Pension Plan

Annual Report

2020

Canada

CMHC SCHL

Our mission

The mission of the Canada Mortgage and Housing Corporation (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 and prudent investment of the Pension Plan's assets to maximize returns while safeguarding assets.

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Message from the Chair

CMHC was recently recognized as one of Canada's Top 100 Employers, thanks in part to our commitment to provide you – our employees and retirees – with a unified, competitive and sustainable defined benefit Pension Plan. On behalf of the Trustees of the Pension Fund, it is my pleasure to present the Pension Plan Annual Report for 2020.

I am pleased to report that as at December 31, 2020, your Pension Plan was fully funded on a going concern basis at 108%, as reported in the annual actuarial valuation. Fund returns were negatively affected in the first half of the year as a result of the global economic downturn triggered by the COVID-19 pandemic. However, the Fund performed strongly in the second half of 2020, in both the fixed income and foreign equity portfolios, as the global economy began to recover from the first wave of the pandemic.

Your Pension Plan is designed to help you plan for retirement while also giving you the flexibility to make decisions you believe will best meet your financial needs. Under the Plan's governance framework, investment decisions are made to fulfil Plan obligations and prioritize your long-term interests.

In 2020, we undertook risk analyses to help us understand how climate change may affect the Pension Plan. Risks that were identified included "transition" risks as the world shifts to a lower carbon economy and "physical" risks related to severe weather events, flooding and impacts on agricultural and industrial output. Our goal is to manage these risks and to invest in opportunities created by realignment to a lower carbon economy. Going forward, we will conduct a scenario based climate risk assessment at least once every three years to evaluate potential impacts on the Plan. We will also be exploring ways to report on the carbon-footprint of the Plan's investment portfolio.

Each year, the Board of Directors determines the level of contributions required to sustain the Pension Plan in light of the Plan's financial position. In 2020, CMHC contributed 11.8% of total employee base salaries to the Plan, while employees contributed 9.5% of total employee base salaries.

As part of its annual review of the level of indexation of benefits for post-2017 service, and based on the actuarial valuation results, the Board decided that, as at January 1, 2022, these benefits would be indexed at 43% of the increase in CPI.

Sound management of the Pension Plan is very much a team effort. I want to acknowledge the dedicated efforts of my fellow Trustees and the members of the Pension Plan Investment Committee, as well as the support provided by CMHC's Board of Directors, Executive Committee and staff at CMHC. Rest assured that we will continue to work together to ensure the health of the Plan for the benefit of current and future retirees.

Anne Giardini
Chair, Pension Fund Trustees

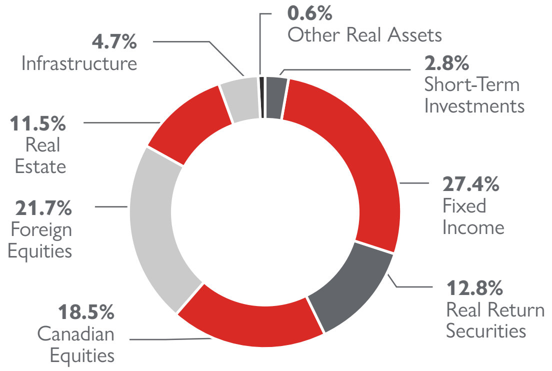
2020 Financial Highlights

$2,404 MILLION
Net assets available for benefits

107.7%
Fully funded on a going-concern basis (2019 – 111.7%)

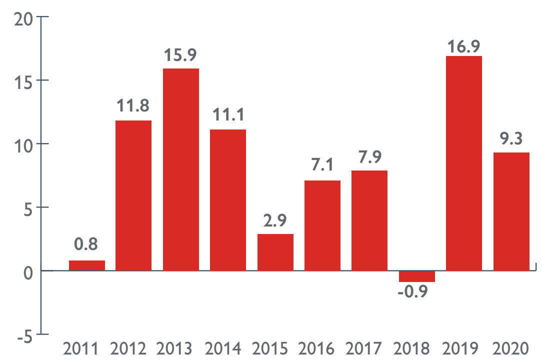
88.4%
Solvency ratio decreased (2019 – 95.8%)

ASSET MIX



RATE OF RETURN

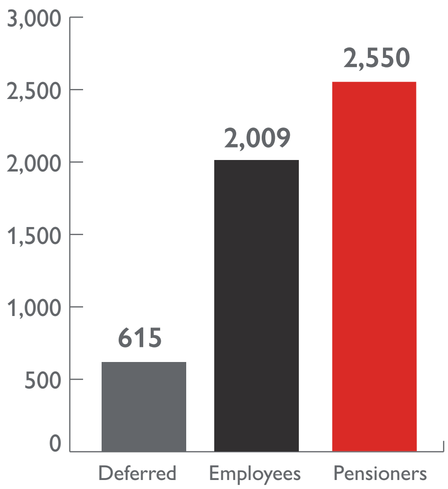
for the year ended December 31 (%)



Annualized rate of return (gross, nominal)
Four-year: 8.3% Ten-year: 8.2%

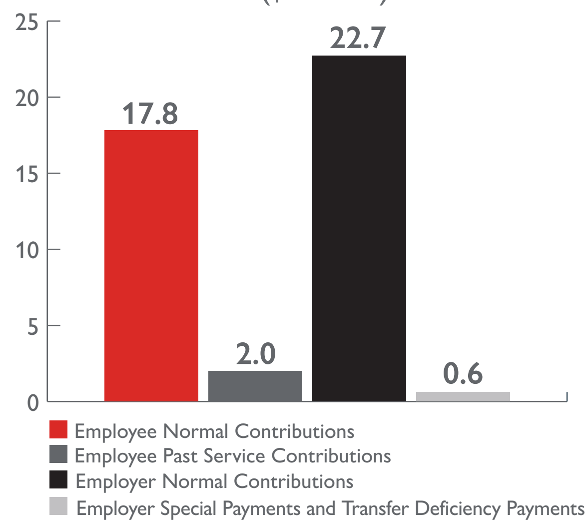
PLAN MEMBERSHIP

(Number of persons)



FUNDING MIX

($ Millions)



Your Plan

The CMHC Pension Plan (the Plan) is a defined benefit pension. This means that retirement income from the Plan is calculated using a specific formula that takes into account earnings history, pension benefit option, age, credited service and benefit service.

The Plan provides employees the opportunity to choose between two options. Option A provides a higher pension benefit at retirement but is subject to higher contribution rates than Option B. Option B provides lower benefits at retirement and is subject to lower contribution rates. Every year, members must elect the option they wish to participate in for the following year. If no election is made, Option A is assigned to the member as the default option.

At-a-glance, the Plan includes provisions on early retirement, unreduced retirement, survivor benefits and indexation.

Pension payments associated with service accrued prior to January 1, 2018, including deferred pensions, are automatically indexed in accordance with Plan rules, to reflect increases in the Consumer Price Index (CPI) published by Statistics Canada. Pension payments associated with service accrued after December 31, 2017 may be indexed to reflect increases in CPI, at the discretion of the Board of Directors, to better keep pace with inflation and is conditional on the Plan's financial positions and investment performance in any given year. Conditional indexation is a way for the Employer and Plan members to share the risks of the Plan while ensuring the long-term financial health and sustainability of the Plan. On January 1, 2021, pension benefits were increased by 1.0%, based on the formula outlined in the Pension Plan rules.

Contributions

In 2020, the employee contribution rate was:

Option A:
7.75% of earnings up to $58,700 (Yearly Maximum Pensionable Earnings or YMPE), and 10.25% of earnings above this level.

Option B:
5.25% up to the YMPE, and 7.75% of earnings above this level.

In total, employees contributed $19.9 million to the Plan. This included normal contributions of $17.8 million as well as past service contributions of $2.0 million.

CMHC's total contributions to the Plan in 2020 were $23.3 million. This included full normal contributions as well as solvency special payments of $0.6 million related to the solvency deficit reported by the actuarial valuation as at December 31, 2019.

In response to the global pandemic and economic downturn in 2020, the Department of Finance Canada announced on April 15, 2020 new solvency special payment relief regulations, effective May 27, 2020 until December 30, 2020. These regulations provided funding relief to plan sponsors whose pension plans reported a solvency deficit and who were required to make solvency special payments. Under these regulations, federally regulated defined benefit pension plan sponsors were not required to make solvency special payments. Prior to the regulations, CMHC received approval from the relevant Ministers to reduce its required solvency special payments for 2020.

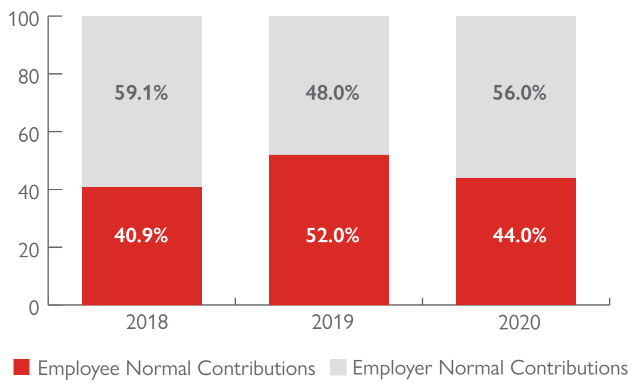
Employee and Employer Contributions ($ millions)

	2016	2017	2018	2019	**2020**
Employee Normal Contributions	12.0	10.9	15.5	17.2	**17.8**
Employee Past Service Contributions	0.2	0.2	0.3	8.7	**2.0**
Employer Normal Contributions	17.0	16.1	22.4	15.8	**22.7**
Employer Special Payments	72.1	78.5	23.9	13.7	**0.6**

On an annual basis, CMHC reviews the level of employer and employee contributions to the Plan, first, with regard to the financial status of the Plan; and second, in comparison to other plans, in order to benchmark the competitiveness of the Plan. The goal is to maintain a 50:50 cost-sharing ratio between employer and employee as outlined by Government of Canada directive (P.C. 2014-1380) pursuant to Section 89 of the Financial Administration Act, to align Crown corporation pension plans with those available to federal employees.

As of 1 January 2021, employee contribution rates increased in order to bring us closer to our goal of maintaining a 50:50 cost-sharing ratio. In March 2021, the Board approved the results of the actuarial valuation as at December 31, 2020, as well as the recommendations for employer contributions in 2021 and employee contributions in 2022. The actuarial valuation reported that the Plan was fully funded on a going concern basis and CMHC intends to make full normal contributions in 2021. The valuation also reported that the Plan continues to have a deficit on a solvency basis and CMHC will make solvency special payments in addition to the normal contributions in 2021.

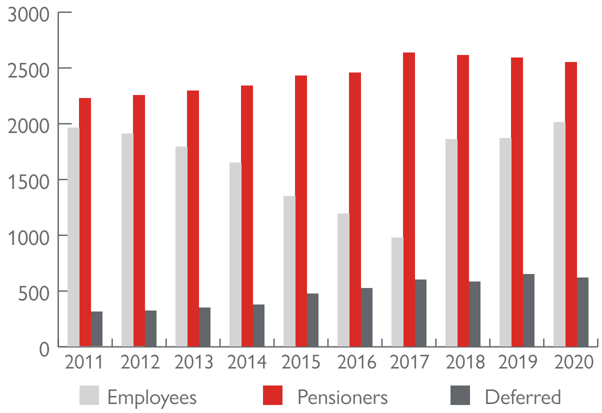
Employee and Employer Normal Contributions Cost Sharing



Membership

At year-end, the Plan had 5,174 members including 2,009 active employees, 2,550 pensioners and beneficiaries, and 615 members with deferred vested benefits.

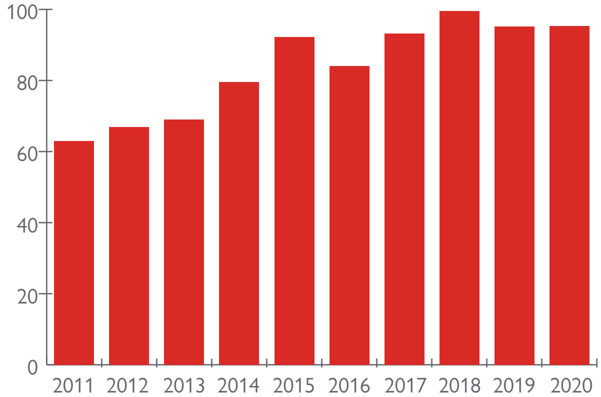
Plan Membership (Number of Persons)



Total Benefits Paid in 2020

A total of $95.3 million in pension benefits was paid to Plan members in 2020.

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



General information

Regulatory Authorities

As a federally registered pension plan, the CMHC 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

One of CMHC's key objectives is to promote increased awareness and understanding of the Plan and the benefits it provides, while facilitating opportunities for member feedback.

Aon, CMHC's Pension Plan administration provider, delivered lunch-and-learn sessions to present an overview of the Plan and the two pension benefit options in order to assist members in making an informed decision in preparation for the pension benefit election period.

In 2020, due to the COVID-19 pandemic, the planned one-day in class financial wellness workshops were modified and presented as a series of six one-hour webinars. These webinars are designed to enhance knowledge and awareness of financial wellness, provide an overview of the principles of financial planning and assist participants in defining their financial goals and setting strategies to achieve those goals. They also provide information on the transition from working to retirement by helping participants determine how much income they will need in retirement and identify different sources of retirement income.

CMHC's other ongoing communication activities included the annual statement of pension benefits that is sent to each Plan member and the annual CMHC Pension Council meeting highlights.

Plan Documents

Information related to the Plan is available on CMHC's website, including a description of the governance of the Plan and key roles and responsibilities under its governance structure.

Additional information can be obtained through Aon by contacting the CMHC Pay and Benefits Centre at 1-800-465-9932.

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.

Good corporate governance is at the heart of all of CMHC's activities and successes and is included in the governance framework for the Pension Plan. 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. The governance structure of the Plan is outlined below. More information regarding the roles and responsibilities of the key governance components of the Plan can be found in the Pension Governance section on CMHC's website.

CMHC's Plan governance structure comprises 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 Executive Committee, and the Human Resources Sector (Total Rewards Strategy).

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

The Pension Plan Coordination Committee provides a forum for discussion and collaboration among Investments & Treasury, Financial Reporting, 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.

The Pension Council comprises 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.

Trustees of the CMHC Pension Plan

Anne Giardini
Chair, Pension Fund Trustees and Member of the Board of Directors

Evan Siddall
President and Chief Executive Officer

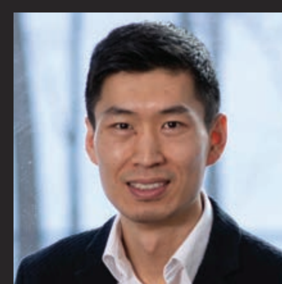
Etienne Pinel
Employee Representative Pension Council Member

Christina Haddad
Vice President, Public Affairs

Michel Tremblay
Senior Vice President, Policy and Research

Stephen Hall
Retiree Representative Pension Council Member

Neil Levecque
Vice President, IT Strategy and Chief Data Officer



Matt Xu
Employee Representative Pension Council Member

Pension Council

Chair

Stéphane Poulin

Employee Representatives

Guylaine Boudreau
Etienne Pinel
David Muriella
Leesa Parry
Matt Xu
Kathryn Laflamme

Pensioner Representatives

Marie Murphy
Stephen Hall
Mark McInnis

Pension Fund Investment Committee

Chair

Mark Chamie

Members

Louise Stevens
Caroline Bourassa
David Muriella
Clive Morgan (External Advisor)
Graham Pugh (External Advisor)

Advisors

Senior Advisor, Legal Services
Manager, Audit (observer)
Transactional Audit Analyst (observer)

Investments and Asset Performance

Investment Framework

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

The Statement of Investment Policies and Procedures (SIP&P) defines the investment framework of the Fund. The SIP&P established by the Trustees for the Fund sets out the policies necessary for the management and administration of the Fund. It includes further definition of permitted investments as well as requirements for diversifying investments and managing risks. The SIP&P also includes policies for measuring, monitoring, and reporting on the performance of the Fund.

The SIP&P conforms to the requirements of the PBSA and was updated and approved by Trustees in 2020.

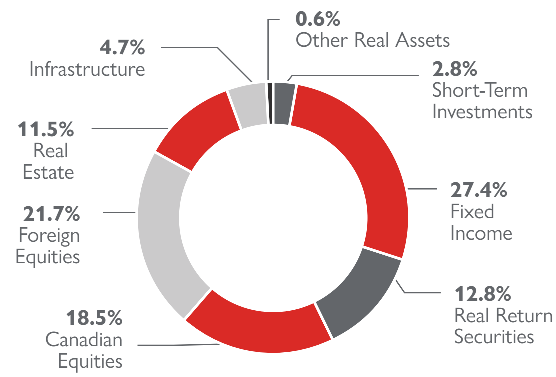
The Fund's Strategic Asset Allocation, recommended by Trustees and approved by the Board, is a key driver of Fund returns and contribution requirements. The asset allocation is based on the principle of diversification of investments among various asset classes relative to the liabilities of the Plan and is reviewed at least every five years. The next review of the strategic asset allocation is scheduled for 2021.

The asset allocation policy has been established at 40% public equity investments, 41% fixed income securities, and 19% real estate and infrastructure, on a net asset basis. The asset allocation policy includes a permissible range around these percentage weights. Additionally, the asset allocation policy allows for the use of a modest level of leverage of 25% of net asset value to purchase fixed income assets with the goal of reducing the interest rate risk of the portfolio.

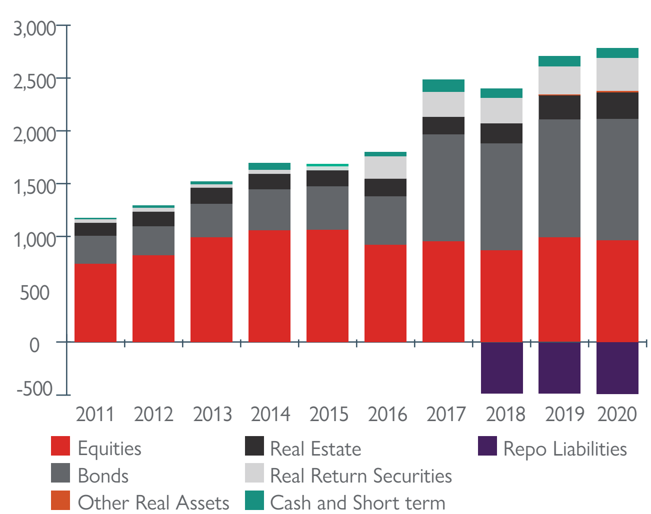
Equity investments include Canadian and foreign equities.

Fixed income comprises Canadian bonds and money market investments.

Asset Mix



Net Assets of the Fund ($ Millions)



Risk Management

The risk parameters under which the Fund is managed are established by the Fund's Risk Appetite statement and asset allocation policy.

The Board of Directors' specific requirements for managing these risks are addressed by a range of established policies and practices.

More information relating to financial risks is provided in the notes to the financial statements.

Regular measurement and reporting of Fund performance is also vital. Processes are in place to monitor and evaluate the investment performance of the Fund (including performance measures for the overall Fund and for individual asset classes). An extensive set of risk and return indicators are used to measure the Fund's ongoing performance. The Investment Committee and Trustees review indicators of the Fund's performance as well as its compliance against investment and risk management policies.

The year was particularly volatile as the economic impacts of COVID-19 affected both assets and liabilities. Equity markets bounced back after the decline in the first quarter and the Fund closed the year strongly in terms of asset performance in 2020. However, despite strong investment returns, the solvency funding ratio, which is a short-term measure and is sensitive to interest rates, declined to 88.4% in 2020 from 95.8% in 2019 as the increase in liabilities as a result of the fall in interest rates during the year more than offset the positive impact of strong asset returns.

The Fund, nevertheless, remains fully funded on a going concern basis with a going concern ratio of 107.7.

Climate Change

Climate change carries risks for the Pension Plan, both in terms of transition risk as the world transitions to a lower carbon economy and physical risks, related to severe weather events, flooding, and impacts on agricultural and industrial output.

The more significant risk for Canada is transition risk due to our northern hemisphere location. Although the pace and orderliness of that transition is uncertain, our goal is to manage the risks facing the Pension Plan and to invest in opportunities created by the realignment to a lower carbon economy.

Governance

Although the Board has ultimate responsibility for oversight over a broad range of risks related to the Pension Plan, including climate risk, the primary role of providing oversight of the Pension Plan's climate-related risks and opportunities resides with the Trustees, Investment Committee and the Investment and Risk teams.

The Pension Fund Trustees and Investment Committee:

- Oversee management of climate-related risks and opportunities
- Review the results of a climate risk assessment conducted once every three years
- Constructively challenge the investment team on environmental, social and governance matters in relation to the investment portfolio, and investment decisions
- Ensures that the practices and processes are in place to manage all risks including climate risks
- Approve all investment strategies, including those intended to invest in opportunities created by the transition to a lower carbon economy

The Investment Team:

- Oversees day-to-day integration of climate related considerations into investment decision-making
- Assesses and manages climate-related risks through asset allocation and through integration into the investment process
- Reports and highlights climate risk concerns and effects to the Trustees and Investment Committee
- Conducts a climate risk assessment once every three years
- Assesses and recommends for approval by the Trustees and Investment Committee investment opportunities created by the transition to a low-carbon economy

The Risk Team:

- Provides independent oversight over the Pension Plan's risks, including those related to climate
- Reports quarterly on the key risks to the Board, Trustees and Investment Committee

Strategy and Risk Management

Our goal is to manage climate-related risks to the Pension Plan and to invest in opportunities created by realignment to a lower carbon economy.

The transition to a lower carbon economy and the policy and technology transitions related to that, will impact sectors of the economy differently. We know that certain sectors will be adversely impacted by climate change, and we will seek to manage our exposures to those sectors. However, the transition to a low-carbon economy will mean other sectors will benefit from that realignment and we will be looking for opportunities in those sectors.

Similar to how we manage other risks, the initial step is to identify and assess the key risks related to climate change. We conducted a scenario-based climate risk assessment in 2020 to evaluate the impacts on the Pension Plan. The key conclusion of that study was that the Pension Fund is more susceptible to transition risk to a lower carbon economy, compared to the physical risks of climate change, particularly if the policy path to the Paris Climate Accord commitments is disorderly. Moreover, the study also concluded that the impact of a disorderly policy transition, and the resulting market repricing of policy risk and technological disruption, could be meaningful on the value of the portfolio, and was estimated to result in 2% lower portfolio value over the next five years. While the estimate is based on several key assumptions in terms of the timing and progression of policy changes and the market impacts of those changes, in a low return environment, it is a significant risk that we are planning to mitigate.

We plan to manage those risks by:

- Incorporating climate considerations when constructing investment portfolios
- By integrating climate risk considerations into our investment decision-making

To that end, we plan to apply a climate lens for the first time into our Strategic Asset Allocation review that will be conducted in 2021. Although there are no sector exclusion policies that prohibit investments into high carbon industries, and there are no plans at this time to create those exclusions, we seek to take advantage of opportunities to reduce the carbon footprint of the investment portfolio in terms of greenhouse gas emissions. Additionally, we will seek to take advantage of opportunities that are created from the transition to a lower carbon economy.

Metrics and Targets

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) offers a framework for evaluating and reporting on climate-related risks.

Given that climate-related risks primarily impact the valuations of assets, we assess the risk by evaluating how climate risk will affect investment returns and funding ratios.

As recommended by the TCFD framework, we will be developing processes to report on the carbon-footprint of the investment portfolio, in terms of greenhouse gas emissions.

Economic Environment

In 2020, the global gross domestic product is estimated to have declined by an estimated 3.5%[1], reflecting the global economic down-turn due to the COVID-19 pandemic. Equity markets dropped significantly during March 2020 and quickly recovered to historical highs by the end of 2020. Bond yields are expected to stay low until there are clear signs of recovery on the horizon and actual economic recovery is observed. In their World Economic Outlook for 2021, the International Monetary Fund (IMF) expects a recovery from the decline in 2020, however, this forecast is heavily dependent on the roll-out of vaccines around the world and continued policy support.

Performance of the Fund

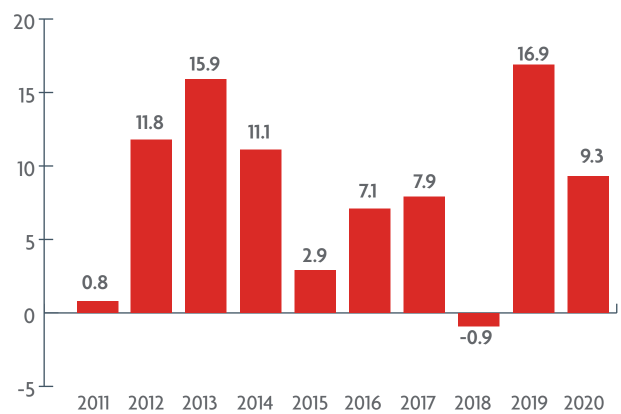
Internal investment managers actively manage the majority of the Fund's investments. Trustees also appoint external investment managers with a range of active and passive investment mandates. Portfolio managers are responsible for individual security selection within their mandates.

The Fund's net assets available for benefits at December 31, 2020 were $2,404 million, compared to $2,255 million at the end of 2019. The increase in net assets was mainly attributable to strong performance in the bond and US equity portfolios as well as the global growth equity strategies implemented in the latter part of the year.

The Fund's performance is measured against a passive benchmark portfolio that is based on the strategic asset allocation. The total investment return for the Fund in 2020 was 9.3%.

Over the past 10 years, the Fund's performance has exceeded its benchmark by about 0.4% on an annualized basis.

Rate of return for the year ended December 31 (%)

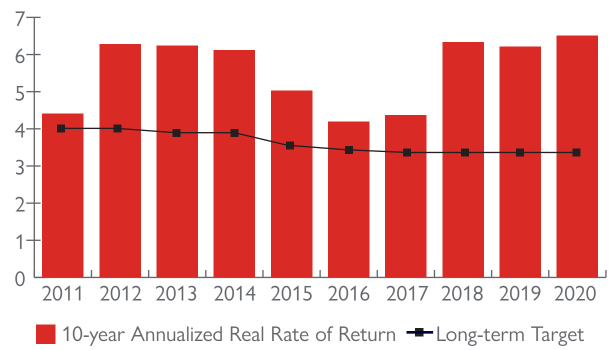


[1] Source: International Monetary Fund

It is always important to focus on the real rate of return achieved over the long-term, given the long-term nature of pensions and rules regarding the indexation of pension benefits.

The real rate of return is the nominal rate of return less inflation. The Fund's 10-year annualized real rate of return was 6.5%, which is higher than the long-term real rate of return objective and actuarial assumption of 3.2%.

Long-Term Real Rate of Return (%)



Performance by Asset Class

The Fund is well-diversified with exposure to a broad range of asset classes. Each asset class is assigned a benchmark to measure the effectiveness of individual investment strategies, to carefully monitor investment activities, and to evaluate whether those objectives are being met.

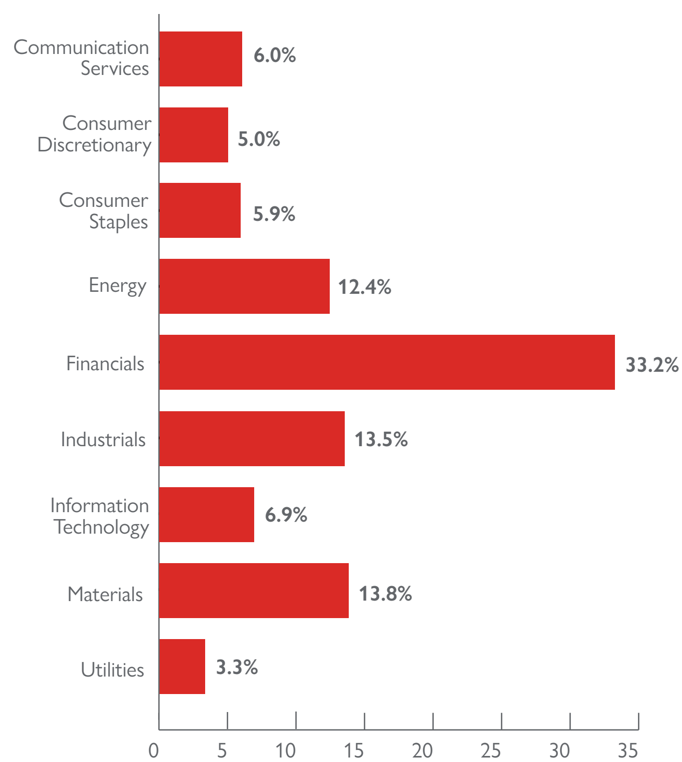
Canadian Equities

The investment managers invest in equities based on fundamental factors, striving to select companies with long-term growth potential and reasonable valuations. The portfolio is intended to be well balanced across sectors and provide predictable dividend distributions.

The portfolio generated a return of 1.3% in 2020 compared to the benchmark return of 5.6%. In 2020, Canadian equities posted double digit returns in the industrials, information technology, and consumer discretionary sectors. This was offset by weaknesses in the real estate, energy, and health care sectors. Due to the global pandemic, Canadian equities experienced significant declines in the first half of 2020, rebounding in the second half of the year to finish 2020 in positive territory.

The portfolio remains weighted toward companies with attractive and sustainable growth prospects. This allocation has benefited the portfolio's performance relative to the index over a long-term horizon.

Canadians Equities



Foreign Equities

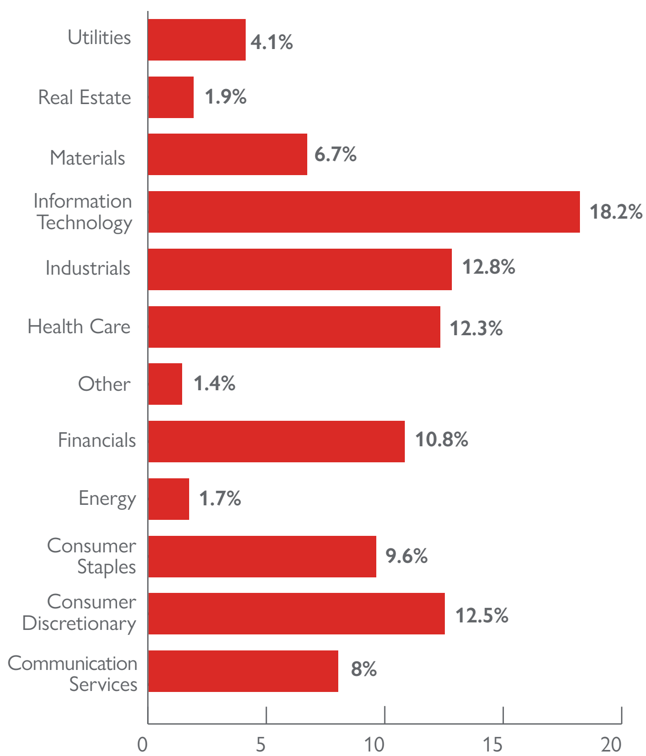
Foreign equities broaden exposures beyond what is available in the Canadian market. US equity investments are managed passively, while non-U.S. foreign equity investments are managed passively and actively.

Despite the decline in equity markets during the first half of 2020, the US equity market was still one of the strongest international markets posting strong positive performance in the second half of the year. The US equity portfolio returned 9.8% in 2020, relatively in line with the benchmark.

The hedged return of the non-U.S. foreign equity investments was 1.8% in 2020 compared to the benchmark hedged return of 1.0%. We maintain a currency-hedging program aimed at reducing the volatility of returns over time when measured in Canadian dollars.

In September of 2020, an actively managed new non-U.S. All Country World Index (ACWI) foreign equity investment was initiated. This investment returned 9.8% in 2020, compared to the benchmark return of 8.5%.

Foreign Equities



Real Estate, Infrastructure and Other Real Assets

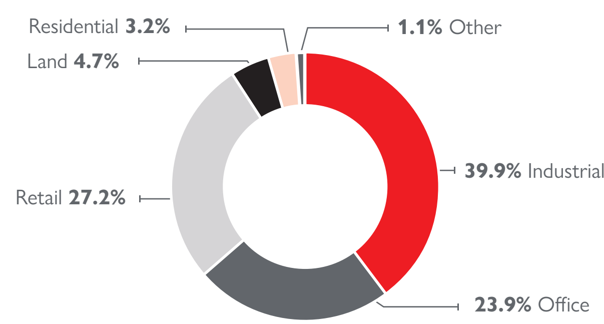
Portfolio managers invest in a portfolio of real estate assets. The Fund's real estate holdings provide exposure to an important asset class. The process of selecting real estate investment opportunities involves analysis of markets, property locations, legal and financial implications, environmental conditions, climate risk and potential returns. Real estate investments are financed in part through mortgages on properties. The holdings are diversified by commercial property type and geography.

The Fund continued to expand its allocation to global real estate and infrastructure investments in 2020 as additional opportunities arose. Infrastructure investments are considered after an extensive due diligence process and are largely focused on industries that operate within predictable regulatory environments and provide stable cash flows.

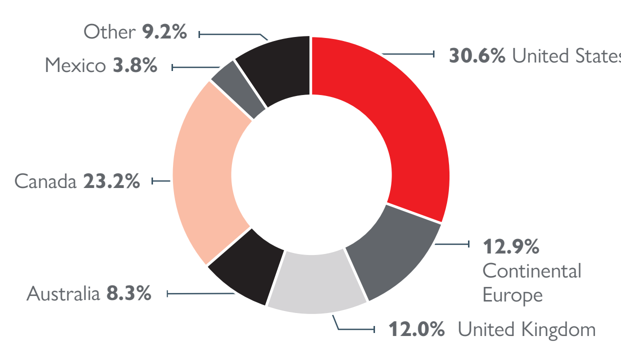
Other real assets include underlying investments and related activities where exposure to land, natural resources, and/or commodities is gained.

The real asset portfolio returned 3.5% in 2020 compared to the benchmark return of 6.7%. The underperformance can be attributed to the portfolio's enclosed mall positions, which suffered significantly due to COVID-19.

Real estate Investment by Sector



Infrastructure Geographic Location

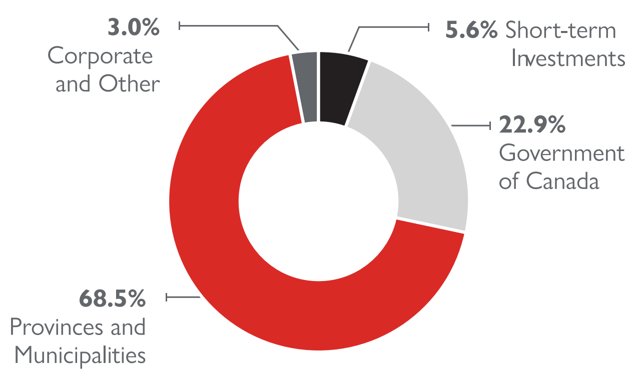


Fixed Income

The fixed income portfolio comprises nominal and real return bonds. Whereas a nominal bond pays a fixed coupon over time, real return bonds pay a coupon that is periodically adjusted for inflation and therefore provides better protection against the risk of inflation. The Fund's allocation to fixed income reduces overall portfolio volatility, provides investment income, and limits the interest rate risk inherent in the Plan's liabilities. The Fund invests in securities issued by the Government of Canada, Provincial governments and Canadian corporations.

The nominal universe portion of the Fund's fixed income portfolio returned 9.1% in 2020 compared to the benchmark return of 8.7%. The long bond government portfolio returned 13.1% relatively in line with its benchmark and the real return portion of the Fund's fixed income portfolio returned 17.4% which was in line with its benchmark.

Fixed Income Nominal Bonds

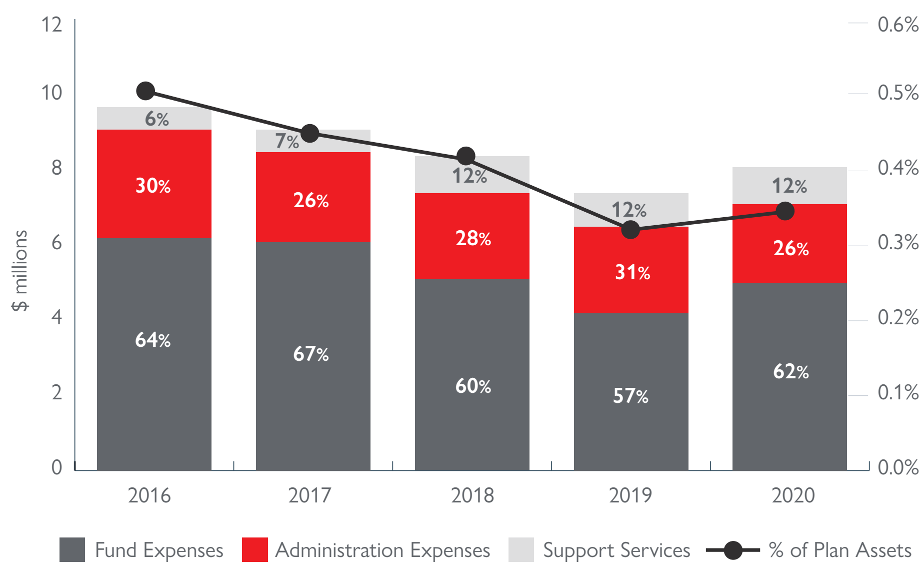


Operations Management

The Plan annually benchmarks its overall operating expenses against average costs for plans of its size and asset mix in Canada. The Plan's operating costs continue to trend lower than its peers.

Expenses as a percentage of total Plan assets remained consistent with the prior year.

Operating Expenses



Employee and employer contributions play an important role in the funding of the Plan and add to the growth of the Plan's assets. In 2020, the total contributions to the Plan totaled $43.1 million. This is $12.4 million less than 2019 primarily due to the decrease in solvency special payments after receiving approval from the relevant Ministers to reduce its required solvency special payments for 2020. The employer contribution rates are prescribed in our actuarial valuation results with the goal of maintaining a 50:50 cost-sharing ratio.

A total of $95.3 million (2019 – $95.2 million) in pension benefits was paid to Plan members in 2020.

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%. The principal purposes of an actuarial valuation include determining the financial position of a plan and providing the basis for contributions from the employer.

An independent external actuary completes an actuarial valuation that 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 Plan's basic assumptions are needed. Management reviews the valuation report, which is then approved by the Board of Directors and filed 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 Fund's assets to meet the Plan's liabilities from two different perspectives.

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.

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.

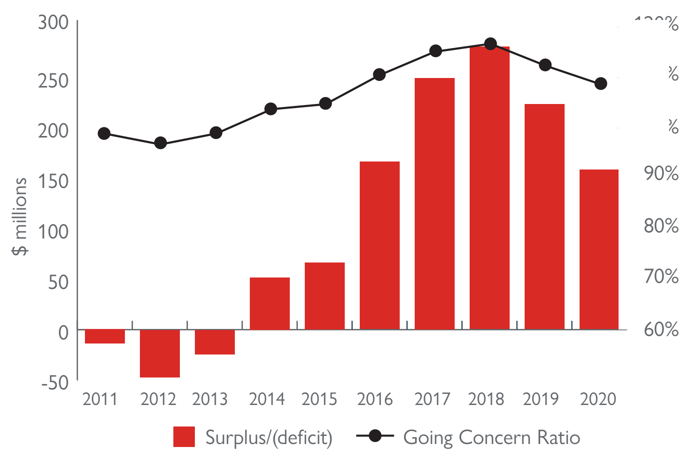
The December 31, 2020 valuation reported that the Plan had a surplus on a going concern basis with an actuarial surplus of $158 million and a going concern funded ratio of 107.7%. As at December 31, 2020, the actuarial value of net assets was $2,222 million and the actuarial value of liabilities was $2,063 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 smooths fluctuations in actual investment returns relative to expected investment returns over five years. The going concern funded ratio decreased since last year's valuation as a result of a lower discount rate.

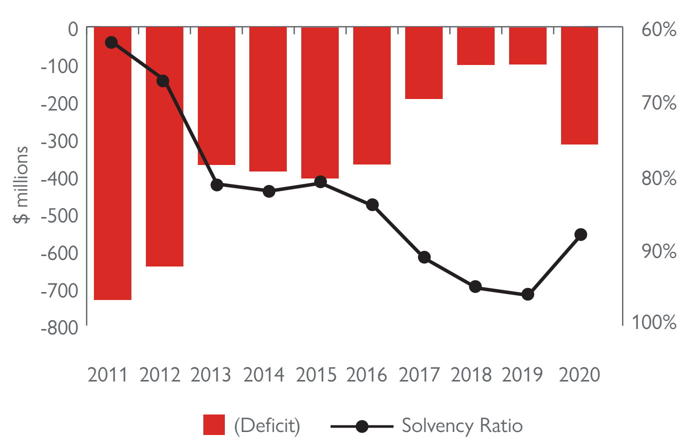
The funded position of the Plan on a going concern and solvency basis, as determined by the actuarial valuations filed with regulators, is shown in the charts.

The December 31, 2020 valuation also reported that the Plan continued to have a deficit on a solvency basis, with an actuarial deficit of $314 million and a solvency funded ratio of 88.4%. The solvency funded ratio declined from 2019 as a result of the drop in interest rates leading to a lower discount rate. The actuarial value of net assets in this valuation is based on the Fund's market value of net assets at December 31, 2020 and was $2,400 million (net of termination costs of $4 million). The actuarial value of liabilities on a solvency basis was $2,714 million.

Net Actuarial Position on a Going Concern Basis



Net Actuarial Position on a Solvency Basis



Actuarial Opinion

Mercer (Canada) Limited was retained by Canada Mortgage and Housing Corporation to perform an actuarial valuation of the CMHC Pension Plan for purposes of determining the pension obligations of the Plan, and changes therein, for the year ended 31 December 2020, for inclusion in the Plan's financial statements prepared in accordance with Section 4600 of the Chartered Professional Accountant Handbook. The objective of the Plan's financial statements is to fairly present the financial position of the Plan as at 31 December 2020 on a going concern basis. The results of our valuation might not be appropriate for and should not be relied upon or used for any other purposes.

We have reviewed the net assets available for benefits as of 31 December 2020 for internal consistency and we have no reason to doubt its substantial accuracy. We have also tested the membership data received from CMHC for the year ended 31 December 2020 and found the results of these tests to be satisfactory.

To our knowledge, the actuarial valuation as at 31 December 2020 reflects the Plan's provisions at that date. The actuarial method prescribed by the Chartered Professional Accountant Handbook was used. The actuarial assumptions were selected by CMHC as their best long-term estimates of future events, in consultation with Mercer. Nonetheless, the future experience of the Plan will inevitably differ, perhaps significantly, from the assumptions and will result in gains or losses which will be revealed in future valuations.

In our opinion, the data on which the valuation is based is sufficient and reliable for the purposes 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.

MERCER

Actuaries of the CMHC Pension Plan
Ottawa, Ontario
February 25, 2021

Pascal Berger, FCIA, FSA
Principal

Nicolas Lafontaine, FCIA, FSA
Senior Associate

Additional Information

Plan and Fund Administration

Human Resources

Stephane Poulin
Vice President, Human Resources

Investments and Pension

Mark Chamie
Vice President, Investments and Treasury

Legal Advisors

Alain J. Genier
Senior Advisor, Legal Services (Capital Markets)

Pension Consultant and Actuary

Mercer (Canada) Limited
Ottawa, Ontario

Auditors

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants
Ottawa, Ontario

Benefits Administrator

Aon Hewitt

For Answers to your Pension Questions

For information regarding your pension, please contact the CMHC Pay and Benefits Centre at 1-800-465-9932 or visit the CMHC Pay and Benefits Centre Web Portal by typing the following address into your browser's address bar: https://cmhc-schl.penproplus.com/login.

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:

Senior Manager, Financial Reporting
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, ON K1A 0P7

Management's Responsibility For Financial Reporting

Year ended 31 December 2020

Management is responsible for the integrity and objectivity of the financial statements and related financial information presented in this Annual Report. The financial statements have been prepared in accordance with Canadian accounting standards for pension plans and, consequently, include amounts that are based on the best estimates and judgment of Management. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

In carrying out its responsibilities, Management maintains appropriate financial systems and related internal controls to provide reasonable assurance that financial information is reliable; assets are safeguarded; transactions are properly authorized and are in accordance with the relevant legislation and Government directives; resources are managed efficiently and economically; and operations are carried out effectively.

Pursuant to a Trust Agreement, the Board of Directors of Canada Mortgage Housing Corporation (CMHC) has delegated the management and administration of the Pension Fund to the Trustees of CMHC's Pension Fund (the Trustees). The Trustees have approved these audited financial statements and the CMHC Board of Directors has approved this Annual Report. In addition, on an annual basis, Mercer (Canada) Limited performs an actuarial valuation of the Pension Plan's assets and going-concern obligation.

Ernst & Young LLP has audited the financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full access to the Trustees to discuss their audit and related matters.

Anne Giardini
Chair, Pension Fund Trustees

Lisa Williams
Chief Financial Officer

Independent Auditor's Report

To the Trustees of Canada Mortgage and Housing Corporation Pension Fund

Opinion

We have audited the financial statements of the Canada Mortgage and Housing Corporation Pension Plan (the Plan), which comprise the statement of financial position as at 31 December 2020, and the statement of changes in net assets available for benefits and statement of changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Plan as at 31 December 2020, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants
Ottawa, Ontario
24 March 2021

Financial Statements

STATEMENT OF FINANCIAL POSITION

As at 31 December (in thousands of Canadian dollars)	**2020**	2019
ASSETS		
Investments *(note 3)*	**2,900,506**	2,819,303
Accrued interest and dividends receivable	**4,291**	10,974
Cash	**138**	883
Contributions receivable		
Employees	**-**	346
Accounts receivable and other assets	**287**	1,122
	2,905,222	2,832,628
LIABILITIES		
Securities sold under repurchase agreements	**489,458**	564,988
Mortgages payable *(note 6)*	**8,844**	9,141
Accounts payable and accrued liabilities	**3,013**	3,568
	501,315	577,697
Commitments and contingent liabilities *(note 13)*		
NET ASSETS AVAILABLE FOR BENEFITS	**2,403,907**	2,254,931
PENSION OBLIGATIONS *(note 7)*	**2,063,441**	1,910,491
SURPLUS	**340,466**	344,440

The accompanying notes are an integral part of these financial statements.

On behalf of the Trustees:

Anne Giardini
Chair, Pension Fund Trustees

Evan Siddall
Trustee of the Pension Fund
President and Chief Executive Officer of CMHC

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December (in thousands of Canadian dollars)	**2020**	2019
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	**2,254,931**	1,978,771
INCREASE IN NET ASSETS		
Investment earnings *(note 4)*		
Change in fair value of investments	**145,442**	257,824
Investment income	**63,784**	65,441
	209,226	323,265
Contributions *(note 8)*		
Employer	**23,295**	29,578
Employees	**19,835**	25,934
	43,130	55,512
	252,356	378,777
DECREASE IN NET ASSETS		
Retirement benefit payments *(note 9)*	**84,417**	85,431
Termination benefit payments	**10,903**	9,762
Operating expenses *(note 10)*	**8,060**	7,424
	103,380	102,617
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	**148,976**	276,160
NET ASSETS AVAILABLE FOR BENEFITS		
End of year	**2,403,907**	2,254,931

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended 31 December (in thousands of Canadian dollars)	2020	2019
Pension obligations, beginning of year	**1,910,491**	1,764,726
Increase (decrease) in pension obligations		
Interest accrued on benefits	**90,484**	90,483
Changes in actuarial assumptions	**129,160**	93,535
Benefits accrued	**44,496**	45,819
Retirement benefit payments *(note 9)*	**(84,417)**	(85,431)
Termination benefit payments	**(10,903)**	(9,762)
Experience (gain) loss	**(15,870)**	11,121
Net increase in pension obligations	**152,950**	145,765
Total pension obligations, end of year *(note 7)*	**2,063,441**	1,910,491

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2020

1. DESCRIPTION OF PLAN

a) General

The Canada Mortgage and Housing Corporation Pension Plan (the Plan or the Fund) is a compulsory contributory pension plan for all employees who satisfy certain eligibility conditions. Under the Plan, contributions are made by Plan members and the Plan Sponsor, Canada Mortgage and Housing Corporation (CMHC). The Plan's registration number with the Office of the Superintendent of Financial Institutions (OSFI) is 55086 and it is subject to the *Pension Benefits Standards Act, 1985* (PBSA).

b) Benefits

The following is a summary of the Plan as at 31 December 2020. For more complete information, reference should be made to the Pension Plan Rules.

Under the Pension Plan Rules, pension benefits are determined by a formula based on a percentage of the average salary of the member's best five consecutive years multiplied by the number of years of benefit service. The pension is payable at the normal retirement date of a member or at an earlier date allowing for certain early retirement provisions in accordance with the Pension Plan Rules. The Plan provides survivor benefits for a member's eligible spouse or common-law partner. For service accrued before 1 January 2018, benefits are indexed to the Consumer Price Index (CPI) in accordance with the Pension Plan rules. For service accrued on or after 1 January 2018, indexation of the benefits to the CPI are conditional in accordance with the Pension Plan Rules and approval from the Board of Directors. Benefits are integrated with the Quebec/Canada Pension Plan from age 65.

c) Funding policy

The PBSA and its regulations require an actuarial valuation to be performed annually, unless the solvency ratio is greater than 120%, to estimate the Plan's surplus or deficit on a going-concern and solvency basis. These valuations are prepared in line with the *Standards of Practice – Pension Plans* as prescribed by the Canadian Institute of Actuaries. The PBSA requires that the Pension Plan be funded in accordance with the actuarial valuation prepared by the designated actuary. The PBSA also requires the Plan Sponsor, CMHC, to pay into the Plan all amounts required to meet the prescribed tests and standards for solvency.

Plan benefits are funded through a combination of contributions and investment returns. Contributions are required from both the Corporation and the employee. The Plan's funding policy is reviewed every three years and aims to ensure the long-term financial health of the Plan and sustain funding at a level that is adequate to provide for member benefits. Contribution rates are established through actuarial funding valuations to determine the funded position of the Plan. Employees, who are members of the Plan, are required to contribute a percentage of their pensionable earnings to the Plan at rates set by the Board of Directors. Employee contribution rates for each of the Plan's options are periodically updated to maintain a 50:50 cost sharing of the Plan's current service cost between employees and the Corporation.

Employee contributions to the Plan are as follows:

	2020[1]	
Contribution rates by members	**Salary up to YMPE[2]**	**Salary above the YMPE[2]**
Option A	7.75%	10.25%
Option B	5.25%	7.75%

[1] *Rates remained unchanged from 2019.*

[2] *The year's maximum pensionable earnings (YMPE) were $58,700 in 2020 and $57,400 in 2019.*

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements have been prepared on a going concern basis in accordance with the Canadian accounting standards for pension plans as set out in Section 4600, *Pension Plans* (Section 4600), in Part IV of the *CPA Canada Handbook – Accounting*, which prescribes accounting policies specific to investments and pension obligations. These financial statements present the information of the Plan as a separate reporting entity independent of the Plan Sponsor and Plan members.

In accordance with Section 4600, investments, including those in which the Plan has a controlling interest, are presented on a non-consolidated basis.

For accounting policies that do not relate to investments or pension obligations, International Financial Reporting Standards (IFRS) are applied. To the extent that IFRS is inconsistent with Section 4600, Section 4600 takes precedence.

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 date of the financial statements, 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. Significant judgment, estimates and assumptions are used primarily in the valuation of real assets (Note 3) and in the calculation of the pension obligations (Note 7).

The outbreak of a novel strain of coronavirus, causing the disease specifically identified as "COVID-19", has led to a global pandemic that is significantly impacting a number of global economies. The economic impacts of COVID-19 are not fully known. As a result of these and other factors, there is additional uncertainty with respect to making judgments and the assumptions used in making estimates, as well as their impact on the Plan's financial results. Actual results may differ from these estimates.

c) Investments

Investments consist of short-term investments, bonds and debentures, real return securities, equities, foreign currency forward contracts, real estate, infrastructure and other real assets.

Valuation of investments

Purchases and sales of investments are recorded on the settlement date. Investments are measured at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

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

i) Short-term investments consist of bankers' acceptances and Government of Canada Treasury bills and are valued based on quoted market yields.

ii) Bonds, debentures and real return securities are valued primarily based on closing bid price quotes from active markets. For those instruments where observable quotes are not available, estimated values are calculated using discounted cash flow techniques and trade prices for similar securities as appropriate.

iii) Canadian equities' fair value is based on closing bid price quotes from active markets. United States (U.S.) and other foreign equities' fair value is the net asset value per unit, as reported by the investment fund managers. The net asset value is calculated based on the quoted market prices of the fund's assets less the fund's liabilities, divided by the total number of outstanding units.

iv) Foreign currency forward contracts, which the Fund enters into to manage its exposure to foreign currencies, are valued by discounting estimated future cash flows using observable discount rate curves constructed using foreign exchange and interest rates.

v) Real estate comprises direct investments in real estate (properties held to earn rental income or for capital appreciation, or both), investments in wholly owned real estate corporations established under Section 149 of the *Income Tax Act*, and investments in real estate pooled funds. Direct investments in real estate are valued at estimated fair values based on independent appraisals completed at least once every three years plus net working capital. Investments in pooled funds are valued at year-end net asset values, as provided by the investment fund manager.

vi) Infrastructure and other real assets comprise investments in infrastructure and other real asset funds, respectively. The fair value is the net asset value reported by the investment fund managers. The net asset value is based on independent appraisals of the underlying infrastructure, infrastructure-related assets and other real assets held by these funds.

Investment earnings

Investment earnings consist of changes in the fair value of investments and investment income.

The change in the fair value of investments comprises unrealized gains and losses from changes in fair value in the period including appraisal adjustments on real estate valuations, as well as realized gains and losses on the sale of investments.

Investment income is recorded on an accrual basis. Interest income is recognized using the effective interest method. Infrastructure fund income represents cash distribution entitlements of the Fund, and real estate income represents net rental revenue after expenses. Dividend income is recognized on the ex-dividend date when the right to the dividend is established.

Investment transaction costs

Transaction costs, which are incremental costs incurred on the purchase and sale of investments, are expensed as incurred in operating expenses.

d) Short-term assets and liabilities

Due to their short-term nature, cash, contributions receivable, accounts receivable, accrued interest and dividends receivable, and accounts payable and accrued liabilities are measured at cost, which approximates fair value.

e) Securities sold under repurchase agreements

Repurchase agreements consist of the sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term. These are measured at fair value. Proceeds received from these agreements are generally invested in short-term investments.

f) Mortgages payable

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

g) Pension obligations

Pension obligations for the Plan are determined based on an actuarial valuation for funding purposes prepared by an independent firm of actuaries. The valuation is prepared on an annual basis and uses management's best estimate assumptions. Significant assumptions are used in the calculation of the pension obligation (Note 7).

h) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service and special payments are recorded in the year they are made. Transfer deficiency payments are recorded in the year to which they relate.

i) Benefits paid

Benefits are recorded in the period in which they are paid. Benefit payments that are due as at year-end are recorded in accounts payable and accrued liabilities.

j) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the rate of exchange prevailing at the dates of the transactions. The fair values of the investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end. The realized and unrealized gains and losses arising from these translations are included in the change in fair value of investments

k) Current and future changes in accounting policies

Amendments to International Accounting Standard (IAS) 1 Presentation of financial statements, IFRS Practice Statement 2 Making Materiality Judgements, and IAS 8 Accounting policies, changes in accounting estimates and errors – effective date of 1 January 2023

In February 2021, the International Accounting Standards Board (IASB) issued amendments to IFRS Standards to improve accounting policy disclosures and clarify distinction between a change in accounting policy and a change in accounting estimates. Under the amended IAS 1, entities will disclose their material accounting policies rather than their significant accounting policies. The standard now also includes guidance on how to identify material accounting policies stating that an accounting policy is considered material if, when combined with other information within the financial statements, it can reasonably be expected to influence the decisions of the primary users of the financial statements. IFRS Practice Statement 2 has been amended to include guidance on how to apply materiality to accounting policy disclosures.

Under IAS 8, the new definition of accounting estimates states that they are, "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment also clarifies that a change in an accounting estimate as a result of new information or developments is not a correction of an error.

We have not yet determined the full impact of these amended standards on the Plan's financial statements.

3. INVESTMENTS

a) General

The following table shows the cost and fair value of the Fund's investments.

	2020		2019	
(in thousands)	Cost[1]	Fair value	Cost[1]	Fair value
Liability hedging assets				
Fixed income				
Short-term investments	**68,162**	**68,156**	60,897	60,896
Bonds and debentures				
Government of Canada	**270,601**	**279,408**	202,237	207,126
Provinces/municipalities	**787,260**	**833,211**	831,338	856,227
Corporate/other	**36,944**	**36,738**	51,892	54,117
Total bonds and debentures	**1,094,805**	**1,149,357**	1,085,467	1,117,470
Real return securities	**244,224**	**310,119**	245,610	266,874
	1,407,191	**1,527,632**	1,391,974	1,445,240
Growth assets				
Equity				
Canadian	**226,837**	**443,523**	214,159	448,260
U.S.	**213,555**	**269,255**	220,081	276,427
Other foreign[2]	**268,198**	**251,090**	283,995	265,754
Total equity	**708,590**	**963,868**	718,235	990,441
Real assets				
Real estate[3]	**195,240**	**284,840**	168,748	263,200
Infrastructure[2]	**102,152**	**111,735**	99,535	110,443
Other	**11,659**	**12,431**	10,255	9,979
Total real assets	**309,051**	**409,006**	278,538	383,622
	1,017,641	**1,372,874**	996,773	1,374,063
Total	**2,424,832**	**2,900,506**	2,388,747	2,819,303

[1] *Represents amortized cost for fixed income.*

[2] *Other foreign equity and infrastructure include foreign currency forward contracts with fair values of $0.1 million and $1.1 million, respectively (2019 – fair values of $1.5 million and $1.8 million, respectively).*

[3] *Real estate includes $103.1 million held by the Fund's subsidiaries (2019 – $101.8 million), which is reported net of the subsidiaries' mortgage liabilities of $99.6 million (2019 – $113.4 million) and net working capital of $0.2 million (2019 – nil).*

The Fund has investments of $493.7 million (2019 – $554.7 million), included in bonds and debentures in the table above, that are part of securities sold under repurchase agreements. The Fund continues to earn investment income and recognize changes in fair value on these investments in the statement of changes in net assets available for benefits.

b) Fair value hierarchy

Investments 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:
  Assets and liabilities that are measured based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market is one where transactions are occurring with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2:
  Assets and liabilities that are measured based on observable inputs other than Level 1 prices. Level 2 inputs include prices obtained from third-party pricing services based on independent dealers' quotes for identical assets or liabilities in markets that are not considered sufficiently active. Level 2 also includes fair values obtained by discounted cash flow or other valuation techniques making maximum use of directly or indirectly observable market data.
- Level 3:
  Assets and liabilities not quoted in active markets are measured based on discounted cash flow or other valuation methodologies where significant inputs are not based on observable market data.

The following table presents the fair value hierarchy for the Fund's investments.

	2020				2019			
(in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liability hedging assets								
Fixed income								
Short-term investments	**16,104**	**52,052**	**-**	**68,156**	9,650	51,246	-	60,896
Bonds and debentures								
Government of Canada	**278,461**	**947**	**-**	**279,408**	146,781	60,345	-	207,126
Provinces/municipalities	**778,684**	**54,527**	**-**	**833,211**	254,177	602,050	-	856,227
Corporate/other	**688**	**36,050**	**-**	**36,738**	-	54,117	-	54,117
Total bonds and debentures	**1,057,833**	**91,524**	**-**	**1,149,357**	400,958	716,512	-	1,117,470
Real return securities	**301,471**	**8,648**	**-**	**310,119**	-	266,874	-	266,874
	1,375,408	**152,224**	**-**	**1,527,632**	410,608	1,034,632	-	1,445,240
Growth assets								
Equity								
Canadian	**443,523**	**-**	**-**	**443,523**	448,260	-	-	448,260
U.S.	**269,255**	**-**	**-**	**269,255**	276,427	-	-	276,427
Other foreign	**250,980**	**110**	**-**	**251,090**	264,279	1,475	-	265,754
Total equity	**963,758**	**110**	**-**	**963,868**	988,966	1,475	-	990,441
Real assets								
Real estate	**-**	**-**	**284,840**	**284,840**	-	-	263,200	263,200
Infrastructure	**-**	**1,112**	**110,623**	**111,735**	-	1,819	108,624	110,443
Other	**-**	**-**	**12,431**	**12,431**	-	-	9,979	9,979
Total real assets	**-**	**1,112**	**407,894**	**409,006**	-	1,819	381,803	383,622
	963,758	**1,222**	**407,894**	**1,372,874**	988,966	3,294	381,803	1,374,063
Total	**2,339,166**	**153,446**	**407,894**	**2,900,506**	1,399,574	1,037,926	381,803	2,819,303

The following table presents the change in the fair value of level 3 investments:

(in thousands)	Real estate	Infrastructure	Other	Total
2020				
Fair value as at 1 January 2020	**263,200**	**108,624**	**9,979**	**381,803**
Additions	**40,085**	**3,862**	**809**	**44,756**
Disposals	**(13,593)**	**(311)**	**-**	**(13,904)**
Unrealized fair value gains (losses)	**(4,852)**	**(1,552)**	**1,643**	**(4,761)**
Fair value as at 31 December 2020	**284,840**	**110,623**	**12,431**	**407,894**
2019				
Fair value as at 1 January 2019	233,793	80,144	-	313,937
Additions	47,490	29,496	19,222	96,208
Disposals	(17,310)	(1,156)	(8,967)	(27,433)
Unrealized fair value gains	(773)	140	(276)	(909)
Fair value as at 31 December 2019	263,200	108,624	9,979	381,803

Level 3 unobservable inputs and sensitivity analysis

The valuations for Level 3 investments in real estate, infrastructure, and other real assets are based on independent appraisals and include unobservable inputs that may significantly affect the measurement of fair value. The valuations were based on management's assessment of the prevailing conditions as at 31 December 2020, which may change materially in subsequent periods.

The appraisals may consider discounted cash flow, capitalization rate, and/or comparable transaction methodologies. Significant increases (decreases) in inputs such as occupancy rates or underlying revenue drivers could result in significantly higher (lower) fair values. Significant increases (decreases) in inputs such as discount rates and capitalization rates could result in significantly lower (higher) fair values.

The fair value of investments in real assets through limited-partnership investment funds is based on the net asset values reported by the investment fund managers. In determining net asset values, fund managers obtain independent appraisals of the individual real assets.

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value in the financial statements, the Fund determines whether transfers have occurred between levels in the hierarchy by reassessing categorization at the end of each reporting period. Transfers are dependent on internal classification criteria that are based on variables such as observability of prices and market trading volumes considered as at each balance sheet date. Transfers between levels are deemed to occur at the beginning of the year in which the transfer occurs. During the year, the Fund reclassified $507.0 million of securities from Level 2 to Level 1 (2019 – $73.4 million) and no securities from Level 1 to Level 2 (2019 – $266.1 million). 2020 transfers are mainly the result of the Plan's new fair value measurement tool applying additional variables and trading volume thresholds for classification.

4. INVESTMENT EARNINGS

The following is a summary of investment earnings (losses) for the Fund by asset class:

	2020			2019		
(in thousands)	Change in fair value[1]	Investment income	Total	Change in fair value[1]	Investment income	Total
Liability hedging assets						
Fixed income						
Short-term investments	**(2)**	**698**	**696**	(35)	1,037	1,002
Bonds and debentures	**96,052**	**25,984**	**122,036**	72,000	29,291	101,291
Real return securities	**44,579**	**1,810**	**46,389**	26,710	1,795	28,505
	140,629	**28,492**	**169,121**	98,675	32,123	130,798
Interest expense on repurchase agreements	**-**	**(3,988)**	**(3,988)**	-	(10,203)	(10,203)
	140,629	**24,504**	**165,133**	98,675	21,920	120,595
Growth assets						
Equity						
Canadian	**(8,704)**	**14,266**	**5,562**	65,536	14,073	79,609
U.S.	**20,108**	**5,070**	**25,178**	49,083	6,354	55,437
Other foreign	**(3,558)**	**5,918**	**2,360**	33,782	8,933	42,715
Total equity	**7,846**	**25,254**	**33,100**	148,401	29,360	177,761
Real assets						
Real estate	**(352)**	**7,546**	**7,194**	5,518	10,027	15,545
Infrastructure	**(4,322)**	**6,422**	**2,100**	5,950	3,950	9,900
Other	**1,641**	**58**	**1,699**	(720)	184	(536)
Total real assets	**(3,033)**	**14,026**	**10,993**	10,748	14,161	24,909
	4,813	**39,280**	**44,093**	159,149	43,521	202,670
Total	**145,442**	**63,784**	**209,226**	257,824	65,441	323,265

[1] *Change in fair value includes a realized net gain of $96.8 million (2019 – $81.8 million) and an unrealized net gain of $48.6 million (2019 – $176.0 million).*

5. RISK EXPOSURE AND MANAGEMENT

The key financial risks related to the Fund's assets 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.

a) Market risk

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign exchange rates and equity prices. The Fund is able to partially 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 is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pension obligations are also subject to interest rate risk. The Fund's interest rate exposure arises from mismatches in the timing and amount of cash flows of its assets and liabilities.

The Fund's interest rate risk is managed through its asset allocation policy, which takes into account the liability profile of the Fund and diversifies its assets, and other policies that limit the price sensitivity of fixed income assets to interest rate changes relative to established benchmark indices.

The impact of a 100 bps increase or decrease in interest rates on the fair value of fixed income securities, real return securities and securities sold under repurchase agreements would be:

	2020		2019	
(in thousands)	Increase	Decrease	Increase	Decrease
Short-term investments	**(69)**	**69**	(18)	18
Bonds and debentures	**(130,126)**	**158,724**	(109,779)	130,799
Real return securities	**(60,364)**	**78,100**	(52,396)	68,251
Securities sold under repurchase agreements	**(215)**	**215**	(272)	273
	(190,774)	**237,108**	(162,465)	199,341

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an investment will fluctuate as a result of changes in foreign exchange rates and is associated with the Fund's foreign investments. At 31 December 2020, the Plan's exposure to foreign currencies expressed in Canadian dollars, before considering the effects of hedging, was $354.9 million to U.S. dollars and $331.1 million to Europe, Australasia and Far East (EAFE) currencies (31 December 2019 – $352.5 million and $337.4 million, respectively). Currency exposure arising from investments in EAFE equities and infrastructure investments are hedged through foreign currency forward contracts. The current policy is to hedge 50% of the currency exposure arising from EAFE equity holdings and 100% of the currency exposure arising from real assets, 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 of a 100 bps increase or decrease in foreign exchange rates on the fair value of the investments net of foreign currency contracts:

	2020		2019	
(in thousands)	Increase	Decrease	Increase	Decrease
U.S.	**2,693**	**(2,693)**	2,764	(2,764)
Other foreign[1]	**1,268**	**(1,268)**	1,344	(1,344)
Total	**3,961**	**(3,961)**	4,108	(4,108)

[1] *Represents EAFE investments.*

Equity price risk

Equity price risk is the risk that the fair value of an investment will fluctuate because 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 Fund'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.

A concentration of equity price risk exists when a significant portion of an equity portfolio is invested in entities that operate in the same industry or engage in similar activities and are affected similarly by changes in economic or other conditions. The following table outlines the sectors the equity portfolios are invested in:

	2020		2019	
(in thousands, unless otherwise indicated)	**$**	**%**	$	%
Financials	**202,848**	**21.1**	236,907	23.9
Industrials	**126,538**	**13.1**	121,610	12.3
Energy	**125,423**	**13.0**	104,447	10.6
Information technology	**95,938**	**10.0**	100,857	10.2
Consumer staples	**86,978**	**9.0**	88,858	9.0
Consumer discretionary	**76,454**	**7.9**	78,969	8.0
Materials	**68,318**	**7.1**	68,673	6.9
Telecommunication services	**64,242**	**6.7**	65,278	6.6
Health care	**64,034**	**6.7**	57,536	5.8
Utilities	**36,103**	**3.7**	36,932	3.7
Real estate	**9,799**	**1.0**	25,033	2.5
Other	**7,193**	**0.7**	5,341	0.5
Total	**963,868**	**100.0**	990,441	100.0

As at 31 December 2020, 40.1% (2019 – 44.1%) of the Fund's investments, net of securities sold under repurchase agreements and mortgages payable, were in equities. The impact of an increase or decrease of 10% in equity prices, with all other factors held constant, would be an increase or decrease, respectively, in net assets available for benefits of $96.4 million (2019 – $99.0 million).

b) Credit risk

Credit risk is the risk of loss arising from a counterparty's inability to fulfil 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 Fund's credit risk associated with investments is managed through policies that 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.

Credit risk exposure on fixed income and real return securities is divided into short-term (less than one year) and long-term (greater than one year). All short-term exposure must be rated R-1 high or equivalent unless issued or fully guaranteed by the Government of Canada or a Canadian province. The maximum exposure to credit risk for fixed income and real return securities is the carrying amount of these investments.

A concentration of credit risk exists when a significant portion of a credit portfolio is invested in entities that operate in the same industry or engage in similar activities and are affected similarly by changes in economic or other conditions.

There has been no significant impact of COVID-19 on the Plan's exposure to credit risk, as the Plan's existing mitigation strategies have been effective at maintaining our exposure at consistent levels.

The following table indicates the credit risk exposure and concentration of credit risk of fixed income and real return securities:

	2020		2019	
(in thousands, unless otherwise indicated)	$	%	$	%
Securities issued or guaranteed by:				
Government of Canada	**604,759**	**39.6**	479,913	33.2
Provinces/municipalities	**837,354**	**54.8**	862,723	59.7
Corporate/other	**85,519**	**5.6**	102,604	7.1
	1,527,632	**100.0**	1,445,240	100.0
Credit rating:				
AAA	**656,130**	**42.9**	569,239	39.4
A- to AA+	**856,577**	**56.1**	860,177	59.5
BBB	**14,925**	**1.0**	15,824	1.1
	1,527,632	**100.0**	1,445,240	100.0

Credit risk arising from foreign currency forward 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. Specifically, all such counterparties must have a minimum credit rating of AA-, or its equivalent, from at least two rating agencies. Furthermore, no one counterparty may comprise more than 50% of the total value of counterparty hedge volume outstanding with all counterparties.

c) 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 Plan's financial liabilities consist of securities sold under repurchase agreements, mortgages payable, and accounts payable and accrued liabilities. The maturity analysis for mortgages payable is provided in Note 6. All securities sold under repurchase agreements have remaining terms that do not exceed 60 days. The term to maturity of accounts payable and accrued liabilities is within one year and the net amount payable is $3.0 million (2019 – $3.5 million). There are no foreign currency forward contracts in liability positions.

6. MORTGAGES PAYABLE

Mortgages mature in November 2022 and November 2025. Mortgages are secured by land and specific rental properties and bear interest at fixed rates of 3.45% and 3.81%. The estimated payments of principal and interest are as follows:

	2020	
(in thousands)	Principal	Interest
2021	**308**	**316**
2022	**3,708**	**295**
2023	**192**	**179**
2024	**200**	**172**
2025	**4,436**	**151**
Total[1]	**8,844**	**1,113**

[1] *During 2020, interest paid on these mortgages amounted to $0.3 million (2019 – $0.3 million).*

7. PENSION OBLIGATION

The actuarial present value of the pension obligation is an estimate of the value of accrued pension benefits of the Plan to date for all active and inactive members. The Plan's pension obligation is calculated using the same actuarial assumptions and methodology as the Plan's going-concern funding valuation as required by OSFI and the PBSA. As at 31 December 2020, an actuarial valuation of the Plan was conducted by Mercer (Canada) Limited and a copy of this valuation will be filed with OSFI and the Canada Revenue Agency (CRA).

The valuation was prepared using the projected unit credit method and reflects management's best estimate of future economic events, involving both demographic and economic assumptions. The demographic assumptions include considerations such as mortality, withdrawals and retirement rates. The primary economic assumptions include the discount rate, inflation rate and the rate of compensation increase. The discount rate is determined by the long-term expected fund return based on the Plan's target asset mix and market expectations, less a margin for adverse deviations. The inflation rate is based on the Bank of Canada's long-term inflation target range of 1% – 3% and the rate of compensation increase is based on the inflation rate and the long-term expectation of growth in wages.

The significant economic actuarial assumptions used in the valuation are as follows:

	2020	2019
Real discount rate	**2.35%**	2.80%
Inflation rate	**2.00%**	2.00%
Rate of compensation increase	**3.25% + age based promotional scale**	3.25% + age based promotional scale
Mortality table (issued by the Canadian Institute of Actuaries)	**CPM2014 (CPM-B scale)**	CPM2014 (CPM-B scale)

Variances between such estimates and actual experience, which may be material, will emerge as gains and losses in future valuations. The changes in the demographic and economic assumptions resulted in a net increase in the actuarial present value of pension benefits on a going-concern basis of $153.0 million (2019 – $145.8 million). Based on the 31 December 2020 valuation, the actuarial present value of accrued pension benefits on a going concern basis is $2.1 billion (2019 – $1.9 billion).

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. 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 as at 31 December 2021.

8. CONTRIBUTIONS

Contributions comprise the following:

(in thousands)	2020	2019
Defined benefit		
Employer		
Current service	**22,704**	15,837
Special payments	**591**	13,741
Total employer	**23,295**	29,578
Employees		
Current service	**17,780**	17,187
Past service	**2,055**	8,747
Total employees	**19,835**	25,934
Total contributions	**43,130**	55,512

As permitted under section 9.16 of the PBSA and its regulation, CMHC received approval from the relevant ministers to reduce its required solvency special payments. In 2020, these payments amounted to nil (2019 – $12.9 million). Special payments also included $0.6 million (2019 – $0.8 million) to fund transfer deficiencies for members electing to transfer out of the Plan in 2020.

9. BENEFITS PAID

(in thousands)	2020	2019
Retirement	**76,202**	77,287
Death	**7,647**	7,468
Disability	**113**	111
Transfer restriction annuity	**455**	565
Total	**84,417**	85,431

10. 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:

(in thousands)	2020	2019
Investment personnel and support services	**3,342**	2,715
Pension benefits administration	**2,126**	2,350
Investment management fees	**1,471**	1,373
Audit and actuarial fees	**279**	273
Other administration costs	**842**	713
Total	**8,060**	7,424

11. RELATED PARTY TRANSACTIONS

The Fund's related parties include key management personnel and CMHC and its related parties. CMHC, the Plan Sponsor, 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 (namely, Canada Mortgage Bonds) or its related parties and amounts owed by related parties:

(in thousands)	2020	2019
Short-term investments[1]	**19,375**	9,649
Bonds and debentures[2]	**279,459**	207,126
Real return securities[1]	**305,925**	263,138
Total	**604,759**	479,913

[1] *This is invested in related parties other than the Plan Sponsor.*

[2] *$73.2 million (2019 – $66.6 million) in CMHC and $206.2 million (2019 – $140.5 million) in related parties other than the Plan Sponsor.*

Transactions with the Plan Sponsor were conducted in the normal course of operations and measured at the amount of consideration established and agreed to by both parties. Included in operating expenses is $4.6 million (2019 – $3.8 million) for administrative services provided by the Plan Sponsor. Included in accounts payable and accrued liabilities is $0.6 million (2019 – $0.7 million) due to the Plan Sponsor for administrative services provided to the Plan and $1.3 million (2019 – 1.4 million) for payments made by the Plan Sponsor on behalf of the Plan.

The Plan defines its key management personnel as the Trustees of CMHC's Pension Fund, CMHC's Board of Directors and those senior executives responsible for planning, directing and controlling the Plan's activities and the Plan is not charged for the compensation of these individuals. If a reasonable allocation of the compensation for key management personnel was performed, the amount would not be significant.

12. CAPITAL MANAGEMENT

The Plan defines its capital as the funded status [surplus/(deficit)]. An independent actuary periodically determines the funding surpluses or deficits of the Plan. The Plan's primary objective with respect to capital management is to ensure that plan assets are 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 the *Income Tax Act*. Management has adopted a Statement of Investment Policies and Procedures (SIP&P) for the Plan, which sets investment objectives, guidelines and benchmarks used in investing the Plan's assets, permitted categories of investments, asset mix diversification and rate of return expectations. The Plan's SIP&P was last updated on 21 September 2020. The Plan's Trustees are responsible for ensuring that the Plan assets are managed in accordance with the SIP&P.

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

Asset class	Long-term policy weights
Liability hedging assets	
Cash	5%
Fixed income	24%
Real return securities	12%
Growth assets	
Equity	40%
Real assets	19%

Through the use of leveraged long government bonds, the SIP&P allows for a modest level of leverage of 25% of net asset value to purchase fixed income assets to reduce the interest rate risk of the portfolio.

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. COMMITMENTS AND CONTINGENT LIABILITIES

The Plan enters into commitments related to the funding of investments including those in infrastructure, real estate and other real assets. The future commitments are generally payable on demand based on the capital needs of the investment. The funding is ordinarily expected to occur over several years in accordance with the agreed-upon terms and conditions. As at 31 December 2020, the commitments amounted to $109.9 million (2019 – $79.4). The Plan has sufficient liquidity to meet these commitments as they come due.

14. COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to the 2020 presentation.