie Philippe | Director, Total Compensation Human Resources |
| **Employee Representatives** | |
| Claude Gautreau | Atlantic Region |
| François Lévesque | Quebec Region |
| Peter Hood | Ontario Region |
| Terry Wotton | Prairie and Territories Region |
| Fleuri Perron | B.C. Region |
| Julie Murphy | National Office and Ottawa Point of Service |
| Kamal Gupta | National Office and Ottawa Point of Service |
| **Pensioner Representatives** | |
| Guy Riopel | Atlantic and Quebec regions |
| Stephen Hall | Ontario, Prairie and Territories, and B.C. regions |
| Trevor Gloyn | National Capital Region |

## DB Pension Council (continued)

| Alternate Employee | |
|---|---|
| Vacant | Atlantic Region |
| Vacant | Quebec Region |
| Robert Genier | Ontario Region |
| Jimmy Bechthold | Prairie and Territories Region |
| Carol Frketich | B.C. Region |
| Syed Z. Rizvi | National Office and Ottawa Point of Service |
| Nicolas Malboeuf | National Office and Ottawa Point of Service |
| **Alternate Pensioner** | |
| Curt Wilson | Atlantic and Quebec regions |
| Bill Beatty | Ontario, Prairie and Territories, and B.C. regions |
| Vacant | National Capital Region |

## Plan and Fund Administration

| Human Resources | |
|---|---|
| Julie Philippe | Director, Total Compensation |
| Stéphane Poulin | Manager, Pension Policy and Administration |
| **Investments and Pension** | |
| Karen Bailey | Director, Investments and Pension Fund |
| Lucie Lafleur | Manager, Pension Fund Administration |
| **Legal Advisors** | |
| Sharon Rosentzveig | Assistant General Counsel |
| Louise Michel | Client Service Team Leader/Senior Counsel |
| **Pension Consultant** | |
| Mercer (Canada) Limited Ottawa, Ontario | |
| **Actuary** | |
| Towers Watson Canada Inc. Montréal, Quebec | |
| **Auditors** | |
| Ernst & Young LLP<br>Chartered Accountants<br>Licensed Public Accountants<br>Ottawa, Ontario | |

## Delivering on the Promise

# NEW RETIREES IN 2013

To all DB Plan members who retired in 2013, we, the Trustees of the Pension Fund and the Management of CMHC, wish you and your families a long and enjoyable retirement.

Your dedicated service while at CMHC has helped Canadians access a wide choice of quality, affordable homes and contributed to the creation of healthy, vibrant communities across the country.

| Name | Joined CMHC | Business Area |
|---|---|---|
| Alexander, Joanne | 04-Nov-91 | BC Business Centre |
| Belle-Isle, Diane | 20-Oct-03 | Quebec Business Centre |
| Blahut, Lorne | 29-Jul-87 | Insurance Operations |
| Blondin, Michel | 26-Nov-07 | Policy, Research and Planning |
| Bohlmann, Adelaide | 07-Sep-82 | Prairie and Territories Business Centre |
| Booth, Ian | 27-Jul-81 | Corporate Services |
| Bourgoin, Jocelyne | 25-May-87 | Atlantic Business Centre |
| Bradley, Terry | 10-Jun-02 | Prairie and Territories Business Centre |
| Bugaj, Robert | 22-Sep-80 | Ontario Business Centre |
| Burke, Donna | 24-Jan-83 | Prairie and Territories Business Centre |
| Cheslock, Deborah | 01-Jun-81 | Ontario Business Centre |
| Chin, Doris | 12-Oct-88 | BC Business Centre |
| Chippior, Nancy | 21-Sep-81 | Corporate Secretariat |
| Chiu, Sandra | 02-May-83 | Sector of the Chief Financial Officer |
| Ciavarella, Christina | 20-Mar-78 | Ontario Business Centre |
| Clément, Lori | 27-Apr-87 | Sector of the Chief Financial Officer |

| Name | Joined CMHC | Business Area |
|---|---|---|
| Cléroux, Louise | 25-Aug-80 | Corporate Services |
| Coles-Morrison, Thelma | 04-Jan-99 | Atlantic Business Centre |
| Conrod, Keith | 22-Mar-76 | Atlantic Business Centre |
| Constantineau, Richard | 10-Jun-85 | Corporate Services |
| Crispo, Sylvie | 18-Jun-79 | Insurance Business Strategy and Development |
| Cullen, Paul | 10-May-99 | Ontario Business Centre |
| Da Costa, Soledade | 25-Sep-79 | Legal Services Division |
| Decary, Michel | 04-Jan-99 | Quebec Business Centre |
| Demers-Lemieux, Lise | 24-May-77 | Quebec Business Centre |
| Detienne, Linda | 27-Jul-98 | Atlantic Business Centre |
| Dixon-Moisan, Daughn | 22-Feb-88 | Corporate Services |
| Dobie, Allan | 11-Sep-00 | BC Business Centre |
| Doré, Denise | 26-Jun-75 | Corporate Services |
| Dubois, Lorraine | 24-Aug-77 | Quebec Business Centre |
| Dupuis, Claudette | 19-Jul-93 | Quebec Business Centre |
| Eder, Donna | 21-Mar-83 | Corporate Services |
| Elliott, Stacie | 06-Jan-14 | Corporate Services |
| Fritz, Beverly | 02-Jun-75 | Prairie and Territories Business Centre |
| Gratton, Marc | 11-May-81 | Regional Operations and Assisted Housing |
| Guitard, Denise | 10-May-82 | Ontario Business Centre |
| Harris, Neophytos | 18-Jan-99 | Policy, Research and Planning |
| Harvey, Ghislaine | 29-Jun-98 | Corporate Services |
| Hearty, Dennis | 23-Feb-81 | Corporate Services |
| Holzman, Mark | 21-Apr-81 | Policy, Research and Planning |
| Howat, Brenda | 24-Apr-78 | BC Business Centre |
| Huot, Anne | 21-Jun-76 | Policy, Research and Planning |
| Jeske, Greg | 20-Oct-83 | Corporate Services |
| Joly, Marie | 22-Sep-86 | Corporate Services |
| Kelly, Stephen | 23-Aug-82 | Corporate Services |
| Kinsley, Karen | 08-Sep-87 | President's Office |
| Kong, Ngeuk-Chin Ann | 19-Jan-81 | Corporate Services |
| Krisciunas, Allan | 19-Oct-09 | Policy, Research and Planning |
| Kryszewski, Chantal | 17-Oct-05 | BC Business Centre |
| Labbé, Lise | 20-Sep-82 | Corporate Services |
| Laflamme, Lynn | 07-Sep-99 | Corporate Services |
| Lapointe, Jacques | 07-Jun-93 | Quebec Business Centre |
| Latulippe, Luc | 21-Aug-06 | Sector of the Chief Financial Officer |
| Lee, Norman | 01-Oct-84 | Corporate Services |
| Lemay, Claude | 19-Apr-99 | BC Business Centre |
| Leonard, Daniel M | 24-Oct-74 | Corporate Services |

| Name | Joined CMHC | Business Area |
|---|---|---|
| Lortie, Daniel | 25-Jul-11 | Legal Services Division |
| MacDonald, Dorothy | 08-Jun-87 | Corporate Services |
| Marshall, Brenda | 20-Jun-77 | Prairie and Territories Business Centre |
| Mason, Kathy | 06-Jul-77 | Atlantic Business Centre |
| McCann, Ginette | 27-Jun-77 | Corporate Services |
| McInnis, Mark | 15-Dec-80 | Insurance Operations |
| McLeay, Darlene | 03-Nov-80 | Atlantic Business Centre |
| Ménard, Diane | 22-Sep-75 | Regional Operations and Assisted Housing |
| Mirhady, Alex | 24-Apr-84 | Regional Operations and Assisted Housing |
| Morgan, John | 17-Mar-86 | Prairie and Territories Business Centre |
| Newton, Elaine | 12-Jan-98 | Prairie and Territories Business Centre |
| O'Hanley, Karen | 18-Jan-88 | Insurance Operations |
| Pollard, Douglas | 12-Jan-98 | Policy, Research and Planning |
| Pristanski, Bambury | 08-Sep-87 | President's Office |
| Proulx, Michael | 06-Apr-10 | Corporate Services |
| Rattle, Cynthia | 17-Feb-03 | Policy, Research and Planning |
| Roberge, Monique | 16-Jul-85 | Insurance Operations |
| Rogers, Timothy | 09-Aug-76 | Ontario Business Centre |
| Rothwell, Sue Ann | 19-Oct-98 | Policy, Research and Planning |
| Rousom, Darlene | 05-Apr-83 | BC Business Centre |
| Semple, William | 04-Feb-02 | Policy, Research and Planning |
| Sevigny, Nicole | 23-Jun-75 | Sector of the Chief Financial Officer |
| Snider, Pamela | 17-May-82 | Corporate Services |
| Sproul, Deborah | 27-Aug-79 | Atlantic Business Centre |
| Stendzis, John | 05-Apr-83 | Ontario Business Centre |
| St-Pierre, Marlene | 30-Mar-98 | Quebec Business Centre |
| Talbot, Jocelyn | 07-May-79 | Quebec Business Centre |
| Taylor, Jeanne | 25-Feb-80 | Corporate Services |
| Therrien, Lynda | 07-Sep-76 | Corporate Services |
| Thomas, Mary Lou | 24-May-77 | BC Business Centre |
| Townsend, Barbara | 24-Jan-83 | Prairie and Territories Business Centre |
| Trudel, Pierre | 13-Feb-89 | Quebec Business Centre |
| Van Herk, Denise | 01-Jun-81 | Insurance Operations |
| Villeneuve, Joanne | 30-Aug-76 | Sector of the Chief Financial Officer |
| Williston, Diane | 15-Oct-91 | Quebec Business Centre |
| Wilson, Janet | 15-Feb-99 | Atlantic Business Centre |
| Woodbury, Joan | 06-Dec-93 | BC Business Centre |
| Woodman, Mac | 29-Jun-81 | Atlantic Business Centre |
| Woods, Robert | 11-Jan-82 | Corporate Services |
| Zappa, Gina | 22-Dec-80 | Policy, Research and Planning |

## For Answers to your Pension Questions

If you are a participant of the DB Plan, any questions having to do with the DB Plan in general or with your individual CMHC pension-related circumstances should be directed to:

Pension and Benefits Human Resources
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, ON K1A 0P7
E-mail: pension-ben@cmhc-schl.gc.ca
Tel: 613-748-2954 or 1-800-465-9932
Fax: 613-748-2320

If you are a participant of the DC Plan, any questions having to do with the DC Plan in general or with your individual CMHC pension-related circumstances should be directed to:

Standard Life
E-mail: retirement.solutions@standardlife.ca.
Tel: 1-800-242-1704
Monday to Friday, 8:00 a.m. to 8:00 p.m. EST

## To Provide Feedback on this Report

The CMHC Pension Plan Annual Report provides all members with financial and operational information on the Plan and Fund. Your feedback on this Report would be welcomed. Please address your comments or suggestions to:

Manager
Pension Fund Administration
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, ON K1A 0P7